



बीमा विनियामक और विकास प्राधिकरण

INSURANCE REGULATORY AND
DEVELOPMENT AUTHORITY

CIRCULAR

REF: INV/CIR/023/2009-10

Date: 4th Aug, 2009

To
The CEOs of All Insurers

Dear Sir,

Audit of Investment Risk Management Systems & Process, Internal / Concurrent Audit

The Authority vide notification F.No. IRDA/Reg/5/47/2008 dated 30th Jul, 2008 notified IRDA (Investment) (4th Amendment) Regulations, 2008 on 22nd Aug, 2008. The Regulation, under point 'E' of Annexure III, makes Internal and Concurrent Audit of Investment transactions and related Systems mandatory and further directed all Insurers having Assets under Management (AUM) not more than Rs.1000 Crores to have its Investment functions audited on a Quarterly basis through Internal Audit (either through internal resources or through firms of Chartered Accountants) and Insurer with AUM of over Rs.1000 Crores to appoint a firm of Chartered Accountants as Concurrent Auditor to have its Investment transactions and related Systems audited on a concurrent basis.

A. INVESTMENT RISK MANAGEMENT SYSTEMS AND PROCESS AUDIT

1. The Authority vide Circular No. INV/CIR/008/2008-09 Dt. 22nd Aug, 2008 advised that a Chartered Accountants firm, which is not the Statutory or Internal or Concurrent Auditor of the concerned Insurer shall certify that the Investment Risk Management Systems and Processes as per the 'Technical Guide on Review and Certification of Investment Risk Management Systems and Process of Insurance Companies' issued by the Institute of Chartered Accountants of India (ICAI), in consultation with IRDA, are in place.
2. All companies seeking IRDA registration from 1st Aug, 2009 shall file a report certified by a Chartered Accountant firm, describing the level of preparedness of the applicant company to comply with the various systems related requirements as given in the "Technical Guide on Review and Certification of Investment Risk Management Systems and Process of Insurance Companies", when the company seeks R3 under IRDA (Indian Insurance Companies Registration) Regulations, 2000. It should also indicate the actions further required to be taken by the company.
3. All Insurers shall have their Systems and Process Audited at least once in three years by a Chartered Accountant firm. In doing so, the current Internal or Concurrent or Statutory Auditor shall not be eligible for appointment as Risk Management Auditor. The Insurer shall file the certificate issued by the Chartered Accountant, as provided in the technical guide referred under point A (1) of this Circular.

B. INTERNAL / CONCURRENT AUDIT OF TRANSACTIONS

1. An insurer (both life and General Insurance Business) having Assets under Management (Shareholders and Policyholders funds taken together) of not more than Rs.1000 Crores shall have its transactions and related systems Internally audited on a Quarterly basis and if the AUM is equal or over Rs. 1000 Crores shall have the Investment transaction concurrently audited. The first such audit would start from 1st Sep, 2009.
 2. The 'minimum' Scope for Internal or Concurrent Audit shall be as detailed in the "Technical Guides on Internal / Concurrent Audit of Investment Functions of Insurance Companies" issued by ICAI (in consultation with IRDA), for both Life and Non-Life Insurers. The Insurer could include additional scope depending upon their need for control systems. The Internal / Concurrent Audit is expected to cover 100% of transactions of all fund(s) as per the periodicity prescribed.
 3. Where the Internal Audit is carried in house, the internal audit report shall be signed by the Head Internal Audit.
 4. An insurer who gets covered under AUM clause of over Rs. 1000 Crores for the 1st time, for the purpose of applicability of Internal / Concurrent Audit, will continue to have the Investment functions concurrently audited, even if the AUM falls below Rs.1000 Crores, subsequently.
 5. The status of implementation of Investment Risk Management Systems, and issues of non-compliance pointed out in the Risk Management Report are required to be reported by the Internal /Concurrent Auditor vide item no. 5 of the Technical Guide on Internal / Concurrent of Investment functions of Insurance Companies. The report shall be filed with IRDA, as per the format provided in Annexure - I.
 6. The Audit report for a quarter, issued by the Internal or Concurrent Auditor, shall be placed before the Audit Committee of the Insurer's Board during the next succeeding quarter, and with its feedback on implementation, should be filed with IRDA, as an annexure to FORM-4.
- C. The Auditors to be appointed by the Insurer for certifying the Investment Risk Management Systems & Process and Internal / Concurrent Audit of Investment transactions should satisfy the norms specified in Annexure II of this Circular.

Yours faithfully,


(C R MURALIDHARAN)
MEMBER

TO BE ISSUED BY THE INTERNAL / CONCURRENT AUDITOR

ANNEXURE TO FORM - 4 (EXPOSURE AND OTHER NORMS - CONFIRMATION)

INVESTMENT RISK MANAGEMENT SYSTEMS & PROCESS - IMPLEMENTATION STATUS

Insurer Name :
 Name of the Audit firm :
 Date of issue of Certificate :

Reg No.....

No	Anx. Ref	Audit Objective	Audit Observation	Severity of Non Compliance	Action(s) taken for Compliance	MMM/YYYY Committed by the Insurer's Board to IRDA for complying with the requirement	Proof provided (or) demonstrated by the Insurer, to the Auditor to comply with the Requirement	Remarks & Comments of Audit Committee of the Board on non-compliance of 'time frame' communicated to IRDA on implementing Systems & Process
A ISSUES OF PREVIOUS QUARTER(S)								
B ISSUES TO BE COMPLIED IN CURRENT QUARTER								

CERTIFICATION

We certify that all issues, to be reported to IRDA on implementation of Investment Risk Management Systems and Process, for the Quarter and pending issues of previous Quarter(s) [as committed to IRDA], and as listed in the Chartered Accountant's Certificate issued, vide Circular INC/CIR/008/2008-09 Dt. 22nd Aug, 2008, have been covered in the above table.

 Chartered Accountants

Place:

Date:

Note:

1. No shall be as per the Annexure(s) to the Certificate issued by the Chartered Accountant appointed for certifying implementation of Investment Risk Management Systems and Process
2. The above statement, signed by the Internal / Concurrent Auditor should be filed with IRDA and the Softcopy of it, in MS-Excel format, shall be sent in a Compact Disk.

APPOINTMENT OF AUDIT FIRMS

The Authority vide notification F.No. IRDA/Reg/5/47/2008 dated 30th Jul, 2008 notified IRDA (Investment) (4th Amendment) Regulations, 2008 on 22nd Aug, 2008. In appointing the Audit firms the Insurer shall ensure the following norms.

A. INVESTMENT RISK MANAGEMENT SYSTEMS & PROCESS

1. *The Chartered Accountant firm shall be a firm, registered with the Institute of Chartered Accountants of India.*
2. *The Audit firm should have experience, for at least four years, in conducting reviews of Risk Management Systems and Process of either Banks or Mutual Funds or Insurance Companies or have, on behalf of IRDA conducted Investment Inspection of Insurance Companies.*
3. *On the date of appointment as an Auditor for certifying Investment Risk Management Systems and Process, the Auditor must not hold more than two audits of Internal, Concurrent and Risk Management Systems Audit, all taken together. Hence, the Audit firm, can at the maximum hold not more than three Audits (i.e., Investment Risk Management Systems and Process Audit, Internal Audit, Concurrent Audit - all taken together), apart from Statutory Audits at any point of time. For this purpose, at the time of appointment, the insurer shall obtain a declaration to this effect from the firm of Chartered Accountants. The Insurer shall, file with IRDA, the confirmation obtained from the Chartered Accountant firm, within 7 days of such appointment.*
4. *The Auditor should not have been prohibited/debarred by any regulating agency including IRDA, RBI, SEBI, ICAI etc.,*
5. *The Auditor appointed for certifying the Investment Risk Management Systems and Process, should not have conducted the following assignments for the same Insurer proposing to be appointed as Systems Auditor, for a period of two years immediately preceding his appointment.*
 - i. *Statutory Audit*
 - ii. *Any Internal Audit*
 - iii. *Any Concurrent Audit*
 - iv. *Any consulting assignment, whether or not related to Audit functions*

B. INTERNAL / CONCURRENT AUDIT OF TRANSACTIONS

In appointing the Internal / Concurrent Auditor, the Insurer shall ensure the following:

1. *The Chartered Accountant firm complies with points A (1), (2), (3) and (4) of Annexure 1 of this Circular.*
2. *The Internal/Concurrent audit term shall be for the financial year and where the appointment is made during the course of the financial year, it shall be up to the end of that financial year.*
3. *The Internal / Concurrent Auditor shall be appointed by the Audit Committee of the Insurer's Board and the Auditor shall directly report to the Audit Committee of the Insurer's Board. Any change in Auditor during the middle of the term, shall be communicated to IRDA with the reasons for such change. The new Auditor, for the remaining term, shall be appointed only with the prior approval of IRDA.*
4. *The Internal / Concurrent Auditor shall not be eligible for re-appointment, with the same Insurer after serving three consecutive years or three years during the preceding five years.*
5. *The Internal / Concurrent Auditor appointed for the first time should not have conducted the following assignments for the same Insurer proposing to be appointed as Internal or Concurrent Auditor for Investment functions during a period of two years immediately preceding his appointment as Internal or Concurrent auditor.*
 - i. *Statutory Audit*
 - ii. *Any Internal Audit*
 - iii. *Any Concurrent Audit*
 - iv. *Any consulting assignment, whether or not related to Audit functions*
 - v. *Reviews or Certification of Investment Risk Management Systems and Process*
6. *Every Insurer, upon appointing the firm of Chartered Accountants as Internal or Concurrent or Risk Management Systems Auditor shall send a communication to IRDA within seven days of such appointment, confirming such appointment as per Annexure - III*

All insurers are required to comply with the above requirements.

IN THE LETTER HEAD OF THE INSURER

Date:.....

To

The Insurance Regulatory and Development Authority
Parisram Bhavan, 3rd Floor, Basheerbagh
Hyderabad - 500 004

Sir

In pursuant of IRDA Circular INV/CIR/008/2008-09 Dt. 22nd Aug, 2008 and related communication in respect of Internal (or) Concurrent Audit of Investment functions, we have appointed the following firm(s) as our Internal / Concurrent Auditor(s) for the Investment functions for the period starting from:..... to

We have taken necessary confirmations in writing from the Chartered Accountant firm(s) as required under INV/CIR/023/2009-10 dt. 4th Aug, 2009.

Yours faithfully

Chief Executive Officer
<Name of the Insurance Company>