

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

Prudential Standard ARI - Audit Requirements for Insurers

Objectives and Key Requirements of Prudential Standard ARI

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

The period within which insurers 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 an insurer to ensure that the insurer 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 insurers licensed under the Act other than microinsurers, Lloyd's and branches of foreign reinsurers, 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. FSI means financial soundness standards for insurers.
- 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 ARI' 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. An insurer's board of directors (board) is ultimately responsible for ensuring that the insurer complies with the principles and requirements of this Standard.
- 5.2. An insurer's board must ensure that, where approvals are required from the Prudential Authority, those approvals have been timeously obtained.
- 5.3. An insurer's auditor, appointed under section 32 of the Act, must confirm to the insurer and the Prudential Authority, if requested, that the insurer complies with the requirements of this Standard.
- 5.4. An insurer'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 Insurers (GOI 3).

6. Audit requirements

- 6.1. Audited information establishes or enhances credibility of the insurers' information with the Prudential Authority, policyholders and stakeholders of insurers.
- 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 insurers.
- 6.3. Audited information also assists insurers in ensuring that their information is complete, comparable, relevant, reliable and understandable.
- 6.4. In accordance with section 47(1)(a) of the Act, an insurer 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 an insurer must be audited annually in accordance with relevant International Standards on Auditing:
 - a. Statement of solvency position expressed as the ratios of eligible own funds available to meet the solvency capital requirement and minimum capital requirement;
 - b. Statement of assets, liabilities and basic own funds presented as the statement of financial position on a SAM and an IFRS basis;
 - c. Tiering of own funds according to the eligibility criteria set out in Prudential Standard FSI 2.3 (Determination of Eligible Own Funds);
 - d. On the SAM basis, excess of income over outgo for life insurance obligations and gross underwriting result for non-life insurance obligations;
 - e. For life insurance obligations only, the financial year's aggregate summary of:
 - i. Analysis of movement in basic own funds from the previous reporting year to this reporting year using analysis of surplus principles;
 - ii. Analysis of movement in IFRS excess assets from the previous reporting year to this reporting year; and
 - iii. Build-up of basic own funds using changes in IFRS excess assets and movements in other items;
 - f. Details of the look-through approach used for investment funds;
 - g. Technical provisions on a sub-component level on an aggregated summary per type and (sub-)line of business, as relevant;
 - h. Solvency capital requirement and minimum capital requirement including the sub-components of each; and
 - i. Summary and details of the assets, liabilities, basic own funds, ancillary own funds, solvency capital requirements, own funds and SCR adjustment 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, derivatives and participations on an aggregated summary per type;
 - b. Non-life technical provisions of foreign business; and
 - c. Detail of the reinsurance providers for life and non-life insurance obligations.
- 6.7. The information set out in paragraph 6.5 and 6.6 above is included in an insurer'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 insurer'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 insurer'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 Notice on Audit Requirements (AR GN) provides references to the sections of the annual QRT that should be audited or reviewed, as applicable, so that insurers 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, an insurer 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 insurer 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)