

Long Form Audit Report (LFAR) of Insurers, 2080

Preamble: In exercise of the power conferred by Section 166 of the Insurance Act, 2022, Nepal Insurance Authority has issued the format of Long Form Audit Report as per Section 87(4) of the Act.

Long Form Audit Report for the Financial year

(Related to Section 87 (4) of Insurance Act)

Name of Insurance Company

(1) Brief description of the Audit plan with focus on the following areas, at minimum:

- Declaration of Independence of Audit Firm and Members
- Auditing Standards followed by the Auditor
- Composition of the audit team
- Audit Time schedule

(2) Brief description of the Sampling Method used and sample size taken

The details of the sample checked should be attached with the LFAR as a part of the report. The auditor should report the sample size of audit in the following format:

S.N.	Particulars	Sample percentage out of total population (by no of transactions/files)	Sample percentage out of total population (by amount)
a.	Cash and Cash Equivalent		
b.	Gross premium (Underwriting)		
c.	Gross Insurance Paid (Claims)		
d.	Investment		
e.	Reinsurance		
f.	Loans		
g.	Claims outstanding		
h.	Property and equipment		
i.	Other Operating expenses		
j.	Income other than premium and Investment Income		
k.	Commission Income/ Expenses		
l.	Investment Income		
m.	Others (specify if any)		

(3) Brief description of the Audit process and procedures, at minimum: -

S.N.	Particulars	Auditors Comment
a.	Evaluation of Internal Audit Function and Previous Years Audit	
b.	Audit Risk Assessments and Audit procedures adapted to mitigate identified Audit Risks	
c.	Quality control mechanism adopted	

(4) Remarks on the execution of Audit Plan:-

S.N.	Particulars	Auditors Comment
a.	Problems encountered during the audit, if any	
b.	Limitations of scope of Audit, if any.	
c.	Whether Audit was Executed as per the audit plan or not	

(5) Opinion of the Auditor on following Risk Management System:-

S.N.	Particulars	Auditors Comment/Opinion
a.	Insurance Risk Management System	
b.	Re-insurance Management System	
c.	Investment and Loan Management System	
d.	Insurance Claim Management System	
e.	Market Management System	
f.	Credit Risk Management System	
g.	Operational Risk Management System	
h.	Strategic Risk Management System	
i.	Compliance Risk Management System	
j.	Conduct Risk Management System	
k.	ML & FT Risk Management System	
l.	Climate Risk Management System	
m.	Human Resource Management System	
n.	Overall Risk Management System	

(6)Opinion of the Auditor on Internal Control System:-

S.N.	Particulars	Auditors Comment/Opinion
a.	Effectiveness of Board and Senior Management	
b.	Effectiveness of Risk Management System	
c.	Effectiveness of Compliance Function	
d.	Effectiveness of the Audit committee	
e.	Effectiveness of the Internal Audit Function	
f.	Whether or not deficiencies identified in the previous internal and external audit reports are rectified or not	
g.	Whether deficiencies identified through Inspection conducted by Nepal Insurance Authority are rectified or not	
h.	Effectiveness of Investment Control Operations	
i.	Effectiveness of Branches Transaction Control System	
j.	Effectiveness of Re-Insurance Control System	
k.	Effectiveness of Insurance Claim Management System	
l.	Effectiveness of Expenses Management System	
m.	Effectiveness of Fixed Asset Management System	
n.	Effectiveness of Management Information System	
o.	Effectiveness of Information Technology Control System	
p.	Effectiveness of Inter Department/Branch Information Control System	
q.	Effectiveness of controls to prevent and/or minimize Fraud and forgeries	
r.	Other areas of Internal Control System, if any	
s.	Auditors' overall assessment on the adequacy and effectiveness of the internal control system	

(6) Auditors comment on the following matters: -

S.N	Particulars	Auditors Comment/Opinion
a.	Whether Insurer has maintained accounting records as per Accounting Policies or not.	
b.	Whether Insurers Accounting policies is appropriate or not in view of nature of Insurance Business carried out.	
c.	Effect of Changes in accounting policies on the Profit of the Insurer.	
d.	Insurers assets Quality and its management.	
e.	Capital adequacy, earning, liquidity and overall financial position of the Insurer.	
f.	Unfunded Liabilities, if any, of the Insurer.	

(7) Disclosure on the Corporate Governance System of the Insurer:-

S.N	Particulars	Auditors Comment/Opinion
a.	Whether appropriate policies, procedures and directives considering the nature of Business are available or not.	
b.	Whether above mentioned policies, procedures and directives are Implemented or not.	
c.	Whether Code of Conducts for Directors, Management Team and other Officials of the Insurers are formulated or not.	
d.	Whether Control Mechanism to identify associated person and Entities of Insurers Promoters, Directors and upper Management team is available or not.	

(8) Disclosure on Sale and Transfer of Promoter Shares-

S.N	Particulars	Auditors Comment/Opinion
a.	Sale or transfer of shares in compliance/non- compliance with statutory requirements	
b.	Sale or pledge of promoter shares, during the lock-in period, if any	

(9) Compliance with applicable Laws, Acts, rules, regulations and Directives-

A. Insurance Act 2079-

S.N	Particulars	Auditors Comment/Opinion
a.	Whether Paid Up Capital as required by Insurance act or Nepal Insurance Authority's direction from time to time has been maintained or not (Section 36)	
b.	Comment on the Capital Adequacy and Solvency of the Insurer.	
c.	Whether Books of Account has been maintained based on applicable Accounting Standards, Acts, Regulations and Directives.	
d.	Whether Insurer has been Fined/Penalized by the Regulator and other Authorities during the Audit Period. If yes please provide the details.	

B. Insurers Financial Statement Direction,2080 issued by Nepal Insurance Authority:-

S.N	Particulars	Auditors Comment/Opinion
a.	Whether Financial statement has been prepared and Books of accounts has been maintained as per Insurers Financial Statement Directive, 2080 issued by Nepal Insurance Authority	
b.	Auditor's comment on sufficiency of amount transferred into following Reserves: - I. Special Reserve, II. Catastrophe Reserve, III. Corporate Social Responsibility Reserve, IV. Capital Reserve, V. Insurance Fund & VI. Deferred Tax Reserves	
c.	Whether deductions have been made while arriving at Distributable Income? If no Please provide the details as below: - I. Section 15 : Deductions with respect to Negative OCI Reserves II. Section 16: Deductions with respect to Investment III. Section 17 : Deductions with respect to Loan IV. Section 18 : Deductions with respect to Receivables from Other Insurers, Reinsurers and Brokers	
d.	Whether Fair value reserve created by the Insurer is in line with section 19 of the Insurers Financial Direction,2080? If not, then please provide the details:	
e.	Auditors Comment on Other OCI Reserves created by the Insurer.	
f.	Auditors comment on compliance of the following provisions in respect of Life and Micro Life: Insurers:- i. Section 21 : Life Insurance Fund ii. Section 22 : Transfer to Life Insurance Fund iii. Section 23: Amount written back from Regulatory Reserve iv. Section 24 : Transfer from OCI reserve to Retained Earnings and Life Insurance Fund v. Section 25 : Allocation of Income not transferred to Life Fund vi. Section 26 : Allocation of Profit/Loss from statement of Other comprehensive Income vii. Section 27 : Treatment of Expenses in excess of Prescribed Limit	
g.	Auditors Comment on compliance of the following provisions: - i. Section 28 and 29: Adequacy of Unexpired Risk Reserve in Financial Statements ii. Adequacy of Claim Payment Fund, Unclaimed Fund, Incurred But Not Reported (IBNR) Reserve, Margin for adverse deviation, Premium	

	Deficiency Reserve, Other Technical Liability as per Valuation Report and amount transferred to Policy Holders Protection Fund. iii. Whether the tax liability arising from the amount or Profit which has been distributed only to the Shareholders is charged to Shareholders Fund as per Section 33 of the Directive.	
h.	Auditors comment on whether Employee Bonus calculation is as per prevailing law or not.	
l.	Whether amount of allocated Income tax expenses under different Portfolios as per annexure 5 of Life Insurers has been deducted while determining Employees Bonus (Section 36)	
j.	Whether the Insurer has complied Provision of Section 37 related with Staff Training Expenses.	
k.	Whether guidelines as prescribed in Annexure 5 regarding amounts to be transferred to Life Insurance Fund has been Complied by the Life Insurer.	
l.	Whether the Insurer has complied required provisions while preparing Annexure 5.	

C. Insurance Regulation

D. Non-compliance of Other Directives, Orders, Guidelines Issued by Nepal Insurance Authority

E. Non-compliance of any applicable sections of Company Act, 2063

F. Non-compliance of any applicable sections of Securities Act, 2063

G. Other applicable rules and regulations

(10) If Auditor has expressed reservation/qualification/adverse remarks on the Final Audit Report then details and reasons for same.

(11) Other Matters deemed appropriate by the Auditor considering his Professional Skepticism and Professional Judgement after evaluating overall Facts and Conditions.

(12) Section – 40 disclosure by the auditor as per Corporate Good Governance directive.