



BANK OF PAPUA NEW GUINEA

**LIFE INSURANCE PRUDENTIAL STANDARD
5/2008**

EXTERNAL AUDITS

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PART I—PRELIMINARY

- 1) **Title:** This Standard may be cited as *Life Insurance Prudential Standard No.5/2008 External Audit*.
- 2) **Authorization:** The Bank of Papua New Guinea (“Central Bank”) is authorized to issue prudential standards under Section 48 of the Life Insurance Act 2000 (Act) in relation to prudential matters to be complied with by all licence holders.
- 3) **Application:** All life insurance companies licensed by the Central Bank to conduct life insurance business in Papua New Guinea (PNG).
- 4) **Definitions:** Terms used within this standard are as defined in the Act, or as reasonably implied by contextual usage:
 - a) “Act” means the *Life Insurance Act 2000*, and regulations, other prudential standards. Licences, authorities and other instruments made under or for the purposes of that Act.
 - b) “audit”, for the purpose of this standard, means those audit services that are performed by an external auditor with the objective to examine, verify, confirm and evaluate the financial statements and other information prepared in accordance with appropriate criteria to enable the auditor to express an opinion as to whether the financial statements are prepared, in all material respects, in accordance with an identified financial reporting framework and that, in the auditor’s opinion, give a true and fair view, or present fairly, in all material respects the financial condition of a life insurance company.
 - c) “audit firm” means either the firm or entity, including where appropriate its partners, providing audit services or a sole practitioner providing audit services.
 - d) “external auditor” means that person with final responsibility for the audit and/or the audit firm engaged by a life insurance company to perform an audit or related services.
 - e) “life insurance company” means a life insurance company licensed under the Life Insurance Act to carry on life insurance business in PNG.
 - f) “management letter” means that written communication from the external auditor to the management of the life insurance company addressing any identified weaknesses in the internal control systems; accounting or record-keeping

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deficiencies; concerns as to the integrity of financial data or other material matters disclosed during the course of an audit.

- g) “related services”, comprises reviews, agreed-upon procedures and compilations of financial information as these terms are defined in international auditing standards.

PART II—STATEMENT OF POLICY

- 5) **Purpose:** This standard is intended to ensure that the engagement of external audits and appointment of auditors by life insurance companies provides assurance to the Central Bank as to:
 - a) the completeness and accuracy of financial information being reported;
 - b) the adequacy of internal risk management systems;
 - c) compliance with provisions of the Act, the Companies Act, prudential standards and other directives issued by the Central Bank and other authorities in PNG;
 - d) that the life insurance company gives priority to the interests of policyholders;
 - e) the timely reporting of material matters regarding a life insurance company; and
 - f) the independence of the external auditor.
- 6) **Scope:** This standard applies to all life insurance companies conducting life insurance business in PNG.
- 7) **Responsibility:** It is the responsibility of the board of directors of each life insurance company to:
 - a) appoint and engage a qualified, independent person or firm to prepare audited financial statements for the life insurance company;
 - b) submit the audited financial statements and other required information to the Central Bank;
 - c) publish its financial statements;
 - d) promptly inform the Central Bank of any information that is relevant to the supervisory oversight of the life insurance company;
 - e) Inform the external auditor of any communications to the life insurance company from the Central Bank, including the release of any Standards or amendments to existing Standards or legislations.

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PART III—IMPLEMENTATION AND SPECIFIC REQUIREMENTS

- 8) **Minimum Requirements** : The following minimum requirements shall apply:
- a) audits of life insurance companies shall be conducted not less than annually as of the date of each life insurance company's financial year end;
 - b) the audit report and management letter with respect of an audited life insurance company shall be submitted to the Central Bank within 90 days after its financial year-end;
 - c) every auditor, registered with the Accountants Registration Board of PNG under the *Accountants Act 1996* , is qualified to act as the auditor of a company and entitled to practice in PNG shall be considered to be qualified and approved to audit life insurance companies unless the Central Bank issues a written objection for cause;
 - d) the auditor of a life insurance company may accept, for the purposes of an audit under this section, a valuation by the Appointed Actuary for the life insurance company of:
 - i) the policy liabilities of the life insurance company as at the end of a financial year of the life insurance company; or
 - ii) the change, during a financial year of the life insurance company, in the policy liabilities of the life insurance company in relation to a statutory fund;
 - e) a life insurance company shall provide written notice to the Central Bank, within 14 days, if any person ceases to be the life insurance company's auditor;
 - f) a tri-partite meeting of representatives of the life insurance company, its external auditor and the Central Bank shall be held:
 - i) Within 90 days after receipt of the annual audit report and management letter;
 - ii) This meeting must be held upon anyone of the parties initiating the discussions at any time ;
 - iii) The date shall be scheduled and agenda for this meeting shall be prepared by the Central Bank and provided to the life insurance company and its auditor;
 - g) the auditor and the life insurance company's board of directors, executive management and/or an accountant appointed by the Central Bank or other person

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- appointed by the Central Bank as an administrator or statutory manager shall report promptly to the Central Bank at any time that they have reasonable cause to believe the life insurance company to be capital insolvent, or imminently insolvent; is illiquid; whether certain matters exist that may materially prejudice the interests of its policyholders; if the life insurance company is in material breach of the Act or prudential standards; or of any other matter of material concern; and
- h) a life insurance company's auditor shall provide the Central Bank, when requested in writing, full access to and/or copies of its working papers, as defined in international auditing standards, with respect to a particular licence holder audit within 10 days of such request.
- 9) ***Prohibited Actions*** :No life insurance company may:
- a) appoint and engage an auditor/audit firm if any written objection for cause has been issued by the Central Bank;
 - b) appoint and engage the same audit partner, i.e. the lead and/or coordinating partner, for more than five (5) consecutive years;
 - c) appoint and engage an auditor/audit firm to provide advisory or consulting services to a life insurance company while that same auditor/audit firm is engaged for services to conduct the life insurance company's annual audit and related services, except that services related to the preparation of a life insurance company's corporate tax return are not prohibited; or
 - d) lend any money or other property to its external auditor or audit firm, irrespective of terms and amount; or enter into any business arrangement on preferential terms regarding an auditor or audit firm while such auditor/audit firm is engaged to conduct a life insurance company's audit or related services.
- 10) ***Reporting Requirements***
- a) Each life insurance company and its external auditor shall submit to the Central Bank such reports as the Central Bank may require and in the form and frequency as may be prescribed.
 - b) At a minimum, the following written reports and publications are required:

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- i) **The life insurance company** shall submit within 90 days of the end of its financial year end:
- (1) a statement, signed by the chief executive officer and the chairman of the board, as to whether the life insurance company has complied with the Act, or other relevant acts, Prudential Standards and other directives issued by the Central Bank and other authorities in PNG;
 - (2) a statement signed by the chief executive officer and the chairman of the board, as to whether the business of the statutory fund of the life insurance company has been managed so as to give priority to the interests of policyholders;
 - (3) a declaration by the chief executive officer, and endorsed by the board of directors, as to whether the life insurance company's management has –
 - (a) identified the key financial and operating risks of the life insurance company;
 - (b) established systems to control and monitor those risks including, where appropriate, adherence to prudent policies and procedures, to reasonable operating limits and to adequate and timely reporting processes; and
 - (c) satisfied itself that those risk management systems are operating effectively and are adequate in regard to the risks they are designed to control; and
 - (4) a declaration as to whether actual or potential conflicts of interest exist with respect to the life insurance company's engagement of an external auditor which may compromise the independence of the auditor's performance; and
 - (5) publication in a newspaper of general circulation in PNG, in a form and content as may be specified by the Central Bank, of a summary of the audited statement of condition (balance sheet and a statement of income and expenditures) as of its financial year end.

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- ii) **The auditor** shall submit within 90 days of the end of the life insurance company's financial year end, a report to the audited life insurance company and to the Central Bank as to:
- (1) the adequacy of and adherence to financial reporting requirements and internal risk management systems; and
 - (2) whether the life insurance company is in compliance, technically and in substance, with provisions of the Act, or other relevant acts and with prudential standards issued by the Central Bank and other authorities in PNG and whether any exceptions or breaches exist

PART IV—CORRECTIVE MEASURES

11) *Remedial measures and sanctions*

- a) If a life insurance company fails to comply with this standard, the Central Bank may impose or vary conditions on the licence to ensure compliance or, if necessary, suspend or revoke the licence.
- b) Any life insurance company which experiences difficulty in complying with the standard should advise the Central Bank forthwith.

PART V—EFFECTIVE DATE

- 12) ***Effective date:*** The effective date of this Prudential Standard shall be 1st December 2008.
- 13) ***Questions and Enquiries:*** Any queries relating to this Prudential Standard should be addressed to:

**The Manager
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