



AUDITORS AND ACTUARIES MODULE

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MODULE	AA: Auditors and Actuaries
CHAPTER	AA-A: Introduction

AA-A.1 Purpose

Executive Summary

AA-A.1.1 This Module presents requirements that have to be met by insurance licensees with respect to the appointment of external auditors and actuaries (the requirement for actuaries is only applicable to insurance firms). This Module also sets out certain obligations that external auditors and actuaries have to comply with, by virtue of their appointment by insurance licensees.

AA-A.1.2 This Module is issued under the powers given to the Central Bank of Bahrain ('the CBB') under Decree No. (64) of 2006 with respect to promulgating the Central Bank of Bahrain and Financial Institutions Law 2006 ('CBB Law'). It supplements Article 61 of the CBB Law, which requires licensees to appoint an external auditor acceptable to the CBB and Articles 72 to 74 dealing with actuaries.

Legal Basis

AA-A.1.3 This Module contains the CBB's Directive relating to auditors and actuaries and is issued under the powers available to the CBB under Article 38 of the CBB Law. The Directive in this Module is applicable to insurance licensees.

AA-A.1.4 For an explanation of the CBB's rule-making powers and different regulatory instruments, see Section UG-1.1.

MODULE	AA: Auditors and Actuaries
CHAPTER	AA-A: Introduction

AA-A.2 Module History

AA-A.2.1 This Module was first issued in April 2005 by the BMA, together with the rest of Volume 3 (Insurance). Any material changes that have subsequently been made to this Module are annotated with the calendar quarter date in which the change was made. Chapter UG-3 provides further details on Rulebook maintenance and version control.

AA-A.2.2 When the CBB replaced the BMA in September 2006, the provisions of this Module remained in force. Volume 3 was updated in January 2007 to reflect the switch to the CBB; however, new calendar quarter dates were only issued where the update necessitated changes to actual requirements.

AA-A.2.3 A list of recent changes made to this Module is detailed in the table below:

Module Ref.	Change Date	Description of Changes
AA-3.1	01/10/05	Corrected reference to Form IFR and IMR
AA-4.1	01/10/05	Added transition rule for requirement for reporting actuary for insurance firms whose long-term insurance business is restricted to group life policies having a maturity of less than or equal to 1 year.
AA-4.3.2	01/07/06	Added a requirement that the Signing Actuary is subject to the approval of the CBB.
AA-A.1.3	01/2007	New Rule introduced, categorising this Module as a Directive.
AA-1.2.3	01/2007	Rule redrafted to clarify reporting obligation
AA-1.5	01/2007	Paragraphs AA-1.5.3 and AA-1.5.5 updated to reflect CBB Law requirements on auditor independence.
AA-3.1.1	01/2007	Clarified that the external auditor's Agreed Upon Procedures are to be submitted to the CBB within four months from the insurance licensee's financial year end.
AA-3.2	01/2007	Added a new section referring to the audit report required as per Module FC.
AA-3A	01/2007	Added a new Chapter on Accounting Standards
AA-4.1.7	01/2007	Clarified that the first three-year period referred to for the report of the signing actuary is for the period ending 31 December 2008.

AA-A.2.4 Guidance on the implementation and transition to Volume 3 (Insurance) is given in Module ES (Executive Summary).

MODULE	AA: Auditors and Actuaries
CHAPTER	AA-B: Scope of Application

AA-B.1 Insurance Licensees

AA-B.1.1 The contents of this Module – unless otherwise stated – apply to all insurance licensees.

AA-B.1.2 The requirements relating to actuaries (Chapter AA-4), apply only to insurance firms, and differentiate between insurance firms undertaking long-term insurance and those undertaking general insurance.

MODULE	AA: Auditors and Actuaries
CHAPTER	AA-B: Scope of Application

AA-B.2 Auditors and Actuaries

AA-B.2.1 Certain requirements in this Module extend to **auditors** and **actuaries**, by virtue of their appointment by **insurance licensees**. **Auditors** and **actuaries** appointed by **insurance licensees** must be independent (cf. Sections AA-1.4, AA-1.5 and Paragraphs AA-4.2.3 and AA-4.2.4). **Auditors** and **actuaries** who resign or are otherwise removed from office are required to inform the CBB in writing of the reasons for the termination of their appointment (cf. Paragraphs AA-1.2.3 and AA-4.2.8). Other requirements are contained in Sections AA-1.3 (Audit partner rotation) and AA-3.1 (**Auditor** reports).

MODULE	AA: Auditors and Actuaries
CHAPTER	AA-1: Auditor Requirements

AA-1.1 Appointment of Auditors

AA-1.1.1 In accordance with Article 61(a) of the CBB Law, insurance licensees must obtain prior written approval from the CBB before appointing or re-appointing their auditors.

AA-1.1.2 As the appointment of auditors normally takes place during the course of the firm's annual general meeting, insurance licensees should notify the CBB of the proposed agenda for the annual general meeting in advance of it being circulated to shareholders. The CBB's approval of the proposed auditors does not limit in any way shareholders' rights to subsequently reject the Board's choice.

AA-1.1.3 The CBB, in considering the proposed (re-)appointment of an auditor, takes into account the expertise, resources and reputation of the audit firm, relative to the size and complexity of the licensee. The CBB will also take into account the track record of the audit firm in auditing insurance licensees within Bahrain; the degree to which it has generally demonstrated independence from management in its audits; and the extent to which it has identified and alerted relevant persons of significant matters.

AA-1.1.4 In the case of overseas insurance licensees, the CBB will also take into account who acts as the auditors of the parent firm. As a general rule, the CBB does not favour different parts of an insurance group having different auditors.

MODULE	AA: Auditors and Actuaries
CHAPTER	AA-1: Auditor Requirements

AA-1.2 Removal or Resignation of Auditors

AA-1.2.1 Insurance licensees must notify the **CBB** as soon as they intend to remove their auditors, with an explanation of their decision, or as soon as their auditors resign.

AA-1.2.2 Insurance licensees must ensure that a replacement auditor is appointed (subject to **CBB** approval as per Section AA-1.1), as soon as reasonably practicable after a vacancy occurs, but no later than three months.

AA-1.2.3 In accordance with the powers granted to the CBB under Article 63 of the CBB Law, auditors of insurance licensees must inform the CBB in writing, should they resign or their appointment as auditor be terminated, within 30 calendar days of the event occurring, setting out the reasons for the resignation or removal.

MODULE	AA: Auditors and Actuaries
CHAPTER	AA-1: Auditor Requirements

AA-1.3 Audit Partner Rotation

AA-1.3.1 Unless otherwise exempted by the **CBB**, insurance licensees must ensure that the audit partner responsible for their audit does not undertake that function more than five years in succession.

AA-1.3.2 Insurance licensees must notify the **CBB** of any change in audit partner.

MODULE	AA: Auditors and Actuaries
CHAPTER	AA-1: Auditor Requirements

AA-1.4 Auditor Independence

- AA-1.4.1** Article 61(d) of the CBB Law imposes conditions in order for the auditor to be considered independent. Before an insurance licensee appoints an auditor, it must take reasonable steps to ensure that the auditor has the required skill, resources and experience to carry out the audit properly, and is independent of the licensee.
- AA-1.4.2** For an auditor to be considered independent, it must, among things, comply with the restrictions in Section AA-1.5.
- AA-1.4.3** If an insurance licensee becomes aware at any time that its auditor is not independent, it must take reasonable steps to remedy the matter and notify the CBB of the fact.
- AA-1.4.4** If in the opinion of the CBB independence has not been achieved within a reasonable timeframe, then the CBB may require the appointment of a new auditor.

MODULE	AA: Auditors and Actuaries
CHAPTER	AA-1: Auditor Requirements

AA-1.5 Licensee/Auditor Restrictions

Financial Transactions with Auditors

AA-1.5.1 Insurance licensees must not provide regulated insurance services to their auditors, including entering into any contracts of professional indemnity insurance with their auditors.

Outsourcing to Auditors

AA-1.5.2 Paragraph RM-7.6.2 generally prohibits insurance licensees from outsourcing their internal audit function to the same firm that acts as their external auditors. However, the CBB may allow short-term outsourcing of internal audit operations to an insurance licensee's external auditor, to meet unexpected urgent or short-term needs (for instance, on account of staff resignation or illness). Any such arrangement will normally be limited to a maximum period of one year and is subject to CBB prior approval.

Other Relationships

AA-1.5.3 Insurance licensees and their auditors must comply with the restrictions contained in Article 217 (c) of the Commercial Companies Law (Legislative Decree No. (21) of 2001), as well as in Article 61(d) of the CBB Law.

AA-1.5.4 Article 217(c) prohibits an auditor from (i) being the chairman or a member of the Board of Directors of the company he audits; (ii) holding any managerial position in the company he audits; and (iii) acquiring any shares in the company he audits, or selling any such shares he may already own, during the period of his audit. Furthermore, the auditor must not be a relative (up to the second degree) of a person assuming management or accounting duties in the company.

AA-1.5.5 Article 61 (d) prohibits an auditor from (i) being the chairman or a member of the Board of Directors of the company he/she audits; (ii) holding any managerial position in the company he/she audits; and (iii) acquiring any shares in the company he/she audits, or selling any such shares he/she may already own, during the period of his audit. Furthermore, the auditor must not be a relative (up to the second degree) of a person assuming management or accounting duties in the company.

AA-1.5.6 The restriction in Paragraph AA-1.5.3 applies to overseas insurance licensees as well as Bahraini insurance licensees.

MODULE	AA: Auditors and Actuaries
CHAPTER	AA-1: Auditor Requirements

AA-1.5 Licensee/Auditor Restrictions (continued)

Other Relationships (continued)

AA-1.5.7 A partner, Director or manager on the engagement team of auditing an insurance licensee may not serve on the Board or in a controlled function of the licensee, for two years following the end of their involvement in the audit, without prior authorisation of the CBB.

AA-1.5.8 Chapter AU-1.2 sets out the CBB's 'controlled functions' requirements.

Definition of 'Auditor'

AA-1.5.9 For the purposes of Section AA-1.5, 'auditor' means the partners, Directors and managers on the engagement team responsible for the audit of the insurance licensee.

MODULE	AA: Auditors and Actuaries
CHAPTER	AA-2: Access

AA-2.1 CBB Access to Auditors

AA-2.1.1

Insurance licensees must waive any duty of confidentiality on the part of their auditors, such that their auditors may report to the **CBB** any concerns held regarding material failures by the insurance licensee to comply with **CBB** requirements.

AA-2.1.2

The **CBB** may, as part of its on-going supervision of insurance licensees, request meetings with a licensee's auditors. If necessary, the CBB may direct that the meeting be held without the presence of the licensee's management or **D**irectors.

MODULE	AA: Auditors and Actuaries
CHAPTER	AA-2: Access

AA-2.2 Auditor Access to Outsourcing Providers

AA-2.2.1 Paragraph RM-7.4.1² on outsourcing agreements between insurance licensees and outsourcing providers requires licensees to ensure that their internal and external auditors have timely access to any relevant information they may require to fulfil their responsibilities. Such access must allow them to conduct on-site examinations of the outsourcing provider, if required.

MODULE	AA: Auditors and Actuaries
CHAPTER	AA-2: Access

AA-2.3 CBB Access to Actuaries

AA-2.3.1

Insurance licensees that appoint a Reporting Actuary or Signing Actuary in compliance with the requirements in Section AA-4.1 must waive any duty of confidentiality on the part of the actuary, such that he may report to the **CBB** any concerns held regarding material failures by the insurance licensee to comply with **CBB** requirements.

AA-2.3.2

The **CBB** may, as part of its on-going supervision of insurance licensees, request meetings with a licensee's Reporting Actuary/Signing Actuary. If necessary, **the CBB** may direct that the meeting be held without the presence of the licensee's management or **D**irectors.

MODULE	AA: Auditors and Actuaries
CHAPTER	AA-3: Auditor Reports

AA-3.1 Review of Annual Returns

AA-3.1.1

Insurance licensees must arrange for their auditors to review the licensee's annual return to the CBB. Auditors must complete the prescribed form, Agreed Upon Procedures (refer to Part B, Supplementary Information Appendices BR(i) and (ii)) attesting to their review, which must be submitted to the CBB by the insurance licensee within four months of the financial year end of the insurance licensee.

AA-3.1.2

Insurance firms are required to submit an Insurance Firm Return (Form IFR). Insurance intermediaries and insurance managers are required to submit the Insurance Intermediary and Manager Return (Form IMR). Further details on the annual returns and other reporting requirements of the CBB, including the precise scope of the auditor's review and attestation, are contained in Module BR (CBB Reporting).

MODULE	AA: Auditors and Actuaries
CHAPTER	AA-3: Auditor Reports

AA-3.2 Report on Compliance with Financial Crime Rules

AA-3.2.1 Insurance licensees must arrange for their external auditors to report on the insurance licensee's compliance with the requirements contained in Module FC (Financial Crime), at least once a year.

AA-3.2.2 The report specified in Paragraph AA-3.2.1 must be in the form agreed by the CBB, and must be submitted to the CBB within four months of the licensee's financial year-end.

AA-3.2.3 Further information on the above can be found in Section FC-3.3.

MODULE	AA: Auditors and Actuaries
CHAPTER	AA-3A: Accounting Standards

AA-3A.1 General Requirements

AA-3A.1.1 Insurance licensees must comply with International Financial Reporting Standards / International Accounting Standards ('IFRS/IAS') and, to the extent that they undertake Shari'a compliant activities, relevant standards issued by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI).

AA-3A.1.2 Overseas insurance licensees that do not, at the parent company level, apply IFRS/IAS are still required under Paragraph AA-3A.1.1 to produce pro-forma accounts for the Bahrain branch in conformity with these standards.

MODULE	AA: Auditors and Actuaries
CHAPTER	AA-4: Actuarial Reports

AA-4.1 General Requirements

Obligation to Appoint a Reporting Actuary

AA-4.1.1 In accordance with Article 72(a) of the CBB Law, all insurance firms planning to undertake long-term insurance business must, no later than the date on which they start to carry out such business, appoint a Reporting Actuary, subject to **CBB** approval.

AA-4.1.2 For insurance firms whose long-term insurance business is restricted to group life policies, having a maturity of less than or equal to 1 year, actuarial requirements must be met by 31 December 2007.

AA-4.1.3 To secure **CBB** approval, the Reporting Actuary must satisfy the **CBB**'s criteria for Reporting Actuaries, contained in Paragraphs AA-4.2.1 to A-4.2.4. The Reporting Actuary must provide an annual actuarial evaluation and report, as specified in Paragraphs AA-4.2.9 to AA-4.2.15.

Obligation to Appoint a Signing Actuary

AA-4.1.4 All insurance firms that carry on general insurance business must consider annually the need to commission an actuarial opinion from a Signing Actuary. The Signing Actuary must satisfy the criteria in Paragraphs AA-4.3.1 to AA-4.3.2.

AA-4.1.5 The Board of the insurance firm must resolve annually either to commission an actuarial evaluation and report, or that such a report is not necessary. Where the Board resolves to obtain an actuarial report from a Signing Actuary, a copy of this report must be provided to the **CBB**.

AA-4.1.6 An insurance firm carrying on the business referred to in Paragraph AA-4.1.4 must obtain an actuarial report by a Signing Actuary at least once in every three-year period, or else must apply to the **CBB** for an exemption to defer this requirement.

AA-4.1.7 For purposes of Paragraph AA-4.1.6, the first three-year period referred to is for the period ending 31 December 2008.

MODULE	AA: Auditors and Actuaries
CHAPTER	AA-4: Actuarial Reports

AA-4.2 Reporting Actuaries

CBB Approval Criteria

AA-4.2.1 The Reporting Actuary must be authorised by the **CBB** in accordance with Article 74 of the CBB Law, to carry on the business of an actuary within the Kingdom of Bahrain.

AA-4.2.2 The **CBB**'s authorisation requirements for Reporting Actuaries are contained in Module AU (Authorisation).

AA-4.2.3 The Reporting Actuary must be independent of the insurance firm.

AA-4.2.4 For a Reporting Actuary to be considered independent, he, his spouse and dependant children must have no interest in the licensee's share capital, and must not be a relative up to the second degree of Directors or management of the licensee or its auditors.

Removal or Resignation of a Reporting Actuary

AA-4.2.5 Insurance firms must notify the **CBB** as soon as it intends to remove its Reporting Actuary, together with an explanation of its decision, or as soon as its Reporting Actuary resigns.

AA-4.2.6 Insurance firms must ensure that a replacement Reporting Actuary is appointed (subject to **CBB** approval as per Paragraph AA-4.1.1), as soon as reasonably practicable after a vacancy occurs, but no later than three months.

AA-4.2.7 If an insurance firm fails to make a fresh appointment of a Reporting Actuary in accordance with the provisions of Paragraph AA-4.2.6, the insurance firm must not – until such an appointment is made – effect any new contract which constitutes long-term business without the written permission of the **CBB**.

AA-4.2.8 An actuary who resigns or is otherwise removed from the office of Reporting Actuary must, within 30 days of his resignation or removal, write to the **CBB** setting out the reasons for his resignation or removal.

MODULE	AA: Auditors and Actuaries
CHAPTER	AA-4: Actuarial Reports

AA-4.2 Reporting Actuaries (continued)

Reporting Actuary's Report

AA-4.2.9 An insurance firm that carries on long-term insurance business must commission each financial year an actuarial evaluation and report into the financial condition of the insurance firm in respect of its long-term business. The evaluation and report must be undertaken in accordance with the relevant professional standards of the actuarial body of which the Reporting Actuary is a member.

AA-4.2.10 The report required under Article 72(a) of the CBB Law must accompany the Insurance Firm Return submitted to the CBB and cover the period covered by that return, as required under Paragraph BR-1.1.22.

AA-4.2.11 In accordance with Article 73 of the CBB Law, the evaluation should include:

- (a) A valuation of the liabilities of the insurer attributable to its long-term business;
- (b) The establishment of the surplus, if any, on any long-term insurance funds that it is proposed be transferred to shareholders' funds and available for distribution; and
- (c) The establishment of the deficit, if any, on any long-term insurance funds established by the insurer.

AA-4.2.12 Where the Reporting Actuary's investigation establishes a deficit on any fund or part of any fund, the insurance firm concerned must immediately notify the CBB and ensure that remedial action is taken to make good the deficit.

AA-4.2.13 Possible remedial action to address the deficit noted in Paragraph AA-4.2.12 may include a transfer to be made from shareholders' funds of sufficient assets to make good the deficit or a reduction in non-guaranteed bonuses.

AA-4.2.14 Within ninety days of the filing date of the Reporting Actuary's report, the insurance firm must make copies of the report (or a summary of the report, containing such information as the CBB may approve) available to all policyholders of the licensee on demand on payment of a reasonable sum.

AA-4.2.15 The requirement in Paragraph AA-4.2.14 may be waived by the CBB in the case of overseas insurance firms, where (in the opinion of the CBB) equivalent information about the licensee's business relating to policyholders in the Kingdom can be provided annually. The content, format and dates of such an alternative report are subject to the approval of the CBB.

MODULE	AA: Auditors and Actuaries
CHAPTER	AA-4: Actuarial Reports

AA-4.3 Signing Actuaries

Signing Actuary Criteria

AA-4.3.1

The Signing Actuary may be a **Director** or **employee** of the licensee concerned, an independent party, or an employee of a firm providing actuarial consulting services.

AA-4.3.2

Where the Signing Actuary is a Director or **employee** of the licensee concerned, he must hold appropriate professional qualifications from a relevant, recognised professional body and is subject to approval by the **CBB** (ref AU-1.3.1). Where the Signing Actuary is an independent party or employee of a firm providing actuarial consulting services, he or his firm must be registered to carry on the business of an **actuary** in the Kingdom of Bahrain, in accordance with the requirements of **Article 74 of the CBB Law**.

AA-4.3.3

Fellows (or members of equivalent status) in good standing of the Society of Actuaries (USA), the Institute and Faculty of Actuaries (UK) or the American Academy of Actuaries, or any other similar body with mutually reciprocal licensing arrangements with any of these bodies, will satisfy the requirement in Paragraph AA-4.3.2.

Duties of Signing Actuary

AA-4.3.4

The Signing Actuary must act independently of the **insurance firm** in providing an actuarial evaluation and report on the adequacy of technical reserves, in accordance with professional guidance, established by one of the professional bodies that meet the condition of relevant expertise as per Paragraph AA-4.3.3. While the Signing Actuary is not required to check the data on which the report is based, he should disclose any material concerns in respect of data accuracy, integrity and sufficiency in the context of the work undertaken.

AA-4.3.5

If, for whatever reason, the Signing Actuary is unable to give an unqualified report, he must inform the **CBB** as soon as possible.

MODULE	AA: Auditors and Actuaries
CHAPTER	AA-4: Actuarial Reports

AA-4.3 Signing Actuaries (continued)

Duties of the Insurance Firm

AA-4.3.6

The Directors of the insurance firm must provide the Signing Actuary with the data and information required for the preparation of the actuarial evaluation and report. The insurance firm must advise the Signing Actuary of all known changes in internal methods or procedures that could materially affect the determination of reserves.

AA-4.3.7

Claims development data provided to the Signing Actuary must be reconciled to the accounting information forming the basis of the statutory accounts.