HMRC - IPT08400 - Accounts System Overview

The personnel who will be able to assist you with checks in this area will be the insurer’s accounts staff and, in many instances, computer specialists. These personnel generally have little knowledge of how the underwriting is actually done: therefore you will need to relate the information supplied by the accounts staff to that supplied by the underwriting staff.

You should establish the audit trail including working papers, the computer systems and software used. You will need to ascertain the reports that are produced and what they comprise. The overview should deal with both taxable and exempt premiums. The aim is to establish and record the information within the insurer’s folder to inform the ongoing risk analysis.

Credibility

The checks made on the specific accounting systems must address the credibility of the systems themselves. For example, are any checks made upon the system by the insurer? If so are they evidenced? Are manual over-rides available on crucial systems checks? If so are the over-rides recorded, and is it possible to determine the reason for the over-ride? Larger insurers will probably have an internal audit unit and access to reports on a system would be of considerable value in determining system credibility.

At a broader level, the assurance visit will inform the overall view of the credibility of the IPT returns lodged by the insurer. The nature of any additional checks you undertake to determine the general credibility of the returns will depend on the records maintained by the insurer, the specific nature of the business written, and a range of other factors.

One additional check you may undertake is a review of the annual accounts, but there are problems with using these documents. By virtue of the way in which the accounts for insurance companies are prepared, it is only in exceptional situations that confirmation of the IPT figures might be obtained from the annual accounts. Nevertheless, the general information contained in the account statements and the indicators of performance positively add to the overall picture of the insurer. Additional documentation such as promotional literature may provide details of the types of cover offered and the way it is written.

Accounts system detail

You should establish, test and record the audit trail from the high level information contained in the IPT return through the various system functions to the detail of the contributory premium streams. An essential part of this procedure is a ‘walk through’ of the accounting system from the acceptance of a risk to the IPT return. You should approach the detailed checks in a systematic manner and direct them at both taxable and exempt premiums as appropriate, to include:

checks on documentation, such as policy files and slips,

coding of premiums to taxable and exempt, and how it is done,

premium figures used and how the tax is calculated,

tax point testing - is the tax being brought to account on time?

apportionment and how it is done,

de minimis contracts and how they are identified on the system,

additional premiums, how they are dealt with, especially in relation to the ESC,

return premiums, how they are dealt with, especially in relation to the ESC.

It is almost certain that where an insurer is also registered for VAT, the premium system will be significant in calculating the output figures for partial exemption purposes.

With the larger and more complex insurers these checks will be undertaken through a number of visits or a multi-year assurance cycle: see IPT08600 for further information.

Periods to be examined

Normally you need only check periods on a selective basis, although for smaller insurers you may be able to check all periods since the previous audit. Record those periods checked in your report. If you find persistent or serious errors or irregularities in the period(s) you select, check earlier periods to ascertain the full extent of under declarations.

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