

**Reserve Bank of Fiji**  
**Insurance Supervision Policy Statement No: 1**



**NOTICE TO INSURANCE COMPANIES LICENSED UNDER THE INSURANCE ACT 1998 AND  
THEIR EXTERNAL AUDITORS**

**ROLE OF EXTERNAL AUDITORS IN THE  
SUPERVISION OF LICENSED INSURANCE COMPANIES**

**1. Introduction**

- 1.1 This notice is issued under Section 3(2)[a] and Part II of the Insurance Act 1998 as part of the Reserve Bank of Fiji's standards governing the conduct of insurance business in the Fiji Islands. The purpose of this statement is to outline minimum requirements and clarify the role to be played by external auditors in the supervision of insurance companies.
- 1.2 In developing this policy statement, the Reserve Bank of Fiji referred to recommendations of the International Association of Insurance Supervisors, guidelines issued by the Reserve Bank of Fiji on the Role of External Auditors in the Supervision of Licensed Financial Institutions, standards issued by the Fiji Institute of Accountants, powers under the Insurance Act and other relevant legislation including the Companies Act.

**2. Background and Outline of the Approach**

- 2.1 The role of external auditors in the supervision of insurance companies has evolved to an extent where a lot more is demanded of them to verify the financial statements presented to prudential supervisors. In Fiji, licensed insurance companies are supervised by the Reserve Bank of Fiji. It is important to note, however, that in carrying its responsibilities the Reserve Bank of Fiji, or other prudential supervisor for that matter, does not guarantee that an insurer is and will continue to be sound. Failures of such companies are part and parcel of market mechanisms where weak institutions are taken over by stronger ones or are liquidated.
- 2.2 As the insurance industry grows in complexity, the tasks of both supervisors and external auditors are becoming more demanding. In many respects, both face a similar challenge and increasingly their roles are being perceived as complementary. Supervisors and auditors have complementary concerns regarding matters such as the continuity of an insurance company, the adequacy of its internal controls and the maintenance of reliable accounting systems. With co-operation and co-ordination of efforts, supervisors and auditors contribute more effectively to the supervisory process. This optimises supervision while allowing each party to concentrate on their own responsibilities.
- 2.3 It should be noted that the basic responsibility for providing complete and accurate information to the supervisor remains with the management of an insurer. In that regard, the auditor's role is to report on that information or the application of particular procedures to enable the supervisor to

effectively make judgements about the company. At no time does the auditor assume any of the responsibilities of the supervisor but is simply assisting the supervisor in the supervisory process.

- 2.4 From the supervisor's point of view, supervision can be made more effective by relying to a greater extent on the results of the auditor's work, when appropriate, and turning to auditors to undertake additional tasks which contribute to the performance of the supervisor's responsibilities. At the same time, auditors may be able to discharge their functions more effectively with assistance from supervisors. In this regard, insurance companies should ensure that their external auditors have access to all supervisory and examination reports of the supervisor and all minutes of meetings and correspondence between the supervisor and companies.
- 2.5 Under this policy statement, an insurer's auditor-client relationship with its auditor will be safeguarded under normal circumstances. Information privileged to clients that are not available to the public will be protected as permitted under existing laws and regulations. Licensed insurance companies should note, however, that the policy statement allows bilateral consultations between the Reserve Bank of Fiji and the external auditor of insurance companies under paragraphs 4.1.1 and 4.1.4.
- 2.6 The supervision function of the Reserve Bank of Fiji relies on off-site supervision in carrying out its supervisory responsibilities. At present, the role carried out by external auditors presently concentrates on providing an audit report and attesting to returns that are required by the Insurance Regulations 1998. The auditor's attestation opinion provides the Reserve Bank of Fiji with an independent verification of the reliability and accuracy of information examined and lends credibility to such statements.
- 2.7 Under this policy, all requests for information are to be channelled through the insurer, to the external auditor. Insurers will need to ensure that their external auditor is aware of and satisfactorily complies with the requirements set out in this Notice. The approval of auditors to be appointed to carry out the audit responsibilities of an insurance company will be conditional on the auditor being able to comply with the requirements set out in this Notice and in any other relevant supervision notices, rules, regulations, orders, or directives issued by the Reserve Bank of Fiji.

## **2.8 Requirements under the Insurance Act 1998**

### **3.1 Audit of annual financial statements**

- 3.1.1 External auditors are required to audit the annual financial statements of insurance companies. The requirements in this regard are set out under section 51 of the Insurance Act.

## **3.2 Appointment of external auditors**

- 3.2.1 An insurer is required under section 52 to appoint an auditor to carry out the auditing functions conferred by or under the Act. Section 52 also requires that no person may act as auditor for an insurer in relation to any accounts, statements or other returns required by or under the Act unless that person, whether as an individual or as a member of a firm, is approved in writing by the Reserve Bank on application by the insurer in the prescribed manner.
- 3.2.2 If the Reserve Bank of Fiji is satisfied that an auditor has failed to fulfil his obligations under the Act, the Reserve Bank, may by written notice to the insurer, revoke the appointment of the auditor. If the Reserve Bank refuses to approve an appointment of an external auditor under paragraph 3.2.1 above or revokes an appointment, it must record the reasons for the decision and provide a copy of it to the insurer.

## **3.3 The audit report**

- 3.3.1 Section 53 states that the auditor must give to the insurer, a report relating to the accounts and statements, which the auditor has audited under the Act, and the insurer, must lodge the report with the Reserve Bank together with the relevant accounts and statements.
- 3.3.2 The auditor must state in the audit report the following:
- (i) whether the accounts and statements to which the report relates are, in the opinion of the auditor, in accordance with the Act, and give particulars of any matter that is not, in the opinion of the auditor, in accordance with it;
  - (ii) whether the accounting records of the insurer in respect of the relevant period have been, in the opinion of the auditor, properly kept and whether they record and explain correctly the transactions and financial position of the insurer during that period, and give particulars of-
    - any accounting records that, in the opinion of the auditor, have not been kept; and
    - any transactions that, in the opinion of the auditor, are not correctly recorded and explained.
  - (iii) whether the auditor has obtained the information and explanations that the auditor requested from the insurer for the purposes of the audit, and give particulars of any information and explanations that the auditor requested for, but did not obtain; and
  - (iv) whether in the opinion of the auditor, the accounts and statements audited, agree with the accounting records of the insurer in respect of the period to which the accounts and statements relate and truly represent the transactions and financial position of the insurer in

respect of that period. If in the opinion of the auditor, the accounts fail to truly represent the transactions and financial position, the auditor must give particulars of the failure.

### **3.4 Disclosure of information by external auditors**

- 3.4.1 Section 54 of the Act requires the external auditor to immediately report to the directors of the insurer, and to the Reserve Bank of Fiji, if in the course of performing his duties, he is satisfied that-
- (i) there has been a contravention of a provision of the Act;
  - (ii) a criminal offence involving fraud or dishonesty has been committed;
  - (iii) any transaction or dispute has taken place which will have a material effect on the solvency of the insurer, or of a statutory fund;
  - (iv) serious irregularities or any irregularities that jeopardise the interests of insureds have occurred; or
  - (v) the insurer is unable, or is likely to become unable, to meet its liabilities.

### **3.5 Additional reports from external auditors**

- 3.5.1 The Reserve Bank of Fiji may under section 55 require the insurer by notice in writing to provide, by the time specified in the notice, a report, prepared by the auditor, on such matters as the Reserve Bank may determine.
- 3.5.2 The Reserve Bank of Fiji may also require the report provided under paragraph 3.5.1 above to include an opinion by an auditor on the insurer's liquidity, liability under life policies, solvency and compliance with statutory provisions, and on the accounting systems and internal controls of the insurer.

## **4. Additional Requirements**

### **4.1 Meetings**

- 4.1.1 Co-operation between the supervisor, the external auditor and the insurer should include periodic meetings between these parties. Under normal circumstances, meetings will be, trilateral (between all three parties). It is encouraged that the insurer's internal auditor be present at these meetings. Bilateral meetings (involving just the supervisor and the external auditor or insurer) may be held in exceptional circumstances.
- 4.1.2 Meetings are to be held prior to an external audit. During these meetings, each party will provide information about areas of mutual interest. Specific attention will be given to areas that should be examined by the auditor, the timing of the auditor's work, and any additional work that may be required by the Reserve Bank of Fiji of the external auditor. Implementation by the

insurer of the auditor's and the Reserve Bank of Fiji's recommendations from its on-site examination or off-site supervision is also to be discussed. Reports of and correspondence relating to on-site examinations and other supervisory issues should be made available by the insurer, to their auditors.

- 4.1.3 Meetings are also to be held after an audit to discuss the external auditor's reports and any matters arising from the external auditor's review. The insurer is expected to submit any management letters relating to work undertaken by the auditor.
- 4.1.4 As indicated in paragraph 4.1.1, bilateral meetings between the RBF and the external auditor or insurer may also be held, in exceptional circumstances. These meetings may be necessary where circumstances are of a serious or urgent nature where it is assessed that a serious matter to be communicated would require the exclusion of the other party, for open and frank discussions. In such meetings between the Reserve Bank of Fiji and the external auditor, the external auditor may invite the insurer concerned to attend if they so wish. Where bilateral meetings between the supervisor and the external auditor are held (where the insurer is not represented), the external auditor will inform the insurer of concerns raised at such meetings.
- 4.1.5 Meetings or discussions can also be called at any time considered necessary by one of the parties. Such meetings or discussions should be focussed with a view to containing costs.
- 4.1.6 All meetings should be minuted and all other communication between management and the supervisor or auditors should be in writing and form part of the insurer's records to which the other party should have access. All meetings, trilateral or bilateral, should be focussed.

## **4.2 Additional reporting requirements**

- 4.2.1 In addition to the reporting requirements outlined above, insurers may be required within 3 months of the close of their financial year to provide to the Reserve Bank of Fiji and their Board of Directors or the senior country manager if the insurer is foreign incorporated, a report as at the latest balance date detailing the external auditor's opinion as to whether:
  - (a) the insurer has observed all prudential requirements set out under the *Reserve Bank of Fiji Insurance Supervision Policies* and any other notices issued by the Reserve Bank of Fiji from time to time; and
  - (b) the insurer has complied with statutory requirements, any conditions on the authority to carry on insurance business, and any other conditions imposed by the Reserve Bank of Fiji in relation to

the insurer's operations.

- 4.2.2 In providing an opinion on whether the insurer has complied with the Reserve Bank of Fiji's prudential requirements under paragraph 4.2.1, the issue of "materiality" may be considered by an external auditor in both regards as the "nature" or "amount" of the violation and the effect of its omission on the evaluation to be made by the Reserve Bank on whether the insurer is operating in a safe and sound manner.
- 4.2.3 An insurer may apply for extension of time to submit the reports required under paragraph 4.2.1.
- 4.2.4 The Reserve Bank of Fiji as part of paragraph 4.2.1(b) may require an insurer to provide a report from its external auditors on whether an insurer's prudential returns have been accurately prepared, where the Reserve Bank has reasons to doubt the reliability or accuracy of such information.

### **4.3 Problem Insurance Companies**

- 4.3.1 The Reserve Bank of Fiji may, where an insurer is facing problems, require under section 55 of the Insurance Act through the insurer that the external auditor:
  - (a) in addition to the normal scope of audit, focus on other areas of which are of concern to the Reserve Bank;
  - (b) change the timing and/or frequency of an audit where it has requested through the insurer for the external auditor to look at other areas of concern;
  - (c) conduct special targeted reviews and opinions of selected areas of the insurer or, broader overall reviews.
- 4.3.2 The Reserve Bank of Fiji may also require under section 51 of the Insurance Act that the prudential returns, information and data supplied by a problem insurance company to the Reserve Bank of Fiji be audited.

## **5. Implementation Arrangements**

- 5.1 This Notice applies to all insurance companies licensed under the Insurance Act and every person who holds or at any time has held (where applicable) office as an auditor of such a company, for financial years ending on or after 31 December 2002.