



# **AUDITORS AND ACTUARIES MODULE**

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<b>MODULE</b>	<b>AA: Auditors and Actuaries</b>
<b>CHAPTER</b>	<b>AA-A: Introduction</b>

## **AA-A.1 Purpose**

- 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 supplements Article 16 of Legislative Decree No. 17 of 1987, with respect to insurance companies and organizations (“the insurance law 1987”). Article 16 requires insurance companies and organizations subject to the provisions of the insurance law 1987 to appoint an auditor, from amongst the chartered accountants licensed to practice in the Kingdom of Bahrain.

<b>MODULE</b>	<b>AA: Auditors and Actuaries</b>
<b>CHAPTER</b>	<b>AA-A: Introduction</b>

## AA-A.2 Module History

AA-A.2.1 This Module was first issued in April 2005, together with the rest of Volume 3 (Insurance). It is numbered as version 01. All subsequent changes to this Module are annotated with a sequential version number: Chapter UG-3 provides further details on Rulebook maintenance and version control.

AA-A.2.2 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 BMA.

AA-A.2.3 This Module does not replace any regulations or circulars in force prior to April 2005.

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

<b>MODULE</b>	<b>AA: Auditors and Actuaries</b>
<b>CHAPTER</b>	<b>AA-B: Scope of Application</b>

## 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.

<b>MODULE</b>	<b>AA: Auditors and Actuaries</b>
<b>CHAPTER</b>	<b>AA-B: Scope of Application</b>

## **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, AA-4.2 and AA-5.3). Auditors and actuaries who resign or are otherwise removed from office must inform the BMA in writing of the reasons for the termination of their appointment (cf. Sections AA-1.2 and AA-4.2). Other requirements are contained in Sections AA-1.3 (Audit partner rotation) and AA-3 (Auditor reports).

<b>MODULE</b>	<b>AA: Auditors and Actuaries</b>
<b>CHAPTER</b>	<b>AA-1: Auditor Requirements</b>

## AA-1.1 Appointment of Auditors

**AA-1.1.1** Insurance licensees must obtain prior written approval from the BMA 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 BMA of the proposed agenda for the annual general meeting in advance of it being circulated to shareholders. The BMA'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 BMA, 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 BMA will also take into account the track record of the audit firm in auditing insurers 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 BMA will also take into account who act as the auditors of the parent firm. As a general rule, the BMA does not favour different parts of an insurance group having different auditors.

<b>MODULE</b>	<b>AA: Auditors and Actuaries</b>
<b>CHAPTER</b>	<b>AA-1: Auditor Requirements</b>

## AA-1.2 Removal or Resignation of Auditors

**AA-1.2.1** Insurance licensees must notify the BMA 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 BMA 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** An auditor who resigns or is otherwise removed from the office of auditor must, within 30 days of the resignation or removal, write to the BMA 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 BMA, 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 BMA 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** 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 BMA of the fact.

**AA-1.4.4** If in the opinion of the BMA independence has not been achieved within a reasonable timeframe, then the BMA may require the appointment of a new auditor.

<b>MODULE</b>	<b>AA: Auditors and Actuaries</b>
<b>CHAPTER</b>	<b>AA-1: Auditor Requirements</b>

## AA-1.5 Licensee/Auditor Restrictions

### *Financial Transactions with Auditors*

#### AA-1.5.1

Insurance licensees must not lend to their auditors, nor enter into any contracts of professional indemnity insurance with their auditors.

### *Outsourcing to Auditors*

AA-1.5.2 Paragraph RM-8.6.2 generally prohibits insurance licensees from outsourcing their internal audit function to the same firm that acts as their external auditors. However, the BMA 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 BMA 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).

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

#### AA-1.5.6

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 BMA.

AA-1.5.7 Chapter AU-1.3 sets out the BMA's "controlled functions" requirements.

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

## AA-1.5 Licensee/Auditor Restrictions (continued)

### *Definition of “Auditor”*

AA-1.5.8	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 <u>insurance licensee</u> .
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<b>MODULE</b>	<b>AA: Auditors and Actuaries</b>
<b>CHAPTER</b>	<b>AA-2: Access</b>

## AA-2.1 BMA 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 BMA any concerns held regarding material failures by the insurance licensee to comply with BMA requirements.

AA-2.1.2 The BMA may, as part of its on-going supervision of insurance licensees, request meetings with a licensee's auditors. If necessary, BMA may direct that the meeting be held without the presence of the licensee's management or directors.

<b>MODULE</b>	<b>AA: Auditors and Actuaries</b>
<b>CHAPTER</b>	<b>AA-2: Access</b>

## AA-2.2 Auditor Access to Outsourcing Providers

AA-2.2.1 Paragraph RM-7.4.11 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.

<b>MODULE</b>	<b>AA: Auditors and Actuaries</b>
<b>CHAPTER</b>	<b>AA-2: Access</b>

## AA-2.3 BMA 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 BMA any concerns held regarding material failures by the insurance licensee to comply with BMA requirements.

### AA-2.3.2

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

<b>MODULE</b>	<b>AA: Auditors and Actuaries</b>
<b>CHAPTER</b>	<b>AA-3: Auditor Reports</b>

## 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 BMA prior to its submission. Auditors must complete the prescribed form attesting to their review, which must be attached to the annual return.

### AA-3.1.2

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



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

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 BMA 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 December 31, 2007.

#### AA-4.1.3

To secure BMA approval, the Reporting Actuary must satisfy the BMA'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 BMA.

#### 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 BMA for an exemption to defer this requirement.

<b>MODULE</b>	<b>AA: Auditors and Actuaries</b>
<b>CHAPTER</b>	<b>AA-4: Actuarial Reports</b>

## AA-4.2 Reporting Actuaries

### *BMA Approval Criteria*

**AA-4.2.1** The Reporting Actuary must be authorised by the BMA to carry on the business of an actuary within the Kingdom of Bahrain.

AA-4.2.2 The BMA'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 BMA 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 BMA 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 BMA.

**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 BMA 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 must accompany the Insurance Firm Return submitted to the BMA and cover the period covered by that return, as required under Paragraph BR-1.1.22.

#### AA-4.2.11

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 BMA 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 BMA 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 BMA in the case of overseas insurance firms, where (in the opinion of the BMA) 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 BMA.

<b>MODULE</b>	<b>AA: Auditors and Actuaries</b>
<b>CHAPTER</b>	<b>AA-4: Actuarial Reports</b>

### 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 BMA (ref AU-1.2.1). 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 in Chapter AU-4.

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 BMA 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.