



AUDIT OF INSURANCE COMPANIES

"It is important that students bring a certain ragamuffin, barefoot, irreverence to their studies; they are not here to worship what is known, but to question it."

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AUDIT OF INSURANCE COMPANIES

REQUIREMENT OF SCHEDULE B TO IRDA REGULATIONS 2002**PART 1****Account principles for preparation of financial information**

I Applicability of AS to G.I.C. :

- 3 → As per Direct Method only.
 - 4 → Not applicable w.r.t. liabilities arising out of I. Policies
 - 9 → Not applicable w.r.t. incomes of insurance business.
 - 13 → As per regulation, Apply AS — I3 where regulation is silent.
 - 17 → Applicable in each case irrespective of its applicability clause.
 - Premium
 - Premium Deficiency. Recognised if expected claim cost > related reserve unexpired risk.
 - Acquisition cost. Expenses in the period in which incurred.
 - Claims. Liability for O/s claim should be provided for
 - Valuation of Investment.
 - Real Estate - investment property: Historical cost less accumulated depreciation less impairment loss. Residual value as zero.
 - Debt Securities — as 'held to maturity' - Historical cost.
 - Equity / Derivative in Active Market — F.V. at B/S date. Impairment as expenses. changes in F.V. in "Fair Value change A/c."
 - 'Unlisted' and other — at H.C. provision made for diminution in value such provision may be reversed but increased carrying amount not to exceed its historical cost.
 - Loan. Measured at historical cost subject to impairment provision.
- Catastrophe Disaster Reserve. To be created as per norms prescribed by authority.

PART 2**Disclosure****PART 3****General Instruction**

(Last year figures, national income provision/Reserve)

PART 4**Management Report**

- Confirmation for validity of registration
- Confirmation that all statutory dues have been paid.
- Confirmation that shareholding pattern is in accordance with law
- Confirmation that solvency margin is maintained

(NOTE: Solvency Margin is 50% of Capital as per Section 64VA)

If non-maintenance of S.M., insurer to submit a financial plan to authority indicating plan of action, else it shall deemed to be insolvent and wound up by court.)

- Confirmation that valuation of Investment is as per norms.
- Confirmation that management has not invested any money outside India.
- Confirmation about overall risk exposure
- Confirmation about operation in other countries
- Confirmation about aging of claims
- Confirmation about quality of asset & portfolio
- Confirmation about payment to parties in which directors are interested
- Responsibility statement

SOLVENCY MARGIN

MEANING

Section 64VA of the Insurance Act, 1938 as amended by Insurance Laws (Amendment) Act, 2015 requires every insurer and re-insurer to maintain an excess of the value of assets over the amount of liabilities at all times which shall not be less than 50% of the amount of minimum capital as stated under section 6 (requirement as to capital) of the Act and arrived at in the manner specified by the regulations.

CONTROL LEVEL OF SOLVENCY

The Authority, by way of regulation, shall specify a level of solvency margin known as 'control level of solvency'. However, in certain special circumstances, the authority may direct application of this provision with some modifications provided this shall not result in the control level of solvency being less than what is stipulated in above para.

DEFAULT

If, at any time, an insurer or re-insurer does not maintain the required control level of solvency margin, he is required to submit a financial plan to the Authority indicating the plan of action to correct the deficiency. If, on consideration of the plan, the Authority finds it inadequate, the insurer has to modify the financial plan.

Maintenance of solvency margin has a great importance for an insurance company considering their size and nature of business and also involvement of public Money. Sub-section (2) of Section 64VA states that if an insurer or re-insurer fails to comply with the prescribed requirement of maintaining excess of value of assets over amount of liabilities, it shall be deemed to be insolvent and may be wound up by the court on an application made by authority.

CORPORATE GOVERNANCE GUIDELINES

ANNUAL FILING OF COMPLAINE STATUS

W.E.F F.Y. 2010-11, all insurers are required to file a Report on status of compliance with the Corporate Governance Guidelines on an annual basis.

This report shall be filed within 90 days from the end of the Financial year (i.e. before 30th June)

FILING UP OF THE VACANCY TO THE POST OF INDEPENDENT DIRECTOR ON THE BOARD

All insurers are required to ensure compliance with the stipulations regarding the minimum number of independent directors at all times.

OPTIONAL COMMITTEES

Corporate Governance Guidelines provides for the formation of following three optional committees:

- (1) Remuneration Committee
- (2) Nomination Committee
- (3) Ethics Committee



INVESTMENT NORMS

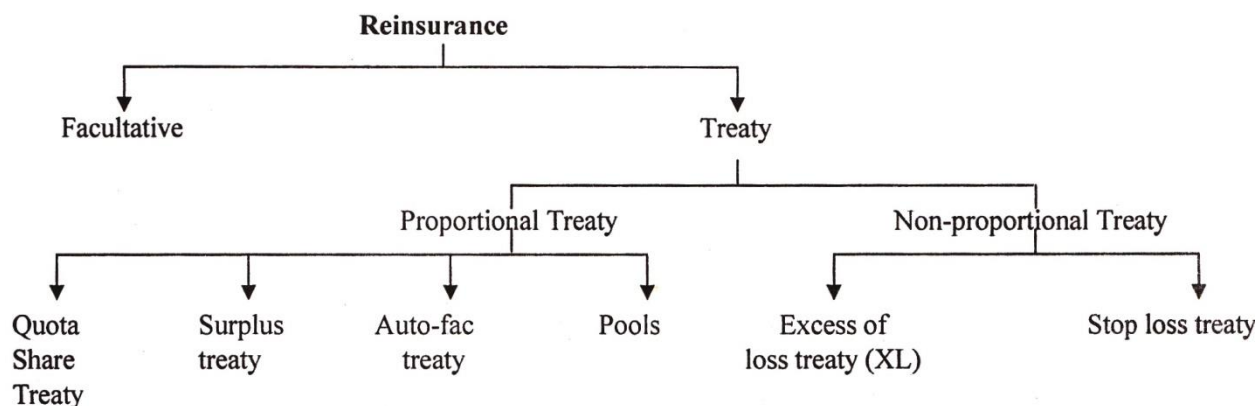
1. Investment in other than approved investment if:
 - (i) Such investment < 25% of total investment; and
 - (ii) Consent of all Directors.
2. Insurer not to invest in one insurance / investment company exceeding-
 - (i) 10% of total asset of insurer; or
 - (ii) 2% of share capital/debenture of company concerned.For other companies (other than insurance / investment company) 2% is replaced by 10%
3. Funds of policy holders not to be invested outside India.
4. Every insurer to keep at all times.

at least 20% of Assets	Central Govt. Securities.
at least 30% (including (i)	State Govt. and other guaranteed securities
at least 5% of total assets	Housing & loan to State Government
at least 10% of total assets	In approved securities under infrastructure / social sector
upto 55%	Other securities.

GUIDELINES

- (i) Proper Balance between infrastructure and social sector.
- (ii) Based on rating of assets.
- (iii) Rating by independent agency
- (iv) Should be at least “AA” grade.
- (v) Investment in shares in actively traded/liquid investment.

REINSURANCE – AT A GLANCE



- **Facultative:** Particular risk is ceded, thus consideration of each risk separately.
- **Treaty:** Within limits of treaty, covering all kinds of risks is ceded.
- **Proportional Treaty**
 - **Quota Share** → Fix % of all policies issued under defined scope of business.
 - **Surplus:** Cedes amount which it doesn't want to retain with itself.
 - **Auto-fac:** After cession of its surplus treaties, if anything remains, then it is ceded as per auto-fac treaty
 - **Pools:** Members cede to pool a portion of business directly written by them.
- **Non-proportional:** On basis of loss.
 - **XL treaty:** XL on prevent: If more than one risk are affected, limit/loss is arrived at separately.
 - **XL on non-prevent:** Losses considered on together basis. (Aggregate).
 - **Stop Loss:** Protects the company from losing more than specified amount for given class of business.

SOME POINTS TO BE CONSIDERED IN CASE OF INSURANCE COMPANIES

PREMIUM

- Credited to separate Bank account.
- **No Risk** Assumption without receipt of premium.
Three types of premium — for direct business, for re-insurance business and share of co-insurance premium.
- Some portion of premium is allocable to succeeding period, thus called unearned premium. Check Reserve for unexpired risk.

(NOTE: **Reserve for unexpired risk:**

As per Section 64V of the Insurance Act, 1938, for the purpose of compliance with the provisions of maintaining control level of solvency margin, a proper value of every item of liability of the insurer shall be placed in the manner as may be specified by the regulations made in this behalf)

- **Premium deficiency** = expected claim cost — related unearned premium. Provision to be made.
- **Internal controls** and procedures w.r.t. premium should be operating effectively.
- **Cover notes** should be serially numbered.
- **Company should not assume any risk** for uncollected premium, short premium, not collected in time, etc.
- **Reinsurance** → look for all its details.
- **Collection after B/S date**, whether relating to year under audit.

- **Co-insurance**, examine company's share of premium.
- **Premium** register should be kept chronologically i.e. in order of time of premium received.
- **Due date** and date of collection should be reconciled.
- **Year end** transactions should be taken care of.
- Service tax is applicable on premium, thus ensure appropriateness of same.
- Refund of premium (whether made in genuine cases only).

VERIFICATION OF CLAIMS

- Provision for all unsettled claims.
- Only for those, company is legally liable.
- Not to exceed insured amount.
- Event after B/S date.
- Average clause.
- Co insurance, provision only for its share.
- Reasons for long delays after claim lodged.
- Under litigation, legal advice.
- Provision net of salvage value.
- No contingent liability w.r.t. claim intimated.
- Intimation within reasonable time.
- Claim paid duly sanctioned.
- Claim paid for its share in co-insurance.
- Claim paid after salvage accounted for.
- Claim paid, discharge note from claimant.

COMMISSION

- Commission should be paid only to authorized agents
- Examine internal controls over payment of commission.
- Examine whether it has been paid as per appropriate rate.
- Obtain confirmation from the agents.
- Examine accounting treatment of outstanding commission, if any.
- Obtain management representation that all commission has been appropriately adjusted in the accounts.
- Correlate with this year's business.
- Check whether TDS has been properly deducted on payment of commission.
- Verify that no commission is paid to agents for businesses directly procured by it.

AGENT'S BALANCE

- Carefully examine the old balance, if any.
- Obtain confirmation from agents.
- Ensure that this head contains only balances w.r.t. agents accounts.
- Obtain management representations w.r.t. appropriate accounting treatment of such accounts.
- In case any amount due from them appears to be doubtful, examine whether provision has been created w.r.t. same.
- Reconcile their balances with commission due to them.

RECEIPTS AND PAYMENTS ACCOUNT

- Every insurer should prepare at the end of each financial year, a Balance Sheet, a Profit and Loss Account, account of receipts and payments and a Revenue Account.
- Since receipts and payments account has been made a part of financial statements of an insurer it is also required to be audited.
- Auditor of an insurance company should:

- (i) Report whether the receipts and payments account of the insurer is in agreement with the books of account and returns:
- (ii) Express an opinion as to whether the receipts and payments account has been prepared on accordance with the provisions of the relevant statutes; and
- (iii) Express an opinion whether the receipts and payments account gives a true and fair view of the receipts and payments of the insures for the financial year Period under audit.

CO-INSURANCE

- In case of high business risks, these are shared among more than one insurance company.
- In case of coinsurance, the leading insurer issues the documents. collects premiums and settles claims. .
- The leader renders statements of Accounts to the co-insurers.
- The auditor should check whether the premium account is credited on the basis of statements received from the leading insurer.
- Auditor should obtain a written confirmation from management that all premium received from the leader has been accounted for.
- The claims provisions and claims paid should also be verified.
- It should be ensured that claim is paid only for its share in coinsurance.
- For leader, the auditor should examine the relevant documents.

REINSURANCE INWARDS

- He should obtain evidences as to the effectiveness of the system of control over the reinsurance inwards.
- The agreement should be as per guidelines prescribed in the Insurance Act, 1938 and IRDA Regulations.
- The auditor should examine the arrangements with principal insurer.
- The auditor should ensure the appropriateness of accounting treatment of reinsurance business received, premium received and payment of commission.
- He should examine 'whether intimation of loss has been received well in time.
- It is also to be verified that claim has been paid as per the terms and conditions.
- In case of principal insurer being in the foreign country, he should examine the foreign currency transactions considering the Accounting Standard (AS) 11.
- The auditor should check whether provision has been made for all claims payable to principal insurer.
- He should carefully examine any old outstanding.
- Balance confirmation should also be obtained form principal insurer.

REINSURANCE OUTWARD

- He should obtain evidences as to the effectiveness of the system' of control over the reinsurance outwards.
- The agreement should be as per guidelines prescribed in the Insurance Act, 1938 and IRDA Regulations.
- The auditor should examine the arrangements with re-insurers.
- The auditor should ensure the appropriateness of accounting treatment of reinsurance business given, premium paid to reinsurer and receipt of commission.
- He should examine whether intimation of loss has been given to them well in time.
- It is also to be verified that claim has been received from reinsurer as per the terms and conditions.
- In case of reinsurer being in the foreign country, he should examine the foreign currency transactions considering the Accounting Standard (AS) 11.
- He should carefully examine any old outstanding.
- Balance confirmation should also be obtained form reinsurer.

Q1) Write a short note on - Incoming and Outgoing Co-insurance.

Ans. Incoming and Outgoing Co-insurance: In cases of large risks, the business is shared between more than one insurer under co-insurance arrangements at agreed percentages. The leading insurer issues documents, collects premium and settles claims. Statement of accounts is rendered by the leading insurer to the other co-insurers. The auditor should verify incoming co-insurance and outgoing co-insurance as follows:

- (i) **Incoming Co-Insurance:** The auditor should see that the Premium Account is credited on the basis of statements received from the leading insurer. In case, the statement is not received, the premium is accounted for on the basis of advices to ensure that all premium in respect of risks assumed in any year is booked in the same year. It would be advisable for the auditor to scrutinise the communication in the post-audit period and obtain a written confirmation to the effect that all incoming advices have been accounted for. The auditor should also verify claims provisions and claims paid with reference to advice received from the leading insurer.
- (ii) **Outgoing Co-Insurance:** The auditor should scrutinise the transactions relating to the outgoing business, i.e. where the company is the leader. These should be checked with reference to the relevant risks assumed under policies and correspondingly for debits arising to the co-insurer on account of their share of claims.

Q2) What are the steps to be taken while verifying the Premium of a General Insurance Company?

Ans. Verification of Premiums: Verification of premium is of utmost importance to an auditor. The auditor should apply, inter alia, the following procedures for verification of premium-

- (i) Before commencing verification of premium income, the auditor should look into the internal controls and compliance thereof as laid down for collection and recording of the premiums.
- (ii) The auditor should ascertain that all the cover notes relating to the risks assumed have been serially numbered for each class of business. The auditor should also verify that there is an adequate internal check on the issue of stationery comprising of cover notes, policy documents, stamps, etc. The auditor may apply sampling techniques for verification of larger volume of transactions.
- (iii) The auditor should ensure that premium in respect of risks incepting during the relevant accounting year has been accounted as premium income of that year on the basis of premium revenue recognition. The auditor, as part of his audit procedures, should make an assessment of the reasonability of the risk pattern established by the management. The auditor should also see whether the premium received during the year but pertaining to risk commencing in the following year has been accounted for under the head 'Premium Received in Advance' and has been disclosed separately. Normally, such instances relate to the issue of cover notes and certificates at the end of the accounting year relating to risks commencing in the next accounting period. Generally, there is a column in the Premium Register called "Commencement of Risk", indicating the date and time from which the risk under the policy issued has commenced. The auditor should verify that policy documents have not been issued, or where issued, the company was not at risk, in case:
 - (a) premium had not been collected at all;
 - (b) premium had been collected but the relevant cheques have been dishonoured;
 - (c) premium had not immediately been collected due to furnishing of a bank guarantee or cash deposit but either the deposit or guarantee had fallen short or has expired or the premium had been collected beyond the stipulated time limit (i.e., there is a shortfall in bank guarantee account or cash deposit account of the insured);
 - (d) premium had not been collected due to risk cover being increased or where stipulated limits have been exhausted in respect of open declaration policies (i.e., where premium has accrued but has not been received); and
 - (e) instalments of premium have not been collected in time in respect of certain categories of policies, e.g., marine-cum-erection policies where facility has been granted for premium being paid in instalments

(such facility is normally available subject to certain conditions, e.g., that the first equated instalment is more by 5 per cent of the total premium payable by instalments).

- (iv) The auditor should examine whether the reinsurance company is not under a risk in respect of amount lying at credit and outstanding as at the year-end in the following accounts:
 - (a) Deposit Premium Account;
 - (b) Premium Received in Advance Account;
 - (c) Inspectors' Deposits Account; and
 - (d) Agent's Premium Accounts.
- (v) The auditor should verify the collections lodged by agents after the balance sheet date to see whether any collection pertains to risk commencing for the year under audit. The auditor should also check that the premium has been recorded originally at the gross figure, i.e., without providing for unexpired risks and reinsurances.
- (vi) In case of co-insurance business, where the company is not the leader, because of the non-availability of the relevant information in many cases the premium is not booked even though the risk has commenced during the relevant accounting year. The auditor should see that the company's share of the premium has been accounted for on the basis of the available information on nature of risk and the provisional premium charged by the leading insurer. The auditor should examine the communications issued to the company by the leading insurers advising them of the company's share of premium income. Such communications should be seen even in respect of the post-audit period. Where the company is the leader, the auditor should obtain a reasonable assurance that only the company's own share of premium has been shown as income and accounts of the other companies have been credited with their share of the premium collected.
- (vii) The auditor should check whether Premium Registers have been maintained chronologically, for each underwriting department, giving full particulars including service tax charged as per acceptance advice on a day-to-day basis. The auditor should verify whether the figures of premium mentioned in the register tally with those in General Ledger.
- (viii) Where policies have been issued with a provision to collect premium periodically (i.e., under instalment clause, special declaration policy or periodical declaration under open policies in marine insurance), the auditor should check whether premium are collected as and when they become due.
- (ix) The auditor should verify whether instalments falling due on or before the balance sheet date, whether received or not, have been accounted for as premium income as for the year under audit. Also examine whether instalments of premium falling due in the subsequent year have not been recognised in the accounts as outstanding premium.
- (x) The auditor should verify the year end transactions to check that amounts received during the year in respect of risks commencing/ instalments falling due on or after the first day of next financial year are not credited to premium account but credited to Premium Received in Advance Account.
- (xi) The auditor should verify the collections remitted by agents immediately after the cut-off date to verify the risk assumed during the year under audit on those collections.
- (xii) The auditor should also check that in case of cancellation of policies/cover notes issued, no risk has been assumed between the date of issue and subsequent cancellation thereof.
- (xiii) Where premium originally received has been refunded, the auditor should verify whether the agency commission paid on such premium has been recovered.

- (xiv) The auditor should verify whether service tax has been charged from the insured, at the rates in force, on the total premium for all classes of business other than those exempted under service tax laws. Check whether service tax so collected is disclosed under 'Current Liabilities' to the extent not deposited in Government's Account.
- (xv) In the case of co-insurance business, the auditor should verify whether service tax at the rates in force on the whole premium has been charged or collected from the insured by the company in case it is the leader.
- Check that service tax so collected on premium charged from the insured by the company has been regularly deposited in the Government's Account.

Q3) Enumerate the steps to be taken by an auditor for the verification of Re-insurance outward by a General Insurance Company.

Answer

Verification of Re-insurance Outward: The following steps may be taken by the auditor in the verification of re-insurance outward-

- (i) The auditor should verify that re-insurance underwriting returns received from the operating units regarding premium, claims paid, outstanding claims tally with the audited figures of premium, claims paid and outstanding claims.
- (ii) The auditor should check whether the pattern of re-insurance underwriting for outward cessions fits within the parameters and guidelines applicable to the relevant year.
- (iii) The auditor should also check whether the cessions have been made as per the stipulation applicable to various categories of risk.
- (iv) The auditor should verify whether the cessions have been made as per the agreements entered into with various companies.
- (v) It should also be seen whether the outward remittances to foreign re-insurers have been done as per the foreign exchange regulations.
- (vi) It should also be seen whether the commission on cession has been calculated as per the terms of the agreement with the re-insurers.
- (vii) The auditor should verify the computation of profit commission for various automatic treaty arrangements in the light of the periodical accounts rendered and in relation to outstanding loss pertaining to the treaty.
- (viii) The auditor should examine whether the cash loss recoveries have been claimed and accounted on a regular basis.
- (ix) The auditor should also verify whether the Claims Paid item appears in Outstanding Claims list by error. This can be verified at least in respect of major claims.
- (x) He should see whether provisioning for outstanding losses recoverable on cessions have been confirmed by the re-insurers and in the case of major claims, documentary support should be insisted and verified
- (xi) Accounting aspects of the re-insurance cession premium, commission receivable, paid claims recovered, and outstanding losses recoverable on cessions have to be checked.
- (xii) The auditor should check percentage pattern of gross to net premium, claims paid and outstanding claims to ensure comparative justification.

- (xiii) The auditor should also check that the re-insurers balance on cessions and whether the sub ledger balances tallies with the general ledger balances.
- (xiv) The auditor should review the individual accounts to find out whether any balance requires provisioning / write off or write back.
- (xv) He should verify whether the balances with re-insurers are supported by necessary confirmation obtained from them.
- (xvi) He should verify whether opening outstanding claims not paid during the year find place in the closing outstanding claims vis-a-vis the reinsurance inwards outstanding losses recoverable on cessions appears in both opening and closing list. If not, the reason for the same should be analysed.
- (xvii) Any major event after the Balance Sheet date which might have wider impact with reference to subsequent changes regarding the claim recovery both paid and outstanding and also re-insurance balances will need to be brought out suitably.

Q4) What are the specific areas to which you will give your attention while examining “Claims Paid” by a General Insurance Company.

Answer:

Examination of Claims Paid in Respect of a General Insurance Company: The auditor may determine the extent of checking of claims paid on the same line as suggested for outstanding claims. Other aspects in respect of claims paid to be examined by the auditors are as follows-

- (i) that in case of co-insurance arrangements, claims paid have been booked only in respect of company's share and the balance has been debited to other insurance companies;
- (ii) that in case of claims paid on the basis of advices from other insurance companies (where the company is not the leader in co-insurance arrangements), whether share of premium was also received by the company. Such claims which have been communicated after the year-end for losses which occurred prior to the year end must be accounted for in the year of audit;
- (iii) that the claims payments have been duly sanctioned by the authority concerned and the payments of the amounts are duly acknowledged by the claimants;
- (iv) that the salvage recovered has been duly accounted for in accordance with the procedure applicable to the company and a letter of subrogation has been obtained in accordance with the laid down procedure
- (v) that the amounts of the nature of pure advances/deposits with Courts, etc., in matters under litigation/arbitration have not been treated as claims paid but are held as assets till final disposal of such claims. In such cases, full provision should be made for outstanding claims;
- (vi) that payment made against claims partially settled have been duly vouched. In such cases, the sanctioning authority should be the same as the one which has powers in respect of the total claimed amount;
- (vii) that in case of final settlement of claims, the claimant has given an unqualified discharge note, not involving the company in any further liability in respect of the claim; and
- (viii) that the figures of claims, wherever communicated for the year by the Division to the Head Office for purposes of reinsurance claims, have been reconciled with the trial balance-figure.

Q5) State the procedure for verification of Agents' Balances in the course of audit of a General Insurance Company.

Answer:

General Insurance Company – Verification of Agents' Balances: The following are the audit procedures for verification of outstanding agents' balances-

- (i) Scrutiny and review of control accounts debit balances and their nature should be enquired into.
- (ii) Examination of inoperative balances and treatment given for old balances shall be looked into.
- (iii) Enquiring into the reasons for retaining the old balance.
- (iv) Verification of old debit balances which may require provision or adjustment. Explanation shall be obtained from the management in this regard.

Q6) "In an audit of an insurance company, the Receipts and Payments Account is also subjected to audit". Comment on this statement in brief.

Answer:

Audit of Receipts and Payments Account: Section 11 of the Insurance Act, 1938 provides that every insurer, on or after the date of the commencement of the Insurance Laws (Amendment) Act, 2015, in respect of insurance business transacted by him and in respect of his shareholders' funds, shall, at the expiration of each financial year, prepare with reference to that year, balance sheet, a profit and loss account, a separate account of receipts and payments, a revenue account in accordance with the regulations as may be specified. Since receipts and payments account has been made a part of financial statements of an insurer, it is implied that the receipts and payments account is also required to be audited

Q7) As the auditor of an Insurance company state the audit procedure you would follow to verify outstanding premium and agents balances.

Answer:

"Outstanding Premium and Agents Balances" in the Case of an Insurance company: The following are the audit procedure to be followed for verification of outstanding premium and agents balances in the case of Insurance Company-

- (i) Scrutinise and review control account debit balances and their nature should be enquired into.
- (ii) Examine in operative balances and treatment given for old balances with reference to company rules.
- (iii) Enquire the reasons for retaining the old balances.
- (iv) Verify old debit balances which may require provision or adjustment. Notes of explanation may be obtained from the management in this regard.
- (v) Check age-wise, sector-wise analysis of outstanding premium.
- (vi) Verify whether outstanding premiums have since been collected.
- (vii) Check the availability of adequate bank guarantee or premium deposit for outstanding premium.

Q8) ABC & Co., Chartered Accountants are the Auditors of Just Care General Insurance Company Limited. As on March 31, 2016 the Management made a provision for claims outstanding. Enumerate the steps to be taken by the Auditor while verifying the "Claims Provision".

Answer:

Verification of "Claims Provision" in the Case of a General Insurance Company: The outstanding liability at the year-end is determined at the divisions/branches where the liability originates for outstanding claims. Thereafter,

based on the total consolidated figure for all the divisions/branches, the Head Office considers a further provision in respect of outstanding claims. The auditor should satisfy himself that the estimated liability provided for by the management is adequate with reference to the relevant claim files/dockets, keeping in view the following:

- (i) that provision has been made for all unsettled claims as at the year-end on the basis of claims lodged/communicated by the parties against the company. The date of loss (and not the date of communication thereof) is important for recording/ recognizing the claim as attributable to a particular year.
- (ii) that provision has been made for only such claims for which the company is legally liable, considering particularly, (a) that the risk was covered by the policy, if in force, and the claims arose during the currency of the policy; and (b) that claim did not arise during the period the company was not supposed to cover the risk.
- (iii) that the provision made is normally not in excess of the amount insured except in some categories of claims where matters may be sub-judice in legal proceedings which will determine the quantum of claim, the amount of provision should also include survey fee and other direct expenses.
- (iv) that in determining the amount of provision, events after the balance sheet date have been considered.
- (v) that the claims status reports recommended to be prepared by the Divisional Manager on large claims outstanding at the year-end have been reviewed with the contents of relevant files or dockets for determining excess/short provisions.
- (vi) that in determining the amount of provision, the 'average clause' has been applied in case of under-insurance by parties.
- (vii) that the provision made is net of payments made 'on account' to the parties wherever such payments have been booked to claims.
- (viii) that in case of co-insurance arrangements, the company has made provisions only in respect of its own share of anticipated liability.
- (ix) that wherever an unduly long time has elapsed after the filing of the claim and there has been no further communication and no litigation or arbitration dispute is involved, the reasons for carrying the provision have been ascertained.
- (x) that wherever legal advice has been sought or the claim is under litigation, the provisions is made according to the legal advisor's view and differences, if any, are explained.
- (xi) that in the case of amounts purely in the nature of deposits with courts or other authorities, adequate provision is made and deposits are stated separately as assets and provisions are not made net of such deposits.
- (xii) that no contingent liability is carried in respect of any claim intimated in respect of policies issued.
- (xiii) that the claims are provided for net of estimated salvage, wherever applicable.
- (xiv) that intimation of loss is received within a reasonable time and reasons for undue delay in intimation are looked into.
- (xv) that provisions have been retained as at the year-end in respect of guarantees given by company to various Courts for claims under litigation.
- (xvi) that due provision has been made in respect of claims lodged at any office of the company other than the one from where the policy was taken, e.g., a vehicle insured at Mumbai having met with an accident at Chennai necessitating claim intimation at one of the offices of the company at Chennai.

In cases of material differences in the liability estimated by the management and that which ought to be provided in the opinion of the auditor, the same must be brought out in the auditor's report after obtaining further information or explanation from the management