

Re : 36/7/F&A/EMPL/74/July/05

Date 25th July 2005

All Insurance Companies/Reinsurer

Re : Appointment of Statutory Auditors by Insurance Companies

As you are aware, section 12 of Insurance Act 1938 prescribes that all insurance companies must be Audited annually by the Auditors. Regulation 3(4) of IRDA (Preparation of Financial Statements and Auditors Report of Insurance Companies) Regulations 2002 provides that “The Authority may, from time to time, issue separate directions/guidelines in the matter of appointment, continuance or removal of auditors of an insurer or reinsurer, as the case may be, and such directions/guidelines may include prescriptions regarding qualifications and experience of auditors, their rotation, period of appointment, etc., as may be deemed necessary by the Authority”.

The Authority has also been maintaining a panel of auditors based on the applications received consequent to the circular issued by the Authority in February 2001 on the qualification, rotation etc., and advised insurers to appoint auditors from the above list available in the website.

The procedure for maintaining a panel of auditors has been reviewed in the light of (1) the constraints in verifying and processing the applications received from Chartered Accountant firms for inclusion of their names in the panel and (ii) the need to provide more opportunities to the eligible audit firms. The revised guidelines are accordingly issued herewith in supersession of earlier circular issued in February 2001 and the main features of the proposals are as under :-

(I) It has been decided that the Authority would not maintain henceforth a panel of auditors and instead prescribe the requirements to be satisfied by the Chartered Accountant Firms for appointment of Statutory Auditors. The qualifications and other requirements of the intending auditors are detailed in the enclosure.

(II) Consequent to (I) above, the insurance companies would be responsible for selection of audit firms that satisfy the eligibility criteria set by the Authority. The audit firms selected by the company should submit the information to the Insurance company in the prescribed form along with certificates from ICAI/ by way of self declaration confirming (a) constitution of the firm and (b) absence of any pending disciplinary cases against them.

(III) Insurance companies should verify to their satisfaction the eligibility criteria before considering/approving their appointment.

(IV) Any change in the constitution of the firm/information submitted/certifications submitted should be duly informed by the Audit firm to the Insurance Company within one week of such change.

(V) Insurance Companies are required to intimate to the Authority, the name and address of the audit firms, for information within one week of their appointment. If it comes to the notice of the Authority that the appointment is not in line with the prescriptions/information furnished by the Audit firm, the appointment is liable for cancellation and it is open for the Authority to consider such further action as may be deemed necessary in this context.

These revised guidelines will be applicable commencing from the financial year 1st April 2006.

Yours faithfully

(C.R. Muralidharan)

**REVISED GUIDELINES FOR APPOINTMENT OF STATUTORY AUDITORS OF
INSURANCE COMPANIES**

I. Eligibility Conditions :

- 1) Auditor of an Insurance company shall be a firm ;

- 2) The firm should have been established and has been in continuous practice for a period of 15 years or more;

- 3) (a) It should have
 - (i) a minimum of five partners of whom atleast two should have been in practice as partners in an audit firm for a minimum period of 10 years and

 - (ii) atleast two other partners have been in continuous practice in the audit firm as their partner or had been in employment earlier with that firm for a minimum period of five years ;

- 3) (b) Alternatively,
 - (i) it could be a firm which has atleast seven Chartered Accountants including not less than two as partners who have been in continuous practice as partners in the firm for a minimum period of 10 years and

 - (ii) atleast three Chartered Accountants, either partners or as employees, had been in continuous partnership/employment with the audit firm for a minimum period of five years and

 - (iii) At least two partners of the firm shall be Fellow members of the Institute and had been in continuous practice for five years after enrolment as Fellows.

- 4) In both the cases mentioned in 3 (a) and 3(b) above, at least one partner or paid Chartered Accountant of the firm should have CISA/ISA or any other equivalent qualification.

2.Maximum Number of Statutory Audits in Insurance Industry at a time :

One Audit firm would not be permitted to carry out more than two Statutory Audits of Insurance Companies (Life/Nonlife/Reinsurer).

3.Rotation of Joint Auditors:

- 1) Each insurance company will have two auditors on a joint audit.
- 2) One of the Joint Auditor may have a term of 5 years and the other 4 years in the first instance. Thereafter, the maximum duration for which the auditor could be retained would be for a period of 5 years.
- 3) There will be a cooling period of two years. An audit firm which completes a tenure of five/four years as the case may be, at the first instance, in respect of an insurance company should not accept statutory audit assignment of that Insurance company in the next two years. However, audit firm may accept statutory audit of any other insurance company subject to the compliance of maximum two statutory audits.
- 4) It is clarified that cooling period is applicable in respect of audit firms that completes a term of five/four years as the case may be as on 31st March 2006.

ANNEXURE :

**INFORMATION TO BE FURNISHED BY AUDIT FIRMS FOR
STATUTORY AUDITOR OF INSURANCE COMPANIES**

Date :

**To
The Insurance Company**

General

**1. Name of the Firm (In Capital Letters; Please DO NOT USE PREFIXES such
as M/s, etc) _____**

2. Address of the Firm (H. O.)

3. Telephone _____ 4.E-Mail _____

5. Fax _____

6.Firm Registration No. _____

**7. Unique Code No. (Please quote your Bank Empanelment Unique Code
No. _____)**

**IF YOUR FIRM HAS BEEN IN CONTINUOUS PRACTICE FOR ATLEAST 15
(Fifteen Years) THEN FILL UP PART A OF THIS FORM. OTHERWISE
PLEASE FILL UP PART -B.**

PART –A

1. Year of Establishment : _____
2. No. of Full time partners (Minimum 5) _____
3. No of Full time partners who have been in practice in an audit firm (not necessarily the applicant firm) for a minimum period of 10 years (Minimum 2 full time partners)

4. No. of full time partners who have been in continuous practice with applicant firm earlier and now as partner for a total of at least 5 years (Minimum 2 full time partners _____

5. Details of Full time partners

Name	Membership No.	Year of Enrolment

6. Full time partners having 10 years Audit Experience

Name of Partner	Total Audits Undertaken	Experience In this firm		In other firm(s)	
		Years	Months	Years	Months

7. Full time Partners in Continuous Association with firm for at least 5 Years

Name of Partner	Total Continuous Association with firm	Of which as partner	Of which as Employee	Date of joining the firm	Date of becoming the partner

8. Name(s) of the Chartered Accountant who possess CISA/ISA/any other equivalent qualification (Please specify the qualification held) :

PART – B

1. Year of Establishment _____
2. No. of Chartered Accountants in the Firm
(total of full time partners and CA (employees) (Minimum 7)_____
3. No. of full time partners / CA employees who have been in continuous practice for at least 10 years (Minimum 2 full time partners) _____
4. No of full time partners / CA employees who have been in continuous practice for at least 5 years after enrolment as fellows
(Minimum 2) _____
5. No .of full time partners who have been in continuous practice for at least 5 years after enrolment as fellows
(Minimum 2) _____
6. Details of full time partners who have been in continuous practice for at least 10 years

Name of Partner	Membership No	Total period of continuous practice	
		Years	Months

7. Details of full time partners / CA employees

Name of the partners	Current status partner /Employee	Date of joining the firm	Status at the time of joining the firm	Total association with the firm	
				Years	Months

8. Details of full time partners in continuous practice for 5 years or more after becoming fellow of the ICAI

Name of partner	Year of Enrolment as fellow	Membership No	Details of Practice			
			In Applicant Form		In other Firm	
			From	To	From	To

9. Name(s) of the Chartered Accountant who possess CISA/ISA/any other equivalent qualification (Please specify the qualification held) :

PART C

Documents to be submitted

- a) Copy of the partnership deed
- b) Previous experience of audits in insurance companies to be provided in separate sheet.
- c) letter from ICAI regarding constitution of the Firm
- d) letter from ICAI confirming that no disciplinary case is pending against the Firm/partners.
- e) Restrictions imposed on the firm/partners in the past be indicated. If the answer is negative, please mention the same.

Special Note: if some of the documents are not attached or are not applicable then a statement of the reasons there for must be separately attached.

Declaration

I / We, the undersigned, partners of M/s _____ do hereby declare that the particulars as given above are as on _____ and are correct in all respects to the best of my / our knowledge and belief . I / we hereby declare that no separate application for any of our branches or for associate concern having common partner / proprietor or in individual name has been made. I / we undertake that I /we have gone through the instructions and terms and conditions as enclosed with the Application Form and affirm that application is made as per the terms and conditions prescribed and in no way infringes the terms and conditions so prescribed.

I/ we recognize that in case the terms or conditions so prescribed are found to have been infringed the application/appointment is liable to be rejected/cancelled.

I /we further recognize that if any of the terms or conditions is infringed or any of the statement made therein or information furnished in the application form is not correct, I /we would be liable for disciplinary under the Chartered Accountants Act,1949 and regulations framed there under.

I / we hereby declare that audit / other assignment allotted on the basis of information furnished in the application form will not be accepted and carried out if the firm in whose name of application is made is not in existence at the time of audit.

Name of the partner	Membership No.	Signature*
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____

Place _____

*** The declaration should be signed by all the partners of partnership firm.**