

# LIFE INSURANCE COMPANIES - INTERNAL AUDIT



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# INTERNAL AUDIT

## Definition:

*Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.*

Auditor perception in a company

# **INTERNAL AUDIT CHARTER**

# INTERNAL AUDIT CHARTER

## Definition:

*An internal audit charter is a formal document that defines internal audit's purpose, authority, responsibility and position within an organisation. (“IIA definition of audit charter”)*

## What does Audit Charter Establish?

- *The formal mission statement of audit department.*
- *The overall objectives and scope of audit department.*
- *The audit department’s position within the Company, its access to various records, departments and activities, its responsibilities and accountability*

## Who Approves the Charter?

Board Audit Committee

# CONTENTS OF INTERNAL AUDIT CHARTER

## **Mission:**

To provide independent appraisal of all the activities of the Company to add value, improve operational efficiency, risk management, internal control systems, record keeping, safeguarding of assets and compliance with rules & regulations

## **Objectives:**

- Examine and evaluate whether the risk management process, internal control and governance processes, are adequate and functioning properly
- Advise and recommend senior management for improvements in internal control system
- Add value to the organization

## **Authority:**

- Have unrestricted access to all the departments, offices, activities, records, information, properties and personnel, relevant to the performance of audit function.
- Obtain assistance of specialists / professionals where considered necessary

# CONTENTS OF INTERNAL AUDIT CHARTER

## Scope:

- Examination and evaluation of the adequacy and effectiveness of the internal control systems and accounting records
- Evaluation of adherence to legal and regulatory requirements and approved policies and procedures
- Evaluation of effectiveness of existing policies and procedures and give recommendations for improvements
- The testing of both transactions and functioning of specific internal control procedures at various departments and branches
- Identifying opportunities for cost savings and making recommendations for improving cost efficacies

However, it shall not;

- a) Perform any operational duties outside audit department function.
- b) Initiate or approve accounting transactions external to audit department.
- c) Direct the activities of any employee not employed by the audit department, except to the extent such employees have been appropriately assigned to auditing teams

# CONTENTS OF INTERNAL AUDIT CHARTER

## **Responsibility and Accountability:**

- Provide Board Audit Committee with an opinion which is based on sufficient evidence about the internal control system effectiveness
- Formulate and implement annual audit plan
- Maintain requisite professional audit staff strength with requisite knowledge and skills
- Conduct internal audit and issue audit reports and ensure the implementation of corrective measures
- Keep the Audit Committee informed of emerging trends and developments in internal auditing

## **Independence:**

- To maintain the independence of audit department from other departments and offices, its personnel shall report to the Head of Internal Audit, who shall report administratively to Chief Executive Officer and functionally to the Audit Committee.
- Audit department shall be independent of the activities audited
- Head of Internal Audit department shall be authorized to communicate directly, on his own initiative, to the Board and the members of audit committee

# AUDIT UNIVERSE



# AUDIT UNIVERSE

## ➤ **Audit Universe:**

- *An inventory of audit areas that is compiled and maintained to identify areas for audit during the audit planning process.*

*The list includes all financial and key operational systems as well as other areas that would be audited as part of the overall audit cycle. The audit universe serves as the source from which the annual audit schedule is prepared. The universe is periodically revised to reflect changes in the overall risk profile, changes in business and new developments.*

- *The audit areas in audit universe are categorized on the basis of risk scores, driven from the risk hierarchy.*

# AUDIT UNIVERSE - TIERS

**TIER  
1**

**HIGH RISK AREAS  
AUDIT STRATEGY – ONCE A YEAR**

**TIER  
2**

**MEDIUM RISK AREAS  
AUDIT STRATEGY – ONCE IN TWO  
YEARS**

**TIER  
3**

**LOW RISK AREAS  
AUDIT STRATEGY – LOW COVERAGE**

## Other consideration:

1. Reviews/ audits as suggested by the Audit Committee;
2. Regulatory requirements – such as AML audits

# RISK CATEGORIZATION

RISK CATEGORY	RISK PRIORITY AS PER AUDIT
HIGH	<p>These issues classified in HIGH RISK LEVEL involve a substantial and direct exposure to loss of assets, loss of revenue and/or substantial negative impact on efficiency and/or effectiveness of operations and/or reliability of financial information and/or compliance with regulatory requirements / internal policies leading to significantly affecting the company's reputation.</p> <p>Corrective actions against all observations must be taken by the management within 30 days subsequent to date of issue of the report.</p>
MEDIUM	<p>These issues classified in MEDIUM RISK LEVEL involve moderate exposure to losses as discussed above</p> <p>Corrective actions against all Medium Risk Observations can be taken by the management within 31 to 60 days subsequent to date of issue of the report.</p>
LOW	<p>These issues classified in LOW RISK LEVEL do not appear to have a substantial negative impact on operations or the control environment but have been brought to management's attention for information purpose and consideration.</p> <p>Corrective actions against all Low Risk Observations can be taken by the management within 60 to 90 days subsequent to date of issue of the report.</p>

# **AUDITABLE AREAS**

# AUDITABLE AREAS

## Auditable Areas/ Auditable Entities:

May comprise of areas like:

1. Operations, that includes New business, Group Life Business, Claims, Commission, Reinsurance, After sale activities i.e. Alteration, Reinstatement, Surrender, Maturity etc
2. Procurement Audit
3. Information System Audit
4. Financials Audit
5. Investment Audit
6. Marketing Audit
7. AML Audit

# **RISK BASED INTERNAL AUDIT**

# RISK BASED INTERNAL AUDIT

## Definition:

*Risk based internal auditing (RBIA) is a methodology that links internal auditing to an organization's overall risk management framework. RBIA allows internal audit to provide assurance to the board that risk management processes are managing risks effectively, in relation to the risk appetite.*

# RISK BASED INTERNAL AUDIT

## Practical advice in implementing a risk-based internal audit approach:

- 1 Review the senior management risk appetite and develop an internal audit plan
- 2 Identify and prioritize risks and develop an “audit universe”
- 3 Develop a risk based audit program
- 4 Establish a “warning” system to notify internal audit whether recommendations for further action are being implemented on time and correctly.
- 5 Ensure that internal audit follows up on reports to check that senior managers are implementing internal audit’s recommendations properly.
- 6 The success of a risk-based internal audit approach is dependent on identifying the correct risks to review from the start. Internal audit must do this to add value to management as well as providing assurance to the audit committee.



# RISKS AREAS – LIFE INSURANCE

## ➤ Risk Areas specific to life insurance:

- **Product Development Risk** – Product innovation, Takaful product design, retakaful arrangement, system arrangement, post-launch functions like accounting and regulatory compliance
- **Pricing Risk** – Mortality risk, claim history for corporate customers, variable expenses on the basis of experience
- **Reserving Risk** – Data extraction, incorrect data entry in valuation model
- **Regulatory Compliance Risk** – Non-compliance resulting in penalties
- **Money laundering Risk** – Non-compliance with AML guidelines
- **Investment Risk** – Non-compliance with policy, incorrect investment decision
- **Operations Risk**

# INTERNAL AUDIT CYCLE



# **AUDIT ASSERTIONS**

# AUDIT ASSERTIONS

## Definition:

International Standard on Auditing 315 “Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment” defines Assertions as:

*Representations by management, explicit or otherwise, that are embodied in the financial statements, as used by the auditor to consider the different types of potential misstatements that may occur*

*The risks are assessed at the assertion level of class of transactions, account balances and disclosures.*

# AUDIT ASSERTIONS

Assertions about classes of transactions and events and related disclosures for the period under audit (Profit and loss related)

**Occurrence**—transactions and events that have been recorded have occurred and pertain to the entity.

**Completeness**—all transactions and events that should have been recorded have been recorded

**Accuracy**—amounts and other data relating to recorded transactions and events have been recorded appropriately.

**Cutoff**—transactions and events have been recorded in the correct accounting period

**Classification**—transactions and events have been recorded in the proper accounts.

# AUDIT ASSERTIONS

## Assertions about account balances at the period end

**Existence—assets, liabilities, and equity interests exist**

**Rights and obligations—the entity holds or controls the rights to assets, and liabilities are the obligations of the entity**

**Completeness—all assets, liabilities and equity interests that should have been recorded have been recorded**

**Valuation and allocation—assets, liabilities, and equity interests are included in the financial statements at appropriate amounts and any resulting valuation or allocation adjustments are appropriately recorded**

# AUDIT ASSERTIONS

## Assertions about presentation and disclosure

**Occurrence and rights and obligations—disclosed events, transactions, and other matters have occurred and pertain to the entity**

**Completeness—all disclosures that should have been included in the financial statements have been included**

**Classification and understandability—financial information is appropriately presented and described, and disclosures are clearly expressed**

**Accuracy and valuation—financial and other information are disclosed fairly and at appropriate amounts**

# **AUDIT SAMPLING**



# AUDIT SAMPLING

## Definition:

International Standard on Auditing 530 “Audit Sampling and Other Means of Testing” defines Audit sampling as:

***Audit sampling involves the application of audit procedures to less than 100% of items within a class of transactions or account balance such that all sampling units have a chance of selection. This will enable the auditor to obtain and evaluate audit evidence about some characteristic of the items selected in order to form or assist in forming a conclusion concerning the population from which the sample is drawn.***

# AUDIT SAMPLING METHODS

## 1. Computer Assisted Audit Techniques (CAATs)

Use of computerized random number generator

## 2. Systematic Selection

Number of sampling units in the population is divided by the sample size to give a sampling interval, for example 50, and having determined a starting point within the first 50, each 50th sampling unit thereafter is selected.

## 3. Haphazard Selection

Auditor selects the sample without following a structured technique

## 4. Block Selection

Selecting a block(s) of contiguous items from within the population. Block selection cannot ordinarily be used in audit sampling

# **OPERATIONAL AUDIT**

# OPERATIONAL AUDITS

## ➤ Operational Audits:

- Premium/ Revenue Audit – comprising of new business, generated from bancassurance, group life and individual life sales force, including Renewals
- Claims Audit
- Reinsurance Audit
- Commission Audit
- After sale Audits, comprising of surrenders, alterations, reinstatement, client complaints, maturity etc

*ALL OF THE ABOVE AUDITS INCLUDE SYSTEM AND ACCOUNTING AUDIT*

# **OPERATIONAL AUDITS**

## **AUDIT OF REVENUE/ PREMIUM**

*\*Including New business from individual, group life insurance, bancassurance and renewals and includes family and group takaful*

# **OPERATIONAL AUDITS**

**AUDIT OF REVENUE/ PREMIUM**

**NEW BUSINESS**

# REVENUE/ PREMIUM - ASSOCIATED RISKS

Summary of Potential Risks	Risk Assessment
Lack of complete documentation (signed proposal form, illustration, CNIC etc)	High
Authorization limits not followed	Medium
The premium/ contribution, sum covered of main plan and riders are not calculated accurately as per selected plan due to system error	High
Underwriting requirements are not fulfilled resulting in accepting high risk	High
Non-compliance with Insurance Ordinance, Rules, bancassurance regulations 2015	High
Continuous piling up of Unreconciled receipts (in bancassurance business)	High
System malfunction at the time of issuance of business	High
Service Level Agreements (SLA) with banks are not updated to comply with current laws	High
Incorrect entry in system (human error)	Medium
Incorrect allocation of units, mortality and admin charges deduction due to system error	High
Refund/ cancellation of policy after the free look period, resulting in loss of stamp duty and non-compliance with law	High
Mis-selling by agents	High
AML regulations are not followed	High

# **REVENUE/ PREMIUM – AUDIT PROGRAM & RELEVANT ASSERTIONS**

- **Obtain all policies and procedures and list of authorized signatories**
- **Extract the list of policies issued during the period**



# REVENUE/ PREMIUM – AUDIT PROGRAM & RELEVANT ASSERTIONS

- **Perform test of controls on sample policies. Check all necessary documents were obtained and signed by the client/ policyholder as per company policy.**
- **Documents includes but are not limited to proposal form, CNIC, bank statement, Need analysis document as per unit linked rules, illustration form as prescribed by SECP, source of income, beneficial owner for AML compliance**

C	E	A	V	O	P
✓	✓				

- **Check the issuance of new policy is approved by the relevant authority.**

C	E	A	V	O	P
	✓	✓			

# REVENUE/ PREMIUM – AUDIT PROGRAM & RELEVANT ASSERTIONS

- Obtain all SLAs with banks and ensure they are updated as per relevant laws.

C	E	A	V	O	P
✓	✓				

- Check the data is correctly entered in system with respect to client's information.

C	E	A	V	O	P
✓	✓	✓			

- Check minimum financial protection is complied with as per Unit Linked Rules 2015 (Rule 3)

C	E	A	V	O	P
		✓	✓	✓	

# REVENUE/ PREMIUM – AUDIT PROGRAM & RELEVANT ASSERTIONS

- Check the sum assured, premium/ contribution, benefit term (minimum of 5 yrs) and riders as per illustration form and underwriting guidelines and/or product specifications.

C	E	A	V	O	P
		✓	✓	✓	

- Check the mortality and extra mortality is charged correctly. Further administration charges and bid/ offer spread is also charged correctly at the time of unit allocation.

C	E	A	V	O	P
		✓	✓		

# REVENUE/ PREMIUM – AUDIT PROGRAM & RELEVANT ASSERTIONS

- **Check the offer price used for unit allocation and units are correctly allocated**

C	E	A	V	O	P
		✓	✓	✓	

- **For bancassurance, extract a list of lapsed/ surrendered cases and check if new policy has been sold by bank to same individual within a year from the effective date of surrender or lapsed status. Recycling of policies is not allowed as per bancassurance regulations**
  - **During the first three policy years, no new policy can be sold**
  - **After the third policy year, no similar new policy can be sold**

C	E	A	V	O	P
	✓	✓		✓	

# REVENUE/ PREMIUM – AUDIT PROGRAM & RELEVANT ASSERTIONS

- **Check accounting entries are correctly recorded.**

C	E	A	V	O	P
✓	✓	✓	✓	✓	

- **Check entries have been made in correct account period, to check CUT-OFF Assertion**

# **OPERATIONAL AUDITS**

**AUDIT OF REVENUE/ PREMIUM**

**RENEWALS**

# RENEWALS- ASSOCIATED RISKS

Summary of Potential Risks	Risk Assessment
Renewals notices are not sent resulting in low persistency, declining of claim etc	High
Inaccurate recording of premium received (recording in another policy)	High
Incorrect premium deducted/ debited by bank resulting in non-renewal of policy	High
Excess premium deducted by bank	Low
Amount deducted by bank without mentioning the policy number, resulting in delayed/ non-renewal of policy	High
Incorrect allocation of units, mortality, wakala and admin charges deduction due to system errors	High
Lack of follow-up by agents for renewals	Medium
Renewal premium is received in cash and not deposited in time (fraudulent activity risk/ reputation risk)	High
Renewal premium not consumed due to alteration/ reinstatement not completed / in process resulting in non-renewal of policy	Low





# RENEWALS - AUDIT PROGRAM & RELEVANT ASSERTIONS

- **Verify that renewal notices (sms/ email) are sent to policyholders (other than for the policies that are already renewed i.e. premium received)**
- **For policies not renewed, verify on sample basis by calling clients through call center (reason for not renewing the policy)**

C	E	A	V	O	P
✓	✓				

- **Check if the premium is not received in full, balance amount notice is sent**

C	E	A	V	O	P
		✓		✓	

# RENEWALS - AUDIT PROGRAM & RELEVANT ASSERTIONS

- Check if policyholder requested inter-fund transfer of units and ensure no bid-offer charges are applied.

C	E	A	V	O	P
		✓	✓	✓	

- Check required documents are obtained before renewal if the policy was inactive at renewal time

C	E	A	V	O	P
✓	✓	✓		✓	

- Review the approval and authorization

C	E	A	V	O	P
	✓	✓			

# RENEWALS - AUDIT PROGRAM & RELEVANT ASSERTIONS

- Check that full premium due for renewal has been received

C	E	A	V	O	P
		✓	✓	✓	

- Check mortality, admin charges, health loading and wakala fees are deducted as per company policy

C	E	A	V	O	P
		✓	✓		

- Check indexation of premium as per proposal form. Ensure that system is applying indexation as required by the policyholder (Automatic Default option or Indexation of premium and sum cover) Rule 4 of Unit linked rules

C	E	A	V	O	P
	✓	✓	✓	✓	

# RENEWALS - AUDIT PROGRAM & RELEVANT ASSERTIONS

- **Check that units are allocated correctly as per applicable offer price and product specifications**

C	E	A	V	O	P
		✓	✓	✓	

- **Check the accounting entries and revenue recognition is in correct period**

C	E	A	V	O	P
✓	✓	✓	✓	✓	

- **Check entries have been made in correct account period, to check CUT-OFF Assertion**

# RENEWALS - AUDIT PROGRAM & RELEVANT ASSERTIONS

- **Check confirmation letter is sent to client with unit account statement and quarterly unit account statement as per SECP requirement**
- **If payment is not received for renewal, lapsed/ ANF notice is sent to client**

C	E	A	V	O	P
✓	✓				

# **OPERATIONAL AUDITS**

**AUDIT OF REVENUE/ PREMIUM**

**GROUP LIFE**

# GROUP LIFE - ASSOCIATED RISKS

Summary of Potential Risks	Risk Assessment
Continuous piling up of receivables from clients increasing the receivables ageing and potential for write off	High
Acceptance of loss making clients without increasing the corresponding premium %	High
Claims paid without clearance of old dues by clients	High
Issues with accounting entries due to manual/ system errors	High
Amount received in advance but the invoice is not timely entered in system, resulting in credit balance/ payable to client	High
Endorsement passed after the policy period to provide coverage of previous period	High
Incorrect data of covered life shared by client	Medium
Delayed recording of fluctuations of covered life	Medium
Issuance of back dated policy and acceptance of claim pertaining to that period	High
Lack of Gender wise data	Low

# **GROUP LIFE BUSINESS – AUDIT PROGRAM & RELEVANT ASSERTIONS**

- **Obtain all policies and procedures and list of authorized signatories**
- **Extract the list of policies issued during the period**



# GROUP LIFE BUSINESS – AUDIT PROGRAM & RELEVANT ASSERTIONS

- Obtain/ extract the ageing of receivables and identify long outstanding receivables
- Check the amount due belong to clients who are not active

C	E	A	V	O	P
		✓	✓	✓	

- Check if any claim has been paid to client whose premium is still outstanding

C	E	A	V	O	P
	✓			✓	

# GROUP LIFE BUSINESS – AUDIT PROGRAM & RELEVANT ASSERTIONS

- **Check the profitability ratios of clients and identify continuous loss making clients**

C	E	A	V	O	P
	✓		✓		

- **Check the endorsement/ fluctuation requests received during the policy period are timely recorded and premium is also collected. Further refund endorsement is passed during the effective policy period.**
- **Check negative endorsement to verify the endorsement is not a write off by nature**

C	E	A	V	O	P
✓	✓	✓	✓		

# GROUP LIFE BUSINESS – AUDIT PROGRAM & RELEVANT ASSERTIONS

- **Check that the effective date of policy is not prior to the issue date. However, if the policy is issued as such, no claim has been lodged for the differential period.**

C	E	A	V	O	P
		✓			

- **Check the premium calculation on the basis of premium rate approved by appointed actuary.**
- **Check the calculation of fluctuation premium.**

C	E	A	V	O	P
		✓	✓	✓	

# GROUP LIFE BUSINESS – AUDIT PROGRAM & RELEVANT ASSERTIONS

- **Check the discounts, if any, given to clients and the relevant approvals**

C	E	A	V	O	P
	✓	✓	✓		

- **Check the incident date of claim fall within the effective policy period**
- **Check the lives covered and the entities which are covered do not include any individual/entity that is included in the SRO issued by SECP/GoP that contains the name of individuals/entities involved in terrorist financing activities.**

C	E	A	V	O	P
		✓			

# GROUP LIFE BUSINESS – AUDIT PROGRAM & RELEVANT ASSERTIONS

- Check the profit commission working on sample basis.

C	E	A	V	O	P
		✓	✓	✓	

- Check accounting entries are correctly recorded.

C	E	A	V	O	P
✓	✓	✓	✓	✓	

- Check entries have been made in correct account period, to check **CUT-OFF Assertion**

# SCENARIO 1

**Mr. Auditor was reviewing the dishonored cheques deposited by 15 clients for their renewals. All of these clients were residing in a particular city.**

**While reviewing the cheques, it was observed that the cheques were from the same cheque book and all cheques have signature by the client name.**

**What questions would Mr. Auditor from the sales manager looking after the city?**

# SCENARIO 2

**While discussing with the branch manager during lunch hours, Mr. Auditor came to know that many clients would prefer to deposit their renewal premium by transferring the due amount in the sales person account.**

**The sales person would then withdraw cash or issue cheque and deposit it in the Company's account.**

**What are the risks involved in above scenario?**

# **OPERATIONAL AUDITS**

## **AUDIT OF CLAIMS**



# CLAIMS - ASSOCIATED RISKS

Summary of Potential Risks	Risk Assessment
Lack of complete documentation (death certificate, policy documents, succession form)	High
Authorization limits not followed	Medium
The sum assured is paid for policies which are inactive (Lapsed/ paid-up) resulting in financial loss	High
The riders sum assured is paid for policies which are inactive	High
The claim is paid in group life policy when the premium is outstanding	High
The claim is paid for the person who was not covered as per the list of employees covered in group life policy	High
Continuous piling up of long outstanding claims without follow-ups from the department	Low
Non-compliance with the Insurance regulations relating to unclaimed insurance benefits	High
Incorrect entry in system for claims payment, continuation benefit (human error)	Medium
Premium not credited in policy account of continuation benefit policies, affecting the units	Medium
Fraudulent claim/ Anti-selection phenomena	High
Names of claim beneficiaries not checked for AML purpose	High
Claim paid to incorrect beneficiary	High

# **CLAIMS – AUDIT PROGRAM & RELEVANT ASSERTIONS**

- **Obtain all policies and procedures, Claims committee minutes and authorized signatories list**
- **Extract list of claims intimated or paid during the period and all the outstanding claims**

# CLAIMS – AUDIT PROGRAM & RELEVANT ASSERTIONS

- **Check that all the required documents are received before claim is settled**

C	E	A	V	O	P
✓	✓			✓	

- **Review the approval and authorization**

C	E	A	V	O	P
	✓	✓			

# CLAIMS – AUDIT PROGRAM & RELEVANT ASSERTIONS

- Check that the higher of sum assured or cash value is paid only when the policy is active or ANF. Otherwise cash value is paid.
- Check that rider's benefit is not paid for inactive policies.
- Check that rider's benefit is paid only for the relevant coverage (like ADB is paid on accident)
- Check that continuation benefit liability/ Annuity is recorded as soon as the claim is lodged and accepted

C	E	A	V	O	P
		✓	✓	✓	

- Check if any claim has been paid to client whose premium is still outstanding (Group Life)
- Check the incident date of claim fall within the effective policy period (Group Life)
- Check that the claim pertains to person covered in the policy.

C	E	A	V	O	P
		✓	✓	✓	

# CLAIMS – AUDIT PROGRAM & RELEVANT ASSERTIONS

- **Check the old outstanding claims and the followups taken by the department.**

C	E	A	V	O	P
✓		✓		✓	

- **Check the accounting entries are correctly recorded and system is properly updated. For annuity payments, the payment schedule is correctly prepared.**

C	E	A	V	O	P
		✓	✓	✓	

# CLAIMS – AUDIT PROGRAM & RELEVANT ASSERTIONS

- Check the premium is properly credited in the policy holder's account for continuation benefit

C	E	A	V	O	P
		✓	✓	✓	

- Check the claim is paid to rightful beneficiary
- Check the lives covered and the entities provided life insurance do not include any individual/ entity that is included in the SRO issued by SECP/ GoP that contains the name of individual/ entities involved in terrorist financing activities.

C	E	A	V	O	P
	✓	✓		✓	

# CLAIMS – AUDIT PROGRAM & RELEVANT ASSERTIONS

- Check ex-gratia payments are approved in Claims Committee.

C	E	A	V	O	P
	✓	✓			

- Check entries have been made in correct account period, to check **CUT-OFF Assertion**

# SCENARIO

**The group life policy was issued on 1<sup>st</sup> March 2019 for a tenure of one year. The Group is the client of a Company for last four years.**

**The renewal was due on 1<sup>st</sup> January 2019. However, despite the reminders, the client neither confirm the renewal nor did he agree on premium %.**

**However, after two months, the client agreed to renew policy and paid the premium in full on 1<sup>st</sup> March 2019.**

**On 5<sup>th</sup> March 2019, a claim was lodged for one of the employee. The event date as evident in the death certificate was 5<sup>th</sup> February 2019.**

**What are the risks involved?**



# **OPERATIONAL AUDITS**

## **AUDIT OF COMMISSION**

# COMMISSION - ASSOCIATED RISKS

Summary of Potential Risks	Risk Assessment
Sales commission (individual and group life business) is not recorded and paid as per the Company policy	High
Bancassurance sales commission is not recorded and paid as per Bancassurance regulations	High
System malfunctioning resulting in paying different commission percentage, which may result in extra/ less amount of commission paid	High
Override commission is not booked and paid accurately	Medium
Piling up of outstanding commission on behalf of agents who have resigned, increasing the liability of the Company	Medium
Commission is paid before clearance of premium payment and the cheque is subsequently dishonored	High
Recording of commission in the name of person whose agency agreement has not signed	High
Commission is not reversed when policy is refunded in a free look period	High

# **COMMISSION - AUDIT PROGRAM & RELEVANT ASSERTIONS**

- **Obtain the list of commission % for each plan. Further verify the commission % for policies sold through banks from bancassurance regulations**
- **Check the commission for group life policies as per % approved by the Company.**
- **Extract the policies issued and renewed during the year.**

# COMMISSION - AUDIT PROGRAM & RELEVANT ASSERTIONS

- Check the amount of commission paid is as per the commission % for the respective plan and as per relevant policy year.

C	E	A	V	O	P
		✓	✓	✓	

- For bancassurance business, check the commission % is applied as per bancassurance regulations.

C	E	A	V	O	P
		✓	✓	✓	

# COMMISSION - AUDIT PROGRAM & RELEVANT ASSERTIONS

- **Check that due premium is received and recorded before commission is paid.**

C	E	A	V	O	P
		✓	✓	✓	

- **Check if the policy is altered, the correct commission is applied for financial alteration that increases the premium.**

C	E	A	V	O	P
		✓	✓	✓	

# COMMISSION - AUDIT PROGRAM & RELEVANT ASSERTIONS

- **Extract the commission booked and paid during the year through system to identify that duplicate commission or incorrect commission is not paid.**

C	E	A	V	O	P
		✓	✓	✓	

- **Check the override commission percentages are correctly applied and recorded.**

C	E	A	V	O	P
		✓	✓	✓	

# COMMISSION - AUDIT PROGRAM & RELEVANT ASSERTIONS

- **Check that agent in whose name the sale is recorded, and commission is accrued, has signed the agency agreement (as it is unlawful for person to act as agent except under a contract in writing) as per Insurance Ordinance**

C	E	A	V	O	P
	✓	✓		✓	

- **Check the long outstanding commission and reason for non-payment.**

C	E	A	V	O	P
				✓	

# COMMISSION - AUDIT PROGRAM & RELEVANT ASSERTIONS

- Check that commission is reversed when the premium is repaid within the free look period

C	E	A	V	O	P
		✓	✓	✓	

- Check the accounting entries are correctly recorded

C	E	A	V	O	P
✓		✓	✓		

- Check entries have been made in correct account period, to check **CUT-OFF Assertion**



# SCENARIO

**The Company has a policy to pay 35% commission on new business, 5% commission on 2<sup>nd</sup> year renewal and 2.5% commission on third and subsequent years of the policy to ABC Bank.**

**In lieu of low commission rate, the Company has agreed to pay production bonus.**

**The bank is asking for 25% production bonus as they exceed the targets set by the Company.**

**What are the risks and non-compliances involved?**

# **OPERATIONAL AUDITS**

## **AUDIT OF REINSURANCE/ RE-TAKAFUL**

# REINSURANCE/RE-TAKAFUL - ASSOCIATED RISKS

Summary of Potential Risks	Risk Assessment
<b>Re-insurance/ Re-takaful Premium/ Contribution</b>	
<b><u>Individual Life</u></b>	
Incorrect calculation of re-insurance premium by incorrect computation of sum at risk, sum assured to be reinsured and reinsurance rates.	High
Dual payment of reinsurance premium for modal premium policies	Medium
Incorrect computation of Initial Ratios by actuaries	High
<b><u>Group Life</u></b>	
Calculating reinsurance premium without gender bifurcation as provided in treaty	Low
Non-compliance with Reinsurance treaty with respect to industry classification, incorrect loading for calculating premium, incorrect application of discount rates, incorrect occupational classification resulting in less loading % etc	High
Over aged employees covered in group life policy and the corresponding risk cannot be reinsured	High
Group life policy is not reinsured due to system malfunction	High

# REINSURANCE/RE-TAKAFUL - ASSOCIATED RISKS

Summary of Potential Risks	Risk Assessment
<b>Re-insurance/ Re-takaful Claims</b>	
<b><u>Individual Life</u></b>	
Cash value is not subtracted in computing reinsurer's share in claims amount	Low
Re-insurance share is not correctly applied on claims, may result in extra claims amount being borne by the Company	High
Delayed receipt of reinsurer's share by the Company	Low
<b><u>Group Life</u></b>	
Reinsurer's share of claim is not computed and recorded correctly	High
Non-acceptance of claim by reinsurer due to non-compliance with the treaty	High

# REINSURANCE PREMIUM - AUDIT PROGRAM & RELEVANT ASSERTIONS

## Individual Life

- Obtain the reinsurance treaties of the Company
- Compute the initial ratios of the policies covered in the audit

C	E	A	V	O	P
		✓	✓		

- Compute the sum at risk at the time of reinsurance.
- Compute sum assured to be reinsured by applying initial ratio % (After deducting the retention limit)

C	E	A	V	O	P
		✓	✓		

# REINSURANCE PREMIUM - AUDIT PROGRAM & RELEVANT ASSERTIONS

- **Compute reinsurance premium by multiplying the sum assured to be reinsured with the reinsurance rate as specified in the treaty.**

C	E	A	V	O	P
		✓	✓		

- **Compute the total reinsurance premium for the quarter and ensure that liability is correctly recognized for reinsurance premium.**

C	E	A	V	O	P
		✓	✓	✓	

# REINSURANCE PREMIUM - AUDIT PROGRAM & RELEVANT ASSERTIONS

## Group Life

- Obtain the reinsurance treaties of the Company for group life policies
- Select sample of group life policies and re-compute the reinsurance premium as per the provisions of reinsurance treaty

C	E	A	V	O	P
		✓	✓		

- Verify the reinsurance premium accounting entries.

C	E	A	V	O	P
✓	✓	✓			

# REINSURANCE PREMIUM - AUDIT PROGRAM & RELEVANT ASSERTIONS

## General

- Check quarterly settlement of reinsurance premium and identify the reason for delayed settlement, if any.

C	E	A	V	O	P
✓	✓	✓	✓	✓	

- Check entries have been made in correct account period, to check **CUT-OFF Assertion**
- Check the confirmation of settlement from reinsurer



# REINSURANCE CLAIMS – AUDIT PROGRAM & RELEVANT ASSERTION

## Individual Life

- Obtain the list of claims paid or are outstanding
- Match the initial ratios used for the computation of reinsurer's share of claim with the computation of initial ratio as provided by actuaries or verified at the time of issuance of policy

C	E	A	V	O	P
		✓	✓	✓	

- For other than continuation benefit policies, deduct the cash values from the claim settlement amount

C	E	A	V	O	P
		✓	✓	✓	

# REINSURANCE CLAIMS – AUDIT PROGRAM & RELEVANT ASSERTION

- Use the initial ratios to arrive at reinsurer's share of claim. Identify the difference if any with the reinsurer's share of claim as provided by the department.

C	E	A	V	O	P
		✓	✓	✓	

# REINSURANCE CLAIMS – AUDIT PROGRAM & RELEVANT ASSERTION

## Group Life

- Check the claim amount is as per the coverage provided
- Check the entitled riders sum assured when claim is lodged.

C	E	A	V	O	P
		✓	✓	✓	

- Check the retention limit applied before raising claim to reinsurer

C	E	A	V	O	P
		✓	✓	✓	

# REINSURANCE CLAIMS – AUDIT PROGRAM & RELEVANT ASSERTION

## General

- Check quarterly settlement of reinsurance claims and identify the reason for delayed settlement, if any.

C	E	A	V	O	P
✓	✓	✓	✓	✓	

- Check the confirmation of settlement from reinsurer
- Verify the accounting entries
- Check entries have been made in correct account period, to check **CUT-OFF Assertion**

# OPERATIONAL AUDITS

## AFTER SALE AUDITS

*\*comprising of surrenders, alterations, reinstatement, client complaints, maturity, policy assignment etc*

# **OPERATIONAL AUDITS**

## **AUDIT OF SURRENDER PROCESS**

# SURRENDER – ASSOCIATED RISKS

Summary of Potential Risks	Risk Assessment
Lack of complete documentation (like policy documents)	High
Surrender form signed by person other than policyholder	High
Authorization limits not followed	Medium
Zakat not deducted when exemption form is not available	High
Delayed processing of surrender (affecting the bid price)	High
Incorrect unit de-allocation / negative units after surrender	High
Amount credited after full surrender	Low
Incorrect calculation post partial surrender	High
Surrender payment mode – other than via banking instrument	High
Surrender within free-look period	High
Surrender payment in account of other than the policy holder	High
Assigned policy is surrendered without obtaining NOC	High
Client application to deposit/ issue cheque of surrender in favor of person other than the policyholder/ himself	High
Incorrect entry of bank account number	Low

# **SURRENDER – AUDIT PROGRAM & RELEVANT ASSERTIONS**

- **Obtain all policies and procedures pertaining to surrender**
- **Obtain a list of authorized signatories**
- **Extract data from the system and corroborate it with the data provided by the operations department.**



# SURRENDER – AUDIT PROGRAM & RELEVANT ASSERTIONS

- Check all necessary documents as per company policy. Also, check Zakat exemption form if zakat is not deducted at the time of surrender

C	E	A	V	O	P
✓	✓				

- Check the surrender is approved by the relevant authority

C	E	A	V	O	P
	✓	✓			

# SURRENDER – AUDIT PROGRAM & RELEVANT ASSERTIONS

- Check if the policy is assigned, the NOC is obtained prior to surrender

C	E	A	V	O	P
✓	✓				

- Check computation of the cash value surrendered using bid price.

C	E	A	V	O	P
		✓	✓	✓	

# SURRENDER – AUDIT PROGRAM & RELEVANT ASSERTIONS

- Check revised sum assured and premium along with riders after the partial surrender to ensure that these are reduced in line with cash value surrendered.

C	E	A	V	O	P
		✓	✓	✓	

- Check underwriting requirements are fulfilled as per company policy is after the partial surrender, the risk is restored

C	E	A	V	O	P
✓	✓				

# SURRENDER – AUDIT PROGRAM & RELEVANT ASSERTIONS

- Check the units are de-allocated and accounted for in cash value.

C	E	A	V	O	P
		✓	✓	✓	

- Check the payment credited in the policyholder's bank account. (cheques made in the name of policyholder)

C	E	A	V	O	P
				✓	

# **OPERATIONAL AUDITS**

## **AUDIT OF MATURITY PROCESS**

# MATURITY – ASSOCIATED RISKS

Summary of Potential Risks	Risk Assessment
Lack of complete documentation (like policy documents)	High
Maturity form signed by person other than policyholder	High
Authorization limits not followed	Low
Zakat not deducted when exemption form is not available	Medium
Incorrect unit de-allocation / negative units after maturity	High
Maturity payment mode – other than via banking instrument	High
Maturity payment in account of other than the policy holder	High
Unclaimed maturity benefits not placed on web or advertised	High
Client application to deposit/ issue maturity benefit in favor of person other than the policyholder/ himself	High

# **MATURITY – AUDIT PROGRAM & RELEVANT ASSERTIONS**

- **Obtain all policies and procedures and list of authorized signatories**
- **Extract data from the system and corroborate it with the data provided by the operations department.**

# MATURITY – AUDIT PROGRAM & RELEVANT ASSERTIONS

- Check all necessary documents were obtained as per company policy. Check Zakat exemption form if zakat is not deducted at the time of maturity

C	E	A	V	O	P
✓	✓				

- Check the maturity is approved by the relevant authority

C	E	A	V	O	P
	✓	✓			



# MATURITY – AUDIT PROGRAM & RELEVANT ASSERTIONS

- **Check computation of the cash value of the policy matured using the bid price of maturity date.**

C	E	A	V	O	P
		✓	✓	✓	

- **Check the units are accurately de-allocated. Check accounting entries made.**

C	E	A	V	O	P
		✓	✓	✓	

# MATURITY – AUDIT PROGRAM & RELEVANT ASSERTIONS

- Check the payment credited in the policyholder’s bank account. (cheques made in the name of policyholder).

C	E	A	V	O	P
				✓	

- Extract the policies matured but not yet claimed by the policyholder. Check if the relevant department has contacted the clients to claim maturity benefit as required by Circular 11 of 2014 of SECP “Unclaimed Insurance Benefits”
- Check the list has been placed on website for unclaimed maturity benefits and is periodically advertised.

C	E	A	V	O	P
✓	✓	✓		✓	✓

# **OPERATIONAL AUDITS**

## **AUDIT OF REINSTATEMENT**

# REINSTATEMENT – ASSOCIATED RISKS

Summary of Potential Risks	Risk Assessment
Lack of complete documentation (reinstatement request, health declaration forms etc)	High
Authorization limits not followed	Low
Incorrect unit allocation after reinstatement i.e. not as per policy year	High
Payment received in cash for special reinstatement	High
Client confirmation not obtained for waiver of premiums in case of special	High
Delay in unit allocation (bid price effect)	Medium

# **REINSTATEMENT – AUDIT PROGRAM**

- Obtain all policies and procedures and list of authorized signatories**
- Extract the list of policies reinstated during the period, including special reinstatement.**

# REINSTATEMENT – AUDIT PROGRAM

- Check all necessary documents were obtained as per company policy.

C	E	A	V	O	P
✓	✓				

- Check the reinstatement is approved by the relevant authority

C	E	A	V	O	P
	✓	✓			

# REINSTATEMENT – AUDIT PROGRAM

- Obtain the list of policies in which premium was waived of past years, i.e. special reinstatement case
- Check that branch manager has approved the case and call was made to client confirming the amount/ premium paid.

C	E	A	V	O	P
				✓	

- Check computation of the policy reinstated is as per the policy year.
- Ensure that cheque is cleared in time for the policies which are reinstated.

C	E	A	V	O	P
		✓	✓	✓	

# REINSTATEMENT – AUDIT PROGRAM

- **Check accounting entries to ensure that mortality charges/ donation charges, admin charges.**

C	E	A	V	O	P
		✓	✓	✓	

- **Ensure that reinstatement confirmation has been sent to policyholder.**
- **Verify the policy status after reinstatement**

C	E	A	V	O	P
		✓		✓	



# **OPERATIONAL AUDITS**

## **AUDIT OF ALTERATION**

# ALTERATIONS

FINANCIAL ALTERATIONS	NON-FINANCIAL ALTERATIONS
Increase/ decrease in sum assured	CNIC change (verisys check)
Increase/ decrease in benefit term	Correspondence address change
Increase/ decrease in premium/ contribution	Add/ delete beneficiary/nominee details (blood relation only)
Addition/ deletion of riders	Contact details change
Change in payment mode	Name change (newspaper and cnic)
Restoration of risk after partial surrender	Change in bank account details
Addition/ deletion of Second life	Change in age
Plan conversion/ Fund conversion or splitting	
Change in escalation percentage/ or conversion to level premium	
Change in Age	
Change in Extra mortality rate (obesity, occupation)	

# ALTERATION – ASSOCIATED RISKS

Summary of Potential Risks	Risk Assessment
Lack of complete documentation (alteration form, policy doc in case of increase in sum assured, newspaper cutting for name change)	High
Authorization limits not followed	Medium
Client signature on alteration request does not match with the proposal form	High
Alteration passed on the basis of incorrect alteration form	Low
The premium/ contribution, sum covered of main plan and riders are not calculated accurately after alteration	High
Incorrect mode (annual, half yearly) recorded after alteration	High
Remaining benefit term not accurately calculated after alteration	High
The coverage of dual lives is not accounted for correctly	High
Units are not allocated correctly after increase in premium	High
Dual/ Incorrect charges are deducted due to system errors	High
Assigned policy is altered without obtaining NOC	High
Mail address or phone number of insurance agents are recorded instead of policyholder	High
Incorrect entry in system (human error)	Low

# **ALTERATION – AUDIT PROGRAM & RELEVANT ASSERTIONS**

- **Obtain all policies and procedures and list of authorized signatories**
  
- **Extract the list of policies altered during the period, including financial and non-financial alterations.**

# ALTERATION – AUDIT PROGRAM & RELEVANT ASSERTIONS

- Check all necessary documents were obtained as per company policy.

C	E	A	V	O	P
✓	✓				

- Check client signature on alteration request match with proposal form.

- Check the alteration is approved by the relevant authority and there is segregation of duties of person passing an alteration and verifying the same.

C	E	A	V	O	P
	✓	✓			

# ALTERATION – AUDIT PROGRAM & RELEVANT ASSERTIONS

- For change in correspondence address and phone number; check the details do not pertain to insurance agent (via system check).

C	E	A	V	O	P
✓	✓				

- If the policy is assigned, ensure that NOC is received before alteration is processed.

C	E	A	V	O	P
				✓	

# ALTERATION – AUDIT PROGRAM & RELEVANT ASSERTIONS

- **Re-compute the change in sum assured, premium/ contribution, benefit term, riders and other changes directly linked with the financial alterations on sample basis.**
- **Check unit allocation is accounted for correctly in case of increase in sum assured.**

C	E	A	V	O	P
		✓	✓	✓	

- **Check the mortality is charged correctly for policies in which 2<sup>nd</sup> life is added after alteration.**

C	E	A	V	O	P
		✓	✓	✓	

# ALTERATION – AUDIT PROGRAM & RELEVANT ASSERTIONS

- **Check the risks are properly covered when the plan is converted. The benefits associated with the new plan is accurately linked with the policy after alteration.**

C	E	A	V	O	P
		✓	✓		

- **For bancassurance policy, if policy is altered such that the regular premium is reduced by more than 25%, the differential premium will be treated as adhoc premium of first year and will be invested as such in second year after adjustment of first year allocation). Differential commission is also clawed back**

C	E	A	V	O	P
		✓	✓		



# ALTERATION – AUDIT PROGRAM & RELEVANT ASSERTIONS

- Check accounting entries are correctly recorded.

C	E	A	V	O	P
		✓	✓		

# **INVESTMENT AUDIT**

# INVESTMENT – ASSOCIATED RISKS

Summary of Potential Risks	Risk Assessment
Non-compliance with Investment policy as approved by the Board and Investment Committee	High
Non-compliance with Insurance laws and regulations (Check solvency requirements)	High
Allocation of funds in equity market, government securities and debt instruments is not as per investment policy	High
Unit price is incorrectly computed (units are not correctly taken)	High
Investments are not marked to market, and hence, fair value gain/ loss is not recorded	High
Dividends on account of investment in equity market/ shares are not accrued when declared	Medium
Interest is not accrued on Term Deposit Receipts, PIBs, Treasury bills, Sukuks and Profit and Loss Saving accounts	High
Bid/ Offer price is not updated in system on timely basis	High
Fund management charges are not deducted in computing the unit price	High

# **INVESTMENT – AUDIT PROGRAM & RELEVANT ASSERTIONS**

- **Obtain Investment policy as approved by the Board and Investment Committee and/ Shariah Advisor/ Shariah Board. Investment policy provisions should comply with Unit Linked Rules 2012**
- **(such as allowable exposure to different classes of assets, minimum rating criteria, exposure in single entity, exposure in related parties, review of asset mix for portfolio balancing.)**
- **Take fund pricing methodology as approved by Investment Committee**
- **Take sample of unit valuations of few days for re-computation**

# INVESTMENT – AUDIT PROGRAM & RELEVANT ASSERTIONS

- **Check the bank balances are correctly included in unit valuation.**

C	E	A	V	O	P
✓	✓	✓	✓		

- **Check that debt securities are correctly recorded and the fair value appreciation/ depreciation is accounted for in unit valuation**

C	E	A	V	O	P
✓	✓	✓	✓		

- **Check that equity transactions (sale and purchase) are recorded accurately**

C	E	A	V	O	P
✓	✓	✓	✓		

# INVESTMENT – AUDIT PROGRAM & RELEVANT ASSERTIONS

- **Check that investment in equity/ shares is marked to market at day end and the number of share holding and share price is correctly taken. Gain/ loss on revaluation is correctly accounted for. Unlisted securities are valued at its breakup value as per latest audited financial statements or investment price, whichever is lower.**

C	E	A	V	O	P
✓	✓	✓	✓		

- **Check that interest accrued on Term Deposit Receipts, PIBs, Treasury bills, Sukuks and Profit and Loss Saving accounts is accurately accounted for**

C	E	A	V	O	P
✓	✓	✓	✓		

# INVESTMENT – AUDIT PROGRAM & RELEVANT ASSERTIONS

- Check that investment purchased but amount not paid is included as securities purchased and amount is adjusted from bank balance adjusted by commission and other expenses.

C	E	A	V	O	P
✓	✓	✓	✓		

- Check that investment sold and receipt is pending is valued at net sale price and amount is shown as receivable. Investment classified in Takaful fund is shown as held but valued at net sale proceeds.

C	E	A	V	O	P
✓	✓	✓	✓		

# INVESTMENT – AUDIT PROGRAM & RELEVANT ASSERTIONS

- **Check that dividend (cash, Bonus and right shares) accrued on shares are properly and timely recorded in unit valuation (when the share is valued as ex-bonus, ex-dividend)**

C	E	A	V	O	P
✓	✓	✓	✓		

- **Check that deductions on account of payables to stock brokers on account of share purchase and provisions are accurately recorded.**

C	E	A	V	O	P
✓	✓	✓	✓		



# INVESTMENT – AUDIT PROGRAM & RELEVANT ASSERTIONS

- **Check fund related charges are correctly accounted for in unit valuation as defined in policy documents (bid/ offer spread and investment management charges)**

C	E	A	V	O	P
✓	✓	✓	✓		

- **Check the total units are included in computing the unit price**

C	E	A	V	O	P
✓	✓	✓	✓		

- **Check the bid price is computed by deducting cost of disposal**

C	E	A	V	O	P
✓	✓	✓	✓		

# INVESTMENT – AUDIT PROGRAM & RELEVANT ASSERTIONS

- **Check the investments are correctly classified in different funds operated by the Company and amount invested is debited from the respective funds. Any inter-fund balances are settled within 15 days (Unit Linked Rules)**

C	E	A	V	O	P
		✓	✓		

- **Check the accounting entries of all the transactions are correctly recorded**

C	E	A	V	O	P
✓		✓	✓		

- **Check the fund-wise breakup of asset allocation and sector allocation (for equity) is placed on the website.**

**REGULATORY  
COMPLIANCE AUDIT**

# SOLVENCY REQUIREMENTS

CLAUSE	DESCRIPTION OF ASSET	PERCENTAGE ALLOWED
32 b	Statutory fund of life insurer	Assets other than bank deposits – 5% Total bank deposits – 100% Single bank Account - > 15% or 25 m
32 f	Loans secured against immovable property	5%
32 n	Any one unit of immovable property	20%
32 o	Total immovable property	30%
32 p	Shares in any one company or related companies	5%
32 q	Shares of all listed companies in aggregate	50%
32 r	Shares of all un-listed companies in aggregate	5% - for non-life insurer 2.5% - for life insurer
32 s	Shares and immovable property in aggregate	60%
32 t	Loans to any person or related person group	To one person – 1% Group of related person – 2%

# SOLVENCY REQUIREMENTS

CLAUSE	DESCRIPTION OF ASSET	PERCENTAGE ALLOWED
32 v	TFCs/ Sukuk issued by one issuer (other than state owned enterprise)	5% of non-life insurer's investment 5% of the relevant statutory or shareholder's fund total investment
32 v	TFCs/ Sukuk in aggregate	30% as above
32 v	Units in any one open ended mutual fund	10% as above
32 v	Units in all open ended mutual fund managed by same asset management company	15% as above
32 v	Single real estate investment trust	5% as above
32 v	All real estate investment trust in aggregate	10% as above
32 v	All investment in shares, modaraba, mutual funds, real estate investment trusts in aggregate (excluding mutual funds that have no investment in equities and properties)	60% as above
32 v	Listed Modaraba certificates issued by one company	5% as above
32 v	Loans to any person or related person group	5% as above

# **OTHER REGULATORY COMPLIANCE**

**In Shareholder's fund, minimum amount to be maintained is Rs. 165 million as per rule 14 of Insurance Rules 2017**

**For non-life insurer, the prescribed amount is greater of Rs. 150 million, 20% of earned premium revenue net of reinsurance (max 50%) or 20% of sum of unexpired risk and outstanding claims liability net of reinsurance (max 50%)**

**Unit values are published in news paper (Rule 57)**

**No insurance policy is issued without receipt of premium (Rule 58)**

**Agents have completed their foundation training course in due time and have Higher Secondary Education qualification. Eight hours training is required for takaful concepts**

**Statement of unit linked account to be sent to policyholder on annual and quarterly basis within one month (Rule 6d of Unit linked rules)**

# **OTHER REGULATORY COMPLIANCE**

**Ensure compliance with Implicit fund related charges. That is rounding off monetary values into units upto fourth decimal place. Unit price of 100.00015 and 100.00014 into 100.0002 and 100.0001 respectively**

**Within free look period, telephonic call is made by the insurer to policyholders to confirm there is no mis-selling. Premium is to be refunded within 30 days in case of adverse response.**

**Income Tax is correctly debited from premium if premium is more than Rs. 200,000 before allocating units.**

**Sales tax on premium and sales person commission is being withheld as per the requirements of provincial sales tax bodies**

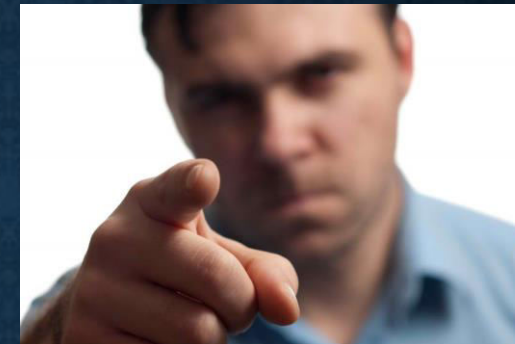
**Commission is clawed back from bank if instance of mis-selling is highlighted within thirteen months of issuance of policy and is determined by the Company. (Bancassurance regulations 2015) Commission is clawed back and 100% premium is refunded back to policyholder**

**VALUE ADDED SERVICES  
BY  
INTERNAL AUDIT DEPARTMENT**



# SCRAP THE MYTHS

- **Internal auditors are nit-pickers and fault finders**
- **It's best not to tell the auditors anything unless they specifically ask**
- **Internal audit is the corporate “police function”**



# CHANGING THE ROLE OF INTERNAL AUDIT



# VALUE ADDITION BY INTERNAL AUDIT

*When it comes to adding value across the board,  
there's no better resource than  
internal auditing*

# VALUE ADDITION BY INTERNAL AUDIT

## HOW????

1) By advising and providing consultation in development of policies and procedures...

**BUT**

- Only to the extent of ensuring the risk is assessed at every level and controls are deployed

**AND**

- Not to get involved in the operational activities or implementation of the policies

2) Providing Consultation in new system development to ensure adequate internal controls are implemented before the system gets LIVE

3) Conducting value added analysis in terms of Cost cutting, revenue optimization measures, identify areas where excessive costs are incurred and advice on alternative solutions.

# VALUE ADDITION BY INTERNAL AUDIT

**Only by providing value added services, by understanding the departmental objectives and relating assurance and consulting activities to the departments and Company's objective as a whole, internal audit can be considered as**

**“*BUSINESS PARTNERS*”**

**THANK YOU**