

Statutory Audit of General Insurance Operating Offices



Presented by :

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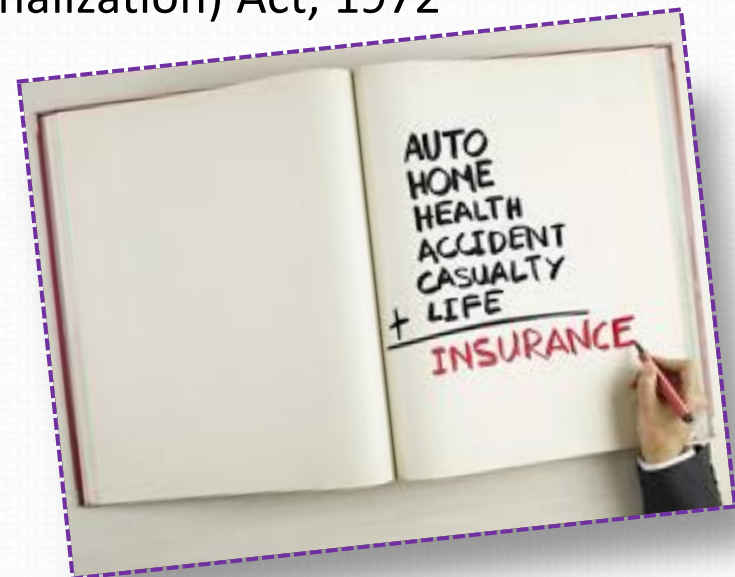
Definition of Statutory Audit:

- A **legally required review** of the accuracy of a company's or government's **financial records**.
- The purpose of a statutory audit is the same as the purpose of any other audit - to determine whether an organization is providing a **fair and accurate representation of its financial position** by examining information.



STATUTES AND RULES RELATING TO AUDIT OF INSURANCE COMPANIES:

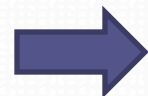
- The Insurance Act, 1938
- The Insurance Regulatory and Development Authority Act, 1999
- The Insurance Regulatory and Development Authority Regulations framed under the IRDA Act, 1999
- The Companies Act, 1956
- The General Insurance Business (Nationalization) Act, 1972



Financial Statements

- Schedule B of IRDA Regulations Act, 2002 prescribes the format for preparation of Financial Statements of an insurer carrying on General Insurance business.

Statement / Account	General Insurance Companies
Revenue Account	Form B-RA
Profit & Loss Account	Form B-PL
Balance Sheet	Form B-BS



Auditors Report

- **‘Schedule C’ of the IRDA Regulations, 2002 lays down the matters to be dealt with by the auditor’s report of an insurance company, specified therein:**
 - Express opinion on whether financial statements give a true and fair view
 - Accounting policies selected by the insurer are appropriate
 - Whether the actuarial valuation of liabilities is duly certified by the appointed actuary
 - Investments have been valued as per regulations



Internal Control

Internal control is a process for assuring achievement of an organization's operational effectiveness and efficiency and compliance with laws, regulations and policies



- A comprehensive check of the company's system forms an important part of a Statutory Auditor's duties
- The system has to be checked for security and accounting errors, if any
- Any qualifications or adverse remark in any other Audit Reports, i.e. Internal Audit Report, CAG Audit Report, etc. are also checked
- The efficacy of internal controls placed in an organization influences the method of selection and volume of Audit Sampling



Audit Sampling

- **Objective:** To provide a reasonable basis for the auditor to draw conclusions about the population from which the sample is selected
- The auditor shall determine a sample size sufficient to reduce sampling risk to an acceptably low level
- The auditor shall investigate the nature and cause of any deviations or misstatements identified, and evaluate their possible effect on the various areas of the audit



Premiums

- The main source of income of an insurance company is the receipt of premiums from policyholders and hence these need to be vouched carefully
- The premium register should match with the accounted figures i.e. as per the trial balance
- Debits or negative entries in premium registers to be matched with refunds and or cancellations
- Whether concessional rates of premium are approved as per delegation of power



Premiums – Contd..

- Some portion of premium is allocable to succeeding period, thus called unearned premium
- Check Reserve for unexpired risk
- Company should not assume any risk for uncollected premium, short premium, not collected in time, etc.
- Due date and date of collection of installments should be reconciled



Claims

- The Statutory Audit of a General Insurance Company requires an in-depth focus on Claims, as it is the main expenditure of the company.
- Loss Intimation should be received within reasonable time.
- Check whether surveyors are appointed in case of major claims without delay.
- Check whether claims are provided for net of salvage value.
- Claim paid duly sanctioned by the authority concerned.



Claims– Contd..

- Check whether provision has been made for all unsettled claims.
- Check whether documentation is available for provisions made either by company or as per surveyor estimates.
- In determining the amount of provision, Event after Balance Sheet date should be considered.
- Prompt legal advice needs to be taken for Claims under litigation, and appropriate follow-up is required.
- The **Income Claim Ratio** has to be checked and if high, the business area claims can be checked in more detail.



Co- Insurance

- To check whether the premium account is credited on the basis of statements received from the leader insurer and in case of leader insurer, whether the statement has been sent in reasonable time.
- To obtain a written confirmation from management that all premium received from leader has been accounted for.
- It should be ensured that claim is only paid or provided for by the Insurer for its share in co-insurance.
- Examination of relevant co-insurance documents, especially in case of Leader co-insurer.



Re- Insurance

VERIFICATION OF REINSURANCE INWARDS / REINSURANCE OUTWARDS-

- To examine the arrangements with principal insurer/ re-insurers
- To ensure the appropriateness of accounting treatment of reinsurance business received/ given, premium received/ paid and payment/ receipt of commission
- To examine whether intimation of loss has been received/ given to them well in time



Re-insurance– Contd..

- To check whether provision has been made for all claims payable to principal insurer
- To verify that claim has been received as per terms and conditions
- To ensure that recording of premium and provision for / settlement of claims is done for Company's share only
- To carefully examine any old outstanding in the books of the principal insurer/ re-insurer
- Balance confirmation should also be obtained from principal insurer/ re-insurer



Operating Expenses

- Insurance Act, 1938 requires separate disclosure of expenses in excess of Rs. 5 Lacs or 1% of net premium, whichever is higher
- Expenses not directly relating to insurance business should also be shown separately, for example, expenses relating to investment department, foreign exchange losses, etc.
- Examples of Operating expenses are:
 - Employees' remuneration & welfare benefits
 - Travel, conveyance and vehicle running expenses
 - Rents, rates & taxes
 - Legal & professional charges



Other Operating Income

- Income not directly relating to insurance business can either be Income from Investments or Other Income
- Income from Investments includes Interest, Dividend, Rent and Profit/Loss on sale of Investments
- Any other income excluding the above has to be separately shown



Investments

- To verify that investments are made only in approved securities
- Valuation as per guidelines laid down for insurance companies
- Check whether the investments are in the name of the insurer
- Format for presentation of Investments is prescribed under Form B-BS in Schedule B of IRDA Regulations Act, 2002



Fixed Assets

- To check the assets appearing at the date of the balance sheet and verify that they are shown at the correct value
- Proper depreciation must be provided for on the assets
- Fixed Assets Register needs to be properly maintained and updated



Verification

- Schedule C of IRDA Regulations 2002 requires auditor to certify the verification of
 - Cash Balances and Securities
 - Investment and transactions relating to trusts, if any
 - That no part of the assets of the policyholders' funds has been applied in contravention of the provisions of the Insurance Act, 1938
- To physically verify fixed assets
- Verification of Stamps, franking balance, etc



Statutory Dues

- Tax Deducted at Source
- Profession Tax and Provident Fund
- Advance Tax
- GST



Goods & Services Tax



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GST – Output

- Premiums

GST rates : Now and Then : New rates under GST for insurance policies			
Insurance product	Now	GST	Applicability
Term insurance premium	15	18	On entire premium
ULIP (on charges)	15	18	On premium minus investment amount
Health insurance premium	15	18	On entire premium
Rider Premium	15	18	On entire premium
Annuity: Single Premium	1.5	1.8*	On 10% of premium
Endowment: 1st Year premium	3.75	4.50*	On 25% of premium
Endowment: Renewal premium	1.875	2.25*	On 12.5% of premium
Car insurance	15	18	On entire premium
Health insurance premium	15	18	On entire premium
Service tax includes Krishi Kalyan Cess (KKC) and Swacch Bharat Cess (SBC) * Effective rate			

GST - Output

- Other than Premium – Interest on delayed payment



GST - Inputs

- Commission to Agent
- Notification No. 13/2017- Central Tax (Rate) dated 28th June, 2017

Sl. No.	Category of Supply of Services	Supplier of service	Recipient of Service
7	Services supplied by an insurance agent to any person carrying on insurance business.	An insurance agent	Any person carrying on insurance business, located in the taxable territory.



GST - Inputs

- Legal Fees –
 - Reverse Charge Mechanism if provided to business entity in taxable territory
 - Forward Charge Mechanism if provided to someone not in taxable territory



GST - Inputs

As per [Notification No. 12/2017 \(Central Tax- Rate\) dated 28th June 2017](#), the following services of advocates are exempted:

- Services by firm of advocates / an individual advocate other than a senior advocate, by way of legal services to-
 - an advocate or partnership firm of advocates providing legal services;
 - any person other than a business entity; or
 - a business entity with an aggregate turnover up to twenty lakh rupees in the preceding financial year
- AND
- Services by a senior advocate by way of legal services to-
 - any person other than a business entity; or
 - a business entity with an aggregate turnover up to twenty lakh rupees in the preceding financial year.



GST – Inputs (others)

- Professional fees (Audit, TPA, Surveyor, etc) – generally 18% forward charge
- Fixed asset purchase (Computers, office premises, etc) – itemized rates
- Stationery purchase – different rates
- Travel expenses (cars, train, flight, bus etc) – if applicable, they will charge, i.e. forward charge. Agency fees paid for booking or providing service, then RCM may apply.
- Contractors (canteen, works contract, house keeping, security etc) – itemized – forward charge - generally 18%
- Statutory payment interest/penalty – no gst



GST – Reverse Charge Mechanism

- Services to Person in non-taxable territory
- Services by GTA
- Legal services
- Arbitral tribunal
- Sponsorship services
- Services by Government or local authority with exceptions (post & transportation)
- Services by Director to Company/Body Corporate
- Services by Insurance agent to person carrying insurance business
- Services by a recovery agent to banking company or NBFC
- Radio Taxi or Passenger Transport Services provided through electronic commerce operator.



GST – Reverse Charge Mechanism

- What happens if a supplier of services is unregistered?

In case supplier of goods or services is an unregistered person, tax will have to be paid on reverse charge basis by recipient of service if he is a taxable person. Meaning, we will have to raise an Invoice on ourselves for the amount of GST which the Supplier would have charged if he was registered.

- Does insurance agent service fall under reverse charge?

Yes. Services provided by an insurance agent to a person carrying out insurance business would be liable to GST under reverse charge. Thus the insurance company is liable to pay tax on the same.



GST – Point of Taxation

- When does a liability to pay GST arise?

The liability to pay tax on goods or services arises at the time of supply.

- What is time of supply?

The time of supply fixes the point when the liability to charge GST arises. It also indicates when a supply is deemed to have been made.

- What is time of supply for services?

Date of issue of invoice by the supplier or last date on which he is required to issue the invoice with respect to the supply or date on which the supplier receives the payment with respect to the supply of services.
(30 days from the provision of service)

- What is time of supply for Insurance services?



GST – Place of Supply

- How does one determine the location of the supplier?

Location of the supplier will be the state in which the insurance company office/branch is located.

For e.g.: Insurance Companies have branches across states in India. Generally depending on the location of the customer, the Company would render services from its nearest local branch office in that particular state

- How does one determine the place of supply?

For insurance services, if the services are provided to a registered customer (B2B) the place of supply shall be the registered location of service recipient.

If the services are provided to an unregistered customer (B2C), place of supply shall be the location of recipient on the records of supplier.



GST – Place of Supply

- Will the place of supply change if a customer changes his location post issuance of policy?

Yes, however it will not have any impact on the premium already paid. Any future premium will be liable to GST on the basis of the revised location.

- If there are multiple branches of a Company in each state, which branch would be considered as the location of supplier?

In Each state one Branch has been identified as Principal State of Business and other Branches are identified as Additional Place of Business. The Company would have one GSTIN Number per state which will be applicable for all the branches in that state.

- Will the location of supplier will be same where policies are sold through e-commerce operator?

No. Such policies may be tagged to HO and e-commerce related GST laws shall apply.



GST – Input Tax Credit

- What are the conditions for availing input tax credit?
 - Possession of tax invoice / debit note issued by a registered supplier,
 - Goods / services have been received,
 - Tax charged has been paid to the credit of the Government,
 - GST return has been furnished.
- Can GST paid on reverse charge basis be considered as input tax?
- Yes. The definition of input tax includes the tax payable under the reverse charge.
- Does input tax includes tax (CGST/IGST/SGST) paid on input goods, input services and capital goods?
- Yes, it includes taxes paid on input goods, input services and capital goods. Credit of tax paid on capital goods is permitted to be availed in one installment.
- List of instances when ITC shall not be allowed.



GST – Due Dates of returns and payments

GST Return Due Dates

10
MONTHLY

GSTR 1



15
MONTHLY

GSTR 2



20
MONTHLY

GSTR 3



31
ANNUAL

GSTR 4



GST – Penalty on late payment

- Rs. 100 per day, subject to a maximum of Rs. 5,000



GST – Registration

- Who is liable to register under GST Law?

Every supplier from where he makes a taxable supply of goods or services or both, if his aggregate turnover in a financial year exceeds INR 20 Lakhs (INR 10 Lakhs in special category States) is liable to register under GST.

- Respective categories require mandatory registration under GST irrespective of the threshold limit:
 - Inter-state taxable supply;
 - Casual taxable person;
 - Person required to pay tax under reverse charge;
 - E-commerce operators;
 - Non-resident taxable person; Persons who are required to deduct TDS



GST - FAQ

- Whether indemnity (claim settlements) are liable to GST?

No. Pure indemnities are not liable to GST.

- What is GST registration called?

GST registration is known as GSTTIN. It is a 15 digit unique ID provided to a person registered under GST law.

- Can one have multiple registrations in a particular State?

Yes. A person having multiple business verticals in a State has an option to obtain a separate registration for each business vertical.



GST - FAQ

- 36. Do we need to display registration certificate at branch?

Yes, the Company/branch will be required to display its certificate of registration in a prominent location at his principal place of business and at every additional place or places of business. Also, it will need to display its GSTIN on the name board exhibited at the entry of his principal place of business and at every additional place or places of business

- What information needs to be sought from customers while issuing insurance policies?
 - For B2B customers one would need to obtain the GSTIN, state name and state code.
 - For B2C customers one would need to obtain the communication address along with the PIN code/State code of the customer.



GST - FAQ

- Do we need to share our registration number to vendors, surveyors etc.?

Yes. We need to share with vendors and other service providers who are registered under GST.

- Do we need to collect vendor / customer GST registration number?

Yes. The Company will need the GST registration numbers of all vendors and customers who are registered.

- If vendors have presence in multiple states then at which branch he will be raise the invoice?

The vendor will have to raise the invoice depending upon which branch procures or avails goods / services.



GST - FAQ

- What if service tax invoices for prior period received from vendors post 1 July 2017. Can Future Generally claim the credit?

No, all the purchase orders and invoices pertaining to service tax should be booked and cleared before 1 July 2017.

- What will be the time of supply, where supply is completed prior to change in rate of tax?
 - Scenario 1: Where invoice has been issued and payment is also received after change in rate of tax, time of supply shall be date of receipt of payment or date of issue of invoice, whichever earlier.
 - Scenario 2: Where invoice has been issued prior to change in rate of tax but payment is received after the change in rate of tax, time of supply shall be date of issue of invoice.
 - Scenario 3: Where payment is received before change in rate of tax, but invoice for the same has been issued after change in rate of tax, time of supply shall be date of receipt of payment.



GST - FAQ

- What is a tax invoice?

A tax invoice is a document to be issued by a registered person for supply of taxable goods / services. It has to be issued showing the description and other information prescribed under GST law

- Who is required to issue an invoice in respect supply taxable under reverse charge?

The liability to discharge tax under reverse charge basis remains always with the recipient. In case a supplier is a registered supplier, he would be required to issue a Zero-GST on the recipient.

In case a supplier is an unregistered supplier, in that case the recipient will have to raise an invoice on itself.

- Is there a value limit for which invoices are not to be issued?

For transaction value less than INR 200, no tax invoice or bill of supply are required to be issued.



Discussion Time!



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*Thank
You*

