

SRI LANKA RELATED SERVICES PRACTICE STATEMENT 4751

ENGAGEMENTS TO REPORT ON THE COMPLIANCE WITH THE CIRCULAR NO 29 ISSUED BY THE INSURANCE BOARD OF SRI LANKA (IBSL)

(Effective for engagements commencing on or after 28 June, 2011)

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Introduction

- 1 The purpose of this Sri Lanka Related Services Practice Statement 4751 (SLRSPS 4751) is to establish Standards and provide guidance on the circular no 29 issued by the Insurance Board of Sri Lanka (IBSL). This circular requires the external auditor of the insurance companies to report on the entity's compliance with the circular in addition to the requirements in section 47(2) of the Regulation of Insurance Industry Act, No. 43 of 2000 (Act) commencing from the financial year ending 31st December 2010.
- 2 The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) was requested by the IBSL to develop a guidance to practitioners to comply with the above circular. CA Sri Lanka considered international practice and technical guidance in audit practices to formulate an "agreed upon procedure" under the principles set out in Sri Lanka Standards on Related Services 4400 (SLSRS 4400).
- 3 CA Sri Lanka believes this practice statement will provide a useful guidance to practitioners. This guidance also illustrates the responsibilities of auditors and directors in fulfilling the requirements enunciated by the above circular issued by the IBSL. In addition, illustrations of an engagement letter, report and an annexure to the report on factual findings are provided to assist the practitioners in reporting requirements.

Illustration of an engagement letter for agreed-upon procedures engagement to comply with the Circular No 29 issued by the Insurance Board of Sri Lanka

To the Board of Directors or other appropriate representatives of the client who engaged the auditor.

This letter is to confirm our understanding of the terms and objectives of our engagement and the nature and limitations of the services that we will provide. Our engagement will be conducted in accordance with the principles set out in Sri Lanka Standards on Related Services **4400 (SLSRS 4400)** applicable to agreed-upon procedures engagements and we will indicate so in our report.

We have agreed to perform the procedures listed under the Annexure ‘A’ and report to you the factual findings resulting from our work:

(Describe where relevant the timing and extent of the procedures to be performed in Annexure ‘A’ including specific reference, where applicable, to the identity of documents and records to be reviewed, individuals to be contacted and parties from whom confirmations will be obtained.)

The procedures that we will perform are solely to assist you, to meet the compliance requirement of the Circular No 29 issued by the IBSL. Our report is not to be used for any other purposes other than purpose of Circular No.29 of IBSL stated above. The procedures that we will perform will not constitute an audit or a review made in accordance with Sri Lanka Auditing Standards or Sri Lanka Standards on Review Engagements and consequently, no assurance will be expressed.

We look forward to full cooperation with your staff and we trust that they will make available to us whatever records, documentation and other information requested in connection with our engagement.

Our fees, which will be billed as work progresses, are based on the time required by the individuals assigned to the engagement plus out-of-pocket expenses. Individual hourly rates vary according to the degree of responsibility involved and the experience and skill required.

(Additional terms and conditions may be added by the auditors)

Please sign and return the attached copy of this letter to indicate that it is in accordance with your understanding of the terms of the engagement including the specific procedures which we have agreed will be performed.

XYZ & CO.

Acknowledged on behalf of ABC PLC by

(signed)

Name and Title

Date

Illustration of a report of factual findings in connection with the Circular No 29 issued by the Insurance Board of Sri Lanka

REPORT OF FACTUAL FINDINGS

To (those who engaged the auditor)

We have performed the procedures agreed with you and enumerated in an annexure to this report, with respect to the Circular No 29 issued by the Insurance Board of Sri Lanka (IBSL). Our engagement was undertaken in accordance with the principles set out in Sri Lanka Standards on Related Services 4400 (SLSRS 4400) applicable to agreed-upon procedures engagements. The procedures were performed solely to assist you to meet the compliance requirements set out in the Circular.

We report our findings below:

(List the results of the procedures performed as per Annexure B)

Because the above procedures do not constitute an audit or review made in accordance with Sri Lanka Auditing Standards or Sri Lanka Standards on Review Engagements, we do not express any assurance on the compliance with the Circular No 29 issued by IBSL as of (Date).

Had we performed additional procedures or had we performed an audit or review of the financial statements in accordance with Sri Lanka Auditing Standards or Sri Lanka Standards on Review Engagements, other matters might have come to our attention that would have been reported to you.

Our report is solely for the purpose set forth in the first paragraph of this report and for your information and is not to be used for any other purpose or to be distributed to any other parties except for Insurance Board of Sri Lanka. This report relates only to the items specified above and does not extend to any financial statements of ABC PLC, taken as a whole.

AUDITOR

Date

Address

Procedures to be performed by the practicing auditor

1. Compliance with Section 12(4) of the Act

- (i) Obtain a detailed analysis of procedures followed by the insurer in compliance with section 12(4) of the Act.
- (ii) Identify income from any forms of business other than insurance business.
- (iii) Discuss the reasons for conducting business other than insurance.
- (iv) Check whether prior approval has been obtained from the IBSL for any financial service business, which is ancillary or associated with insurance business, during the financial year under consideration.

2. Compliance with Section 27 of the Act

- (i) Obtain a list of classes of business carried out by the insurer including sub-classes of general insurance business.
- (ii) Review the chart of accounts to ensure whether the insurer has maintained separate accounts of all receipts and payments in respect of each class of Insurance Business at all times during the financial year under consideration.
- (iii) Review the chart of accounts to ensure whether the insurer has maintained separate accounts in respect of each sub-class of General Insurance Business at all times during the financial year under consideration.

3. Compliance with Section 38 of the Act

- (i) Check whether the insurer has maintained a separate fund called the “Long Term Insurance Fund” at all times during the financial year under consideration.
- (ii) Check whether there is a process to credit all money received in respect of the long term insurance business carried on by such insurer to the Fund.
- (iii) Check whether there is a process to ensure that assets in respect of long

term insurance business are kept separate from other assets in respect of any other class of insurance business at all times during the financial year under consideration.

- (iv) Check whether there is a process to ensure that the Long Term Insurance Fund maintained by the insurer has not been liable for any contracts of the insurer for which it would not have been liable had the business of the insurer been only that of long term insurance business, and has not applied these funds directly or indirectly for any purpose other than those of the long term insurance business carried on by the insurer.

4. Compliance with Section 25 of the Act – Technical Reserve for General Insurance Business

- (i) Obtain a detailed analysis to identify the classification of assets of the Technical Reserve.
- (ii) Check whether there is a process throughout the financial year to maintain not less than twenty per centum of the assets of the Technical Reserve being maintained for General Insurance Business under Section 24 of the Act in Government Securities according to the value specified in the Solvency Margin Rules published in Gazette Extraordinary No. 1341/8 of May 17, 2004 and any amendments made thereto.
- (iii) Check quarterly/monthly/weekly/daily whether the process given by the directors in relation to the process in 4(ii) above have been actually done.
- (iv) Check whether there is a process throughout the financial year to maintain the balance assets of the Technical Reserve in investments permitted by the IBSL according to Determination No. 1 issued by the IBSL on 30th October 2002 and any amendments made thereto.
- (v) Check quarterly/monthly/weekly/daily whether the process given by the directors in relation to the process in 4(iv) above have been actually done.

5. Compliance with Section 25 of the Act – Long Term Insurance Fund

- (i) Check whether there is a process throughout the financial year to maintain not less than thirty per centum of the assets of the Long Term Insurance Fund being maintained under subsection (1) of section 38 of the Act in Government Securities according to the value specified

in the Solvency Margin Rules published in Gazette Extraordinary No. 1255/12 of September 24, 2002 and any amendments made thereto.

- (ii) Check quarterly/monthly/weekly/daily whether the process given by the directors in relation to the process in 5(i) above have been actually done.
- (iii) Check whether there is a process throughout the financial year to maintain the balance assets of the Long Term Insurance Fund in investments permitted by the IBSL according to Determination No. 1 issued by the IBSL on 30th October 2002 and any amendments made thereto.
- (iv) Check quarterly/monthly/weekly/daily whether the process given by the directors in relation to the process in 5(iii) above have been actually done.

6. Compliance with Section 30 of the Act

- (i) Obtain a list of total assets of the insurer.
- (ii) Check the evidences for the legal title and ownership of the total assets:
Such as:
 - (a) Land & Building
 - (b) Motor Vehicles
 - (c) Equity Securities (Eg: Obtain confirmations from Central Depository System (CDS))
 - (d) Government Securities (Eg: Obtain confirmations from Lanka Clear)
- (iii) Check whether the assets in 6(i) are mortgaged or collateralised.
- (iv) Check whether assets considered in respect of section 25 and 26 of the Act (Government Securities and the assets in the form of other investments as shall be determined by the IBSL) have been free from encumbrances.

7. Compliance with Section 26 of the Act

- (i) Check whether there is a process throughout the financial year to maintain the minimum required solvency margin in respect to General Insurance Business, published in Gazette Extraordinary No. 1341/8 of May 17, 2004 and any amendments made thereto.
- (ii) Check bi-annually/quarterly/monthly whether the process given by the directors in relation to the process in 7(i) above have been actually done.
- (iii) Check whether there is a process throughout the financial year to maintain the minimum required solvency margin in respect to Long Term Insurance Business, published in Gazette Extraordinary No. 1255/12 of September 24, 2002 and any amendments made thereto.
- (iv) Check bi-annually/quarterly/monthly whether the process given by the directors in relation to the process in 7(iii) above have been actually done.

8. Compliance with Section 29 of the Act

- (i) Obtain policy for granting loans to directors of the insurer.
- (ii) Obtain a list of companies in which a director of the insurer holds the position of a director.
- (iii) Obtain list of loans or securities which have been granted to directors of the insurer or any company identified in 8(ii) above.
- (iv) Verify the accuracy of the list in 8(iii) above on sample basis.
- (v) Verify whether prior written approval of the Board had been obtained for granting of loan.
- (vi) Based on the list given above, report on any other loans which do not fall under section 29 and may fall under section 12(4) and whether prior written approval had been obtained by the Board.

Annexure B

Annexure to the report on factual finding

Agreed Upon Procedures		Findings
1. Compliance with Section 12(4) of the Act		
(i)	Obtain a detailed analysis of procedures followed by the insurer in compliance with section 12(4) of the Act.	
(ii)	Identify income from any forms of business other than insurance business.	
(iii)	Discuss the reasons for conducting business other than insurance.	
(iv)	Check whether prior approval has been obtained from the IBSL for any financial service business, which is ancillary or associated with insurance business, during the financial year under consideration.	
2. Compliance with Section 27 of the Act		
(i)	Obtain a list of classes of business carried out by the insurer including sub-classes of general insurance business.	
(ii)	Review the chart of accounts to ensure whether the insurer has maintained separate accounts of all receipts and payments in respect of each class of Insurance Business at all times during the financial year under consideration.	

Agreed Upon Procedures		Findings
(iii)	Review the chart of accounts to ensure whether the insurer has maintained separate accounts in respect of each sub-class of General Insurance Business at all times during the financial year under consideration.	
3. Compliance with Section 38 of the Act		
(i)	Check whether the insurer has maintained a separate fund called the “Long Term Insurance Fund” at all times during the financial year under consideration.	
(ii)	Check whether there is a process to credit all money received in respect of the long term insurance business carried on by such insurer to the Fund.	
(iii)	Check whether there is a process to ensure that assets in respect of long term insurance business are kept separate from other assets in respect of any other class of insurance business at all times during the financial year under consideration.	
(iv)	Check whether there is a process to ensure that the Long Term Insurance Fund maintained by the insurer has not been liable for any contracts of the insurer for which it would not have been liable had the business of the insurer been only that of long term insurance business, and has not applied these funds directly or indirectly for any purpose other than those of	

Agreed Upon Procedures		Findings
	the long term insurance business carried on by the insurer.	
4. Compliance with Section 25 of the Act – Technical Reserve for General Insurance Business		
(i)	Obtain a detailed analysis to identify the classification of assets of the Technical Reserve.	
(ii)	Check whether there is a process throughout the financial year to maintain not less than twenty per centum of the assets of the Technical Reserve being maintained for General Insurance Business under Section 24 of the Act in Government Securities according to the value specified in the Solvency Margin Rules published in Gazette Extraordinary No. 1341/8 of May 17, 2004 and any amendments made thereto.	
(iii)	Check quarterly/monthly/weekly/daily whether the process given by the directors in relation to the process in 4(ii) above has been actually done.	
(iv)	Check whether there is a process throughout the financial year to maintain the balance assets of the Technical Reserve in investments permitted by the IBSL according to Determination No. 1 issued by the IBSL on 30th October 2002 and any amendments made thereto.	
(v)	Check quarterly/monthly/weekly/daily whether the process given by the directors in relation to the process in 4(iv) above has been	

Agreed Upon Procedures		Findings
	actually done.	
5. Compliance with Section 25 of the Act – Long Term Insurance Fund		
(i)	Check whether there is a process throughout the financial year to maintain not less than thirty per centum of the assets of the Long Term Insurance Fund being maintained under subsection (1) of section 38 of the Act in Government Securities according to the value specified in the Solvency Margin Rules published in Gazette Extraordinary No. 1255/12 of September 24, 2002 and any amendments made thereto.	
(ii)	Check quarterly/monthly/weekly/daily whether the process given by the directors in relation to the process in 5(i) above has been actually done.	
(iii)	Check whether there is a process throughout the financial year to maintain the balance assets of the Long Term Insurance Fund in investments permitted by the IBSL according to Determination No. 1 issued by the IBSL on 30th October 2002 and any amendments made thereto.	
(iv)	Check quarterly/monthly/weekly/daily whether the process given by the directors in relation to the process in 5(iii) above has been actually done.	
6. Compliance with Section 30 of the Act		
(i)	Obtain a list of total assets of the insurer.	

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(ii)	<p>Check the evidences for the legal title and ownership of the total assets:</p> <p>Such as:</p> <ul style="list-style-type: none"> (a) Land & Building (b) Motor Vehicles (c) Equity Securities (Eg: Obtain confirmations from Central Depository System (CDS)) (d) Government Securities (Eg: Obtain confirmations from Lanka Clear) 	
(iii)	Check whether the assets in 6(i) are mortgaged or collateralised.	
(iv)	Check whether assets considered in respect of section 25 and 26 of the Act (Government Securities and the assets in the form of other investments as shall be determined by the IBSL) have been free from encumbrances.	
7. Compliance with Section 26 of the Act		
(i)	Check whether there is a process throughout the financial year to maintain the minimum required solvency margin in respect to General Insurance Business, published in Gazette Extraordinary No. 1341/8 of May 17, 2004 and any amendments made thereto.	
(ii)	Check bi-annually/quarterly/monthly whether the process given by the directors in relation to the process in 7(i) above has been actually done.	

(iii)	Check whether there is a process throughout the financial year to maintain the minimum required solvency margin in respect to Long Term Insurance Business, published in Gazette Extraordinary No. 1255/12 of September 24, 2002 and any amendments made thereto.	
(iv)	Check bi-annually/quarterly/monthly whether the process given by the directors in relation to the process in 7(iii) above has been actually done	
8. Compliance with Section 29 of the Act		
(i)	Obtain policy for granting loans to directors of the insurer.	
(ii)	Obtain a list of companies in which a director of the insurer holds the position of a director.	
(iii)	Obtain list of loans or securities which have been granted to directors of the insurer or any company identified in 8(ii) above.	
(iv)	Verify the accuracy of the list in 8(iii) above on sample basis.	
(v)	Verify whether prior written approval of the Board had been obtained for granting of loan.	
(vi)	Based on the list given above, report on any other loans which do not fall under section 29 and may fall under section 12(4) and whether prior written approval had been obtained by the Board.	

Procedures to be followed by the Directors of the Insurance Company

Responsibilities		
1. Compliance with Section 12(4) of the Act	Comments	References
(i) The company has a process in place to ensure that they have refrained from carrying on any form of business other than insurance business during the financial year under consideration.		
(ii) The company has obtained the prior written approval of the IBSL for any financial service business, which is ancillary or associated with insurance business, during the financial year under consideration		
The company has Complied <input type="checkbox"/> Not complied <input type="checkbox"/> with Section 12(4) of the Act.		
2. Compliance with Section 27 of the Act	Comments	References
(i) The company has maintained separate accounts of all receipts and payments in respect of each class of Insurance Business at all times during the financial year under consideration.		
(ii) The company has maintained separate accounts in respect of each sub-class of General Insurance Business at all times during the financial year under consideration.		
The company has Complied <input type="checkbox"/> Not complied <input type="checkbox"/> with Section 27 of the Act.		

3. Compliance with Section 38 of the Act	Comments	References
(i) The company has maintained a separate fund called the “Long Term Insurance Fund” at all times during the financial year under consideration.		
(ii) The company has a process in place to credit all money received in respect of the long term insurance business carried on by such insurer to the Fund.		
(iii) The company has a process in place to ensure that assets in respect of long term insurance business are kept separate from other assets in respect of any other class of insurance business at all times during the financial year under consideration.		
(iv) The company has a process in place to ensure that the Long Term Insurance Fund maintained by the insurer has not been liable for any contracts of the insurer for which it would not have been liable had the business of the insurer been only that of long term insurance business, and has not applied these funds directly or indirectly for any purpose other than those of the long term insurance business carried on by the insurer.		
<p>The company has</p> <p>Complied <input type="checkbox"/> Not complied <input type="checkbox"/> with Section 38 of the Act.</p>		

4. Compliance with Section 25 of the Act – Technical Reserve for General Insurance Business	Comments	References
(i) The company has a process in place throughout the financial year to maintain not less than twenty per centum of the assets of the Technical Reserve being maintained for General Insurance Business under Section 24 of the Act in Government Securities according to the value specified in the Solvency Margin Rules published in Gazette Extraordinary No. 1341/8 of May 17, 2004 and any amendments made thereto.		
(ii) The company has a process in place throughout the financial year to maintain the balance assets of the Technical Reserve in investments permitted by the IBSL according to Determination No. 1 issued by the IBSL on 30th October 2002 and any amendments made thereto.		
<p>The company has</p> <p>Complied <input style="width: 40px; height: 20px; border: 1px solid black;" type="checkbox"/> Not complied <input style="width: 40px; height: 20px; border: 1px solid black;" type="checkbox"/> with the provisions related to</p> <p>Reserve Technical</p> <p>for General Insurance Business in Section 25 of the Act.</p>		
5. Compliance with Section 25 of the Act – Long Term Insurance Fund	Comments	References
(i) The company has a process in place throughout the financial year to maintain not less than thirty per centum of the assets of the Long Term Insurance Fund being maintained under subsection (1) of section 38 of the Act in Government Securities according to the value specified in the Solvency Margin Rules published in		

Gazette Extraordinary No. 1255/12 of September 24, 2002 and any amendments made thereto.		
(ii) The company has a process in place throughout the financial year to maintain the balance assets of the Long Term Insurance Fund in investments permitted by the IBSL according to Determination No. 1 issued by the IBSL on 30th October 2002 and any amendments made thereto.		
<p>The company has</p> <p> Complied <input type="checkbox"/> Not complied <input type="checkbox"/> with the provisions related to Long Term </p> <p>Insurance Fund in Section 25 of the Act.</p>		
6. Compliance with Section 30 of the Act	Comments	References
(i) The company has the legal title and ownership to all assets.		
(ii) The assets considered in respect of section 25 and 26 of the Act (Government Securities and the assets in the form of other investments as shall be determined by the IBSL) have been free from encumbrances.		
<p>The company has</p> <p> Complied <input type="checkbox"/> Not complied <input type="checkbox"/> with Section 30 of the Act. </p>		
7. Compliance with Section 26 of the Act	Comments	References

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(i) The company has a process in place throughout the financial year to maintain the minimum required solvency margin in respect to General Insurance Business, published in Gazette Extraordinary No. 1341/8 of May 17, 2004 and any amendments made thereto.		
(ii) The company has a process in place throughout the financial year to maintain the minimum required solvency margin in respect to Long Term Insurance Business, published in Gazette Extraordinary No. 1255/12 of September 24, 2002 and any amendments made thereto.		

The company has

Complied ☐ **Not complied** ☐ **with Section 26 of the Act.**

8. Compliance with Section 29 of the Act	Comments	References
(i) The company has a policy for granting loans to directors of the insurer or to a company in which a director of the insurance company holds the position of a director.		
(ii) The company has acted in compliance with section 29 of the Act at all times during the financial year under consideration when a loan has been granted to a director of the insurance company or to a company in which a director of the insurance company holds the position of a director.		

The company has

Complied ☐ **Not complied** ☐ **with Section 29 of the Act.**

