

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

Prudential Standard ARM - Audit Requirements for Microinsurers

Objectives and Key Requirements of Prudential Standard ARM

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

The period within which microinsurers 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 a microinsurer to ensure that the microinsurer 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 microinsurers licensed under the Act, with financial year-ends 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. FSM means financial soundness standards for microinsurers.
- 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 ARM' 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. A microinsurer's board of directors (board) is ultimately responsible for ensuring that the microinsurer complies with the principles and requirements of this Standard.
- 5.2. A microinsurer's board must ensure that, where approvals are required from the Prudential Authority, those approvals have been timeously obtained.
- 5.3. A microinsurer's auditor, appointed under section 32 of the Act, must confirm to the microinsurer and the Prudential Authority, if requested, that the microinsurer complies with the requirements of this Standard.
- 5.4. A microinsurer'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 Microinsurers (GOM).

6. Audit requirements

- 6.1. Audited information establishes or enhances credibility of the microinsurers' information with the Prudential Authority, policyholders and stakeholders of microinsurers.
- 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 microinsurers.
- 6.3. Audited information also assists microinsurers 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 microinsurer 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, the following information of a microinsurer must be audited annually in accordance with relevant International Standards on Auditing:
 - a. Statement of solvency position expressed as the ratio of eligible own funds available to meet the minimum capital requirement;
 - b. Statement of assets, liabilities and basic own funds presented as the balance sheet on a SAM and an IFRS basis;
 - c. On the SAM basis, excess of income over outgo;
 - d. Minimum capital requirement;
 - e. Information regarding asset spreading;
 - f. Technical provisions on a sub-component level on an aggregated summary per type and (sub-)line of business, as relevant; and
 - g. Summary and details of the assets, liabilities, basic own funds, minimum capital requirements and own funds for cell structures.
- 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. Investments on an aggregated summary per type; and
 - b. Detail of the reinsurance providers for life and non-life insurance obligations.
- 6.7. The information set out in paragraphs 6.5 and 6.6 above is included in a microinsurer's annual QRT that must be submitted to the Prudential Authority as provide for in section 44(1) of the Act.
- 6.8. The Prudential Authority will not accept a microinsurer's annual QRT submission if the relevant sections have not been audited or reviewed, as

applicable, and without the auditor's reports¹ included with the microinsurer'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 microinsurers 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 microinsurer is required to have the annual financial statements referred to in section 46 of the Act 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 microinsurer must be submitted to the Prudential Authority and made available to the public within 4 months after its financial year-end.

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