

**ENGAGEMENTS TO REPORT ON THE COMPLIANCE WITH THE DETERMINATION  
14 AND 15 ISSUED BY THE INSURANCE REGULATORY COMMISSION OF  
SRI LANKA (IRCSL)**

**SRI LANKA RELATED SERVICES PRACTICE STATEMENT 4754**

**ENGAGEMENTS TO REPORT ON THE COMPLIANCE WITH THE  
DETERMINATION 14 AND 15 ISSUED BY THE INSURANCE  
REGULATORY COMMISSION OF SRI LANKA (IRCSL)**

(Effective for engagements commencing on or after 1, January 2018)

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## **Introduction**

- 1 The purpose of this Sri Lanka Related Services Practice Statement 4754 (SLRSPS 4754) is to establish Standards and provide guidance relating to the certifications required on determination 14 and 15 issued by the Insurance Regulatory Commission of Sri Lanka (IRCSL). This determination requires the external auditor of the insurance companies to certify the,
  - a) Consolidated Comprehensive Income Statement
  - b) Consolidated Balance Sheet
  - c) Form CO IS - Comprehensive Income Statement,
  - d) Form SCE - Statement of Changes in Equity
  - e) Form CO BS - Balance Sheet
  - f) Maintenance of separate general ledgers for the participating, non-participating, universal life and unit linked insurance businesses to report in the Form CO-BS and Form CO-IS.
  - g) If not maintained separately bases applied to segregate Balance Sheet items and income and expense items
  - h) The bases applied had been approved by the Board of Directors and consistently applied.
  - i) Form MC-BS (A)[QR]
  - j) Form MC-BS(L)[QR]
  - k) Form MC-BS(E)[QR]

For long term and General Insurance businesses.

- 2 The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) was requested by the IRCSL to develop a guidance to practitioners to comply with the above determinations. CA Sri Lanka considered international practice and technical guidance in audit practices to formulate an “agreed upon procedure” under the principles set out in Sri Lanka Standards on Related Services 4400 (SLSRS 4400).
- 3 CA Sri Lanka believes this practice statement will provide a useful guidance to practitioners. This guidance also illustrates the responsibilities of auditors and directors in fulfilling the requirements enunciated by determination 14 and 15 as stated above issued by the IRCSL. In addition, illustrations of an engagement letter, report and an annexure to the report on factual findings are provided to assist the practitioners in reporting requirements.

**Illustration of an engagement letter for agreed-upon procedures engagement to comply with the determination 14 and 15 issued by the Insurance Regulatory Commission of Sri Lanka**

To the Board of Directors or other appropriate representatives of the client who engaged the auditor.

This letter is to confirm our understanding of the terms and objectives of our engagement and the nature and limitations of the services that we will provide. Our engagement will be conducted in accordance with the principles set out in Sri Lanka Standards on Related Services **4400 (SLRS 4400)** applicable to agreed-upon procedures engagements and we will indicate so in our report.

We have agreed to perform the procedures listed under the Annexure 'A' and report to you the factual findings resulting from our work:

(Describe where relevant the timing and extent of the procedures to be performed in Annexure 'A' including specific reference, where applicable, to the identity of documents and records to be reviewed, individuals to be contacted and parties from whom confirmations will be obtained.)

The procedures that we will perform are solely to assist you, to meet the compliance requirement of the determination 14 and 15 issued by the IRCSL. Our report is not to be used for any other purposes other than purpose of Determination 14 and 15 of IRCSL as stated above. The procedures that we will perform will not constitute an audit or a review made in accordance with Sri Lanka Auditing Standards or Sri Lanka Standards on Review Engagements and consequently, no assurance will be expressed.

We look forward to full cooperation with your staff and we trust that they will make available to us whatever records, documentation and other information requested in connection with our engagement.

Our fees, which will be billed as work progresses, are based on the time required by the individuals assigned to the engagement plus out-of-pocket expenses. Individual hourly rates vary according to the degree of responsibility involved and the experience and skill required.

(Additional terms and conditions may be added by the auditors)

Please sign and return the attached copy of this letter to indicate that it is in accordance with your understanding of the terms of the engagement including the specific procedures which we have agreed will be performed.

XYZ & CO.

Acknowledged on behalf of ABC PLC by

(signed)

Name and Title

Date

**Illustration of a report of factual findings in connection with the  
Determination 14 and 15 issued by the Insurance Regulatory Commission of  
Sri Lanka**

REPORT OF FACTUAL FINDINGS

To (those who engaged the auditor)

We have performed the procedures agreed with you and enumerated in an annexure to this report, with respect to the Determinations 14 and 15 issued by IRCSL. Our engagement was undertaken in accordance with the principles set out in Sri Lanka Standards on Related Services 4400 (SLSRS 4400) applicable to agreed-upon procedures engagements. The procedures were performed solely to assist you to meet the compliance requirements set out in the Circular.

We report our findings below:

(List the results of the procedures performed as per Annexure B)

Because the above procedures do not constitute an audit or review made in accordance with Sri Lanka Auditing Standards or Sri Lanka Standards on Review Engagements, we do not express any assurance on the compliance with the Determination 14 and 15 issued by IRCSL as of (Date).

Had we performed additional procedures or had we performed an audit or review of the financial statements in accordance with Sri Lanka Auditing Standards or Sri Lanka Standards on Review Engagements, other matters might have come to our attention that would have been reported to you.

Our report is solely for the purpose set forth in the first paragraph of this report and for your information and is not to be used for any other purpose or to be distributed to any other parties except for IRCSL. This report relates only to the items specified above and does not extend to any financial statements of ABC PLC, taken as a whole.

AUDITOR

Date Address

**Determination-14**

1. Cross check the amounts stated in the,
  - Consolidated Comprehensive Income Statement
  - Consolidated Balance Sheet
  - Statement of Changes in Equityof the Regulatory Return with the Audited Financial Statements for the year ended .....
  
2. Cross check the amounts stated in the company column of,
  - CO IS - Comprehensive Income Statement
  - CO BS - Balance Sheetof the Regulatory Return with the Audited Financial Statements for the year ended .....
  
3. Cross check the participating, non-participating, universal life and unit linked segregation of Income along with the income arising from the shareholder funds stated in CO IS - Comprehensive Income Statement with the Income schedules provided by the management.
  
4. Cross check the participating, non-participating, universal life and unit linked segregation of Expenses along with the expenses arising from shareholder funds stated in CO IS - Comprehensive Income Statement with the expenses schedules provided by the management.
  
5. Check whether the participating, non-participating, universal life and unit linked segregated income agree with the total income along with the income arising from the shareholder funds stated in the CO IS - Comprehensive Income Statement.
  
6. Check whether the participating, non-participating, universal life and unit linked segregated expenses agree with the total expenses along with the expenses arising from shareholder funds stated in the CO IS - Comprehensive Income Statement.
  
7. Check whether the participating, non-participating, universal life and unit linked segregated assets and liabilities agree with the total assets and liabilities along with the assets and liabilities of shareholder fund, stated in the CO BS – Balance Sheet.

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8. Cross check the participating, non-participating, universal life and unit linked segregated Assets and liabilities stated in Balance Sheet along with the shareholder funds with the schedules provided by the management.
  9. Check whether the company has maintained separate general ledgers for the participating, non-participating, universal life and unit linked insurance businesses to report in the Form CO-BS and Form CO-IS
  10. Verify whether the Board has approved a policy in relation to allocation of assets, liabilities, equity, income and expenses between participating and nonparticipating insurance businesses.
  11. Verify whether the policy has been renewed/ratified annually and comment on any change of the company policy regarding basis of allocation of assets, liabilities, equity, income and expenses between participating and nonparticipating insurance businesses.
  12. Verify whether the allocation of assets, liabilities, equity, income and expenses between participating and nonparticipating insurance businesses is in line with the board approved company's policy.
  13. Financial Investments relating to par and non-par policy holders are separately held under identifiable accounts with third parties. (Ex : Lanka Clear, CDS)
  14. Compare the SLFRS value of the assets, liabilities and equity of the market consistent balance sheet with the audited financial statements.
    - Comparing the market consistent value of the assets with the audited financial statements.
    - Comparing the aging for premium receivable balances and reinsurance receivables with the age analysis provided by the management.
- Check whether the company has used the valuation principles prescribed in the Solvency Margin (Risk Based Capital) Rules 2015 issued by the Insurance Regulatory Commission of Sri Lanka (Commission).
15. Verify the market consistent value of the financial investments, by
    - Comparing the market consistent value of the financial investments with the audited financial statements.
    - Recomputing the market value of the held to maturity and Loans and receivables financial instruments.

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- Comparing the credit rating of the corporate debts with the supporting information.
- For listed equity securities identify the changes comparing the last traded price and closed market price.

Check whether the company has used the valuation principles prescribed in the Solvency Margin (Risk Based Capital) Rules 2015 issued by the Insurance Regulatory Commission of Sri Lanka (Commission).

16. Compare other liabilities with the audited financial statements.
  - Compare the equity reported in the market consistent balance sheet with the audited financial statements and identify the adjustments for asset and liability valuation differences between SLFRS and RBC.
17. Check whether the company has applied the admissible asset units prescribed in the RBC guidelines when preparing the market consistent Balance Sheet.

## **Determination 15**

### **Market consistent balance sheet and related notes**

1. Compare the SLFRS value of the assets, liabilities and equity of the market consistent balance sheet with the audited financial statements.
2. Verify the market consistent value of assets other than financial investments, by
  - Comparing the market consistent value of the assets with the audited financial statements.
  - Comparing the aging for premium receivable balances and reinsurance receivables with the age analysis provided by the management.
  - Obtaining the surrender values in relation to policy holder loans and report on policy loans which have exceeded the surrender value.

Check whether the company has used the valuation principles prescribed in the Solvency Margin (Risk Based Capital) Rules 2015 issued by the Insurance Regulatory Commission of Sri Lanka (Commission).

3. Verify the market consistent value of the financial investments, by
  - Comparing the market consistent value of the financial investments with the audited financial statements.
  - Recomputing the market value of the held to maturity and Loans and receivables financial instruments.
  - Comparing the credit rating of the corporate debts with the supporting information.
  - For listed equity securities identify the changes comparing the last traded price and closed market price.

Check whether the company has used the valuation principles prescribed in the Solvency Margin (Risk Based Capital) Rules 2015 issued by the Insurance Regulatory Commission of Sri Lanka (Commission).

4. Compare market consistent value of the policy holder liabilities with the actuarial return of the long term insurance business and compare other liabilities with the audited financial statements.
5. Compare the equity reported in the market consistent balance sheet with the audited financial statements and identify the adjustments for asset and liability valuation differences between SLFRS and RBC
6. Check whether the company has applied the admissible asset limits prescribed in the RBC guidelines when preparing the market consistent Balance Sheet.



**Annexure to the report on factual finding**

<b>Agreed Upon Procedures</b>	<b>Findings</b>
<b>Determination 14</b>	
(1)	Cross check the amounts stated in the, Consolidated Comprehensive Income Statement, Consolidated Balance Sheet and Statement of Changes in Equity of the Regulatory Return with the Audited Financial Statements
(2)	Cross check the amounts stated in the company column of CO IS - Comprehensive Income Statement and CO BS - Balance Sheet of the Regulatory Return with the Audited Financial Statements
(3)	Cross check the participating, non-participating, universal life and unit linked segregation of Income along with the income arising from the shareholder funds stated in CO IS - Comprehensive Income Statement with the Income schedules provided by the management.
(4)	Cross check the participating, non-participating, universal life and unit linked segregation of Expenses along with the expenses arising from shareholder funds stated in CO IS - Comprehensive Income Statement with the expenses schedules provided by the management.

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(5)	Check whether the participating, non-participating, universal life and unit linked segregated income agree with the total income along with the income arising from the shareholder funds stated in the CO IS - Comprehensive Income Statement.	
(6)	Check whether the participating, non-participating, universal life and unit linked segregated expenses agree with the total expenses along with the expenses arising from shareholder funds stated in the CO IS - Comprehensive Income Statement.	
(7)	Check whether the participating, non-participating, universal life and unit linked segregated assets and liabilities agree with the total assets and liabilities along with the assets and liabilities of shareholder fund, stated in the CO BS – Balance Sheet.	
(8)	Cross check the participating, non-participating, universal life and unit linked segregated Assets and liabilities stated in Balance Sheet with the schedules provided by the management.	
(9)	Check whether the company has maintained separate general ledgers for the participating, non-participating, universal life and unit linked insurance businesses to report in the Form CO-BS and Form CO-IS.	
(10)	Verify whether the Board has approved a policy in relation to allocation of assets, liabilities, equity, income and expenses between participating and nonparticipating insurance businesses.	

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(11)	Verify whether the policy has been renewed/ratified annually and comment on any change of the company policy regarding basis of allocation of assets, liabilities, equity, income and expenses between participating and nonparticipating insurance businesses.	
(12)	Verify whether the allocation of assets, liabilities, equity, income and expenses between participating and nonparticipating insurance businesses is in line with the board approved company's policy.	
(13)	Financial Investments relating to par and non-par policy holders are separately held under identifiable accounts with third parties. (Ex : Lanka Clear, CDS)	
(14)	<p>Compare the SLFRS value of the assets, liabilities and equity of the market consistent balance sheet with the audited financial statements.</p> <ul style="list-style-type: none"> <li>- Comparing the market consistent value of the assets with the audited financial statements.</li> <li>- Comparing the aging for premium receivable balances and reinsurance receivables with the age analysis provided by the management.</li> </ul> <p>Check whether the company has used the valuation principles prescribed in the Solvency Margin (Risk Based Capital) Rules 2015 issued by the Insurance Regulatory Commission of Sri Lanka (Commission).</p>	

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<p>(15)</p>	<p>Verify the market consistent value of the financial investments, by</p> <ul style="list-style-type: none"> <li>- Comparing the market consistent value of the financial investments with the audited financial statements.</li> <li>- Recomputing the market value of the held to maturity and Loans and receivables financial instruments.</li> <li>- Comparing the credit rating of the corporate debts with the supporting information.</li> <li>- For listed equity securities identify the changes comparing the last traded price and closed market price.</li> </ul> <p>Check whether the company has used the valuation principles prescribed in the Solvency Margin (Risk Based Capital) Rules 2015 issued by the Insurance Regulatory Commission of Sri Lanka (Commission).</p>	
<p>(16)</p>	<p>Compare other liabilities with the audited financial statements.</p> <p>Compare the equity reported in the market consistent balance sheet with the audited financial statements and identify the adjustments for asset and liability valuation differences between SLFRS and RBC.</p>	
<p>(17)</p>	<p>Check whether the company has applied the admissible asset units prescribed in the RBC guidelines when preparing the market consistent Balance Sheet.</p>	

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<b>Agreed Upon Procedures</b>		<b>Findings</b>
<b>Determination 15</b>		
(1)	Compare the SLFRS value of the assets, liabilities and equity of the market consistent balance sheet with the audited financial statements.	
(2)	<p>Verify the market consistent value of assets other than financial investments, by</p> <ul style="list-style-type: none"> <li>• Comparing the market consistent value of the assets with the audited financial statements.</li> <li>• Comparing the aging for premium receivable balances and reinsurance receivables with the age analysis provided by the management.</li> <li>• Obtaining the surrender values in relation to policy holder loans and report on policy loans which have exceeded the surrender value.</li> </ul> <p>Check whether the company has used the valuation principles prescribed in the Solvency Margin (Risk Based Capital) Rules 2015 issued by the Insurance Regulatory Commission of Sri Lanka (Commission).</p>	

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<p>(3)</p>	<p>Verify the market consistent value of the financial investments, by</p> <ul style="list-style-type: none"> <li>• Comparing the market consistent value of the financial investments with the audited financial statements.</li> <li>• Recomputing the market value of the held to maturity and Loans and receivables financial instruments.</li> <li>• Comparing the credit rating of the corporate debts with the supporting information.</li> <li>• For listed equity securities identify the changes comparing the last traded price and closed market price.</li> </ul> <p>Check whether the company has used the valuation principles prescribed in the Solvency Margin (Risk Based Capital) Rules 2015 issued by the Insurance Regulatory Commission of Sri Lanka (Commission).</p>	
<p>(4)</p>	<p>Compare market consistent value of the policy holder liabilities with the actuarial return of the long term insurance business and compare other liabilities with the audited financial statements.</p>	
<p>(5)</p>	<p>Compare the equity reported in the market consistent balance sheet with the audited financial statements and identify the adjustments for asset and liability valuation differences between SLFRS and RBC.</p>	

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(6)	Check whether the company has applied the admissible asset limits prescribed in the RBC guidelines when preparing the market consistent Balance Sheet.	
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