

COUNTRY BANKERS LIFE INSURANCE CORPORATION

**INTERNAL AUDIT POLICY
and
PROCEDURE MANUAL**

TABLE OF CONTENTS

	Page
Chapter I - DEPARTMENT FUNCTION - OVERVIEW	
Rationale	1
Charter	1
Mission Statements / Objectives / Values	3
Standards for the Professional Practice of Internal Auditing	4
Code of Ethics	19
Chapter II - AUDIT PROCESS	
Rationale	22
Planning – Research, Scheduling and Audits	22
Types of Audits	23
Chapter III - AUDIT ASSIGNMENT	
Scope and Objectives	25
Duties and Responsibilities	26
Announcement Letter	26
Chapter IV - PRELIMINARY REVIEW	
Rationale	28
Initial Research	28
Identification of Potential Problem Areas	28
Review and Evaluation of Internal Control Environment	29
Planning the Detailed Audit	32
Chapter V - AUDIT PROGRAM	
Objectives	35
Audit Steps	35
Time Budget	35

Internal Audit Policy and Procedure Manual

Chapter VI -	FIELDWORK	
	Evidential Matter	37
	Audit Sampling	37
	Testing and Working Paper Documentation	38
	Qualities of good Working Paper	39
	Working Paper Techniques	39
	Types of Working Paper	40
	Stating Findings / Conclusions	42
Chapter VII -	AUDIT QUALITY ASSURANCE	
	Rationale	45
	Quality Assurance Review Process	45
	General Standards for Working Paper	46
	General Standards – Reports	48
Chapter VIII -	REPORTING and FOLLOW UP	
	Audit Reports, Transmittal Letter and Management Letter	49
	Confidentiality – Reports	49
	Exit Conference	50
	Closing the Audit	50
Chapter IX -	PERSONNEL	
	Organizational Chart	51
	Internal Audit Manager – Duties and Responsibilities	51
	Internal Audit Analyst – Duties and Responsibilities	53
APPENDIX X -	SAMPLE AUDIT PROGRAMS	
	Investments in Stock	54
	Investments in Bonds	56
	Investments in Commercial Papers	57
	Other Investments	58
	Real Estate	59
	Mortgage and Collateral Loans	60
	Other Loans	62
	Furniture, Fixture and Equipments	63

Internal Audit Policy and Procedure Manual

Reinsurance Recoverable on Paid Losses	64
Policy Loans	65
Net Premiums Due Uncollected	67
Net Deferred Premiums	690
Premiums Due to Re-insurer	71
Taxes Payable	73
Accrued Expense and other Liabilities	74
Aggregate Reserve for Life Policies and Contracts	75
Policy Contract and Claims	79

Chapter 1

INTERNAL AUDIT DEPARTMENT FUNCTION – OVERVIEW

Rationale

Internal Audit is a central administrative unit. Internal Audit reports operationally to the President with dotted line representation to the Audit Committee of the Board of Directors. Internal Audit's coverage and service extends to all business units. Internal Audit is also a control which functions by examining and evaluating the adequacy and effectiveness of other controls throughout the entity for administrators, the Board of Directors and External Auditors. Finally, Internal Audit provides assistance to the External Auditors in their performance of the annual audits of the financial statements.

Charter

Introduction

Internal Audit is an independent appraisal function to examine and evaluate activities as a service to management and the Board of Directors. The mission of Internal Audit is to support everyone in the entity in the effective discharge of their responsibilities. To this end, Internal Audit will furnish them with analyses, recommendations, counsel, and information concerning the activities examined.

Entity and Board Reporting

The Internal Audit Manager will report to the President with dotted line reporting to the Audit Committee of the Board of Directors.

Authorization and Responsibilities

Internal Audit has the authority to audit all business units of the Company and shall have full and complete access to any of the entity's records, physical properties, and personnel relevant to the performance of an audit. Documents and information given to internal auditors during a periodic review will be handled in the same prudent manner as by those employees normally accountable for them.

Internal Audit will have no direct responsibility or authority for any of the activities or operations they review. They should not develop and install procedures,

prepare records or engage in activities that would normally be reviewed by internal auditors. Furthermore, an internal audit does not in any way relieve other persons in the activity of the responsibilities assigned to them.

Reporting Responsibilities

A written report will be prepared and issued by the Internal Audit Manager following the conclusion of each audit. Copies of the report will be distributed as appropriate. The manager of the activity or department receiving the report will respond within thirty (30) days and forward a copy of the response to those included on the distribution list. The response will indicate what actions were taken regarding specific report findings and recommendations.

The manager receiving the report is responsible for ensuring that progress is made toward correcting any unsatisfactory conditions. Internal audit is responsible for determining whether the action taken is adequate to resolve audit findings. If the action is not adequate, Internal Audit will inform CBLIC management of the potential risk and exposure in allowing the unsatisfactory conditions to continue.

Mission Objective

Internal Audit objectives in accomplishing its mission will include the following:

- Determine the accuracy and propriety of financial transactions
- Evaluate financial and operational procedures for adequacy of internal controls and provide advise and guidance on control aspects on new policies, systems, processes, and procedures
- Verify the existence of CBLIC assets and ensure that proper safeguards are maintained to protect them, from loss
- Determine the level of compliance with CBLIC policies and procedures and state laws and regulations
- Evaluate the accuracy, effectiveness and efficiency of the CBLIC electronic information and processing systems
- Determine the effectiveness and efficiency of CBLIC in accomplishing their mission and identify operational opportunities for cost savings and revenue enhancements

Coordinate audit efforts with, and provide assistance to, the board of Directors and other external auditors

Investigate fiscal misconduct

Standards and Ethics

In all of its activities, Internal Audit will adhere to the Standards for the Professional Practice of Internal Auditing and Code of Ethics adopted by the Institute of Internal Auditors.

Mission Statements / Objectives / Values

Mission Statement

Internal Audit exists to support administration and the Board of Directors in the effective discharge of their responsibilities. Using our knowledge and professional judgment, we will provide an independent appraisal of the CBLIC financial, operational and control activities. We will report on the adequacy of internal controls, the accuracy and propriety of transactions, the extent to which assets are accounted for and safeguarded, and the level of compliance with institutional policies and government laws and regulations. Additionally, we will provide analyses, recommendations, counsel, and information concerning the activities reviewed.

Objectives in Accomplishing our Mission Include the following:

- Determine the accuracy and propriety of financial transactions
- Evaluate financial and operational procedures for adequacy of internal controls and provide advise and guidance on control aspects of new policies, system, processes and procedures
- Verify the existence of CBLIC assets and ensure that proper safeguards are maintained to protect them from loss
- Determine the level of compliance with CBLIC policies and procedures, laws and government regulations

- Evaluate the accuracy, effectiveness and efficiency of CBLIC in accomplishing their mission and identify operational opportunities for cost savings and revenue enhancements
- Provide assistance and coordinated audit effort with the Board of Directors and other external auditors
- Investigate fiscal misconduct

Values

In carrying out our mission, we share certain belief and values.

- Our primary focus is to provide excellent service to the CBLIC. Our examinations will be performed in accordance with auditing standards.
- We are committed to the highest degree of fairness, integrity and ethical conduct in the performance of our mission. We will adhere to the Code of Ethics as established by the profession.
- Our relationship with CBLIC community will be characterized by respect, helpfulness, sharing, patience and openness.
- We are committed to maintaining our professionalism as internal auditors through continuance of our education and training
- Although we are part of CBLIC, we are committed to maintaining our independence in defining the scope and objectives of our examinations.

Standards for the Professional Practice of Internal Auditing

Independence

Internal Auditors should be independent of the activities they audit. They are independent when they carry out their work freely and objectively. Independence permits internal auditors to render the impartial and unbiased judgments essential to the proper conduct of audits.

Objectivity

Internal Auditors should be objective in performing audit.

Objectivity is an independent mental attitude which internal auditors should maintain in performing audits. Internal auditors are not to subordinate their judgment on audit matters to that of others.

Objectivity requires Internal Auditors to perform audits in such a manner that they have an honest belief in their work product and that no significant quality compromises are made. Internal Auditors are not to be placed in situations in which they feel unable to make objective professional judgments.

- Staff assignments should be made so that potential and actual conflicts of interest and bias are avoided. The director should periodically obtain from the audit staff information concerning potential conflicts of interest and bias.
- Internal Auditors should report to the director any situations in which a conflict of interest or bias is present or may reasonably be inferred. The director should then reassign such auditors.
- Staff assignment of internal auditors should be rotated periodically whenever it is practicable to do so.
- Internal auditors should not assume operating responsibilities. But if on occasion management directs internal auditors to perform non audit work, it should be understood that they are not functioning as internal auditors. Moreover, objectivity is presumed to be impaired when internal auditors audit any activity for which they had authority or responsibility. This impairment should be considered when reporting audit results.
- Persons transferred to or temporarily engaged by the internal auditing department should not be assigned to audit those activities they previously performed until a reasonable period of time has elapsed. Such assignments are presumed to impair objectivity and should be considered when supervising the audit work and reporting audit results.
- The results of internal auditing work should be reviewed before the related audit report is released to provide reasonable assurance that the work was performed objectively.

The Internal Auditors objectivity is not adversely affected when the auditor recommends standards of control for systems or reviews procedure before they are implemented. Designing, installing and operating systems are not audit function. Performing such activities is presumed to impair audit activity.

Professional Proficiency

Internal Audits should be performed with proficiency and due professional care. Professional proficiency is the responsibility of the internal auditing department and each internal auditor. The department should assign to each audit those persons who collectively possess the necessary knowledge, skills, and disciplines to conduct the audit properly.

Staffing

The Internal Auditing department should provide assurance that the technical proficiency and educational background of internal auditors are appropriate for the audits to be performed.

- The Manager of internal auditing should establish suitable criteria of education and experience for filling internal auditing positions, giving due considerations to scope of work and level of responsibility.
- Reasonable assurance should be obtained as to each prospective auditor's qualifications and proficiency.

Knowledge, Skills and Disciplines

The internal auditing department should possess or should obtain the knowledge, skills and disciplines needed to carry out its audit responsibilities.

- The internal auditing staff should collectively possess the knowledge and skills essential to the practice of the profession within the entity. These attributes include proficiency in applying internal auditing standards, procedures and techniques.
- The internal auditing department should have employees or use consultants who are qualified in such disciplines as accounting, economics, finance, statistics, electronic data processing, engineering, taxation and law as needed to meet audit

responsibilities. Each member of the department, however, need not be qualified in all the disciplines.

Supervision

The internal auditing department should provide assurance that internal audits are properly supervised.

- The Manager of internal auditing is responsible for providing appropriate audit supervision. Supervision is a continuing process, beginning with planning and ending with the conclusion of the audit assignment.
- Supervision includes:
 1. Providing suitable instructions to subordinates at the outset of the audit and approving the audit program.
 2. Seeing that the approved audit program is carried out unless deviations are both justified and authorized
 3. Determining that audit working papers adequately support the audit findings, conclusions and reports
 4. Making sure that audit reports are accurate, objective, clear, concise, constructive and timely
 5. Determining that audit objectives are being met.
- Appropriate evidence of supervision should be documented and retained.
- The extent of supervision required will depend on the proficiency of the internal auditors and the difficulty of the audit assignments.
- All internal auditing assignments, whether performed by or for the internal auditing department, remain the responsibility of its director.

Compliance with Standards of Conduct

Internal auditors should comply with professional standards of conduct.

The code of ethics of the Institute of Internal Auditors sets forth standards of conduct and provides a basis for enforcement among its members. The code calls for high standards of honesty,

objectivity, diligence and loyalty to which internal auditors should conform.

Knowledge, Skills, and Disciplines

Internal auditors should possess the knowledge, skills and disciplines essential to the performance of internal audits.

Each internal auditor should possess certain knowledge and skills as follows:

Proficiency in applying internal auditing standards, procedures and techniques is required in performing internal audits. Proficiency means the ability to apply knowledge to situations likely to be encountered and to deal with them without extensive recourse to technical research and assistance.

Proficiency in accounting principles and techniques is required of auditors who work extensively with financial records and reports.

An understanding of management principles is required to recognize and evaluate the materiality and significance of deviations from good business practice. An understanding means the ability to apply broad knowledge to situations likely to be encountered, to recognize significant deviations, and to be able to carry out the research necessary to arrive at reasonable solutions.

An appreciation is required of the fundamentals of such subjects as accounting, economics, commercial law, taxation, finance and computerized information system. An appreciation means the ability to recognize the existence of problems or potential problems and to determine the further research to be undertaken or the assistance to be obtained.

Human Relations and Communications

Internal auditors should be skilled in dealing with people and in communicating effectively.

Internal auditors should understand human relations and maintain satisfactory relationships with auditees.

Internal auditors should be skilled in oral and written communications so that they can clearly and effectively convey such matters as audit objectives, evaluations, conclusions and recommendations.

Continuing Education

Internal auditors should maintain their technical competence through continuing education.

- Internal auditors are responsible for continuing their education in order to maintain their proficiency. They should keep informed about improvements and current developments in internal auditing standards, procedures, and techniques. Continuing education may be obtained through membership and participation in professional societies, attendance at conferences, seminars, in house training programs and participation in research projects.

Due Professional Care

Internal Auditors should exercise due professional care in performing internal audits.

- Due professional care calls for the application of the care and skill expected of a reasonably prudent and competent internal auditor in the same or similar circumstances. Professional care should, therefore be appropriate to the complexities of the audit being performed. In exercising due professional care, internal auditors should be alert to the possibility of intentional wrongdoing, errors and omissions, inefficiency, waste, ineffectiveness, and conflict of interest. They should also be alert to those conditions and activities where irregularities are most likely to occur. In addition, they should identify inadequate controls and recommend improvements to promote compliance with acceptable procedures and practices.
- Due care implies reasonable care and competence, not infallibility or extraordinary performance. Due care requires the auditor to conduct examinations and verifications to a reasonable extent but does not require detailed audits of all transactions. Accordingly,

the internal auditor cannot give absolute assurance that noncompliance or irregularities do not exist. Nevertheless, the possibility of material irregularities or non compliance should be considered whenever the internal auditor undertakes an internal auditing assignment.

- When an internal auditor suspects wrongdoing, the appropriate authorities within the entity should be informed. The internal auditor may recommend whatever investigations is considered necessary in the circumstances. Thereafter, the auditor should follow up to see that the internal auditing department's responsibilities have been met.
- Exercising due professional care means using reasonable audit skill and judgment in performing the audit. To this end, the internal auditor should consider:
 1. The extent of audit work needed to achieve audit objectives
 2. The relative materiality or significance or matters to which audit procedures are applied.
 3. The adequacy and effectiveness of internal control
 4. The cost of auditing in relation to potential benefits
 5. Due professional care includes evaluating established operating standards and determining whether those standards are acceptable and are being met. When such standards are vague, authoritative interpretations should be sought. If internal auditors are required to interpret or select operating standards, they should seek agreement with auditees as to the standards needed to measure operating performance.

Scope of Work

The scope of internal audit should encompass the examination and evaluation of the adequacy and effectiveness of CBLIC system of internal control and the quality of performance in carrying out assigned responsibilities.

- The scope of internal auditing work, as specified in this standard, encompass what audit work should be performed. It is recognized, however, that management and the board of directors provide general direction as to the scope of work and the activities to be audited.

- The purpose of the review for adequacy of the system of internal control is to ascertain whether the system established provides reasonable assurance that the CBLIC objectives and goals will be met efficiently and economically.
- The purpose of the review for effectiveness of the system of internal control is to ascertain whether the system is functioning as intended.
- The purpose of the review for the quality of performance is to ascertain whether the entity's objectives and goals have been achieved.
- The primary objectives of internal control are to ensure:
 1. The reliability and integrity of information.
 2. Compliance with policies, plans, procedures, laws and regulations.
 3. The safeguarding of assets
 4. The economical and efficient use of resources
 5. The accomplishment of established objectives and goals for operations or programs.

Reliability and Integrity of Information

Internal auditors should review the reliability and integrity of financial and operating information and the means used to identify, measure, classify and report such information.

- Information systems provide data for decision making, control and compliance with external requirements. Therefore, internal auditors should examine information systems and, as appropriate, ascertain whether:
 1. Financial and reporting records and reports contains accurate, reliable, timely, complete and useful information.
 2. Controls over record keeping and reporting are adequate and effective.

Compliance with Policies, Plans, Procedures, Laws and Regulations

Internal auditors should review the systems established to ensure compliance with those policies, plans procedures, laws and regulations which could have a significant impact on operations and reports, and should determine whether the entity is in compliance.

- Management is responsible for establishing the systems designed to ensure compliance with such requirements as policies, plans, procedures, and applicable laws and regulations. Internal auditors are responsible for determining whether the systems are adequate and effective and whether the activities audited are complying with the appropriate requirements.

Safeguarding of Assets

Internal auditors should review the means of safeguarding assets and as appropriate, verify the existence of such assets.

- Internal auditors should review the means used to safeguard assets from various types of losses such as those resulting from theft, fire, improper or illegal activities, and exposure to the elements.
- Internal auditors, when verifying the existence of assets, should use appropriate audit procedures.

Economical and Efficient Use of Resources

Internal auditors should appraise the economy and efficiency with which resources are employed.

Management is responsible for setting standards to measure an activity's economical and efficient use of resources. Internal auditors are responsible for determining whether:

- Operating standards have been established for measuring economy and efficiency.
- Established operating standards are understood and are being met.
- Deviations from operating standards are identified, analyzed and communicated to those responsible for corrective actions.
- Corrective actions has been taken

Accomplishment of Established Objectives and Goals for Operations or Programs

Internal auditors should review operations or programs to ascertain whether results are consistent with established objectives and goals and whether the operations or programs are being carried out as planned.

Management is responsible for establishing operating or program objectives and goals, developing and implementing control procedures, and accomplishing desired operating or program results. Internal auditors should ascertain whether such objectives and goals conform with those of the entity and whether they are being met.

Internal auditors can provide assistance to managers who are developing objectives, goals, and system by determining whether the underlying assumptions are appropriate, whether accurate, current, and relevant information is being used; and whether suitable controls have been incorporated into the operations or programs.

Performance of Audit Work

Audit work should include planning the audit, examining and evaluating information, communicating results and following up.

- The internal auditor is responsible for planning and conducting the audit assignment, subject to supervisory review and approval.

Planning the Audit

Internal auditors should plan each audit.

- Planning should be documented and should include:
 1. Establishing audit objectives and scope of work.
 2. Obtaining background information about the activities to be audited.
 3. Determining the resources necessary to perform the audit.

4. Communicating with all who need to know about the audit.
5. Performing as appropriate, an on site survey to become familiar with the activities and controls to be audited. To identify areas for audit emphasis, and to invite auditee comments and suggestions.
6. Writing audit program
7. Determining how, when, and to whom audit results will be communicated.
8. Obtaining approval of the audit work plan.

Examining and Evaluating Information

Internal auditors should collect, analyze, interpret and document information to support audit results.

- The process of examination and evaluating information is as follows:
 1. Information should be collected on all matters related to the audit objectives and scope of work.
 2. Information should be sufficient, competent, relevant and useful to provide a sound basis for audit findings and recommendations. Sufficient information is factual, adequate and convincing so that prudent, informed persons would reach the same conclusion as the auditor. Competent information is reliable and the best attainable through the use of appropriate audit techniques. Relevant information supports audit findings and recommendations and is consistent with the objectives for the audit. Useful information helps the entity meet its goals.
 3. Audit procedures, including the testing and sampling techniques employed, should be selected in advance, where practicable, and expanded or altered if circumstances warrant.
 4. The process of collecting, analyzing, interpreting and documenting information should be supervised to provide reasonable assurance that the auditor's objectivity is maintained and that audit goals are met.
 5. Working papers that document the audit should be prepared by the auditor and reviewed by management of the internal auditing department. These papers should record the

information obtained and the analyses made and should support the bases for the findings and recommendations to be reported.

Communicating Results

Internal auditors should report the results of their audit work.

- A signed written report should be issued after the audit examination is completed. Interim reports may be written or oral and may be transmitted formally or informally.
- The internal auditor should discuss conclusions and recommendations at appropriate levels of management before issuing final written reports.
- Reports should be objective, clear, concise, constructive and timely.
- Reports should present the purpose, scope, and the results of the audit; and where appropriate, reports should contain an expression of the auditor's opinion.
- Reports may include recommendations for potential improvements and acknowledge satisfactory performance and corrective action.
- The auditee's views about audit conclusions or recommendations may be included in the audit report.
- The Manager of internal auditing should review and approve the final audit report before issuance and should decide to whom the report will be distributed.

Follow Up

Internal auditors should follow up to ascertain that appropriate action is taken on reported audit findings:

- Internal auditing should determine that corrective action was taken and is achieving the desired results, or that management or the board has assumed the risk of not taking corrective action on reported findings.

Management of Internal Auditing Department

The Manager of internal auditing should properly manage the internal auditing department.

- The Manager of internal auditing is responsible for properly managing the department so that:
 1. Audit work fulfills the general purpose and responsibilities approved by management and accepted by the board.
 2. Resources of the internal auditing department are efficiently employed.
 3. Audit work conforms to the Standards for the Professional Practice of Internal Auditing.

Purpose, Authority and Responsibility

The Manager of internal auditing should have a statement of purpose, authority and responsibility for the internal auditing department.

- The Manager of internal auditing is responsible for seeking the approval of management and the acceptance by the board of a formal written document (charter) for the internal auditing department.

Planning

The Manager of internal auditing should establish plans to carry out the responsibilities of the internal auditing department.

- These plans should be consistent with the internal auditing departments charter and with the goals of the entity.
- The planning process involves establishing:
 1. Goals
 2. Audit work schedules
 3. Staffing plans and financial budgets
 4. Activity reports

The goals of the internal auditing department should be capable of being accomplished within specified operating plans and budgets

and to the extent possible, should be measurable. They should be accompanied by measurement criteria and targeted dates of accomplishments.

Staffing plans and financial budgets, including the number of auditors and the knowledge, skills and disciplines required to perform their work, should be determined from audit work schedules, administrative activities, education and training requirements, and audit research and development efforts.

Activity reports should be submitted periodically to management and to the board. These reports should compare:

Performance with the department's goals and audit work schedule.

Expenditures with financial budgets

They should explain the reasons for major variances and indicate any action taken or needed.

Personnel Management and Development

The Manager of internal auditing should establish a program for selecting and developing the human resources of the internal auditing department.

- The program should provide for:
 1. Developing written job descriptions for each level of the audit staff.
 2. Selecting qualified and competent individuals.
 3. Training and providing continuing educational opportunities for each internal auditor.
 4. Appraising each internal auditor's performance at least annually.
 5. Providing counsel to internal auditors on their performance and professional development.

External Auditors

The Manager of internal auditing should coordinate internal and external audit efforts.

- The internal and external audit work should be coordinated to ensure adequate audit coverage and to minimize duplicate efforts.
- Coordination of audit efforts involves:

Periodic meetings to discuss matters of mutual interest.
Access to each other's audit programs and working papers.
Exchange of audit reports and management letters.
Common understanding of audit techniques, methods and terminology.

Quality Assurance

The Manager of internal auditing should establish and maintain a quality assurance program to evaluate the operations of internal auditing department.

- The purpose of these program is to provide reasonable assurance that audit work conforms with these Standards, the internal auditing department's charter and other applicable standards. A quality assurance program should include the following elements:
 1. Supervision
 2. Internal reviews
 3. External reviews
- Supervision of the work of the internal auditors should be carried out continually to assure conformance with internal auditing standards, departmental policies and audit programs.
- Internal reviews should be performed periodically by members of the internal auditing staff to appraise the quality of the audit work performed. These reviews should be performed in the same manner as any other internal audit.
- External reviews of the internal auditing department should be performed to appraise the quality of the department's operations. These reviews should be performed by qualified persons who are independent of the entity and who do not have either a real or an apparent conflict of interest. Such reviews should be conducted at least every three years. On completion of the review, a formal written report should be issued. The report should express an opinion as to the departments compliance with the standards for the Professional Practice of Internal Auditing and, as appropriate should include recommendations for improvements.

Code of Ethics (Institute of Internal Auditors)

Standards of Conduct

- Members shall exercise honesty, objectivity, and diligence in the performance of their duties and responsibilities.
- Members shall exhibit loyalty in all matters pertaining to the affairs of their entity or to whomever they may be rendering a service. However, members shall not knowingly be a party to any illegal or improper activity.
- Members shall not knowingly engage in acts or activities which are discreditable to the profession of internal auditing or to their entity.
- Members shall refrain from entering into any activity which may be in conflict with the interest of their entity or which would prejudice their ability to carry out objectively their duties and responsibilities.
- Members shall not accept anything of value from an employee, client, customer, supplier or business associate of their entity which would impair or be presumed to impair their professional judgment.
- Members shall undertake only those services which they can reasonably expect to complete with professional competence.
- Members shall adopt suitable means to comply with the Standards for the Professional Practice of Internal Auditing.
- Members shall be prudent in the use of information acquired in the course of their duties. They shall not use confidential information for any personal gain nor in any manner which would be contrary to law or detrimental to the welfare of their entity.
- Members, when reporting on the results of their work, shall reveal all material facts known to them which, if not revealed, could either distort reports of operations under review or conceal unlawful practices.
- Members shall continually strive for improvement in their proficiency, and in effectiveness and quality of their service.
- Members in the practice of their profession, shall be ever, mindful of their obligation to maintain the high standards of competence, morality and dignity promulgated by the Institute. Members shall abide by the By Laws and uphold the objectives of the Institute.

Independence / Objectivity / Confidentiality / Conduct

Independence / Objectivity

To be effective in performing audits, the audit staff must be independent and objective both in actuality and perception. We maintain our independence by our organizational position (including reporting line to the board) and our board approved Authorization and Responsibilities.

In order to maintain objectivity, auditors will immediately inform the audit administration of any factors that may be perceived as impairing their objectivity on an assigned audit. Also, auditors will take great care to prevent even a perception of partiality by maintaining a professional distance from the staff of a department while performing an audit. Questions concerning any relationships with auditees or potential auditees (i.e., preparing tax returns, attending parties, etc.) should be brought to the attention of the audit administration. Finally, auditors will not accept anything of value from an employee, supplier or business associate of CBLIC which would impair or be perceived to impair their professional judgment or objectivity. Any gift accepted will be immediately reported to audit administration.

Confidentiality

Much of the information available to internal auditors is of a sensitive or confidential nature. Auditors should be prudent in their use of information acquired in the course of their duties or information which is available to them. They will not discuss any matters pertaining to the audits performed by the departments in other than an official manner.

Auditors shall not use confidential information for any personal gain or in a manner which would be detrimental to CBLIC or any employee of the Company.

Auditors will take adequate measures to prevent the unauthorized release of confidential matters or information in any medium including paper copies and computer files. Such materials should be adequately secured from theft, reproduction or casual observation.

Confidential matters include any information (except public information) but not limited to the following:

employee medical or psychological records.

school credentials
employee personnel benefit and payroll information
any information which could cause CBLIC embarrassment or liability

Conduct

The following guidelines are established regarding personal conduct and the confidentiality of audit or business information acquired through audit assignments.

- As a member of Internal Audit Staff, you are representing the highest level of management. Conduct yourself in a manner that reflects favorably upon yourself and those you represent. You are expected to exercise professional skill, integrity, maturity of behavior, and tact in your relations with others. In general, you are encouraged to be friendly with all CBLIC employees without affecting your objectivity. You should guard against any conduct or mannerisms which permit an impression that you consider yourself an "expert" sent to check on employees. As far as possible, take the position of an independent / objective analyst and advisor. Avoid the image of policing.
- In the course of your assignments, you will be in contact with personnel at all levels of authority and position. At all times, an independence in mental attitude is to be maintained. Reports resulting from your efforts should always contain full and unbiased disclosure of all and minor audit findings. Although you report to the Internal Audit department, you have responsibilities to both management and the personnel being audited.
- Never indiscreetly discuss any information you obtain during audits.

Chapter II

AUDIT PROCESS

Planning – General, Rationale

The assessment of audit risk is an integral part of our planning process. The audit planning process encompasses all activities related to the development of the internal audit plan and schedule and the determination of the audit scope and objectives, timing, design of detailed procedures, and audit recourse planning for the individual auditable entities. The primary objective of the audit planning process is to design our audit approach to ensure that audits are performed in the most effective and efficient manner. In undertaking this process we attempted the following:

- Define the potential audit universe
- Define factors to be used in assessing risk
- Quantify the potential risk associated with each of the defined audit areas
- Schedule audits and allocate Internal Audit resources according to the priorities established and the current level and expertise of staff auditors.

Planning – Research, Scheduling, and Audits

Internal Audit's scheduling process begins with requests for audit services (requests, or suggestions come from several sources). One obvious source is our own Internal Audit Staff. Our in depth knowledge of the Company gives a unique perspective on the types of projects in which we can reduce the CBLIC risk. Hence, some of our projects originate in our group or as a result of the annual audit of the Company as a whole.

Several factors influence the selection and scheduling of projects:

- the degree of risk or exposure to loss
- type of audit
- current and planned work in other major audit projects requiring substantial time commitments of Internal Audit staff
- availability of staff in client units selected for review
- availability of Internal Audit staff with the appropriate skills

An analysis will be performed annually in order to quantify risk and schedule audits. This analysis will combine factual information and Internal Audit department judgment in the selection, ranking, and weighing of the various audit risk factors.

Types of Audits

AUDIT

Operational – refers to a comprehensive examination of an operating unit or a complete entity to evaluate its performance, as measured by management's objectives. An operational audit focuses on the efficiency, effectiveness, and economy of operations.

Financial – Determine the accuracy and propriety of financial transactions.

Compliance – The objectives of these audits is to determine whether, and to what degree, an entity conforms to certain specific requirements of policy, procedures, standards, or laws and governmental regulations. The auditor must know precisely policy, procedures, standards, etc. are required. Usually, compliance audits require little preliminary survey work or review of internal controls, except to outline precisely what requirements are being audited. The audit focuses almost exclusively upon detailed testing conditions.

Asset Verification – An independent appraisal of CBLIC operations is provided through the verification of accountability, physical safeguards, and valid use of distributed Company assets. This is often performed in conjunction with an audit.

LOSS

- **Loss / Fraud Investigations** – conducted to determine existing control weaknesses, assist CBLIC Risk Management in determining the amount of the loss / fraud, and assist the unit by recommending corrective measures to prevent subsequent recurrences. Investigation of allegations may also be conducted.

INFORMATION SYSTEM AUDIT

- The primary mission of the Information System audit is to support the internal audit function in the evaluation of the accuracy, effectiveness,

and efficiency of the CBLIC electronic and information processing systems which are in operation or under development.

MISCELLANEOUS

- Consultant Services – Information, encouragement, and review will be provided on issues concerning CBLIC policies, procedures, and internal controls. With the addition of an information system audit function consultation services are expanded to include:

Assistance on evaluation of back up procedures and contingency planning

Information of computer controls

Assistance on implementation of internal financial system

- Computer system Design and Enhancement - Internal Audit actively participates in the development of new systems or enhancements to current systems to promote the design of adequate internal controls prior to implementation and reduce the need for corrective measures at a later date.

FOLLOW UP REVIEW

- Follow up reviews are performed to appraise management of post audit actions and provide assurance that implemented changes adequately resolved audit findings. These reviews also ensure that upper management has been properly notified of CBLIC exposure related to unresolved audit findings.

CASH COUNT

- A cash count is performed to determine custodial fund accountability which may include one or more of the following types of funds:

Petty cash fund

Policy loan fund

Production fund

Chapter III

AUDIT ASSIGNMENT

Scope and Objectives

- The scope section will define the limitations of the audit / task assignment. The scope will generally include a time period, and what records, processes, funds, transactions, policies, controls etc, we will be reviewing. Scope limitations that restrict audit work should be mentioned in the audit report. (example: We did not test actual expenditure transactions.)
- The objectives will explain what the audit is trying to accomplish. Audit objectives will generally include one or more of the following:
 1. Determine the accuracy and propriety of financial transactions.
 2. Evaluate financial and operational procedures for adequacy of internal controls and provide advise and guidance on control aspects of new policies, systems, processes and procedures.
- Verify the existence of CBLIC assets and ensure that proper safeguards are maintained to protect from loss.
- Determine the level of compliance with CBLIC policies and procedures, and government laws and regulations.
- Evaluate the accuracy, effectiveness and efficiency of CBLIC electronic information and processing system.
- Determine the effectiveness and efficiency of CBLIC in accomplishing their mission and identify operational opportunities for cost savings and revenue enhancements.
- Provide assistance and a coordinated audit effort with the Board of Directors and other external auditors.
- Determine if a loss occurred, if so the amount of the loss and circumstances (control weaknesses) that contributed to it.

Duties and Responsibilities

- **Audit Manager** – The auditor in charge of the task will normally be an audit manager and will have the following duties and responsibilities:
 1. Attend entrance and exit interviews
 2. Discuss, direct, and advise the assigned auditors during the course of the assignment including the writing of the report
 3. Will be responsible for assuring the audit program steps will accomplish the objectives, address major risk and exposures, and will reasonably assure the completion of the assignment within allocated resources.
 4. Review, edit, and approve the draft report
 5. Assure the audit is performed according to department standards, staying within the scope and resource allocation limits, and meet stated assigned objectives.

- **Internal Audit Analyst / Assigned Auditors** - Responsible for performing the audit and will have the following duties and responsibilities:
 1. Perform the preliminary review, including the internal control evaluation, with guidance from the Audit Manager.
 2. After discussion with the Audit Manager, prepare an audit program and time estimate for each program section
 3. Perform all assigned activities in conformance with department standards, staying within the scope and resource allocation limits of the assigned activity or program section.
 4. Write the draft audit report

Announcement Letter

- **Auditee Notification**

The client will be informed of the audit project through an announcement letter from the Internal Audit Manager. However, Internal Audit will not provide advance notification for cash counts and fraud investigations. Additionally, Internal Audit may not send an announcement letter for requested consulting services.

The announcement letter will communicate the scope and objectives of the audit, the period covered, and the auditors assigned to the project.

Internal Audit's mission statement will also be enclosed for the client's information.

Chapter IV

PRELIMINARY REVIEW

General Rationale

The objective of the preliminary review is to gain sufficient knowledge of the unit being reviewed so the auditor can design an audit program to accomplish the assigned objectives. The review will help the auditor to determine if the assigned objectives are attainable with the allocated resources and what audit procedures should be performed, based on assessed risks and exposures, to achieved the objectives.

The preliminary review work can be broken down into four distinct phases:

1. Familiarization
2. Identification of potential problem areas
3. Evaluation of internal controls
4. Planning the detailed audit

One of the problems in performing an effective preliminary review is the failure to complete all phases of the review prior to preparing the formal audit program and beginning the fieldwork.

Initial Research (Familiarization)

Prior to meeting with the auditee, the assigned auditors will obtain a basic understanding of the operation or system under review. This review will normally include:

- Review of Permanent / Continuing audit file
- Review of previous audit working papers, reports, management letters
- Review of department entity and staffing (payroll / staffing)
- Review of department equipment listng
- Conduct the initial meeting with auditee

Identification of Potential Problem Areas

An objective of the preliminary review is the identification of potential problem areas. One of the first steps in determining problem areas is to identify those programs,

activities and functions which are significant. These can be identified as those programs or activities:

- Which are susceptible to fraud, abuse or mismanagement
- In which there is a large peso volume of transactions or large investments in assets which are subject to loss if not carefully controlled
- In which prior audits have disclosed major weaknesses or deficiencies

This phase of the preliminary review should identify the significant activities of the area and what inherent risk exist. Once these activities and risk have been identified, the next step is to evaluate controls.

The auditor is responsible for determining how much reliance can be placed on the entity's controls to protect its assets, assure accurate information, assure compliance with applicable laws and regulations, promote efficiency and economy, and produce effective results.

A complete review of all controls is not always necessary because some controls may be irrelevant to basic issues which are the subject of the audit effort. Therefore, the auditor must identify those controls which are the most important and crucial to the operation and concentrate on them. Some controls which can normally be identified as critical are those which are designed to protect against:

- Substantial financial losses
- Mismanagement
- Legal violations

The auditor's evaluation should include identification of areas in which essential controls appear to be weak, non functioning or missing.

Review and Evaluation of Internal Control Environment

The auditor will review the unit's internal control structure. In doing this, the auditor uses a variety of tools and techniques, including flowcharts, interview, data gathering and analysis. The review of internal controls helps the auditor design tests to be performed in the fieldwork section of the audit.

The evaluation of the system of internal controls should provide reasonable but not absolute, assurance that the fundamental elements on the system are sufficient to accomplish their intended purpose. The study and evaluation should be adequately documented and properly supported by results of tests, observation and inquiries. The

use of electronic data processing methods that can affect the reliability, accuracy or usefulness of financial or statistical data, and reports should be included as part of the study and evaluation.

Internal controls are evaluated throughout the audit examination. Audit managers should prepare a program to assist assigned staff in performing this aspect of the audit work. Generally, the guidelines are incorporated into an audit program in the form of internal control questionnaires, checklists, and specific audit test and procedures. Although the written audit guidelines (programs) are invaluable aids, Audit Managers, must ensure that each assigned staff is familiar with the scope and objectives of the internal control review.

The review of the system of internal controls is performed by discussing the control procedures, and plan of entity with audit customer officials. The auditor may use internal control questionnaires or checklists as well as written narrative memoranda, flow charts, a transaction walk through, and other applicable techniques in determining the adopted control procedures and the method and plan of entity. These techniques are preferred because they provide adequate documentation. In addition to discussions with audit customer officials, auditors make inquiries and perform observations relating to the system of internal controls. These inquiries and observation, and resulting findings and conclusion are also documented in the work papers. This documentation includes identifying control strengths and weaknesses and cross-referencing them to the audit tests and procedures concerned with substantive testing.

To assist in evaluating the system of internal control, the auditor should consider the following:

- Types of errors and irregularities that could occur
- Control procedures to prevent or detect such errors and irregularities
- Whether the procedures have been adopted and are being followed satisfactorily
- Weaknesses which enable errors and irregularities to pass through existing control procedures
- Audit methods used to study and evaluate existing internal controls include:

Internal Control Questionnaire – These guide the auditor to query responsible managers regarding specific or general internal controls. The questionnaires are designed so that a negative response indicates a potential internal control weakness. A negative response will cause the auditor to determine whether compensating controls are in existence which would offset the negative response.

Narratives – These describes the system of internal control

Flow charts – A flowchart is beneficial because it visually depicts processes designed or intended for control purposes. Flowcharting provides the auditor with a good understanding of the processes being evaluated.

Documentation supports the auditor's understanding of the internal controls. Audit work papers provide the support for the conclusion reached by the auditor regarding the study and evaluation of internal controls. Only those internal control functions, which are deemed critical or important to the strength within a particular transaction cycle, should be tested and evaluated. Working papers should be prepared to highlight the internal control attributes within the processes to be evaluated.

Test of compliance are performed to obtain sufficient evidence that the system is operating in accordance with the understanding the auditor obtained from the review. These are performed for those control procedures or methods upon which the auditor has chosen to rely. Conversely, when the auditor determines that certain controls cannot be relied upon, test of compliance are not ordinarily performed.

The nature, timing and extent of test of compliance are closely related to the control procedures and methods studied by the auditor. Additionally, the auditor must consider the availability of evidence and the audit effort required to test compliance. In considering the required audit effort, the auditor assesses whether precluding certain test of compliance will reduce the reliance on the controls and procedures, and whether such reduced reliance significantly affects subsequent audit tests and procedures.

FLOWCHARTING

The primary purpose of preparing a flowchart is to identify the key control attributes. This can efficiently point out cases of under / over control and processing redundancy.

GENERAL FLOWCHARTING GUIDELINES

1. Clarity and simplicity in presentation are essential. Mistaken use of extreme detail may tend to conceal rather than expose key points. Complexities such as exception controls can be better explained in attached memoranda. However, narrative explanations should be kept brief. In most cases, the combination of the flowchart and a narrative description tends to be far superior to either document alone.
2. Only transactions / documents with control significance should be shown (i.e. control over significance, recording, safeguarding, reconciliation, and valuation). This can generally be accomplished by including only those activities within an application where data is initialized, changed or transferred to other departments. Also, the names and positions of the people performing the transactions should be indicated for each action. The names of each document should also be included within the documents symbols.
3. The auditor usually obtains information necessary for preparing or updating flowcharts by interviewing personnel at each site about procedures followed, and by reviewing procedure manuals, existing flowcharts and other system documentation. Sample documents are collected and each department involved is questioned about its specific duties. Inquiries can be made concurrently with the performance of transactions review, particularly when flow charts are being updated. If possible, the auditor should observe the process.

INTERNAL CONTROL QUESTIONNAIRES

The primary purpose of completing the internal control questionnaires is to identify critical areas, strengths and weakness in process. We have standardized questionnaires for revenue, custodial funds, expenditures, payroll, capital equipment, and premium receivable. The audit manager should add questions to these standardized questionnaires if he / she believes they do not adequately cover the area under review.

Planning the Detailed Audit

The elements of materiality and relative risk must be considered in performing the audit. The due professional care standards do not imply unlimited responsibility for disclosure of irregularities and other deficiencies. The auditor's principal effort should be in those areas where significant problems of deficiencies may exist, rather than in

areas that are relatively unimportant. Time should not be spent examining or developing evidence beyond what is necessary to afford a sound basis for a professional opinion.

The result of preliminary review should be analyzed to determine the need for a detailed audit and the specific areas to be covered. The detailed audit program should be prepared allocating the project budget time established for the fieldwork to the specific areas to be covered in the audit.

Statement of Risk Exposure

Rationale :

- A risk / exposure analysis will be performed to prioritize audit testing that must be performed to achieve the audit objectives. This determination is essential in an optimal manner. (i.e. the most time is spent examining areas with the greatest risk exposure.

The three types of risks that will be considered are:

Inherent Risk – The risk related to the fundamental characteristics of the area (i.e. an area that received income in the form of currency has a greater inherent risk of theft of that income receives from billing from customer.

Control Risk – The risk that the assigned areas internal control system would fail to prevent or detect a significant intentional or unintentional error in the process.

Detection Risk – The risk that the internal audit would fail to detect errors that had occurred.

Exposure is the potential loss or liability to the Company. It is not only loss of money but also the CBLIC reputation.

Chapter V

AUDIT PROGRAM

Preparation of the audit program concludes the Preliminary Review phase. The audit program outlines the necessary steps to achieve the objectives of the audit within the defined scope as listed on the assignment sheet. The audit program is a detailed plan for the work to be performed during the audit. A well constructed program is essential to completing the audit project in an efficient manner.

A well constructed program provides:

- A systematic plan for each phase of the work that can be communicated to all audit personnel concerned.
- A means of self control for the audit staff assigned
- A means by which the audit supervisor / manager can review and compare performance with approved plans
- Assistance in training inexperienced staff members and acquainting them with the scope, objectives, and work steps of an audit.
- An aid to supervisor / manager making possible a reduction in the amount of direct supervisory effort needed
- Assistance in familiarizing successive audit staff with the nature of work previously carried out.

The program consists of specific directions for carrying out the assignment. It should contain a statement of the objectives of the operation being reviewed. For each segment of the audit the program should:

- List the risks that must be covered in that segment
- Show for each risk the controls that exist or that are needed to protect against the indicated risk
- Show for each of the listed controls the work steps required to test the effectiveness of those controls, or set forth the recommendations that will be required to install needed controls
- Provide space for referencing the related audit work.

Departmental standardized audit programs are available and should be used or modified to achieve the audit objectives. The auditor includes an estimate of the hours necessary to complete the project. Internal audit administration reviews the auditor's

work to date (preliminary review work) and then discuss any concerns or proposed program changes.

Objectives

The audit program should contain a statement of the objectives of the area being reviewed. The statement of objectives in the audit program should correspond with the audit objectives stated in the assignment sheet. These objectives should be achieved through the detailed audit program steps.

Audit Steps

A well structured audit program provides specific , detailed steps (procedures) for achieving the audit objectives. Standardized audit programs with specific audit steps for achieving objectives are available and should be used or modified.

Time Budget

A project time budget provides overall guidelines for the performance of the audit. In addition, it enables the audit manager, to control the audit work in process. It is essential that we control our time carefully in order that it may be utilized in the most effective manner possible. The detailed project time budget should be completed at the conclusion of the preliminary review.

Each project will have a time budget that will be approved by the audit manager. This budget will include all time necessary to complete the audit, from assignment through issuance of the report. The budget process will be broken down into two phases. A portion of the budget should be allocated for the planning process. This will provide the necessary control over this phase of audit work. Near the completion of the planning process, the remaining budget should be allocated to the rest of the audit and recorded on the Time Budget Summary. For purposes of overall control, the time budget should be broken down into the following general categories:

- Planning – initial planning, preliminary survey, audit program
- Fieldwork – allocated to the various segments of the audit project
- Audit report and wrap up – audit manager’s review, quality assurance review, report writing and editing, report review, auditee’s review, exit conference, etc.

Preparation and approval – the project time budget should be prepared by the audit manager

Budget Revision – any revision to the project time budget should be discussed with audit administration at the earliest possible time and, when approved by audit administration, documented on the Time Budget Summary.

Chapter VI

FIELDWORK

Evidential Matter

Evidential matter obtained during the course of the audit provides the documented basis for the auditor's opinions, findings and recommendations as expressed in the audits report. As internal auditors, we are obligated by our professional standards to act objectively, exercise due professional care, and collect sufficient, competent, relevant and useful information to provide a sound basis for audit findings and recommendations.

Audit Sampling

Rationale – Audit sampling is performing an audit on less than 100 percent of a population. In sampling, the auditor accepts the risk that some or all errors will not be found and the conclusions drawn (i.e. all transactions were proper and accurate) may be wrong.

Types of Sampling:

Statistical or probability sampling allows the auditor to stipulate with a given level of confidence, the condition of a large population by reviewing only a percentage of total items. Several sampling techniques are available to the auditor.

Attribute sampling - is used when the auditor has identified the expected frequency or occurrence of an event.

Variable sampling – is used when the auditor samples for values in a population which vary from item to item.

Judgment sampling – is used when it is not essential to have a precise determination of the probable condition of the universe, or where it is not possible, practical, or necessary to use statistical sampling.

The type of sampling used and the number of items selected should be based on the auditors understanding of the relative risks and exposures of the areas selected.

Testing and Working Paper Documentation

Rationale / Policy / Purpose:

Working paper serve both as tools to aid the auditor in performing his work, and as a written evidence of the work done to support the auditors report. Information included in working papers should be sufficient, competent, relevant and useful to provide a sound basis for audit findings and recommendations. Standards for the Professional Practice of Internal Auditing defines sufficient, competent, relevant and useful as follows:

- Sufficient information is factual, adequate and convincing so that a prudent, informed person would reach the same conclusion as the auditor.
- Competent information is reliable and the best attainable through the use of appropriate audit techniques.
- Relevant information supports audit findings and recommendations and is consistent with the objectives for the audit.

In addition to serving as a reference for the preparer when called upon to report findings or answer questions, other individuals may find it necessary to use the working papers.

Audit administration will use the papers to review the quality of the audit project and to evaluate the audit staff assigned to the work.

The manager whose unit is being audited may use details included in the working papers to help implement corrective action to a problem or refute the assertion that a problem exist.

Entity management or other individuals who may have requested the audit require timely reports. Well organized working papers help to accomplish this goal.

External auditors review the work performed by the Department and evaluate the effect that its activities had on the entity's system of internal control.

In fulfilling their public responsibility, certain regulatory agencies monitor entity operations, and the Department's working papers may be subjected to their review. Solid working paper documentation is essential for questions from these and other potential outside reviewers.

Qualities of Good Working Papers

Complete – Working papers must be able to “stand alone”. This means that all questions must be answered, all points raised by the reviewer must be cleared, and a logical, well thought out conclusion must be reached for each audit segment.

Concise – Workings papers must be confined to those that serve a useful purpose.

Uniform – All working papers should be of uniform in size and appearance. Smaller papers should be fastened to standard working papers and larger papers should be folded to conform to size restrictions.

Neat – Working papers should not be crowded. Allow for enough space on each schedule so that all pertinent information can be included in a logical and orderly manner. At the same time, keep working papers economical. Forms and procedures should be included only when relevant to the audit or to an audit recommendations. Also, try to avoid unnecessary listing and scheduling. All schedules should have a purpose which relates to the audit procedures or recommendations.

Working Paper Techniques

Descriptive Heading – All working papers should include the title of the audit, title of the working paper, preparer’s initial, date prepared, source of information, and purpose of the working paper.

Tick – marks – The auditor makes frequent use of a variety of symbols to indicate work that has been done. These symbols are commonly referred to as tick-marks. As these tick-marks have no special or uniform meaning in themselves, an explanation of each tick – mark should be made on the schedule on which it appears.

Cross – referencing - Cross-referencing within working papers should be complete and accurate. Working papers should be cross-referenced to the audit findings. Audit findings should be cross-referenced to the exit conference memo and / or the audit report, to indicate final disposition of the item. Cross-referencing should be done in the margins of audit report drafts. These references readily provide direct access to the working papers.

Indexing - The system of indexing audit working papers should be simple, yet leave room for flexibility. A capital letter should be used to identify each segment of the audit and roman numerals used to identify schedules within segments.

Carry forward – The auditor should make full use of the working papers developed in the prior audit. Flow charts, system descriptions, and other data may still be valid. Those papers which remain useful should be made a part of the current working papers. They should be updated with current information, renumbered, referenced, initialed, and dated by the current auditor.

Types of Working Papers

All working papers should be maintained in binders. Schedules, analyses, documents, flow charts, and narratives should be filed in a standard departmental binder. Documentation which is not of standard size should be mounted on standard size paper or referenced to a non standard binder.

Schedule and analyses – are useful for identifying statistical trends, verifying the accuracy of data, developing projections or estimations, and determining if tasks or records have been properly completed. Each record review, data schedule or analyses should include the following items:

- An explanation of its purpose (reference audit step)
- The methodology used to select the sample, make the calculations, etc.
- The criteria used to evaluate the data
- The source of data and time frame considered
- A summary of the results of the analyses
- The auditor's conclusion

Documents – Copies or actual samples of various documents can be used as samples, for clarification, and as physical evidence to support a conclusion or prove the existence of a problem. These documents can be memos, reports, computer printouts, procedures, forms, invoices, flow charts, contracts, or any of numerous other items. Any copied document should serve a useful audit purpose.

The following suggestions are offered for preparation of working papers using documents rather than auditor's notes:

- Indicate both the person and / or file that the document came from source.
- Copy and insert only that portion of the report, memo, procedure, etc. which is needed for purposes of explanation or as documentation of a potential finding. Do not include the entire document in the working papers unless absolutely necessary.

- Fully explain the terms and notations found on the document, as well as its use. This is especially true when including maps or flowcharts in the papers.
- Each document should be cross referenced either to the page or separate analysis where it was discussed.
- No document should be included in the working papers without an explanation of why it was included.

Process Write-Ups and Flow Charts - In many audits, it is necessary to describe system or processes followed by the audit customer. Describe such procedures or processes through the use of write ups or flow charts or some combination of the two. The choice of which method to use will depend on the relative efficiency of the method in relation to the complexities of the system being described.

Write-ups are often easier to use, and should be used, if the system or process can be described clearly and concisely. However, when write ups would be lengthy, and description of related control points are difficult to integrate in the narrative, flowcharting (or a combination of write ups and flow charting) is an appropriate alternative. Flowcharts conveniently describe complex relationship because they reduce narrative explanations to a picture of the system. They are concise and may be easier to analyze than written descriptions.

Interview - Most verbal information is obtained through formal interviews conducted either in person or by telephone. Formal interviews are most desirable because the interviewers know they are providing input to the audit; however, impromptu interviews, or even casual discussions can often provide important information. Any verbal information, which is likely to support a conclusion in the audit working paper should be documented. Interviews are useful in identifying problem areas, obtaining general knowledge of the audit subject, collecting data not in a documented form, and documenting the audit customers opinions, assessments, or rationale for actions. Interview notes should contain only the facts presented by the person interviewed, and not include any of the auditor's opinion.

In preparing interviews for working papers, consider the following suggestions:

- Be sure to include the name and position title of all persons from whom information was obtained. This includes data gathered during casual conversations.
- Indicate when and where the meeting occurred.
- Organize notes by topics whenever possible.

Identify resources of information quoted by interviewee

Observation – What the auditor observes can serve the same purposes as interviews. If observations can be used to support any conclusion, then they should be documented. They are especially useful for physical verifications. Observations used as supporting documentations should generally include the following items:

- Time and date of the observation
- Where the observation was made
- Who accompanied the auditor during the observation
- What was observed (when testing is involved, working papers should include the sample selections and the basis of the sample)

Findings – All audit findings must be documented in a Section Summary. Unfavorable findings will be summarized on a Digest of Significant Findings working paper whether or not they are to be included in the audit report. All findings should be documented immediately by the auditor discovering the situation.

Stating Findings / Conclusions

Upon the conclusion of the fieldwork, the auditor summarizes the audit findings, conclusions, and recommendations necessary for preparation of the audit report discussion draft. Each audit findings will have to be documented in the Section Summary with the following attributes:

- Statement of Condition (What is?)
- Criteria (What should be?)
- Effect (So what?)
- Cause (Why did it happen?)
- Recommendation (What should be done?)

Statement of Condition – The condition identifies the nature and extent of the findings or unsatisfactory condition. It often answers the question: *What was wrong?*. Normally, a clear and accurate statement of condition evolves from the auditor's comparison or results with appropriate evaluation criteria.

Criteria – This attribute establishes the legitimacy of the finding by identifying the evaluation criteria and answers the question: "By

what standards was it judged?" In financial and compliance audits, criteria could be accuracy, materiality, consistency, or compliance with applicable accounting principles and legal or regulatory requirements. In audits of efficiency, economy, and program results (effectiveness), criteria might be defined in mission, operation, or function statements; performance, production, and cost standards; contractual agreements; program objectives; policies, procedures, and other command media; or other external sources of authoritative criteria.

Effect - This attribute identifies the real or potential impact of the condition and answers the question: *"What effect did it have?"*

The significance of a condition is usually judged by its effect. In operational audits, reduction in efficiency and economy, or not attaining program objectives (effectiveness), are appropriate measures of effect. If the real effect cannot be determined, potential or intangible effects can sometimes be useful in showing the significance of the condition.

Cause - The fourth attribute identifies the underlying reasons for unsatisfactory conditions or findings, and answers the question: *"Why did it happen?"* If the question has persisted for a long period of time or is intensifying, the contributing causes for these characteristics of the condition should also be described.

Identification of the cause of unsatisfactory condition or finding is a prerequisite to making meaningful recommendations for corrective action. The cause may be quite obvious or may be identified by deductive reasoning if the audit recommendation points out a specific and practical way to correct the condition. However, failure to identify the cause in a finding may also mean the cause was not determined because of limitation or defects in audit work, or was omitted to avoid direct confrontation with responsible officials.

Recommendations - This final attribute identifies suggested remedial action and answers the question: *"What should be done"* The relationship between the audit recommendation and the underlying cause of the condition should be clear and logical. If a relationship exists, the recommended action will most likely be feasible and appropriately directed.

Recommendations in the audit report should state precisely what needs to be changed or fixed. How the change will be made is the client's responsibility. More generalized recommendations (e.g. greater attention be given, controls be re-emphasized, a study made, or consideration be given) should not be used in the audit report, but they are sometimes appropriate in summary reports to direct top management's attention to compliance type findings disclosed in several areas.

Unless benefits of taking the recommended action are obvious, they should be stated. The cost of implementing and maintaining recommendations should always be compared to risk. Recommendations should be directed to an individual capable of taking action.

Policy / Process – Audit findings will include: the nature of the findings, criteria used to determine the existence of the condition, the cause of the condition, the significance of its impact, and what the auditors think should be done to correct the situation.

Chapter VII

AUDIT QUALITY ASSURANCE

Rationale – The purpose of “quality assurance” is to provide quality assurance that audit work performed by Internal Audit conforms with the Standards for the Professional Practice of Internal Auditing, departmental standards, and where applicable, AICPA and GAAS standards and guidelines.

Quality Assurance Policy

All working papers will be independently reviewed to ensure there is sufficient evidence to support conclusions, document the extent of audit work performed, ensure that all audit objectives have been met, as well as substantiate compliance with applicable auditing standards. A detailed review will be conducted by the Audit Manager for assigned staff working paper. A less comprehensive review will be conducted by audit administration or an assigned Quality Assurance staff person.

Initialing (Audit Manager / Quality Assurance) working papers (Section summaries, Audit Programs, Draft Report) and completing the Quality Assurance Review Form, will serve as documentation of the review process and will be filed with the working papers.

Quality Assurance Review Process

In performing the review, the reviewer should:

- Review working papers from audit program steps to the referenced working papers ensuring cross referencing is proper, the working paper support the steps performed, and all the steps have been completed or why steps were not completed.
- Review working papers from the reports to the digest working paper summaries to the detailed working paper to ensure that all findings are stated, adequately document and support the Opinions, Findings, and Recommendations stated in the report.
- Determine working paper’s compliance to general department working paper standards.
- Determine reports compliance with general department report standards.

- Determine Permanent/Continuing Audit files compliance with department standards.
- Record any deficiencies, comments, etc. on Working Paper Review Notes form.
- The auditor who prepared the working papers will then respond (if necessary) to these points on the same form.
- After the reviewer has "cleared" the points and completed the "Quality Assurance Review form" the working papers will be forwarded to the audit administration.
- Audit administration will review the working papers and discuss the findings and review comments with the Assigned Auditor, Audit Manager, and Reviewer, then complete the relevant parts of the Quality Assurance Review form," and approved the draft report for the exit conference.
- The assigned auditor will forward a copy of the draft report to the auditee prior to the exit conference.
- The Audit Manager and Assigned Auditor will review and sign the final report.

General Standards for Working Paper

Function of Working Paper

- Support auditors opinion
- Aid in the conduct and supervision of the engagement
- Provide a record:

- procedures applied
- test performed
- information obtained
- pertinent conclusions reached

Provide evidence that the audit was conducted in accordance with the Standards for the Professional Practice of Internal Auditing.

Completeness of Working Paper

Working papers should be accurate and complete

- no significant questions within the scope or related to the objective of the audit should go unanswered

working papers must "stand alone," in that it is clearly stated what work was performed, how and from where samples were selected, the purpose of the working papers, what findings were made, etc.

Each item in the working papers should contain:

a descriptive heading
identification of source if not obvious
the date of preparation and auditor's initials
index number of the working paper

- Working papers should be sufficient, competent, relevant and useful to provide a sound basis for audit findings and recommendations

consistent, neat not crowded
only essentials items included
arranged in a uniform style

Examples of Working Paper

- Working papers may include any or all of the following:

audit programs, summaries, schedules, computations and analysis prepared or obtained
memoranda, interviews, letters of confirmation or representation
data stored on tapes, films, disk or other media

- The working papers listed below constitute the minimum required support for an assignment

Working paper
Assignment form
Draft report
Digest of significant findings
Quality Assurance Review
Audit Program
Worksheet or Lead Schedules
Final Report

Cross Referencing of Working Papers

- All significant amounts and items should be cross-referenced

Indexing of Working Papers

- Every page should have an index number
- The index should be simple
- The index should be capable of infinite expansion

General Standards - Reports

- Report title specifically states what was audited
- Report is copied to right people
- Audit objectives are stated clearly and in agreement with those stated in the Announcement Letter or Audit Assignment form
- Scope clearly states what we examined including if applicable what period, transactions, documents and limitations.
- Opinions (where appropriate) will be supported by audit findings
- Background contains mission and other information of value to reader
- Findings are presented clearly and contain the following elements:

Statement of condition – should be stated in first sentence

Criteria – Policy , etc.

Effect – potential or actual exposure to the company

Cause – how did it happen

Recommendations – are specific enough so the auditee understands what is expected, something that can be accomplished, cost beneficial

- Draft report is referenced to the working paper
- Reports are objective, clear, concise, constructive and timely
- The auditor presents to appropriate management a draft of the final report for discussion before issuance of the final report.
- If appropriate, a Management Letter may be issued.

Chapter VIII

REPORTING AND FOLLOW UP

The most successful audit projects are those in which the client and the Internal Auditor have a constructive working relationship. Our objective is to have the client's continuing involvement as well as communication at every stage, so that the client's understands what we are doing and why we are doing it.

Although every audit project is unique, the audit process is similar for most engagements. The audit process normally consists of four (4) stages: Preliminary Review, Fieldwork, Audit Report and Follow Up Review.

Audit Report, Transmittal Letter and Management Letter

- Our principal product is the final report in which we express our opinions about the audit findings and discuss our recommendations for improvements. Therefore, in order for Internal Audit to be effective, our reports must be clearly and persuasively convey the results of our audits and convince readers to recognize the validity of the findings and the benefit of implementing any recommendations.
- To facilitate communication and ensure that the recommendations presented in the final report are practical, Internal Audit discusses the rough draft with the client prior to issuing the final report.
- Internal Audit prints and distributes the final report to the unit's operating management, unit's operating supervisor, the Vice President and other appropriate Entity management. This report is primarily for internal Entity management use.
- A management letter written to and distributed to only the unit manager may be issued. This letter will contain suggestions for improving controls, operations, and anything audit administration feels needs to be in writing.

Confidentiality - Reports

- **Rationale:**

Although Internal Audit reports are internal documents exclusively for the use of CBLIC management, certain reports will contain information that

SHOULD NOT BE DISCLOSED OUTSIDE OF THE AREAS RECEIVING THE REPORT.

- **Policy:**

Audit reports will be classified as confidential if they meet the following criteria:

 1. Reports discloses a weakness (potentially resulting in a loss) which has not been corrected at the time of distribution.
 2. Reports discloses sensitive information which could prove an embarrassment to the Company (if made public).
 3. Reports discloses information classified as "restricted data".
 4. At the discretion of the Director of Internal Audit.

Audit reports classified as CONFIDENTIAL will contain the words CONFIDENTIAL REPORTS on the title page and the footnote "Confidential-do not disclose information in this document." on each page.
- **Process:**

The Audit Manager will discuss their recommendation and rationale regarding the classification of a report when it is given to the Director of Internal Audit for initial review.

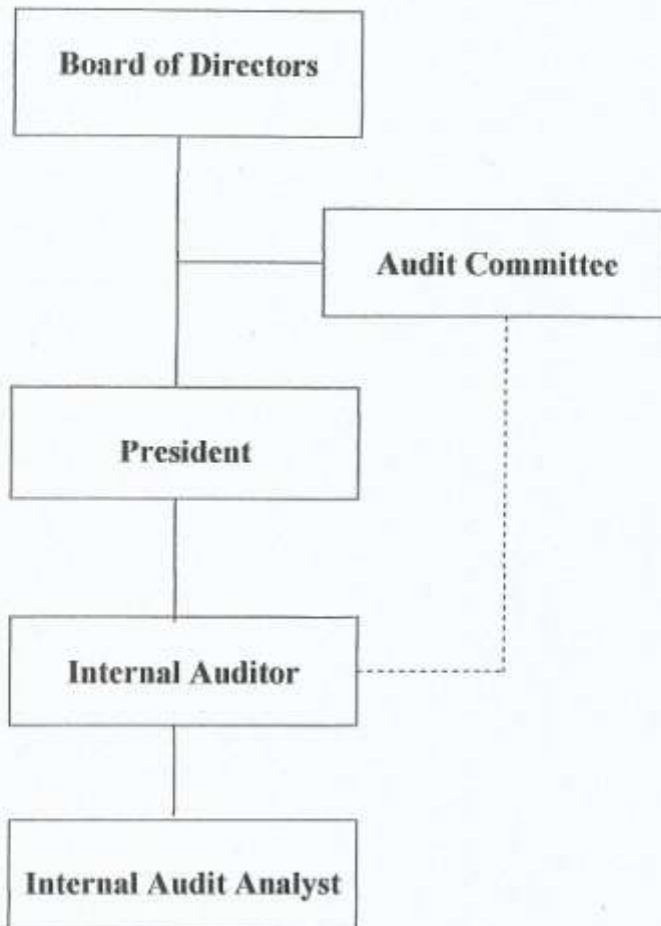
Exit Conference

- After the draft report has been approved by Internal Audit administration, the auditors meet with the unit's management team to discuss the findings, recommendations, and text of the draft. At this time, the client comments on the draft report, and any inaccuracies or impractical recommendations resolved to the extent possible.

Closing the Audit

- The auditor then prepares a draft, taking into account any revisions resulting from the exit conference and other discussions. When the changes have been reviewed by audit administration and the client, the final report is issued.
- The report is then printed in final and distributed to the unit's reporting supervisor, the Vice President and other appropriate Entity management. This report is primarily for internal management use.

**ORGANIZATIONAL CHART
AUDIT DEPARTMENT**



Chapter IX

ORGANIZATIONAL CHART / JOB DESCRIPTION

AUDIT MANAGER

- **Reports To:** The Board Audit Committee / President
- **Job Summary**

Responsible for assisting all members of the organization accomplish its objectives / goals by bringing systematic, disciplined approach to improve the effectiveness of risk management, controls and governance process. To ensure that all members of the organization comply with the policy and procedures of the company.

- **Duties and Responsibilities**

1. Ascertain the reasonableness, validity and proper authorization of fund disbursement.
 - a. Reviews check order slip before signature of authorized signatories.
 - b. Review petty cash and production fund vouchers
 - c. Reviews commission vouchers
2. Plans, directs, supervises and coordinates the evaluation of the extent of compliance and reviews the systems established to ensure compliance with government policies, plans and procedures, laws and regulations which have impact on operation.
 - a. Updates company policies in conformity with the requirements of government regulatory bodies.
 - b. Updates company procedures to adopt the changes brought about by improvements in information technology.
 - c. Acts as Liaison between the organization and external financial auditor.
 - d. Ascertain the reliability of financial data developed with the organization.
 - c. Monitoring, supervising, compliance of all reportorial requirements of Insurance Commission, AMLC, BIR, SEC and External Auditors.

3. Conduct field audit to company's agencies, agents and rural banks savings account.
4. Checks the assets both in the Home Office and Agency Office
5. Reviews the bank reconciliation statement prepared by accounting dept. and verify validity of reconciling items.
6. Recommend improvements, corrective actions to improve operations applicable to all level of the organizations.
7. Evaluate the financial reporting system, accounting procedures and investment activities and make recommendations for changes to procedures, operating system and other financial control functions.
8. Reviews the work of Internal Audit Analyst
9. Performs general administrative staff and other duties that may b assigned from time to time.

INTERNAL AUDIT ANALYST

- **Reports To: Internal Audit Manager**

- **Job Summary**

To ensure that all members of the organization comply with all procedures and policies of the company. To provide assistance to the Internal Auditor in performing financial and operations audit of the Company.

- **Duties and Responsibilities**

1. Ascertain reasonableness, validity and proper authorization of fund disbursement.
 - a. Audit the policy loan calculation sheet, cash surrender and matured policies.
 - b. Audit petty cash and production fund vouchers
2. Checks the Daily Cash Report prepared by the cashier
3. Reviews the bank reconciliation prepared by Accounting Department.
4. Checks the withdrawal schedule prepared by Treasury Department.
5. Reviews and appraises the soundness, adequacy, and application of accounting, financial and operating controls at reasonable cost.
6. Monitors and updates the subsidiary ledger of advances to employees.
7. Performs field audit on agency offices and branches and verifies transactions with rural banks and other financial institutions.
8. Audits the physical inventory of office supplies, office equipments, furniture, fixture, tools and equipments.
9. Checks all deliveries purchased by the company.
10. Performs other related duties that may be assigned from time to time.

AUDIT PROGRAM

INVESTMENT IN STOCKS

DEFINITION

This represents ownership interest in a corporate entity, evidenced by shares of stocks in the form of stock certificates.

Shares of stocks of a corporation may be divided into classes or series of shares, any of which may have such rights, privileges or restrictions as stated in the articles of incorporations of said corporation.

This may take the form of the following:

1. Preferred stock – cumulative, non cumulative, participating, non participating
2. Common stock
3. Guaranteed stock
4. Par value stock
5. No-par value stock
6. Debenture stock
7. Escrow stock
8. Bonus
9. Scrip stock
10. Over issued stock
11. Deferred stock
12. Others- founder's shares, redeemable shares, treasury shares, watered stock

AUDIT OBJECTIVES

To prove existence of the investment in stocks and ownership of the Company and to ensure that the investments are fairly presented in the Annual Statement.

AUDIT PROCEDURES

A. Prove Existence

1. Conduct physical count.

B. Prove Ownership

Audit Program

1. Agree on the details of the stocks counted.

Ensure that all stocks are in the name of the company. In case of qualifying shares in the name of the Board of Directors, ensure they are properly endorsed in favor of the company, or accompanied by a power of attorney.

2. For stocks certificates which are not available or not presented during the physical count, present confirmation of purchase or confirm with the stock transfer agent.

If sold between count date and review date, verify transactions and present documents.

If partially sold, verify transactions, present documents and confirm on the Balance retained with the stock broker or stock transfer agent.

If under subscription agreement and only partially paid, verify purchase documents, official receipts of payments, confirmation from issuing companies or broker, cash vouchers and paid checks.

3. Stock dividends

Documents evidencing stock dividends declared must be received and accounted for. Documents may take the form of the actual certificate itself, notice of dividend declaration, certification of corporate secretary and board resolutions.

AUDIT PROGRAM

INVESTMENT IN BONDS

DEFINITION

This represents investments in long term securities issued by the government and/ or its instrumentalities or private corporations, whether domestic or foreign.

AUDIT OBJECTIVES

To prove existence of the investment in bonds and ownership of the Company and to ensure that the investments are fairly presented in the Annual Statement.

AUDIT PROCEDURES

A. Prove Existence

1. Conduct physical count.

B. Prove Ownership

1. If certificate are not available or not presented during the physical count, verify transactions and supporting documents and confirm with the issuing company.
2. Examine documents to support collection of interest.

AUDIT PROGRAM

INVESTMENT IN COMMERCIAL PAPERS

DEFINITION

This represents placements in long term/short term commercial papers, repurchase agreements and other term debt instruments.

AUDIT OBJECTIVES

To prove existence and ownership of long term/ short term investment made by the company and ensure that the investments are fairly presented in the Annual Statement.

AUDIT PROCEDURES

A. Prove Existence

Conduct physical count.

B. Prove Ownership

If certificate are not available or not presented during the physical count, verify transactions and supporting documents.

AUDIT PROGRAM

OTHER INVESTMENTS

DEFINITION

This represents all other investments which the company may have but which cannot be properly classified under the investment accounts previously mentioned.

AUDIT OBJECTIVES

To prove existence and ownership of investment made.

AUDIT PROCEDURES

a. Prove Existence

1. Conduct physical count.

b. Prove Ownership

1. Ensure that all stocks are in the name of the company, or, if registered in the name of the nominees, they are properly endorsed in favor of the company or accompanied by a power of attorney.

2. For stock certificates which are not available or not presented during the physical count, present confirmation of purchase and confirm with the issuing company.

AUDIT PROGRAM

REAL ESTATE

DEFINITION

This represents investment in real estate properties, whether for office and other uses, and real estate acquired in satisfaction of debt, including the cost of additions or capital improvements thereon.

AUDIT OBJECTIVES

To prove existence and ownership of real estate property and to establish proper valuation thereof.

A. AUDIT PROCEDURES

A. Prove Existence

1. Conduct physical count.
2. In case of additions or capital improvements, verify all related supporting documents.

B. Prove Ownership

1. If acquired by purchase, check original purchase contract or deed of sale, evidence of payments. Transfer Certificates of Title (TCT), Condominiums Certificate of Title(CCT).

Verify Certificate Authorizing Registration (CAR) or application with the Register of Deeds in the absence of the TCT or CCT.

2. If acquired through foreclosures or in satisfaction of a mortgage debt, examine records and documents and verify if foreclosures have been consummated.

AUDIT PROGRAM

MORTGAGE AND COLLATERAL LOANS

DEFINITION

A. Mortgage Loan

This represents the outstanding balance of loans secured by first mortgage on real estate. This may take the form of the following:

1. Real Estate Mortgage (REM)
2. Syndicated Loans
3. Mortgage Trust Indentures / Joint Venture

B. Collateral Loans

This represents outstanding balance of loans secured by stocks, bonds and other securities.

C. Guaranteed Loans

This represents outstanding balance of loans with acceptable guarantees.

Note: Unpaid interest on these loans should not form part of this account but recorded under Accrued Investment Income.

AUDIT OBEJCTIVES

To prove the existence of loan granted, accuracy of loan balance and corresponding interest thereon and to determine the propriety of loans and sufficiency of collateral.

AUDIT PROCEDURES

A. Prove Existence

Conduct physical inventory.

B. Prove accuracy of loan balance and interest thereon.

Audit Program

1. Analyze the account.
2. Reconcile unpaid principal balance and interest shown in the balance sheet and schedule in the Annual Statement (A/S) with the general and subsidiary ledgers.
3. Reconcile current schedule and Balance Sheet Account with the A/S last examined.

C. Determine sufficiency of the real state collateral.

1. Examine the latest appraisal report on the property mortgaged or other independent proof of market value of the property.

AUDIT PROGRAM

OTHER LOANS

DEFINITION

This represents other loans granted by the company which cannot be classified under mortgage loans, collateral loans, guaranteed loans and policy loans. This shall include:

1. Car Loans/Lease – purchase plans for officers, employees and sales associates Subject to a maximum availment per borrower.
2. Financial assistance / emergency loans to officers, employees and sales Associates.
3. Loans to officers, employees and sales associates for the purchase of computers and generators, secured by chattel mortgage over such equipment.
4. Salary loans up to a maximum of 6 months salary.

AUDIT OBJECTIVES

To prove existence of loans granted, to check accuracy of loan balances, allowable limits and interest thereon and to determine propriety of loans.

AUDIT PROCEDURES

A. Prove Existence

Conduct physical count.

B. Prove Ownership

Ensure that all documents pertaining to the loan are executed in favor of the company.

AUDIT PROGRAM

FURNITURE, FIXTURES AND EQUIPMENT

DEFINITION

This represents the cost including incidental expenses that may be incurred in the acquisition of the furniture and fixtures, office equipments, and transportation equipment.

For EDP equipment, it represents the cost including incidental expenses in the purchases and installation of EDP equipment. It also includes the cost and other incidental expenses in the acquisition of operating and application software and/or software development cost.

AUDIT OBJECTIVES

To prove the existence and ownership of the asset and to establish proper valuation of the asset.

AUDIT PROCEDURES

- A. Examine documents evidencing the acquisition of the asset such as cash vouchers, paid checks, Purchase Orders, Delivery Receipts, Invoices, etc. during the year under examination. For development cost, trace the costs capitalized to source documents.
- B. Verify propriety of charges to the asset account.
- C. Ascertain the consistency in the application of the company's capitalization and depreciation policy.
- D. Test check the computation of depreciation expenses during the year under examination.

AUDIT PROGRAM

REINSURANCE RECOVERABLE ON PAID LOSSES

DEFINITION

This represents the amount recoverable from reinsurers under treaty and facultative agreements as their share in paid losses and loss adjustment expenses.

AUDIT OBJECTIVES

To establish accuracy and validity of recoverable on paid losses.

AUDIT PROCEDURES

- A. Obtain schedule of recoverable on paid losses. Foot schedule.
- B. Trace to Subsidiary Ledger amounts appearing in schedule.
- C. Obtain Statement of Account of companies with material balances.
- D. Examine documents of major item in Statement of Account and Claims file.

AUDIT PROGRAM

POLICY LOANS

DEFINITION

- A. Loans granted to policyholders on the security of insurance policies-in-force.
- B. This account includes two types of loans : direct borrowing and borrowing to pay premiums.
- C. Policy loan interest may be charged in advance or at the end of each loan or policy anniversary.

AUDIT OBJECTIVES

- A. To establish consistency between:
 - 1. The policy loans schedule and supporting records.
 - 2. The policy loans schedule and the Books.
- B. To establish the accuracy of the aggregate policy loan amount.

AUDIT PROCEDURES

- A. To establish Consistency between the Policy Loans schedule and the supporting records.
 - 1. Determine the population size of the policy loans account. The examination procedure may be based on a random sample or the entire population of the account depending on its size.
 - 2. Determine the accuracy of information reflected in the schedule. The policy loans schedule shall contain at least the following information:
 - a. Policy Number
 - b. Issue Date
 - c. Issue Age
 - d. Plan of Insurance
 - e. Face Amount of Insurance
 - f. Unpaid Loan Balance as of Valuation Date
 - g. Interest (Advance/duel and accrued)

h. Cash Value

3. Reconcile the policy loans with supporting records.

- a. Trace the policy to the valuation or in-force file to determine if the policy is in-force.
- b. Trace the loan amount to the loan documents/records. If the loan is an automatic premium loan (APL), check the policy application or policy contract to ensure that the APL provision is operative.
- c. Compare the outstanding loan balance to the record of the Cash Surrender Value (CSV) to verify collateral

B. Establish Consistency between the Policy Loan schedule and the Books.

1. Reconcile the total outstanding policy loan balance reflected in the schedule with that in the Books and the Annual Statement and the actuary's Statement of Opinion.
2. Check if the actuary's Statement of Opinion regarding the policy loans account is in accordance with the IC Circular Letter of January 14, 1987.

C. Establish the Accuracy of the Aggregate Policy Loan Amount.

1. Verify the accuracy of the outstanding balances:
 - a. Select sample of loan payments from the cash receipt book.
 - b. Verify if payments had been properly recorded/applied in the corresponding policy loan records.
 - c. Verify the balance reflected in the schedule if repayments had been considered in determining the outstanding balance as of financial statement date.
2. Re-compute policy loans in accordance with the company's method. Compare the same with outstanding loan balance in the schedule.

AUDIT PROGRAM

NET PREMIUMS DUE AND UNCOLLECTED

DEFINITION

The premiums due and uncollected at the end of any calendar year are premiums – for policies classified as premium paying on the company's valuation records – that have fallen due but not been recorded as paid. These usually are premiums that fell due during the month of December and are therefore still in the grace period.

AUDIT OBJECTIVES

To establish the accuracy of the net premiums due and uncollected and the aggregate amount.

AUDIT PROCEDURES

- A. Determine the population size of the net premiums due and uncollected account. The examination procedures may be based on a random sample or the entire population of the account depending on its size.
- B. Determine the accuracy of information reflected in the schedule. It shall include for each policy at least the following information.
 1. Policy Number
 2. Plan of Insurance
 3. Amount of Insurance
 4. Issue Age
 5. Issue Date
 6. Mode of Premium Payment
 7. Net Premium Due and Uncollected
- C. Trace the policies from the schedule of net premiums due and uncollected to the enforce file used for reserves valuation or valuation file.
- D. Select from the Cash Receipts Book a sample of premium payments made prior the balance sheet date. Verify if these premiums do not appear anymore on the schedule of net premiums due and uncollected.

Audit Program

- E. Select from the Cash Receipts Book a sample of premium payments made after the balance sheet date but which were due on or before the balance sheet date. Verify if these premiums appear on the schedule of net premiums due and uncollected.
- F. Check if net premiums due and uncollected are correctly calculated in the schedule.
 - 1. Recalculate the net premiums due and uncollected.
 - 2. Compare the recalculated net premiums due and uncollected with those appearing in the schedule.
- G. Trace the aggregate amount of net premiums due and uncollected to the Annual Statement/books.

AUDIT PROGRAM

NET DEFERRED PREMIUMS

DEFINITION

- A. Deferred premiums at the end of any calendar year are premiums – for policies classified as premium paying on the company's valuation record – that fall due both within the current policy year and within the next following calendar year.
- B. At the end of any calendar year, the number of deferred premiums for any policy depends only on the mode of frequency of premium payments and the calendar month in which the policy's anniversary falls.
- C. Policies with premiums payable annually or with the issue month of January have no deferred premium.

AUDIT OBJECTIVE

To establish the accuracy of the net deferred premiums and the aggregate amount.

AUDIT PROCEDURES

- A. Determine the population size of the net deferred premiums account. The examination procedures may be based on a random sample of the entire population of the account depending on its size.
- B. Determine the accuracy of information reflected in the schedule. It shall include for each policy at least the following information:
 - 1. Policy Number
 - 2. Plan Of Insurance
 - 3. Amount of Insurance
 - 4. Issue Age
 - 5. Issue Date
 - 6. Mode of Premium Payment
 - 7. Net Deferred Premiums
- C. Trace the policies from the schedule of net deferred premiums to the enforce file used for reserve valuation of valuation file.

Audit Program

- D. Verify that net deferred premiums reflected in the schedule are correctly computed.
 - 1. Recalculate the net deferred premiums on the schedule.
 - 2. Compare the recalculated net deferred premiums with those appearing in the schedule.
- E. Trace the aggregate amount of net deferred premiums from the schedule to the Annual Statement/books.

AUDIT PROGRAM

PREMIUMS DUE TO REINSURERS

DEFINITION

This represents reinsurance premiums payable by the company to all its treaty and facultative reinsurers.

AUDIT OBJECTIVES

- A. To determine the recorded payables representing valid amounts due to reinsurers and no material reinsurance transactions were unrecorded at the balance sheet date.
- B. To determine that reinsurance transactions during the period are valid transactions properly computed and recorded.

AUDIT PROCEDURES

- A. Obtain schedules of Due to Reinsurers as of December 31, _____.
- B. Check footings of the schedules and compare totals with General Ledger balances.
- C. Trace balances of selected accounts per schedules to the Subsidiary Ledger and Statement of Accounts. Cross refer to the figures reported in the Annual Statement of the corresponding reinsurers. Any material differences should be reconciled by the company.
- D. FACULTATIVE REINSURANCE
 1. Trace selected entries in Subsidiary Ledger to premium register.
 2. Test/vouch said selected entries to the statements of account or check vouchers.
- E. TREATY REINSURANCE
 1. Obtain treaty agreements and test check accuracy of reinsurer's share.

Audit Program

2. Trace selected entries in the Subsidiary Ledger to the premium register.
3. Test/vouch said selected entries to the statements of account or check vouchers.

AUDIT PROGRAM

TAXES PAYABLE

DEFINITION

This represents the unpaid balance of tax liabilities of the company.

AUDIT OBJECTIVES

To verify the validity and adequacy of tax liabilities.

AUDIT PROCEDURES

- A. Determine the tax base. Multiply it by the applicable rate to arrive at the tax due for the year.
- B. Add the tax due for the year to the beginning balance of taxes payable.
- C. Deduct payments and any compromise tax settlements made during the year to arrive at the net taxes payable as at the end of the year.
- D. Compare figure with the reported balance in the Annual Statement. Any material differences should be explained and adjusted accordingly.

AUDIT PROGRAM

ACCRUED EXPENSE AND OTHER LIABILITIES

DEFINITION

A. ACCRUED EXPENSES

This represents expenses already incurred but not yet paid.

B. OTHER LIABILITIES

This represents liability accounts which can not be classified under any of the forgoing liability accounts.

AUDIT OBJECTIVES

To determine validity and adequacy of the liabilities recorded.

AUDIT PROCEDURES

1. Obtain schedule/details of accrued expenses and other payables.
2. For dividends payable, verify declaration of cash dividends against minutes of meeting and board resolution.
3. For notes payable, verify if the liability and collaterals have been properly approved by the Board of Directors. Examine board resolution and collateral offered, if any.

AUDIT PROGRAM

AGGREGATE RESERVE FOR LIFE POLICIES AND CONTRACTS

DEFINITIONS

A. POLICY RESERVE

The amount of liability which the insurance company establishes for a policy to meet the contractual obligation as it falls due.

B. MASTER POLICY FILE

A file containing all policies, active and inactive. In terms of data content, it usually contains:

1. Basic Policy Information
2. History of Policy Transactions
3. History of Policy Benefits
4. Policy Status

C. IN-FORCE FILE

A file extracted from the Master Policy File. It contains all policies in-force/active as of the date of valuation and information pertinent to reserves valuation.

D. VALUATION FILE/SUMMARY

A file containing all active policies and their corresponding reserves as of the date of valuation, information pertinent to reserves valuation and the aggregate reserves of all active policies.

AUDIT OBJECTIVES

To establish the completeness of the in-force or valuation file and the accuracy of the policy reserves and the aggregate amount.

AUDIT PROCEDURES

A. Establish the completeness of in-force or valuation file.

1. Draw a random sample from the master policy using a sampling method the listing of selected policies shall include for each policy at least the following information:

- a. Policy Number
- b. Plan of Insurance
- c. Amount of Insurance
- d. Issue Age
- e. Issue Date
- f. Status of the Policy
- e. Valuation Code/Basis

2. Trace all active policies in the sample to the sample valuation file or in-force file used for reserves valuation. If the policies in the valuation file or sorted or grouped according to say, issue year, plan, and issue age, the examiner shall request the company to provide the listing of individual policies comprising the policy cells or groups to which the selected active policies belong. The listing shall include at least the following:

- a. Policy Number
- b. Plan of Insurance
- c. Amount of Insurance
- d. Issue age
- e. Issue date
- f. Status of the Policy
- g. Valuation Code/basis

Any in-force policy in the sample that is not included in the valuation or in-force file is considered an error in the company's procedures in the reserves valuation.

B. Establish the accuracy of reserve and the aggregate amount.

1. Calculate the reserves of the active policies in the sample in accordance with the reserve basis (mortality, interest and valuation method) approved by the Insurance Commission, plan of insurance, amount of insurance, issue year and issue age.

Audit Program

2. Compare the calculated reserves with those in the valuation file.
3. Trace the aggregate amount of the reserves from the valuation file to the Annual Statement / Books.
4. Verify the reinsurance reserves reductions are not included in the valuation file.
5. Trace the reinsurance reserves reductions to the Annual Statement.

AUDIT PROGRAM

POLICY CONTRACT AND CLAIMS

DEFINITION

A. DUE AND UNPAID

The amount at the end of a particular calendar year which is the sum of the individual amounts that are due and have already been approved for payments but for one reason or another, have not actually been paid. In these cases, December 31 falls on or after the date of approval but before the date of payment.

B. IN COURSE OF SETTLEMENT

The amount at the end of a particular calendar year which is the sum of the individual amounts on which the company has already received notice of claim but on which, for one reason or another, final action has not been taken, either approving the claim for payment in full or rejecting it in part or in full. In these cases, December 31 falls on or before the date the claim was either approved or denied.

C. RESISTED

The amount at the end of a particular calendar year which is the sum of the individual amounts claimed on which the company has been notified that its decision to deny liability, either in whole or in part, is being challenged and on which the contest has not yet been resolved. In these cases December 31 falls on or after the date notice is received and before the date the contest is resolved.

D. INCURRED BUT NOT REPORTED (IBNR)

The amount at the end of a particular calendar year which is an estimate of the sum of the individual claims that have already occurred but on which notice has not yet been received by the company. This estimate takes into account any policy reserve liability set up by the company and any amount recoverable from reinsurers. In these cases, December 31 falls on or after the date event insured against occurred and before the date notice of claim is received.

AUDIT OBJECTIVES

To establish the completeness/accuracy of the schedule of reported outstanding claims and the adequacy of the IBNR claims.

AUDIT PROCEDURES

A. Determine the accuracy of the information reflected in the schedule. It shall include for each reported outstanding claim at least the following:

1. Claim Number
2. Policy Number
3. Insured/Claimant
4. Plan
5. Date Claim is Received or Filed
6. Date of Loss (e.g. Death/Maturity)
7. Amount of Claim / Insurance
8. Amount Paid
9. Date Paid

B. Verify that the schedule includes all reported outstanding claims and That claimants are being treated fairly.

1. Trace the unpaid claims from the claims register to the schedule.
2. Scan the schedule and verify that the length of time required to settle claims is reasonable and fair.
3. Examine the listing of resisted claims and claims closed without payment.
 - a. Trace a sample of closed without payment claims to closed claims files and applications.
 - b. Verify the grounds for resisting claims by examining application and claims files.
4. Select a sample of claims payments from the claims register and /or closed claims files and trace the amount to cash disbursement book and cancelled checks.

C. Verify the amount set up for reported claims is sufficient.

Audit Program

1. Trace a sample of unpaid claims from the schedule to the application and claim files and verify that they are sufficient to cover the face amount and other contract liabilities.
2. Trace the total reported claims from the schedule to the Annual Statement.

D. Establish the adequacy of IBNR claims.

1. Obtain the certification of the company's actuary on IBNR claims and the basis/method of the computation thereof.
2. Evaluate/determine the adequacy of IBNR amount. The examiner may estimate it on the basis of the company's past experience and/or the actual claims less reserves set up on these claims and reinsurance recoverable, if any. These actual claims are those reported during the first quarter immediately following the balance sheet date, whether paid or unpaid, but wherein the date of loss occurred on or before the balance sheet date.
3. Trace the IBNR amount from the certification of the company's actuary to the Annual Statement.