

## Insurance Act, 2017 (Act No.18 of 2017)

### Prudential Standard ARG - Audit Requirements for Insurance Groups

#### **Objectives and Key Requirements of Prudential Standard ARG**

*This Standard sets out the information for supervisory purposes that the controlling companies of insurance groups must have audited and reported on by their auditors to promote credibility of the information with the Prudential Authority, policyholders and stakeholders of insurance groups.*

*The period within which controlling companies must submit their audited annual financial statements to the Prudential Authority and disclose it to the public, is also set out in this Standard.*

*It is the responsibility of the board of directors of the controlling company of an insurance group to ensure that the insurance group meets the requirements set out in this Standard on a continuous basis.*

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#### **1. Commencement**

1.1. This Standard commences on 1 September 2020.

Version number	Commencement date
1	1 September 2020

## **2. Legislative authority**

- 2.1. This Standard is made under section 47(5) read with section 63(1)(a) of the Insurance Act, 2017 (Act No. 18 of 2017) (the Act).

## **3. Application**

- 3.1. This Standard applies to all insurance groups that have been designated as an insurance group under section 10 of the Act by the Prudential Authority, where the controlling company has a financial year-end on or after the commencement date set out in paragraph 1.1 above.

## **4. Definitions and interpretation**

- 4.1. The terms used in this Standard, unless indicated otherwise, are defined in the Act and the prudential standards made in terms of the Act and have the same meaning in this Standard.
- 4.2. IFRS means the International Financial Reporting Standards issued by the International Accounting Standards Board.
- 4.3. FSG means financial soundness standards for insurance groups.
- 4.4. QRT means a quantitative return template.
- 4.5. QRR means a qualitative regulatory return.
- 4.6. SAM means solvency assessment and management and is the basis for information for supervisory purposes complying with the Act and the Prudential Standards made in terms of the Act.
- 4.7. The 'Objectives and key requirements of Prudential Standard ARG' in the preamble at the start of this Standard must not be used in the interpretation of any section of this Standard.

## **5. Roles and responsibilities**

- 5.1. The board of directors (board) of the controlling company of an insurance group is ultimately responsible for ensuring that the insurance group complies with the principles and requirements of this Standard.
- 5.2. A controlling company's board must ensure that, where approvals are required from the Prudential Authority, those approvals have been timeously obtained.
- 5.3. A controlling company's auditor, appointed under section 32 of the Act, must confirm to the controlling company and the Prudential Authority, if requested, that the insurance group complies with the requirements of this Standard.
- 5.4. A controlling company's auditor must, in fulfilling the requirements of this Standard, comply with the Auditing Profession Act, 2005 (Act No. 26 of 2005) and any other auditing pronouncements that may be applicable in South Africa.

- 5.5. The roles and responsibilities of the board of directors are described in more detail in the Prudential Standard - Governance and Operational Standards for Insurance Groups (GOG).

## **6. Audit requirements**

- 6.1. Audited information establishes or enhances credibility of the insurance group's information with the Prudential Authority, policyholders and stakeholders of insurance groups.
- 6.2. Audited information gives reasonable assurance that the information is free from material misstatement and can be relied upon to present a true and fair view of the business of the insurance group.
- 6.3. Audited information also assists insurance groups in ensuring that their information is complete, comparable, relevant, reliable and understandable.
- 6.4. In accordance with section 47(1)(a) of the Act, a controlling company must annually cause to be audited and reported on by its auditor such of the information referred to in section 44 (Information for supervisory purposes) of the Act as prescribed by the Prudential Authority.
- 6.5. In terms of section 47(1)(a) of the Act, that the following information of a controlling company must be audited annually in accordance with relevant International Standards on Auditing:
- a. Solvency position of the insurance group expressed as the ratio of group eligible own funds available to meet the group's solvency capital requirement, including the eligibility adjustment; and
  - b. List of entities included in the group scope as well as the percentage held by the controlling company for the purpose of calculating the insurance group's solvency position.
- 6.6. In addition to the information set out in paragraph 6.5 above, in terms of section 62(1) of the Act, the Prudential Authority will annually require a report in terms of International Standard on Review Engagements ("ISRE") 2410 - Review of Interim Financial Information Performed by the Independent Auditor of the Entity, with regard to the following information:
- a. Whether the entities are included in group scope as well as the assets and liabilities on an IFRS basis per entity included in the group scope;
  - b. Basic own funds and own funds per entity included in the group scope;
  - c. Intragroup adjustments on own funds per entity on a SAM basis;
  - d. Fungibility / transferability adjustments on own funds per entity on a SAM basis;
  - e. Eligible own funds per entity included in the group scope;
  - f. Solvency capital requirement before adjustments per entity included in the group scope;
  - g. Intragroup adjustments on the solvency capital requirement per entity on a SAM basis; and
  - h. Solvency capital requirement after adjustments per entity included in the group scope.

- 6.7. The information set out in paragraphs 6.5 and 6.6 above is included in an insurance group's annual QRT that must be submitted to the Prudential Authority as provided for in section 44(1) of the Act.
- 6.8. The Prudential Authority will not accept an insurance group's annual QRT submission if the relevant sections have not been audited or reviewed, as applicable, and without the auditor's reports<sup>1</sup> included with the insurance group's annual QRT submission. These auditor's reports must be submitted to the Prudential Authority within the same time interval as the Prudential Authority requirement for the annual QRT.
- 6.9. Notwithstanding the requirements of paragraphs 6.5 and 6.6 above, the auditor shall also report whether, in the auditor's opinion, the information contained in the annual QRT, in all material respects:
- a. Reasonably reflects the information of the management accounts and the annual financial statements;
  - b. Is complete in so far as all relevant information contained in the accounting and other records at the reporting date has been extracted therefrom and recorded in the annual QRT;
  - c. Is accurate in so far as it correctly reflects the information contained in, and extracted from the accounting and other records at the reporting date; and
  - d. Is prepared using the same accounting policies or regulatory framework as those applied in the management and statutory accounts, where applicable.
- 6.10. The Guidance Note on Audit Requirements (AR GN) provides references to the sections of the annual QRT that should be audited or reviewed, as applicable, so that insurance groups can demonstrate adherence to these requirements.

## **7. Submission and availability of audited financial statements**

- 7.1. In accordance with section 47(1)(b) of the Act, a controlling company is required to have the annual financial statements referred to in section 46 audited and reported on by its auditor.
- 7.2. In accordance with section 47(2)(a) of the Act, the audited annual financial statements of the controlling company must be submitted to the Prudential Authority and made available to the public within 4 months after its financial year-end.

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<sup>1</sup> The auditor's reports must be issued by the Independent Regulatory Board for Auditors (South Africa) (IRBA)