

*An Evaluation on  
Internal Control & Compliance Activities of  
Progressive Life Insurance Company Limited*



## Daffodil International University

### **Submitted to:**

**Md. Arif Hassan**

Assistant Professor

Department of Business Administration

Faculty of Business & Entrepreneurship

### **Submitted by:**

**Md. Omar Faruk**

Id. 173-12-649

Program: MBA-Executive

Major: Accounting

Department of Business Administration

Faculty of Business & Entrepreneurship

**The date of submission: 08-12-2018**

## Letter of Transmittal

08 December 2018

**To**

**Md. Arif Hassan**

Assistant Professor

Department of Business Administration

Faculty of Business & Entrepreneurship

102, Shukrabad, Dhanmondi. Dhaka-1207

**Subject: Submission of the Internship Report.**

Dear Sir

This is my pleasure to submit the internship report on “**An Evaluation on Internal Control & Compliance Activities of Progressive Life Insurance Company Limited (PLICL)**” that is a part of MBA program. I have prepared the report as per instruction of my supervisor.

The full report is prepared from practical experience of the life insurance company. I have equipped all the information collected during the internship program at the head office of Progressive Life Insurance Company Limited.

I want to give you special thanks from the bottom of my heart for providing me this topic that helps me to learn many things from the study. I will be glad enough if you kindly receive the report.

Sincerely yours

.....

Md. Omar Faruk

ID: 173-12-649

Executive MBA in Accounting

## Declaration

I am, Md. Omar Faruk, a student of Master of Business Administration (MBA) bearing id: 173-12-649, major in Accounting, Daffodil International University. I would like to honestly declare that the report on “**An Evaluation on Internal Control & Compliance Activities of Progressive Life Insurance Company Limited (PLICL)**” has been authentically prepared by me.

While preparing the report, I did not breach any copyright act intentionally. I am further declaring that, I did not submit this report anywhere for awarding any degree, diploma or certificate.

-----  
**Md. Omar Faruk**  
ID: 173-12-649  
Executive MBA in Accounting  
Daffodil International University

## Certificate of Approval

I am pleased to certify that the internship report on “**An Evaluation on Internal Control & Compliance Activities of Progressive Life Insurance Company Limited (PLICL)**” that has been successfully completed by **Md. Omar Faruk** bearing Id. 173-12-649. Department of Business Administration has been approved for presentation and viva voce. Under my supervision **Md. Omar Faruk** worked with Progressive Life Insurance Company Limited.

I am pleased to hereby certify that the data and findings presented in the report are the contributory work of **Md. Omar Faruk**. I strongly recommend the report presented for further academic commendation and viva voce.

It has indeed been a great pleasure working with him. I wish him all success in life.

.....

**Md. Arif Hassan**  
Assistant Professor  
Department of Business Administration  
Faculty of Business & Entrepreneurship  
Daffodil International University

## Acknowledgement

At first I would like to express my deepest gratitude to almighty Allah for giving me the strength and composure to finish the task within the schedule time. Then I am very grateful to the **Progressive Life Insurance Company Limited** for providing me the opportunity to complete my internship that helps to fulfill the MBA program.

I specially thank **Md. Golam Shaugatul Karim FCMA, Sr.GM, Head of Internal Control & Compliance (ICC) Department, Progressive Life Insurance Company Limited**. I am very much glad for the friendly cooperation from Sr. AGM, AGM, managers, executives, officers and staffs of Progressive Life Insurance Company Limited. They gave me long patient learning and sitting, practical orientation and answering my numerous queries nicely. They shared most valuable working experience and supplied information for deserves appreciation.

By making this report I have been greatly benefitted by my supervisor **Md. Arif Hassan, Assistant Professor, Department of Business Administration, Daffodil International University** who have provided me with support, encouragement and constructive criticism.

## Executive Summary

The report focuses on relevant information that has been collected from head office of Progressive Life Insurance Company Limited. This report will give clear idea about overall activities of Progressive Life Insurance Company Limited (PLICL). At the beginning of the report, the scope, origin, objectives, limitations, methodology are discussed. Especially this report focuses on “**Internal Control & Compliance Activities of Progressive Life Insurance Company Limited (PLICL)**”. The company is one of the 3rd generation private life insurance companies, was established in 2000 and stepped into the 18th year of its successful operation.

The major objective is to evaluate Internal Control & Compliance Activities of Progressive Life Insurance Company Limited (PLICL) considering the different functional areas of HR, Underwriting, Reinsurance, Claim, Accounts, policy servicing, renewal, IT departments and so on. All the information incorporated in this report has been collected both from the primary source as well as from secondary sources.

Theoretical framework provides depth knowledge about laws, rules & regulations related to insurance companies and also give broad knowledge about internal audit procedures that helps management of an organization to ensure effective control and compliance activities.

At the analysis, the operational, controlling and compliance activities of the insurer are discussed broadly. Moreover, there are Comments considering the standard procedures of those activities.

The findings, recommendations and conclusion are discussed at the end. There are more important findings in addition to providing some recommendations. These recommendations will ensure effective control & compliance activities of Progressive Life Insurance Company Limited.

<b>Abbreviations &amp; Acronyms</b>	
PLICL	Progressive Life Insurance Company Limited
IDRA	Insurance Development & Regulatory Authority
BSEC	Bangladesh Securities & Exchange Commission
BAS	Bangladesh Accounting Standards
BFRS	Bangladesh Financial Reporting Standards
DIU	Daffodil International University
VAT	Value-added Tax
PR	Premium Receipt
OR	Original Receipt
DSE	Dhaka Stock Exchange
CSE	Chattogram Stock Exchange
CEO	Chief Executive Officer
CFO	Chief Financial Officer
BoD	Board of Directors
CSR	Corporate Social Responsibilities
NBR	National Board of Revenue
IIA	Institute of Internal Auditors
COSO	Committee of Sponsoring Organization
HRD	Human Resource Development
IT	Information Technology
ICC	Internal Control & Compliance
SB	Survival Benefit
SV	Surrender Value
AGM	Annual General Meeting
TDS	Tax Deducted at Sources
TIN	Taxpayer's Identification Number
DGH	Declaration of Good Health



## Table of Contents

Serial No.	Name of Topics	Page No.
	Letter of Transmittal	I
	Declaration	II
	Certificate of Approval	III
	Acknowledgement	IV
	Executive Summary	V
	Abbreviations & Acronym	VI
	Table of Contents	
	<b>Chapter-01: Introductory Part</b>	<b>1-3</b>
1.1	Introduction	1
1.2	Origin of the report	1
1.3	Objectives of the report	1-2
1.4	Methodology of the report	2
1.5	Scope of the report	3
1.6	Limitations of the report	3
	<b>Chapter-02: Organizational Background</b>	<b>4 - 10</b>
2.1	Company Profile	4
2.2	Corporate Information	5
2.3	Corporate Directory	5
2.4	Values	6
2.5	Strengths	6
2.6	Principle Products or Services of the Company	6-8
2.7	List of Board of Directors	8
2.8	List of Management	9
2.9	Organogram of the Company	10
	<b>Chapter-03: Theoretical Framework</b>	<b>11-27</b>
3.1	Concept of Life Insurance Business	11
3.2	Insurance Business of Bangladesh	11
3.3	Legislations relating to Insurance companies	12
3.4	Compliance with laws and regulations	12
3.5	Guidelines for Corporate Governance for insurers	12
3.6	Applicability of Accounting Standards (BAS & BFRS)	13
3.7	Important Laws of Insurance Act 2010	13-16
3.8	Responsibilities of management and internal auditors	17
3.9	Internal Audit	18-23
3.10	Topic-wise Parameter of Control & Compliance Activities	23-27

	<b>Chapter-04: Analysis</b>	
4.1	Name of Internal Audit Department	28
4.2	Audit plan	28
4.3	Cash and bank balance	28
4.4	Outstanding premium and Agents' balance	28-29
4.5	Financial Statements	29
4.6	Regular bills checking	29
4.7	Fixed Assets	29
4.8	Vat and Tax, provisions and payment	29-30
4.9	Premium Income	30
4.10	Commission paid	30
4.11	Management expenses	30
4.12	Claims Department	30-31
4.13	Share & Investment Department	31
4.14	Human Resources Development (HRD)	31-32
4.15	Procurement	32
4.16	Transport expense	32
4.17	Store	32-33
4.18	Actuarial Department	33
4.19	Underwriting Management Department	33
4.20	Re-insurance Department	33-34
4.21	Policy Issue or Servicing Department	34
4.22	Information Technology (IT) Department	34
4.23	Renewal Department	35
4.24	Service Cell Audit/Branch Office Audit	35-36
4.25	Special Management Assignment	36-37
	<b>Chapter-05: Concluding Part</b>	<b>38-41</b>
5.1	Findings	38
5.2	Recommendations	39
5.3	Conclusion	40
5.4	Bibliography & References	41

***Chapter-01***  
***Introductory Part***

## **1.1 Introduction**

Insurance is the justifiable transfer of the risk from one entity to another in exchange for considerable payment. An insurer, also known as an insurance company, is a company that sells the insurance to the insured or policyholder who is the person or entity purchasing the insurance policy. A certain amount of insurance coverage is called the premium. The premium is defined as a certain amount of insurance coverage.

**Progressive Life Insurance Company Limited** is one of the names which meowed quickly with its higher performance in the industry. It has been one of the upper line companies in Bangladesh. Progressive Life Insurance Company Limited is one of the strongest companies in the industry.

PLICL have faith in in quick and quality service to their valued customer that is the central point of their operation. The company has the ability to operate its business according to its policyholders' expectations. The company does bondage with valued policyholders and tries to nourish as well as maintain it into a sustainable relationship. With the words they are presenting Progressive Life Insurance Company Limited- "**Arthik Nirapod Jibon**".

## **1.2 Origin of the Report**

The report has been ready for the course requirement of the **MBA program of Daffodil International University**. My internship course is supervised by **Md. Arif Hassan, Assistant Professor**. This report was based upon the Internal Control & Compliance Activities of Progressive Life Insurance Company Limited (PLICL).

## **1.3 Objectives of the Report**

The broad objective is to evaluate Internal Control & Compliance Activities of Progressive Life Insurance Company Limited (PLICL). There are some specific objectives of this report are given below:

- To get an overall idea about life insurance company.
- To learn the standards of internal audit & control procedures.
- To know the compliance issues of Insurance Act, 2010.

- To determine the degree of compliance of insurance acts by Progressive Life Insurance Company Limited.
- To find out some shortcomings regarding compliance issues.
- To recommend some suggestions to improve the current situation.

### **1.4 Methodology of the Report**

The report has been equipped on the basis of practical experience gained from internship period. In order to prepare the report, I have collected information from books, annual reports, different websites and oral communication with employees of the **Progressive Life Insurance Company Limited (PLICL)**. I have highlighted my experience and findings in the analysis part.

**The parts of work plan are discussed in below:**

**Method of data collection:** Primarily, the data has been gathered from direct investigation of records, documents, and papers. Formal and informal discussion has been made for data collection. There is no use of questionnaires for this issue.

**Sources of Data:** The data for this report has been gathered from primary and secondary sources.

**a) Primary sources:**

- Direct communication with the respective officers and staffs of the corporate office.
- Communication with clients who came to the corporate office.
- Working experiences with various departments.

**b) Secondary sources:**

- Audit reports of Progressive Life Insurance Company Limited (PLICL).
- Website of the organization and that of relevant regulators.
- Different manual published by the Progressive Life Insurance Company Limited.
- Different circular sent by head office.

### **1.5 Scope of the Report**

The report has been equipped through widespread conversation with employees and clients of the organization. There was a vast scope to achieve depth knowledge about insurance activities of a prominent private insurance company in Bangladesh.

### **1.6 Limitations of the Report**

In order to collect the data, I faced a lot of problems. The limitations of the study that I faced at the time of preparing the report are as follows:

- Difficult to collect the information.
- The information was unsorted and complex.
- Up to date information were not available.
- Each company has personal privacy regarding to disclose information to outsiders.

I have paid full efforts to make the report in spite of these limitations. If there are any mistakes, please consider it cordially.

*Chapter-02*  
*Organizational Background*

## 2.1 Company Profile

Progressive Life Insurance Company Limited is a leading and prominent life insurance company in the country along with lucrative products and services. The company was incorporated as a public limited company on January 06, 2000. The company was incorporated as public limited company on January 06, 2000. It started its journey in the same year. The company is operating its business complying revised insurance act 2010 and being regulated by Insurance Development and Regulatory Authority (IDRA). The insurance industry is under the Ministry of Finance. The company started its business with a paid up capital of tk. 30 million against the authorized capital is tk. 750 million. It is also a member of Dhaka Stock Exchange and Chattogram Stock Exchange.

Presently it has 110 service cells and 300 agency offices situated at important areas of Bangladesh. It is a gigantic family of 13 esteemed board members, 30 devoted senior management members, 610 committed staffs, and numerous valued clients. Moreover it has a lovely slogan, “**Arthik Nirapod Jibon.**”

As an experienced insurer, the company has achieved an excellent market reputation with leading position in the life insurance industry of the country. Risk management is the heart of management. The expert management members efficiently control various risks arose from different situations. Being a corporate citizen, the company has a strong commitment towards the society. Management believes that some charitable activities will uphold the image of the company. In addition, the company concentrates on poverty alleviation, education, health care, cultural activities, and sports. The company attained a remarkable success in these areas.



## 2.2 Corporate Information

Progressive Life Insurance Company Limited is one of the 3<sup>rd</sup> generation private insurance companies. It has already been passed eighteen years of successful business and has been continuing one of the leading life insurance companies in Bangladesh. The company has planned to open more branches in response to the demands of valued clients. It is the top institutions in terms of products or services, cost efficiency, market share, corporate governance and so on. It tries to maximize insurance coverage at a minimal cost and offer professional and expert services to valued clients. The company has proven itself as a risk carrier and announced innovative insurance products to meet the various requirements of the clients. The company is committed to bring about operational excellence in all tiers of the organization. It stresses on the need of core business, improving underwriting skills and claim processing.

## 2.3 Corporate Directory

<b>Events</b>	<b>Date Stamps</b>
Company Name	Progressive Life Insurance Company Limited
Incorporation of the Company	6 January 2000
Commencement of Business	6 January 2000
Registration Certificate for Insurance Business	27 February 2000
Signing of First Insurance Business	28 June 2000
Agreement with CDBL	28 June 2005
Consent Received from SEC for Issuance of IPO Share	5 July 2005
Publications of Prospectus	6 July 2005
Subscription Opens	8 October 2005
Allotment of IPO Shares	21 November 2005
Listed with Dhaka Stock Exchange and Chattogram Stock Exchange	2 January 2006
First Trading at Dhaka Stock Exchange and Chattogram Stock Exchange	2 January 2006
Holding the first public AGM (6 <sup>th</sup> )	26 September 2006
Declaration of first policy bonus	31 December 2008
1 <sup>st</sup> Extra-Ordinary General Meeting	29 November 2011
<b>Obtained Membership Certificate Form:</b>	
Bangladesh Association of Publicly Listed Companies	19 May 2010

## **2.4 Values:**

- Integrity
- Fairness
- Harmony
- Courtesy
- Commitment
- Insight and Spirit
- Enthusiasm for Work
- Business Ethics

## **2.5 Strengths:**

- Transparent
- Quick Decision Making
- Team of Efficient Performers
- Corporate Governance
- Internal Control
- Risk Management
- Diversification

## **2.6 Principal products or services of the company**

The company is doing traditional life insurance business such as pension scheme, ordinary life, group life including health scheme and micro life insurance business under the name of Sujan Bima. The company also operates shariah based islami bima Prakalpa (Takaful) under the guidance of Shariah Council.

**2.6.1 Ordinary life:** Ordinary life policies safeguard better future of the policyholders with a wide range of coverage options. These ordinary life polies are the best suit of your earnings and expectations. Ordinary life polies are

- Whole life assurance plan with profit

- Endowment assurance plan with profit
- Three benefit endowment assurance plan with profit
- Joint life endowment assurance plan with profit
- Single premium assurance plan with profit
- Marriage assurance plan with profit
- Child protection plan with profit
- Single premium term assurance without profit (with refund of premium)
- Pension assurance plan without profit
- Personal pension plan without profit
- Single premium endowment assurance plan with profit
- Anticipated endowment assurance plan with profit (3 stage)
- Anticipated endowment assurance plan with profit (4 stage)
- Anticipated endowment assurance plan multiple payments with profit
- Endowment assurance plan biennial with profit
- Endowment assurance plan with profit (with additional benefit)
- Money back term insurance plan without profit
- Education stipend assurance plan without profit
- Progressive deposit pension scheme with profit
- Advance payment endowment assurance plan with profit
- Endowment assurance with PDAB benefits with profit
- Mohorana bima with profit
- Hajj bima with profit

### **2.6.2 Sujan Bima Division**

- Single payment endowment assurance plan with profit
- Endowment assurance plan with profit
- Sujan deposit pension scheme with profit
- Anticipated endowment assurance plan with profit
- Hajj bima with profit

### **2.6.3 Islami Bima Prakalpa (Takaful)**

- Single payment endowment assurance plan with profit
- Endowment assurance plan with profit
- Islamic deposit pension scheme with profit
- Anticipated endowment assurance plan with profit
- Hajj bima with profit

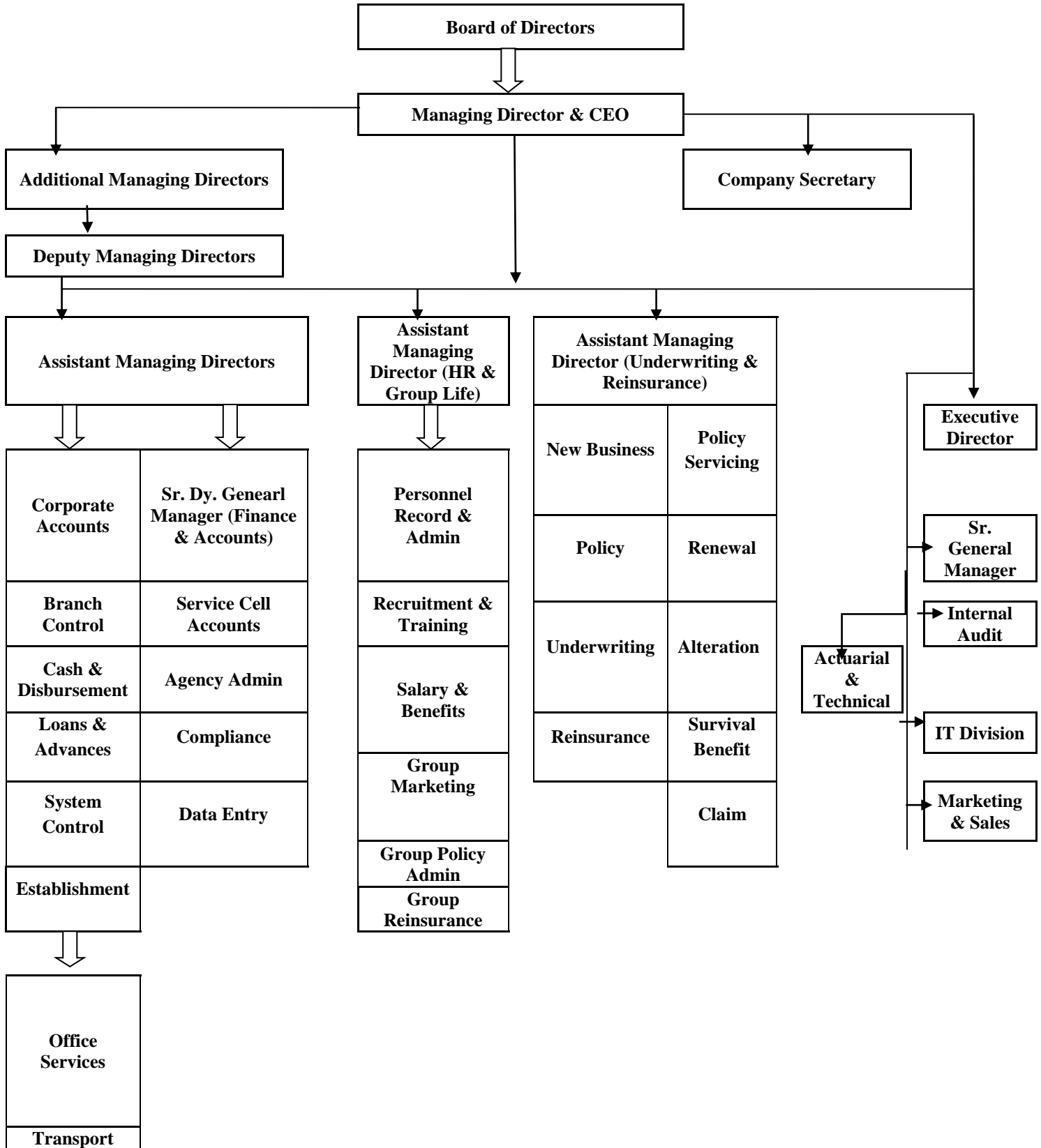
**2.6.4 Group & Health Scheme:** Group life insurance is a tailor-made corporate option for a group of people of an organization. This policy carries a lower cost than the policy offered to individual uniquely. Such policies are

- Group life term insurance scheme
- Group life endowment insurance scheme
- Health care group scheme

<b><u>2.7 Board of Director (BoD)</u></b>		
Sl. No.	Name	Position
1	Mr. Abdul Malik	Chairman
2	Mr. Golam Mostafa Ahmed	Vice-Chairman
3	Mr. Mezanur Rahman	Director
4	Mr. Kamal Miah	Director
5	Mr. Nasia A. Choudury	Director
6	Mr. Bajloor Rashid	Director
7	Mr. Syed Abdul Muqtadir	Director
8	Mr. Nazim Tazik Chowdhury	Director
9	Mr. Babel Miah	Director
10	Mr. Salim Reza	Director
11	Mrs. Nahid Chowdhury	Director
12	Ms Nadia Shah	Director
13	Mr. Wafi Shafi	Director

<b><u>2.8 Management Team</u></b>		
1	Chief Executive Officer	Mr. Dipen Kumar Saha Roy
2	Company Secretariat & Board Affairs	Moshihur Rahman
		Syed Belal Hossain
3	Human Resources Division	Moshihur Rahman
		Mahamuda Akter Khatun
4	Finance & Accounts	Bipul Chandra Nath
		Habibul Haider Chowdury
		Md. Ali Hossain
		Ratish Chandra Das
5	Share	Bulbul Chowdhury
6	Internal Control & Compliance	Md. Golam Shaugatul Karim
		Md. Azizur Rahman
		Md. Shahjahan
7	Development Admin	Abul Monsur Ahmed
		Md. Mashduzzaman
8	Policy Servicing & Underwriting	Abdul Karim
		Abdur Rouf
		Md. Rakibul Islam
		Kamrun Nahar
		Md. Jahidul Islam
9	Actuarial & Policy Issue- Alteration/Loan/Surrender-Laps & Revival	Md. Hossain Shohid Sohrawardi
10	Group	Bipul Chandra Nath
11	Legal Division	Mohammad Johir Uddin
12	Information Technology	Kazi Tariquul Islam
		Sk. Abul Hashem
		Md. Nurussagir Sharif
		Mohammad Abdullah Akbar
		Abu Zafar Md. Moin
13	Establishment	AZM Saleh Mazumder
12	Public Relation	Nayan Chakraborty

## 2.9 ORGANOGRAM OF PLICL



*Chapter-03*  
*Theoretical Framework*

### **3.1 Concept of Life Insurance Business**

Insurance is a method of distribution the risk of one to the shoulders of many. It is a contract where the insurer receives a consideration as premium against losses arising from unforeseen contingencies.

After marine and fire insurance, life insurance is contributing on the insurance development. The earliest policy of life insurance was only death of the life assured during the term period the sum assured was paid. Nothing was payable if the insured was alive during the term period. In 1693, Halley presented the mortality table giving a certain value to risk of death.

In 1974, the life Assurance Act was approved in the British parliament requiring the presence of insurable interest before one could affect a life policy on the life of another. All requirements progressively furnished life assurance a sound, systematic and scientific basis.

### **3.2 Insurance business of Bangladesh**

Insurance Business is a traditional business in Bangladesh. It has a long history. It started during the British regime in India both life and general. Insurance business improved during the period of 1947-1971. At that time there were 49 insurance companies work their business both life and general insurance. In that time twenty seven insurance company head office were in Bangladesh (former West Pakistan) and Ten Insurance Company head office were in East Pakistan.

After liberation war in 1972, The People's Republic Government of Bangladesh nationalized the insurance industry as well as the banks in 1972 by Presidential Order no.95. By virtue of this order, all insurance companies divided into the life and non-life sector. In 1973, additional changes were made. Following the Act, the government shaped the Sadharan Bima Corporation for general business and Jiban Bima Corporation for life business. People's Republic Government of Bangladesh permitted the private sector in (LI of 1984 ordinance) to do the insurance business. Now Insurance Regulatory and Development Authority controlled the both life and non-life insurance companies in Bangladesh.

An independent authority named, "Insurance Regulatory and Development Authority" was established in 2010 to defend the interest of policyholders and to control, encourage and confirm evolution of the insurance industry.



### **3.3 Legislations relating to Insurance companies**

Following acts and ordinances contain important statutory provisions relevant to the audit of life insurance companies-

- 1) The Asian Re-Insurance Act, 2013.
- 2) IDRA Act, 2010.
- 3) The Insurance Act, 2010 (Insurance Act, 1938).
- 4) The Insurance Corporations (Amendment) Act, 1990.
- 5) The Insurance Corporations (Amendment) Ordinance, 1984.

### **3.4 Compliance with laws and regulations:**

It is the responsibility of management to ensure that the company complies with the laws and regulations which have an impact on its operations.

This includes laws and regulations concerning:

- 1) Money laundering.
- 2) Health and safety.
- 3) Public liability.
- 4) Employer's liability.
- 5) VAT, income tax and payroll matters.

### **3.5 Guidelines for Corporate Governance for insurers are as follows:**

- 1) Audit Committee.
- 2) Investment Committee.
- 3) Executive Committee.
- 4) Claim Committee.
- 5) Risk Management Committee.
- 6) Policyholders Protection Committee.
- 7) Dispute Settlement Committee.
- 8) Remuneration Committee.
- 9) Corporate Social Responsibility (CSR) Committee.
- 10) Profits Committee

## **3.6 Applicability of Accounting Standards**

### **3.6.1 Bangladesh Accounting Standards (BAS):**

7 (Statements of Cash flows), 8 (Accounting Policies, Changes in Accounting Estimates and Errors) , 10 (Events after the Reporting Period) ,18 (Revenue), 19 (Employee Benefits) & 26 (Accounting and Reporting by Retirement Benefit Plans), 32 (Financial Instrument: Presentation), 37 (Provisions, Contingent Liabilities and Contingent Assets) and 38 (Financial Instruments: Recognition and Measurement).

### **3.6.2 Bangladesh Financial Reporting Standards (BFRS):**

2 (Share-based Payment), 3 (Insurance Contracts), 7 (Financial Instruments Disclosures), 9 (Financial Instruments).

## **3.7 Important Laws of Insurance Act 2010**

### **3.7.1 Registers for Life Insurance Company (Section 31, Insurance Act 2010):**

- Policies Register according to Form-01.
- Death Claims Register according to Ka of Form-02.
- Maturity Claims Register according to Kha of Form-02.
- Surrender Claims Register according to Ga of Form-02.
- Claims Payment Register according to Gha of Form-02.

### **3.7.2 Capital and Deposit (Schedule-01, insurance act 2010):**

Minimum paid up capital for life insurance Company required under section 21 is three corers taka of which 60% will be subscribed by sponsors and remaining 40% will be subscribed by general shareholders. On the other hand, Deposit money for life insurance Company under section 23 is one core and fifty lac taka.

### **3.7.3 Registration renewal fee (sub section 4 under section 4 & sub section 2 under section 11, insurance act 2010):**

Registration fee for life insurance business will be 1.0 taka for every one thousand multiply gross premium collection. Registration renewal fee will be submitted to Control Authority be November 30 every year. One thousand taka has to pay for a copy of registration certificate.

### **3.7.4 Commission (Section 58, Insurance Act 2010):**

Commission for policy agent is fixed according to the section 58 (03). The commission will be as follows:

- For first year 35% of premium collection in that year.
- For second year 10% of premium collection in that year.
- For next year 5% of premium collection in subsequent year.

If the period is above ten years, the commission will be as follows:

- For first year 45% of premium collection in that year.
- For second year 12% of premium collection in that year.
- For next year 6% of premium collection in subsequent year.

### **3.7.5 Limit of Management Expenses (under section 62, Insurance Act 2010):**

Management expenses depends on projects, period of polices etc. Regulatory Authority defines how much management expenses to be allowed according to the insurer's project and duration of policies.

### **3.7.6 Solvency margin (under section 43, Insurance Act 2010):**

Every insurer has to maintain adequate solvency margin according to prescribed system which is defined in Solvency Margin Form-RSM.

### **3.7.8 Policyholders' Security Fund (under section 156, Insurance Act 2010):**

Authority set up a policyholders' security fund and maintains it. The authority collects levy from insurers and deposit it in the account of the fund.

### **3.7.9 Life Fund (under section 82 & 83, Insurance Act 2010):**

Every life insurer has to create two life funds for policyholders these are called participant policyholders and non-participant policyholders. Surplus will be distributed to policyholders and shareholders according to predetermined policy.

### **3.7.10 License fee of corporate office and branch office (Section 14(02), Insurance Act-2010):**

Every life insurer gets permission from authority to open a new office and it has to pay license fee accordingly:-

- For divisional office, the amount is tk. 10000.
- For district office, the amount is tk. 5000.
- For others, the amount is tk. 1000.

### **3.7.11 Policy and Premium Rate (section 16, Insurance Act 2010):**

A new policy cannot be issued by an insurer without permission of authority. Actuary confirms policy, premium rate and other factors. Then authority approves the policy considering its judgment.

### **3.7.12 Appointment of Actuary (section 67, Insurance Act 2010):**

An actuary analyzes a new policy and calculates what should be the premium rate, bonus, investment benefits etc. of that policy. According to the section 67 of Insurance Act 2010, every life insurer can appoint an actuary on approval of authority.

### **3.7.13 Interest rate for delay claim settlement (section 72, Insurance Act 2010):**

The section said that insurer is late to settle claim within 90 days. The insurer has to pay with interest in that case the interest rate will be bank rate plus 5% per month.

### **3.7.14 Board of Directors (Section 76, Insurance Act 2010):**

Board of directors consists of 12 entrepreneur directors, 6 shareholders directors and 02 independent directors. President and vice-president will be selected from board of directors. There will be only one vice-president (Section 79). According to section 75, the director of insurance company cannot be a director of any insurance company or that of any bank and that of any financial institutions. According to section 78, if any person is engaged as advisor, auditor, consultant in the insurance company or engaged in any other profitable position, s/he cannot be a director of that company

**3.7.15 Recruitment and Termination of Chief Executive Officer (section 80, Insurance Act 2010):**

Without approval of authority, the insurer cannot recruit and terminate chief executive office. Authority selects chief executive office considering the qualifications and experiences.

**3.7.16 Confiscation (Section 92, Insurance Act 2010):**

The policy cannot be seized up if the following conditions are met up:

- The policy is active minimum two years.
- If the realized value of policy is greater than the overdue premium plus any loans against collateral.

**3.7.16 Tax assessment on net premium (Section 155, Insurance Act-2010):**

Government collects tax from insurer calculating on net premium income. The amount of tax will not be higher than that of 50% of net premium income.

**3.7.17 Nominee of Policyholder (Section 57, Insurance Act 2010):**

Policyholder can make nominee one or more. If policyholder dies, nominee can receive the benefits. There is a condition if nominee is below 18 years old. In that case, any reliable person is assigned to get the benefits on behalf of a child.

**3.7.18 Financial Statements (Section 27, Insurance Act 2010):**

Insurance Development and Regulatory Authority prescribes life insurance company's accounts and preparation of balance sheet through probidan dated 22 January 2018 on the power of section 27.

### **3.8 Responsibilities of Management and Internal Auditors:**

Management has responsibilities to set up and maintain sound systems of risk management, internal control and governance for the prevention and detection of irregularities and fraud. The work of internal audit should not be seen as a supernumerary for management's responsibilities for the design and operation of these systems.

As auditors, we have a reasonable expectation of detecting significant control weakness and, if detected, we shall carry out extra work to identify consequences of fraud or other irregularities. However, internal audit procedures carried out with due professional care and do not guarantee that fraud will be detected.

Accordingly, our investigations as internal auditors should not be relied upon exclusively to disclose fraud, defalcations or other irregularities which may exist.

## **3.9 Internal Audit**

### **3.9.1 History of Internal Audit:**

The history of internal audit was conceived primarily by Lawree Sawyer, the father of modern internal auditing after World War II, since then it is steadily progressing by Institute of Internal Auditors (IIA) and many other Act or regulation likewise Sarbanes Oxley Act of 2002.

Due to the major corporate and accounting scandals such as Enron, Worldcom and Tyco International the public and the stakeholders were losing trust in accounting and reporting practices. To restore these public confidences, two Senators, Mr. Paul Sarbanes and Mr. Michael G.Oxley brought a bill before senate which subsequently passed and known as Sarbanes Oxley Act 2002. One of the major provisions of the SOX act is “A requirement that companies listed on stock exchange have fully independent audit committee that oversees the relationship between the company and its auditors”. However, Bangladesh Securities and Exchange Commission (BSEC) also has a similar regulation under corporate governance guideline.

Internal Audit activity is a small part of internal control process engaged to ensure primarily directed and evaluation of internal control system. The Committee of Sponsoring Organization (COSO) framework is defined internal control as a process that is directed by an entity’s Board of Directors or management and other personnel. Moreover it is designed to provide reasonable assurance regarding the achievement of the following main objectives:

- Effective and Efficient operation.
- Trustworthiness of financial and managerial reporting.
- Compliance with laws and regulations.
- Safeguard of Assets.

Considering the above and enhanced pressure of compliance from the regulatory body like IDRA and BSEC, internal audit become inevitable for an organization that is publicly listed and operating in Bangladesh.

### 3.9.2 Role and Obligation of Internal Audit:

- The major role of internal audit should support the board or executive management to safeguard the assets, reputation and sustainability of an organization.
- The board of directors or executive management should ensure the support and acceptance of internal audit at all levels of the organization.

### 3.9.3 Scope of internal audit:

- **Scope of internal audit should be unrestricted:** There should be no characteristic of the organization to restrict internal audit from looking at as it delivers on its instruction. It is not the role of internal audit to second guess the decisions made by the board of directors. Its scope should give reliable relevant information to the board or its committees.
- **Risk valuations and prioritizing work of internal audit:** Internal audit should make its own judgment based on the structure and risk profile of the organization. It should consider business strategy and form an independent opinion of the key risks to the organization and assess how effectively these risks are being managed. Internal audits should attention on the areas where risk will be higher. Internal audit should create a risk based decision so that its scope should be encompassed in the audit plan- it does not mean that it will cover all of the scope areas each year. Scope areas of audit plan should be approved by the audit committee.
- **Internal audit coverage and design:** Any changes to audit plan should be approved by the audit committee. Internal auditors should have the flexibility to contact with unplanned events to prioritize emerging risks.
- **Scope of Internal Audit:** Internal audit scope should be frequently revised to take account of new and emerging risks. internal audit should consider the following areas to its scope:
  - **Governance system:** Internal audit should consider the strategy and functional effectiveness of the internal structures and processes of the organization within its scope.
  - **The information provided to the Board of directors or Executive Management for strategic and effective decision making:** Internal audit should



consider its scope within the processes and controls assisting strategic and effective decision making.

- **The setting of risk appetite:** Internal audit is not liable for setting the risk appetite. It has been recognized and reviewed by the active involvement of the board of directors or executive management.
- **Organizational risk and control:** Internal audit should consider the organizational risk and control within its scope.
- **Risk arising from poor customer treatment:** Internal audit should assess whether the organization is performing with integrity with customers and with relevant markets. Internal audit should consider business and risk management whether designing and controlling products, services and supporting processes for the interest of customers.
- **Risk of capital and liquidity:** Internal audit takes into consideration the modeling and management of the organization's capital and liquidity risks within its scope.
- **Major business issues:** Such as changes of business process, arrival of new products and services. Examples of key corporate events could include significant business process changes, introduction of new products and services. Internal audit evaluate whether these events are high risks to warrant current situation.
- **Functional results:** Internal audit should assess the design and functioning effectiveness of the administration's policies and procedures. Internal audit should consider the actual outcomes from the functioning activities of the organization.

#### **3.9.4 Results of Audit Reports:**

- Internal audit should provide the reports to the appropriate governing bodies. The style of the reports will be subject to on the requirements of the respective governing bodies. The following issues should be focused at the time of providing internal audit reports to the audit committee:
  - Focus on significant control weaknesses and breakdowns and identify accountabilities and timescales for each actions of management.
  - Independent opinion on reports considering the risk management of the organization in addition to highlight areas where there are significant delays.

- At least annual assessment on the overall effectiveness of the organization as well as risk and control framework of the organization.

### **3.9.5 Dealings with Risk Management, Finance and Compliance Issues:**

- These issues are a crucial part of an organization's corporate good governance structure. Internal audit should be unbiased in this regard.
- Internal audit should examine the adequacy and effectiveness of the risk management, compliance and finance functions.

### **3.9.6 Freedom and Right of Internal Audit**

- The Chief Internal Auditor is to be senior enough within the organization to give him/her appropriate standing, access and authority to challenge the executives.
- Internal audit should have the right to executive committee meetings and to contribute to key management decision making.
- Internal audit should access to key management information and all of the organization's records.
- The primary reporting line for the chief of internal auditor should be to the chair of the audit committee. In exceptional circumstances, the Board may wish for internal audit to report directly to the chair of the board, or delegate responsibility for the reporting line to the chair of the board risk committee, provided the chair of the board risk committee and all the other Committee members are independent non-executive directors. The reporting line must avoid any impairment to internal audit's independence and objectivity.
- The audit committee appoints the chief of internal auditor and fires him or her from the post.
- The chair of the audit committee is responsible for setting the objectives of the chief of internal auditors and evaluates his/her performance at least annually. This evaluation should confirm to the disinterest, neutrality and tenure of the chief of internal auditor.
- The chairperson of the audit committee fixes the remuneration of the chief of internal auditor.

### **3.9.7 Resources**

- The chief of internal auditor should ensure that the audit team has the skills and experience, including technical subject matter expertise, commensurate with the scale of operations and risks of the organization. This may entail training, recruitment, from other parts of the organization or co-sourcing with external third parties.
- The chief of internal auditor should provide the audit committee with a regular assessment of the skills required to conduct the work needed, and whether the internal audit budget is sufficient to recruit and retain staff or procure other resources with the expertise, experience and objectivity necessary to provide effective challenge throughout the organization and to the executive.
- The audit committee should be responsible for approving the internal audit budget and, as part of the board's overall governance responsibility, should disclose in the annual report whether it is satisfied that internal audit has the appropriate resources.

### **3.9.8 Quality Assessment**

- The board or the audit committee is responsible for evaluating the performance of the internal audit function on a regular basis. In doing so it will need to identify appropriate criteria for defining the success of internal audit. Delivery of the audit plan should not be the sole criterion in this evaluation.
- Internal audit should maintain an up-to-date set of policies and procedures, and performance and effectiveness measures for the internal audit function. Internal audit should continuously improve these in light of industry developments.
- Internal audit functions of sufficient size should develop a quality assurance capability, with the work performed by individuals who are independent of the delivery of the audit. The individuals performing the assessments should have the standing and experience to meaningfully challenge internal audit performance and to ensure that internal audit judgments and opinions are adequately evidenced. The scope of the quality assurance review should include internal audit's understanding and identification of risk and control issues, in addition to the adherence to audit methodology and procedures. This may require the use of resource from external parties. The quality assurance work should be risk-based to cover the higher risks of the organization and of the audit process. The

results of these assessments should be presented directly to the audit committee at least annually.

- Where the internal audit function is outsourced to an external provider, internal audit's work should be subject to the same quality assurance work as the in-house functions. The results of this quality assurance work should be presented to the audit committee at least annually for review.

### **3.9.9 Relationships with Regulators**

- **Nature and purpose of the relationship:** The chief internal auditor, and other senior managers within internal audit, should have an open, constructive and co-operative relationship with regulators which supports sharing of information relevant to carrying out their respective responsibilities.

## **3.10 Topic-wise Parameter of Control & Compliance Activities**

**3.10.1 Name of Internal Audit Department:** Bangladesh Securities and Exchange Commission (BSEC) in its corporate governance guideline have mentioned the name of the internal audit department as “Internal Audit & Compliance Department”.

**3.10.2 Audit plan:** an audit plan is approved by Audit Committee. The major issues of annual internal audit plan are annual programme of work, follow-up of audit recommendations, and audit opinion on governance, risk and control. It has a good strategy to focus on aims, priorities, and risk areas. Moreover, internal audit plan is required to review periodically. The following areas are taken into consideration at the time of internal audit plan:

- Name of the audit.
- Resources for the audit.
- Timing of the audit.
- Value-add of the audit.
- Contingency.
- Follow-up.
- Holidays, training and sickness.
- Planning, reporting and liaison.

**3.10.3 Cash and bank balance:** Cash & bank balance is the most liquidity asset of the organization. The daily cash balance statement should be submitted to the Chief Financial Officer (CFO). On the other hand, bank reconciliation statement should be verified weekly or monthly.

**3.10.4 Outstanding premium and Agents' balance:** Outstanding premium means due amount of premium. Premium is earned but policyholders do not pay the premium. Agents' balance means agents collect premium but do not deposit the entire amount.

**3.10.5 Financial Statements:** IDRA provides formats to prepare the financial statements for Life Insurance Company.

**3.10.6 Regular bills checking:** Incase of regular bills such as tour bills, transport allowance, daily allowance etc., and the company should have sound policy for these types of expenses. It helps ensure effective control system. A well reputed organization updates with the demand of time. It increases satisfactory of employees.

**3.10.7 Fixed Assets:** To record fixed assets, a register is to be maintained considering the issues such as categories, serial number, location, user, depreciation rate, warranties or guaranties.

**3.10.8 VAT and Tax, provisions and payment:** National Board of Revenues (NBR) is the regulatory authority of the government. Every company should comply with the vat & tax laws for the betterment of the country as well as the company itself. If the company violates it, she will be punished. Tax and Vat issues are strictly followed in terms of transactions. The rate of vat & tax varies with the nature of business. If the company deducts Vat and Tax, it issues vat and tax certificates to the parties or client. After that the principal officer deposited it to the circle office.

**3.10.9 Premium Income:** Insurance premium is collected upon issuing policies. It is the consideration for bearing the risk by the insurance company. The premium collections are credited to a separate bank account and no withdrawals are normally permitted from that account for meeting the general expenditure. As per the policy of the insurance company, the collections are transferred to Head Office. No Risk shall be assumed by the insurer without receipt of premium according to Insurance Act, 2010.

**3.10.10 Commission paid:** Insurance agents get commission based on their premium collection. The rate of commission varies with the nature of policy as well as duration of policy. Commission for policy agent is fixed according to the section 58 (03).

**3.10.11 Management expenses:** Management expenses consist of commission and other expenses related to business collection. Regulatory Authority defines by probidan dated 28.08.17 how much management expenses to be allowed according to the insurer's project and duration of policies.

**3.10.12 Claims Department:** The department is performing the claims such as survival benefit, maturity claims, bonus, and death claims. The company should have a claim committee that will ensure the claims paid or not considering the related policies and other issues.

**3.10.13 Share & Investment Department:** Minimum paid up share capital for life insurance Company required under section 21 is three corers taka of which 60% will be subscribed by sponsors and remaining 40% will be subscribed by general shareholders.

**3.10.14 Human Resources Development (HRD):** The department is responsible for recruiting, training, evaluating, promoting employees according to the company policies. It also ensures service benefits such provident fund, gratuity, leave encashment, festival bonus, and so on.

**3.10.15 Procurement:** Procurement is a major costing part of a company. There should be a procurement committee. There will have a well defined procurement policy how to start it and how to end it. At least three quotations will be collected from suppliers. High qualities, low price items and other factors should be considered at the time of selecting party. Payments will be done according to company policy.

**3.10.16 Transport expense:** The expenses are incurred according to procurement process. At least three quotations are required for pre-approval of purchase committee. Quality and price of the goods or services are the major issue of quotation selection process.

**3.10.17 Store:** Every company has a well defied store policy. There are lots of register such as received register, issue register, Stock ledger. The company has a requisition format to issue

store items. The requisition format should be numbered. There is a responsible authority that authorizes the requisition.

**3.10.18 Actuarial Department:** All insurance companies are required to have an appointed actuary who is responsible for ascertaining premium rate, commission, management expenses, bonus, probable expected return from investment and the actuarial provisions towards policies in force and under discontinuance stage Insurance Reserves certified by the Appointed Actuary (also known as actuarial reserve) form a significant item of Liability in the Financial Statements of Insurance Company.

**3.10.19 Underwriting Management Department:** Underwriter determines premium rate, the sum assured, and commission and whether risks to be taken or not in terms of evaluating various factors or documents like age, Declaration of Good Health etc.

**3.10.20 Re-insurance Department:** Every insurer has a re-insurance policy. If any organization wants to re insurance outside of the country, it has to take permission from IDRA. The insurer prepares profit and loss statement for the re-insurance business.

**3.10.21 Policy Issue or Servicing Department:** The department is to keep the record of policy issued and is to handle policy related complaints. Moreover it is responsible for taking accounts of branch offices. It maintains policy issues register according to section 31, Insurance Act 2010.

**3.10.22 Information Technology (IT) Department:** In modern business, IT sector is playing a vital role in any business industries, especially insurance industry. Information technology department preserve all the information on the software system so that decision makers can get any information related to their needs. The department is responsible for updating all the information on the company's system.

**3.10.23 Renewal Department:** After first premium from any policies, all the other premiums are called renewal premium. The entire Original Receipts (OR) is preserved by the department that is come from IT Department. Based on the renewal business, the commission is paid to the insurance agent.

**3.10.24 Service Cell Audit/Branch Office Audit:** If an insurer wants to open a new branch office, it is done according to **section 40 (02), Insurance Act 2010**. It is a major business part of the insurance business. So it is an important focus area of internal control. In case of branch office audit, the following issues are to be verified: Premium Receipt (PR) Register, employees' attendance and movement register, fixed assets register, stamp register, policy issuer register, survival benefit and maturity register, office rent agreement, received and payment statement and so on.

**3.10.25 Special Management Assignment:** Management assigns special assignment to the internal auditors. Internal auditors perform it and provide reports to the management as per their requirement. Internal auditors should follow up the consequences of the report.



# *Chapter-04*

## *Analysis*

**4.1 Name of Internal Audit Department:** as per service rule 2006 of the company, the name of the department is “Internal Audit Department”. On the other hand, the existing name of it is “Internal Control & Compliance Department”.

**Comment:** According to Bangladesh Securities and Exchange Commission, the name of the department should be changed as “Internal Audit & Compliance Department”.

**4.2 Audit plan:** To develop and maintain sound systems of risk management, internal control, and good governance and to prevent & detect the irregularities and fraud, Internal Control & Compliance (ICC) Department makes an audit plan twice a year. The audit plan defines the objectives & scopes of the audit, working days & holidays, area of audit and basis of audit plan. The audit department follows up audit recommendations after reporting.

**Comment:** The audit plan is not approved by the audit committee. There is no consideration about resources for the audit, sickness of the employees and training. There is also no specific starting time for each audit area, ending period of audit and reporting period.

**4.3 Cash and Bank Balance:** Physical verification of cash is done monthly. If there is any observation, that is informed to management through audit report. There is a chance to hide cash from the locker because the responsible person does not provide the daily cash closing to his/her senior. In case of bank balance, the responsible person can use bank balances for his/her personal benefits.

**Comment:** The Company faces risk of cash in hand so the company receives daily cash in hand statement and surprised audit to be performed. On the other hand, the auditor may apply test check on the bank transactions. The auditor should verify the deposits and withdrawals transactions at random and check whether the Account is operated by authorized persons only. If there are any suspects, auditor will take confirmation from bank.

**4.4 Outstanding premium and Agents’ balance:** Policy agents collect premium but they do not submit the premium to the bank account of the company. The unpaid amount is also known as outstanding balances. Agents show their business but they do not deposit the entire amount that is shown as agents’ balance.

**Comment:** Internal auditors verify those accounts and recover that amount by post audit. The company should develop its controlling system to ensure sound business operation.

**4.5 Financial Statements:** Financial statements are prepared with the prescribed form issued by probidan dated 22 January 2018 on the power of section 27.

**Comment:** Internal auditors verify the financial statements provided by the finance and accounts department.

**4.6 Regular bills checking:** The Company has a sound policy to control these types of expenses. It helps to save valuable time of employees. A limit up-to Tk. 200/= is not audited by ICC Department. Above the amount, it is mandatory to be audited and verified by the concerned department. Considering this, audit department complies these expenses with policies of the company. The allowances for these expenses are not enough for the employees. It is very tough to balance with the reality. Employees are reluctant to do out sides duties day by day.

**Comment:** A sound policy for these expenses helps a company to get effective results from the employees. The company should update its policy considering the present situation.

**4.7 Fixed Assets:** The establishment department is maintaining a fixed asset register for recording all fixed assets around the country. The serial number of assets is not properly maintained. Register are not updated. There is a big difference between actual and register.

**Comment:** There is no control over the fixed assets. The company should update the fixed assets register. Warranties or guaranties, where it has, are vital issues for repairmen or replacement. The assets should be numbered. Without it, someone wants to take the benefits from the situation if s\he knows it.

**4.8 Vat and Tax, provisions and payment:** The Company deducts 5% tax from commission of agents. The company has to deduct TDS from the parities bills according to the tax laws. The company has to pay advance tax. Moreover the company has to make a provision for paying tax on annual income. Value-added Tax is borne by the user. The authorized person or organization

can deduct vat and deposit to the government treasury. When the company purchase in cash it is not possible to maintain the laws.

**Comment:** National Board of Revenue is a powerful authority in our country. It can shut down any company for any significant non compliance issues of tax. So the company should apply the vat & tax laws as much as possible.

**4.9 Premium Income:** When an insurer takes risk of policyholders, it receives premium from policyholders. If the company appoints insurance agent, they collect premium and submit to bank account of the company. Sometimes they collect premium but do not submit it to the bank account of the company. The company loses the fund's opportunity benefits. Moreover, they submit the premium after deducting the commission.

**Comment:** Lack of well controlling systems, the company is depriving from opportunity benefits. In the mean time, the organization is unable to know about the premium collected or not. So the company has to set up a system of premium receipt (PR) automation.

**4.10 Commission paid:** Company pays commission to the policy agent according to the instruction of authority. Basically commission depends on premium collection. Sometimes policy agents apply creative accounting to get more commission by manipulating the year of premium collection.

**Comment:** Commission expenses are major cost for insurance business. Internal auditors verify creative accounting in order to control commission expenses. If the insurer issues online premium receipt, there is no chance to manipulate premium collection.

**4.11 Management expenses:** Management expenses depends on projects, period of policies etc. The insurer tries to below management expenses fixed by the authority.

**Comment:** The auditor should verify and comply with the circular of the authority and also check whether the expenses are higher than the amount of authority fixed up.

**4.12 Claims Department:** Claims consist of Survival Benefit (SB), maturity, bonus, and death claim. The particular benefit depends on requirements of various documents respectively. According to regulatory authority, the company has claim committee as well as claim (death,

maturity and surrender) register and claims payment register according to **section 31, Insurance Act 2010**. When claim applications are submitted to the department, it will be registered firstly. If an application with required documents satisfies the committee, the benefits will be paid in through bank account of Policyholders or nominee though policyholders died.

**Comment:** Before being benefits paid, all the claim benefits are pre-audited. That's why; internal auditors confirm premium collections, terms and condition of the policy, requirement of the company's internal policy and regulatory authority, and also ensure the beneficiary of the benefits. Then the benefits are paid through bank account of beneficiary.

#### **4.13 Share & Investment Department:**

The company's authorized share capital is Tk. 75, 00, 00,000/= . But the company issued 17.15% share to general people. The company invests its fund in authorized sectors like government securities, equity share of the companies. The company pays cash dividend and issue bonus share.

**Comment:** The Company cannot meet up 40% share value of general shareholders. Internal auditors verify profit before dividend declaration through Annual General Meeting (AGM) and also ensure compliance tax laws in case of paying cash dividend. Other than companies, the company deducts 10% tax deducted at sources (TDS) or the rate will be 15% if they have no taxpayer's identification number (TIN). In case of companies, the rate will be 20%.

#### **4.14 Human Resources Development (HRD):**

- **Appointment, training and Benefits (Provident Fund, Gratuity and leave encashment):** Human resource department hire employee and provide training to employees as required getting betterment for the company. Moreover, the company provides service benefits like provident fund, gratuity, leave encashment etc. to employees. HRD processes it at the time of retirement or leaving the organization.
- **Bonus, Loan & Advances:** The Company provides two festival bonuses yearly. Besides this, the company gives loans and advances against salary for a fixed period.
- **Payroll (Attendance, Leave) and Promotion:** The department prepares salary statement from attendance report and records leave like sick leave, casual leave, and maternity

leave. In addition, it gives promotion to employees on basis of employee key performances.

**Comment:** The department can manipulate salary of employees or can out salary by showing fake employee. So, internal auditors check salary of employees, new recruitment and promotion according to the company's policies.

**4.15 Procurement:** Establishment department is responsible for procurement. A purchase requisition is completed through a complete process. At least 3 quotations are collected for pre-approval of purchase committee. Select a quotation for work order considering the price & quality of the products. If the quotation value is below three thousand taka, the quotation is not required to get pre-approval of purchase committee. But a person who issues purchase order receives the goods or services. Sometimes, the work is done before pre-approval when emergency situation arises.

**Comment:** If a person who issues purchase order receives the goods or services, there is a chance to be biased. The company should segregate the duties between two persons. One of them issues purchase order and other receives the goods or services.

**4.16 Transport expense:** The Company has a unique policy for repairmen of car. The transport section does not collect three quotations properly. They are biased because one quotation collected by discussing with parties and another two quotations are arranged by them. Responsible engineer is not qualified for the position. He cannot find out the problems of the car. That's why; he is dependent on other person outside the company.

**Comment:** The process of identifying problems is very harmful for the company. There is a scope to pass the money more from the company. The purchase committee is not effective about their duties. They should be alert about fake quotation. The company should replace an expert engineer to minimize the cost.

**4.17 Store:** The Company has two types of store. One is doc. Store and other is stationeries store. The Company has a store policy. There is only stock register. The requisition forms are

not numbered. The register is not properly maintained and also over writing on balances. Purchases requisitions arise by store office are poor quality. Store officer issues requisition and he receives items.

**Comment:** Store policy is standard but employees are not skilled. There is risk of miss-use of store items due to recording system in register. The company should not allow the same person to issue requisition and receive items. The requisition form should be numbered chronologically.

**4.18 Actuarial Department:** Actuaries are not available in Bangladesh. That's why; the company gets actuary's services from outsiders. The name of the actuary of the company is Mr. Mohammad Sohrab Uddin AIA (UK), FCA (USA). The company appoints actuary complying the **section 67, Insurance Act 2010**. Actuary bears more responsibilities according to Insurance Act 2010 & IDRA Act 2010.

**Comment:** An insurer cannot appoint an actuary without prior approval of authority. An actuary has a powerful position in the organization. Every actuary plays a vital role in the insurance business and is the policy maker of the insurance. An auditor is required to verify that previously set all the factors by actuary impacts on company's expected return and evaluate actuarial valuation of pricing and liabilities.

**4.19 Underwriting Management Department:** Underwriting department is a vital role playing department for any insurance company. Before underwriting acknowledgement date, the insurer does take any risk of policyholders. Underwriter determine premium rate, the sum assured, commission and whether risk to be taken or not in terms of evaluating various factors or documents like age, Declaration of Good Health (DGH) etc.

**Comment:** if underwriters are poor qualities, the company faces business risk. In order to reduce business risk, internal auditor check premium register and commission according to the company policies and ensure stamp duty along with compliance factors of IDRA.

**4.20 Re-insurance Department:** The company has a re-insurance policy. It pays re-insurance premium to insurer. The position of the company is called cedant according to BFRS-04. The

department is to prepare profit and loss statement for the re-insurance business. In this regard, the department follows instruction of IDRA to prepare the statement.

**Comment:** Internal auditors verify re-insurance condition according to company policy and ensure premium paid according to agreement. Moreover, they verify profit or loss statement presented in prescribed form for re-insurance business.

**4.21 Policy issue department:** Policy issue department is also called policy servicing department. In addition, it is a part of accounts department. The department keeps a policy register form -01 prescribed by IDRA. Any difficulties arose from any policyholders; the department is trying best to solve the issues. They supervise all the accountants who are working in service cell and agency offices. Accountants close their monthly premium collections within the first week of the next month. Moreover, policy department take monthly closing with Premium book along with Daily Collection Sheet (DCS). The department preserves premium book (called Muri Boi).

**Comment:** Internal auditors check policy issue register whether there is any missing of new policies. Premium Receipt (PR) Complain issues are carefully investigated by the auditors and give recommendations to the management how to control this type of issues. Besides these, internal auditors verify the monthly premium collection statement.

**4.22 Information Technology (IT) Department:** The IT department of the company is setting up lead software to make the business automated. It will save much time and will protect the company from manipulation. The software is not covered the entire service cell around the country. So premiums are collected by prescribed hard copy. The information of hard copies is recorded in software by IT employees. Due to less sincerity of employees, the entire business from policyholders is not recording in the software.

**Comment:** Carelessness of IT employees faces the company financial losses. The company should train up the existing employees or replace experienced employees. The company should ensure the entire premium receipt issued to be on online. Then, the problems will be minimized. Internal auditors check or verify auto-generated statements with hard papers to enhance reliability on software performance. If any discrepancy is found, the system will be up-dated.



**4.23 Renewal Department:** The department keeps records all premiums of policyholders. A stamp of tk. 5 is attached with Original Receipt (OR) by the department and delivers a copy of it to the respective agent.

**Comment:** The department has a scope to manipulate to premium income for manipulating the commission or the department has a scope to hide revenue stamps. So internal auditors confirm that the department is preserving or not all the Original Receipt (OR) and ensure revenue stamp compliance with Original Receipt.

**4.24 Service Cell Audit:** Internal Audit Team conduct s branch audit as per audit plan on the overall activities of branch. Before going to service cell audit, an auditor have to get permission from management and have to collect various documents like office rent agreement, car log book, status of PR Book issues, current cash and bank balance from head office.

Major considering issues at the time of service cell audit:

- **To check PR Register:** Internal auditors check PR register to confirm PR issues and premium collection and to ensure bank deposit. Sometimes agents issue premium receipt but do not submit PR copies and premium collection to the head office.
- **To check employees' attendance and movement register:** Auditors verify attendance report to ensure good governance. Moreover, movement register is checked for ensuring that employees are not out of work at the time of office hours except leave permission.
- **To check cash and bank balance:** it is confirmed to compare PR issues and premium collection. If there is a difference between premium collection and submission to the bank account of the company.
- **To verify asset register (Furniture, Office equipment, Car etc.):** internal auditors have a list of furniture, office equipment, cat etc. according to it, auditors verify and ensure to the existence of assets and find out reasons of disposal of assets. Most of the cases, there is a difference between them.
- **To check policy register:** Number of policies recorded in head office is cross matched to policy register of service cell office. It is done there is any gap between that of head office and that of branch office.

- **To check Survival benefit (SB) and Maturity Register:** There is a Survival register and maturity register in service cell office. Survival and maturity cheque issued by head office are cross matched with that of service cell office.
- **To verify office rent agreement:** Internal auditors investigate office rent and contact with land owner for confirming actual rent received by him/her. Sometimes internal auditors detect that there is a contact for office but there is no office. Moreover the amount received by the Lander is less than the amount in the agreement.
- **To check meter reading (if company bear electricity expense):** internal auditors check meter reading in case the company bears electricity.
- **To check stamp register:** Service cell office collects stamp from head office. Service cell audit get confirmed whether stamps are properly used or not.
- **To check received and payment statement:** Internal auditors check received and payment statement to ensure cash in hand and how much amount of taka will be submitted to bank account of the company. Sometimes insurance agent collects premium from policyholder but does deposit the entire amount to the corporate office.

After service cell audit, internal auditors submit two types of report. One of them is immediately submitted to management that is known as short report. A few days later, details report submitted to management and followed up by ICC Department.

**Comment:** There is a major financial risk between premium collection and deposit. To control it, the insurer issues online premium receipt and monitors how much premium is not being deposited to the bank account. Agency offices have a chance to aside the assets from the office because of having no serial number on assets. Moreover, the company should take a surprise audit in case of issuing survival benefit cheque and maturity cheque to find out that actually the policyholders are getting the cheque or not.

**4.25 Special Management Assignment:** Management of the company gives special assignment to internal auditors to investigate system weakness or fraud activities. Internal auditors carry its duties to find out real cause of the assignments and report to management after investigation. Internal auditors have no specific audit report format. The report can be arranged as per requirement of management. Some special assignments, findings and audit reports are discussing below

Sl. No.	Reference no., audited office name, date and auditor's name	Scope of audit or investigation	Observation	Recommendations	Last embezzlement or cash in hand (Tk.)	Actions taken by the respective department	Implementation	comments
1	PLICL/ICC /EKOK/22/ 2018 EKOK BIMA Mymensingh Service Cell 02/11/17 Md. Rasel	Stock Premium Receipt (PR) book, approved commission checking and deducting Premium Receipt (PR) at September'17	1) Cash in hand Tk. 57165. 2) Teeming & lading Tk. 37822. 3) One Premium Book not found.	An amount of Tk 57,615 cash in hand will be recovered from Farid Ahmed (ED) and the administrative and legal action can be taken against him.  an amount of tk. 37822 will be recovered from Mr. Mostaq (the present in-charge)  Administrative action can be taken against Mostaq Ahmed (In-Charge) for distribution in the field without using the PR book office.	Tk. 51,225.  Tk. 37,822.	The respective authority inform that the money is being adjusted from the salary and bonus of Farid Ahmed, ED, Development.  The relevant files were sent to law department to take legal action against Mr. Mostaq Ahmed.  The relevant files were sent to law department to take legal action against Mr. Mostaq Ahmed.	Partial implementation  Partial implementation  The implementation process is underway.	
2	PLICL/ICC /EKOK/23/ 2018 EKOK BIMA Ponchagor Service Cell 02/03/18 Md. Shafique	Checking of stock PR book, approved commission and deducting PR at December'17	1) Cash in hand Tk. 4,24,849. 2) Not found accountant	An amount of Tk. 4, 08,975 will be recovered from Mr. Mazaharul Islam (Accountant) and the administrative and legal action can be taken against him.  Administrative actions can be taken against Mr. Mazaharul Islam (Accountant) because of not doing office properly.	Tk. 4, 08,975.	The respective authority informs wittingly on 15.07.18 that Md. Mazaharul Islam have cash in hand tk. 4,08,975. He has been asked to return the money with letter.  Transferred him to head office and assign specific job to him.	Partial implementation  Implemented.	

*Chapter-05*  
*Concluding Part*

## **5.1 Findings**

On the basis of control & compliance activities analysis, the following findings are observed during the internship period:

1. The name of audit department is “Internal Control & Compliance Department” that is not complying with the Bangladesh Securities and Exchange Commission (BSEC).
2. The audit plan of the audit department is not approved by the audit committee.
3. The responsible person does not provide daily cash in hand statement.
4. The company faces investment opportunity loss due to outstanding premium and agents’ balances.
5. The company should not have standard policy for daily allowances or travel allowances.
6. The company does not have a standard fixed asset register.
7. The company applies vat & tax laws where it is applicable.
8. The company has no full control over premium collection.
9. Lacks of control & system weakness, policy agents manipulate premium collection for getting commission.
10. The 17.15 % of paid up share capital does not comply the section 21 under insurance act 2010.
11. Internal audit department does not do audit in human resources related issues.
12. The register of store is not properly being maintained and also over writing on balances. The requisition forms are not numbered. The store office arise requisition and the same officer receives items.
13. Information Technology (IT) Department is not effective and efficient. It is taking more time to set up software to do business by online. There are poor skilled employees.

## **5.2 Recommendations**

- 1) According to Bangladesh Securities and Exchange Commission, the name of the department should be changed as “Internal Audit & Compliance Department”.
- 2) The audit plan should be approved by the audit committee.
- 3) The responsible person of finance & accounts department have to prepare and submit daily cash statement to the authorized person and internal auditor should verify cash in hand daily or weekly basis.
- 4) The company should issue online premium receipt to control outstanding premium, agents’ balance, premium income and commission. That’s why; the company should set up software to do business over the country.
- 5) To control fixed assets properly, the company should prepare and maintain a standard fixed assets register.
- 6) The company should issue minimum 40% of ordinary share capital to general shareholders.
- 7) Internal auditors should verify and confirm salaries, new recruitment and other factors that are maintained by human resources department.
- 8) The registers of store should be updated and requisition form should be numbered chronologically.
- 9) Information Technology (IT) Department should try to update records of premium collection. The department should take initiatives to train up its employees. Moreover, the department should quickly set up software and quickly ensure online business around the country.

### **5.3 Conclusion**

Progressive Life Insurance Company is a renowned life insurance company in Bangladesh. It is committed to provide high quality financial services or products to contribute to the growth of GDP of the country through stimulating trade and commerce, creating employment opportunity for the educated youth, poverty alleviation, raising standard of living of limited income group and overall sustainable socio-economic development of the country.

In order to keep pace with the ever changing dynamic business world, companies need to make sure that they are operating with hundred percent integrity and flawless business system.

As a result, each and every organization needs to ensure that they have a very strong and tight internal control system. If it is not ensured, threat of fraudulent activity, unnecessary expenses and other possible economic activities and un-ethical practice within the organization can harm the bottom line of the business. That's why, internal auditors play a vital role to ensure its effective internal control system and compliance issues. Internal audit department has become a vital part of business.

In order to secure the company's objectives, internal auditors help management ensure effective & efficient operations and controls in order to achieve the company's goals or objectives.

## **5.4 Bibliography & Web References**

1. Risk & Insurance by Azizul Haque Chowdury, Brothers Publication.
2. ICAB Study manual on Audit & Assurance.
3. <https://www.oreilly.com/library/view/auditing-principles-and/9789332501447/xhtml/chapter013.xhtml>
4. <https://www.wirc-icai.org/material/MAJOR-ISSUES-IN-AUDIT-OF-LIFE-INSURANCE.pdf>
5. [http://www.dai-ichi-life.co.jp/english/annual\\_report/2013/pdf/index\\_009.pdf](http://www.dai-ichi-life.co.jp/english/annual_report/2013/pdf/index_009.pdf)
6. <https://www.iaa.org.uk>
7. <https://na.theiaa.org/standards-guidance/Public%20Documents/IPPF-Standards-2017.pdf>
8. <https://progressivelife.com.bd>
9. <http://idra.org.bd>
10. <http://nbr.gov.bd>