

Module J Unit 17B

SERVICE PROVIDERS – AUDITORS

Purpose

At the end of this unit the participant should understand why an external auditor is appointed, the auditor's role and the importance of completion of the audit within four months following the end of the financial year.

Assumed knowledge

None

Summary of learning outcomes
1. Explain why an external audit is required.
2. Describe what matters should be considered by the board when making the selection of an auditor.
3. Describe the reporting requirements in relation to the statutory accounts.
4. Explain what is required of the insurance manager in respect of the audit process.

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17.0 CHOICE OF AUDITOR

17.0.1 Regulation

It is a requirement of the insurance licence application process that an auditor agrees in principle to act as auditor of the statutory accounts of the captive.

The choice of auditor to be used by the captive will be influenced by a number of factors and these are discussed below:-

17.0.2 Parent company influence

Whilst the captive board should make its own decisions about which auditor it appoints, it is common practice to select the same audit firm as used by the parent company. The reasons for this are:

- I. They will be familiar with the parent organisation
- II. They may offer a fee that reflects the wider business relationship
- III. The captive will most likely have to be consolidated into the parent company accounts so the continuity as between captive auditor and parent audit firm can be helpful.

17.0.3 Local presence

It is common to appoint an auditor that has a presence in Guernsey. This is important as the auditors need to fully understand the Guernsey Laws, Regulations and Codes relevant to the operation of the captive. It also makes sense as the local Insurance Manager will likely have a good working relationship with the personnel of any locally based audit firm and the auditor will be familiar with the Insurance Manager's processes, procedures and controls.

17.0.4 Fees and Terms and Conditions

There is not a great deal of variation between the audit fees or terms and conditions of the approved auditors so any minor difference between firms is unlikely to be material in the decision making of the board.

17.0.5 Appointment process

The appointment of the auditors is a matter for the board. Prior to appointment the board should receive a fee quote for the audit, an audit plan and timetable and a draft letter of appointment. Where possible it is also advisable to request a draft of the Letter of Representation to be signed by the board.

It is important for the board to satisfy itself that the timetable provided by the auditors is achievable and will facilitate the approval of the statutory accounts in good time to be submitted with the Annual Return to the GFSC which is required within 4 months of the captives financial year end.

17.0.6 Letter of Representation

It is vital that the board is comfortable with all the representations it will make to the auditors in the Letter of Representation. The Insurance Manager will need to provide the board with reassurance that it knows of no reason why those representations should not be made. This is because many of these relate to access to files and information that the Insurance Manager controls on behalf of the captive.

17.0.7 Role of the Auditor

The role of the auditor is to ensure that the statutory accounts and notes thereto of the company, prepared at each financial year end and approved by the board, provide a true and fair representation of the financial affairs of the company. They may only be relied upon by the shareholders of the captive and the GFSC, who require them to be submitted as part of the annual return and upon which the solvency calculations of the company, as submitted with the return, will be based.

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Self-test questions

Answering these questions will remind the participant as to what has been learnt. Once completed, please check your answers against the relevant text.

1. What is the regulatory deadline for sign off of the statutory accounts of a Guernsey insurer?
2. Name two matters that might influence the choice of audit firm?
3. Why might the parent/shareholder company subject some influence on the choice of a captive's auditor'?
4. Why is it important for the insurance manager to make representations to the board regarding the audit process?

Summary of learning outcomes

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| 1. Explain why an external audit is required. |
| 2. Describe what matters should be considered by the board when making the selection of an auditor. |
| 3. Describe the reporting requirements in relation to the statutory accounts. |
| 4. Explain what is required of the insurance manager in respect of the audit process. |