

**The New India Assurance
Co. Ltd.**

Internal Audit Report

March 06, 2020

The New India Assurance Co. Ltd.
Room 405, ITC Building
337 Sen Gil Puyat Ave
Makati, 1209 Metro Manila

06 March 2020

Attention: **Mr. Rullie B. Payapaya**
Senior Accounts Manager

We submit, for your information and appropriate action, our final report on the results of our internal audit of relevant processes of The New India Assurance Co. Ltd. Our audit was performed in accordance with the International Standards for the Professional Practice of Internal Auditing.

We have received written comments and actions taken or planned from the Company's management on February 14, 2020 and February 28, 2020, in response to our observations and recommendations. Pertinent comments and actions taken or planned have been considered or are included in this report.

Management is primarily responsible for the implementation of adequate internal controls and appropriate management of risks in each area of responsibility.

The matters raised in this report are those that have come to our attention arising from our review that we believe need to be addressed by Management. It is not a comprehensive record of all the matters arising and in particular, we cannot be held responsible for reporting all risks and all internal control weaknesses. The extent of our work and completeness of the results are based on the level and quality of information provided to us and the support from the Company's Management.

This report has been prepared solely for the use by the management of The New India Assurance Co. Ltd. We do not accept responsibility to any third party to whom the contents may be disclosed or who at their own accord may decide to rely on it as the report has not been prepared for, and is not intended for, any other purpose.

Very truly yours,


ROXAS CRUZ TAGLE AND CO.

EXECUTIVE SUMMARY

OBJECTIVE

The main objective of this audit is to assess the adequacy and effectiveness of the design and operation of internal controls over the relevant processes, which was agreed with you during the audit planning phase.

SCOPE

Our audit covered the following Company's processes:

1. Agent Hiring/ Broker Accreditation and Renewal
2. Billing and Collection
3. Claims
4. Commission
5. Payroll, Payables and Disbursements
6. Underwriting & Reinsurance
7. Financial Reporting
8. IT Controls
9. Compliance

Our scope focused on the following:

1. Relevant internal controls, policies, and procedures over the processes mentioned above
2. Reporting mechanisms pertaining to the covered processes
3. Relevant financial and non-financial company documents from April 1, 2018 to March 31, 2019

SOURCES OF INFORMATION

We obtained the Company's manual, organizational chart, and duties and responsibilities. Interviews and discussions were held with management and key process owners. Internal Audit work was conducted based on interviews, walkthroughs, confirmation and verification of supporting documentation.

SUMMARY OF CURRENT AUDIT OBSERVATIONS, RECOMMENDATIONS AND THE MANAGEMENT'S COMMENTS AND ACTIONS TAKEN OR PLANNED

The table below summarizes our observations and risk levels per sub-process:

Criticality	Processes							Total
	Compliance	Reporting	Agent/ Broker Hiring	Disbursements	Petty Cash Management	Payroll	IT Controls	
High	2	-	-	-	1	1	-	4
Medium	-	2	-	1	-	-	2	5
Low	1	-	1	-	-	-	1	3
TOTAL	3	2	1	1	1	1	3	12

Below is the summary of our observations and management's responses. Annex 1 presents the details of our observations.

Cycle	Item No.	Observations	Management's Response
Compliance	1	Assign Data Protection Officer	The Company will obtain a copy of Data Privacy Manual from the head office in India and slight revision will be made in order to align with the procedures and policies applicable in the Philippines. Ms. Dece Tacardon from HR department will replace the Senior Accounts Manager as new Data Privacy Officer. Registration will follow receiving the copy from Head office
	2	Conduct Privacy Impact Assessment	In the absence of expected copy to be received from the head office, the Company is planning to outsource the assessment and preparation of data privacy manual until the Company will be able to manage itself without the assistance of other parties.
	3	Ensure timely payment of adjuster's fees	Management assured that subsequent invoices would be addressed and paid on time.
Financial Reporting	4	Ensure proper segregation of duties	Due to limited accounting staff, basic journal entries initially prepared by Senior Manager for encoding to Geniisys System by Junior Officer. Before posting, a review is performed by Senior Accounts Manager to check correctness of use chart of accounts. Followed by posting within the same system.
	5	Ensure approval of changes to chart of accounts	Noted for implementation, Slip approval for addition of New Chart of accounts will be course through to authorized signatories for approval and implementation.
Agent and Broker Hiring	6	Ensure newly engaged agents/brokers are entered in Geniisys	Moving forward, intermediary forms will be fully accomplished prior to uploading to Geniisys. The IT Officer will not accept incomplete forms.
Disbursements	7	Ensure Appropriate User Access	Management agreed that access in payee records maintenance of accounting assistant for disbursement will be removed. Access on this specific module will be given to the IT Department and Mr. Del Sangalang.
Petty Cash Management	8	Implement segregation of duties for handling of petty cash	Management will formulate a system for proper segregation of duties. They will make sure that the use of fund will be properly reviewed by the approving officer.

Cycle	Item No.	Observations	Management's Response
Payroll	9	Ensure Accuracy of Time Reports	Management will consider implementing changes that will ensure time records are reviewed prior to payroll processing. Use of Biometrics is also for consideration.
IT Controls	10	Correction of inconsistent date format	This is already coordinated with CPI and it is an excel issue. This is easily resolved by converting the date format of the column to Long Date and it will fix the issue.
	11	Documentation of the quarterly review of users	The IT Department will conduct quarterly review of system user access with formal documentation.
	12	Avoid duplicate payee records	As per CPI, there is no validation for duplicate when adding payee manually into the system. Already created an IT service request regarding this matter and tagged it as enhancement.

STATUS OF PREVIOUS AUDIT'S OBSERVATIONS AND RECOMMENDATIONS

The table below summarizes the status of implementation of the nineteen (19) recommendations of the previous audit to date. The details of these recommendations and the implementation status are presented in **Annex 2** of this report.

Status of Implementation as of January 1, 2020	No.	Percentage
Implemented	12	63%
Partially implemented	7	37%
TOTAL	19	100.00

ANNEX 1

DETAILS OF OBSERVATIONS

Item No.	Cycle	Observation	Details	Risk Level and Implications	Recommendation	Response
1	Compliance	Assign Data Protection Officer	<p>IC Circular 2019-13 reiterates compliance with the provisions of RA 10173 or Data Privacy Act of 2012.</p> <p>As of review date, there is no assigned Data Protection Officer yet. The Senior Accounts Officer was originally designated as DPO but was told that it should be assigned to different personnel due to conflicts in responsibilities.</p>	<p>High</p> <p>➤ Unauthorized processing and improper disposal of sensitive personal information, which are penalized under RA 10173.</p>	<p>Assign a Data Protection Officer and let him/her undergo the necessary trainings.</p> <p><i>According to Senior Accounts Officer, they are planning to give the responsibility to the HR Officer.</i></p>	<p>The Company will obtain a copy of Data Privacy Manual from the head office in India and slight revision will be made in order to align with the procedures and policies applicable in the Philippines. Ms. Dece Tacardon from HR department will replace the Senior Accounts Manager as new Data Privacy Officer. Registration will follow receiving the copy from Head office</p>
2	Compliance	Ensure compliance with Data Privacy Act	<p>We noted that there is still no privacy manual and no Privacy Impact Assessment has been conducted yet.</p>		<p>Conduct privacy impact assessment (PIA) and develop a privacy manual.</p> <p><i>Per Senior Accounts Manager, they plan to outsource these activities.</i></p>	<p>In the absence of expected copy to be received from the head office, the Company is planning to outsource the assessment and preparation of data privacy manual until the Company will be able to manage itself without the assistance of other parties.</p>

Item No.	Cycle	Observation	Details	Risk Level and Implications	Recommendation	Response
3	Compliance	Ensure proper compliance	<p>The Insurance Commission issued Circular Letter 2019-53 prescribing Adjustment fees must be settled within 45 days from receipt of service/billing invoice or upon settlement of insurance claim, whichever comes first without any demand.</p> <p>Noted that one out of ten adjusters invoice was paid only after 120 days (more than the required 45 days).</p> <p>Details: <u>DV_NO-0000010846</u> Payee: <u>TECHNICAL INSPECTION GROUP ADJUSTMENT & SURVEYORS CORP.</u> Invoice Date: <u>08/06/2018</u> Check Date: <u>12/04/2018</u></p>	<p>Low</p> <p>➤ As per Insurance Commission, noncompliance for payment of adjusters fees within the specified period may be subject to penalties.</p> <p><i>Penalties for the identified adjuster's invoice will not apply yet as a grace period of one year was given to settle existing invoices.</i></p>	<p>Comply with the Circular Letter issued by Insurance Commission.</p> <p>Develop and Implement Policies and Procedure that will ensure proper compliance for adjuster's fees.</p>	<p>Management assured that subsequent invoices would be addressed and paid on time.</p>

Item No.	Cycle	Observation	Details	Risk Level and Implications	Recommendation	Response
4	FRCP	Ensure proper segregation of duties	<p>Basic control for creation of journal entries requires that the preparer is different from the approver.</p> <p>The preparer of manual journal entries (Junior Accounts Officer) is also the one who post the entries in General Ledger.</p> <p>Approval of entries prior to posting are made manually. The Senior Accounts Officer reviews the printed copy of parked journal entries prior to posting by the Junior Accounts Officer.</p>	<p>Medium</p> <ul style="list-style-type: none"> ➤ Posting of unapproved journal entries 	Ensure proper segregation of duties. Person other than the preparer should post journal entries.	<p>Due to limited accounting staff, basic journal entries initially prepared by Senior Manager for encoding to Geniisys System by Junior Officer.</p> <p>Before posting, a review is performed by Senior Accounts Manager to check correctness of use chart of accounts. Followed by posting within the same system.</p>
5	FRCP	Ensure approval of changes to chart of accounts	<p>Implementation of changes to financial accounts or system data should be reviewed and approved first by management.</p> <p>Addition to chart of accounts are requested through email and sent to IT Officer for implementation. No approval is made prior to implementation.</p> <p>Senior Accounts Manager is only copied in the email to inform him of the request.</p>	<p>Medium</p> <ul style="list-style-type: none"> ➤ Posting of data to unrecognized account ➤ Misstatement of financial statements 	Develop and implement policies and procedures that will ensure changes to systems and processes are properly approved.	Noted for implementation, Slip approval for addition of New Chart of accounts will be course through to authorized signatories for approval and implementation.

Item No.	Cycle	Observation	Details	Risk Level and Implications	Recommendation	Response
6	Disbursement	Ensure appropriate user access	<p>Basic control for management of Geniisys' master data such as payee records requires that the same user who process the transaction must not maintain it.</p> <p>The preparer of disbursement vouchers also have access to "Payee" menu in the system that contains the list of all payees. In the section, she can "Add" a new payee or tag/untag a payee in the list as active.</p>	<p>Medium</p> <ul style="list-style-type: none"> ➤ Risk of entry of fictitious payee ➤ Modification of existing payee especially account data 	<p>Maintenance of payee records should be done by a personnel other than the one who processes transactions.</p> <p>Access of accounting assistant for disbursement should not include payee records maintenance.</p>	<p>Moving forward, intermediary forms will be fully accomplished prior to uploading to Geniisys. The IT Officer will not accept incomplete forms.</p>
7	Payroll- HR	Monitor daily absences	<p>A copy of Summary of Absences will be submitted to Senior Accounts Manager for encoding of payroll.</p> <p>Upon testing, Summary of Absences of Ma. Regina Purungganan and Edgardo Esmao did not match with their Time Cards.</p>	<p>High</p> <ul style="list-style-type: none"> ➤ Risk of unrecorded time reports of employee 	<p>Implement changes that will ensure time records are reviewed prior to payroll processing.</p> <p>Use of biometrics is also recommended for more accurate and easier review of time reports.</p>	<p>Management agreed that access in payee records maintenance of accounting assistant for disbursement will be removed. Access on this specific module will be given to the IT Department and Mr. Del Sangalang.</p>

Item No.	Cycle	Observation	Details	Risk Level and Implications	Recommendation	Response
8	Agent and Broker	Ensure newly engaged agents/brokers are entered in Geniisys	IT personnel encodes the intermediary details in the Geniisys upon receipt of intermediary form filled out by the Underwriting Manager and Marketing Officer. However, upon review of sample agents, we noted that Cebuana Lhuillier does not have the intermediary code in Geniisys.	<p>Low</p> <p>➤ Lack of encoding details which may affect accountability</p>	Complete the intermediary forms before encoding in the Geniisys and ensure that all important details are encoded.	Management will formulate a system for proper segregation of duties. They will make sure that the use of fund will be properly reviewed by the approving officer.
9	Petty Cash Management	Implement segregation of duties for handling of petty cash	<p>Segregation of duties requires that different persons should perform custody, authorization, and recording.</p> <p>During walkthrough of processes related to petty cash management, we have noted that the custodian also uses the fund for office expenses but the requests has no further approval.</p>	<p>High</p> <p>➤ Risk of unauthorized use of petty cash</p>	<p>All petty cash requests or withdrawals for the use of the custodian should have further approval by the branch head.</p> <p>The branch head could also perform surprise cash counts for detective control of handling petty cash.</p>	Management will consider implementing changes that will ensure time records are reviewed prior to payroll processing. Use of Biometrics is also for consideration.
10	IT Controls	Inconsistent date format	<p>Outputs from Geniisys or system-generated reports should correspond to the actual inputs by the users.</p> <p>According to IT Personnel, date format should be Month / Day / Year. However, some dates in the extracted reports from the Geniisys are incorrect.</p>	<p>Medium</p> <p>➤ Inconsistency of dates when extracted from the system may result to low quality and inaccurate data.</p>	Coordinate with CPI to correct the errors found from system outputs.	This is already coordinated with CPI and it is an excel issue. This is easily resolved by converting the date format of the column to Long Date and it will fix the issue.

Item No.	Cycle	Observation	Details	Risk Level and Implications	Recommendation	Response
			Example: Check date for DV_NO-000009983 Actual Check Date: <u>09/04/2018</u> Check Date from Schedule of Disbursements: <u>04/09/2018</u>			
11	IT Controls	Document the quarterly review of users	IT Personnel conducts review of system user access on a quarterly basis following previous year's internal audit recommendation. However, no formal documentation is prepared to document result of the review and such is no longer forwarded to the management.	Medium ➤ Inefficiency in the review of user access ➤ Lack of audit trail	The company should document the result of quarterly review of User Access in the system	The IT Department will conduct quarterly review of system user access with formal documentation.
12	Disbursement (IT Controls)	Avoid duplicate payee records	We noted that there is a possible duplication of payee records in the Geniisys system. Payee can be added in the system although it already exists.	Low ➤ Posting of duplicated information of vendor/payee ➤ Inaccurate generation of reports	Coordinate with CPI for additional controls in the system to prevent duplicate entry of vendor details.	As per CPI, there is no validation for duplicate when adding payee manually into the system. Already created an IT service request regarding this matter and tagged it as enhancement.

ANNEX 2


STATUS OF IMPLEMENTATION OF RECOMMENDATIONS AS OF JANUARY 1, 2020

Cycle	Item No.	Observations	Recommendation	Status of Recommendations As of January 1, 2020
General	1	Outdated Policy (Operations) Manual	Initiate the immediate finalization of the manual to reflect the current business processes.	Draft of the manual is already made. However, management is still in the process of reviewing the operations manual.
IT General Controls	2	Absence of formal IT policies and procedures on creation and reassignment of user access.	Establish formal IT policies and procedures and should ensure that all department concerned is aware of the guidelines on creation, reassignment and deactivation of user accounts.	On-going. See Item No. 1
	3	Absence of formal IT policies and procedures on deactivation of user access.	Moreover, the IT Department, in coordination with concerned departments and branches, should: <ul style="list-style-type: none"> utilize the User Access Form (UAF) to establish the necessary approvals prior to granting and deactivating access rights to employees; and establish and utilize a User Access / Security Matrix based on the roles and responsibilities of personnel within their departments. 	On-going. See Item No. 1
	4	No periodic review of active users	The IT Department should initiate the conduct of periodic review of active users to address the areas mentioned.	The IT department is already conducting review of active users and their access on quarterly basis. Resigned employees were considered as inactive users and not accessible. Subsequent changes to their access for active users required to fill up form for update and approval by authorized superior & managers.
	5	No periodic review of transactions/	The IT Department should initiate the conduct of periodic review of the following:	As stated in reply to item no. 4.

Cycle	Item No.	Observations	Recommendation	Status of Recommendations As of January 1, 2020
		access made by super-users	<ul style="list-style-type: none"> transactions made by the super-user accounts in the production environment; and limit full role access of each super-user and maintain only those that are appropriate to their functions. 	
	6	No security software (e.g., antivirus) installed on desktops used in operations	<p>The following are recommended:</p> <ul style="list-style-type: none"> installation of antivirus to all Company computers used for operations; users should be aware of precautionary measures to avoid downloading vulnerable software on their desktops; IT Department should ensure to keep the software updated. 	Currently we are using windows defender the same being used by other companies. As per experienced, this is working until now. For the firewall, we are waiting for the Privacy Impact Assessment from Data Privacy act on the basis of their recommendation for our completion.
	7	No formal policies/ procedures on program change	Establish program change management policies and ensure proper testing and approvals prior to migration of the changes.	Already drafted in the operation manual under review.
Agent and Broker Hiring	8	Unsigned Agent/Broker's Agreement Contracts	<p>We recommend the following actions:</p> <ul style="list-style-type: none"> Ensure that contracts are signed by both parties; and, Identify expired contracts and facilitate the immediate renewal of these contracts. 	As of date, Broker's Contract Agreement is not yet finalized by Insurance Commission. Implementation of the said agreement is not yet circulated by IC.
	9	Expired Agent Contract		Said agent has been replaced by Alea Kyla Dialani with new license from Insurance Commission.
	10	Expired broker's license	Conduct a review to assess whether there are other brokers with expired licenses and facilitate the immediate renewal of these expired licenses.	Marketing Department is also reaching out to our old / new brokers in getting a copy of their licenses; otherwise, List of Brokers from Insurance Commission is still our primary source and reference of license validity.
	11	Absence of Non-Disclosure Agreement Clause in the Contract	Comply with the Standard Brokers Agreement issued by IC and update all the existing brokers contract.	Up to date Standard Brokers Agreement is not yet finalized by IC.

Cycle	Item No.	Observations	Recommendation	Status of Recommendations As of January 1, 2020
			Also, regularly check for new circulars issued by the Insurance Commission.	
	12	Incomplete documentation for Agents and Brokers	Strict compliance with the required documentary requirements for brokers and agents should be observed.	Proper compliance is being observed with new agents and brokers.
Commission	13	Agent/Broker contracts do not reflect the commission rates that were actually paid	Conduct periodic review of commission rates in Geniisys to check for accuracy.	Review to be conducted this year 2020 in view of some revision of commission rates on motor car insurance to encourage more agents and business.
Claims	14	Policy period for claim intimation was not being followed	Ensure strict implementation of the claim intimation policy.	Applied
Reporting	15	Incorrect presentation of Production Report	Consider segregating the presentation of the actual production and the cancelled policies.	The same process.
Disbursements	16	Incomplete supporting documents	Ensure the completeness of supporting documents before payment. There should be a Delivery Receipt for purchase of goods and Service Report for every purchase of services. In addition, always require an OR to be issued upon payment.	Applied completeness of supporting documents.
Billings and Collections	17	Long Outstanding premium receivables for over 60 days	Perform a periodic review of premium receivables. Conduct follow up procedures for receivables which are outstanding for over 3 months.	<p>The same approach and process of collection have been put in place.</p> <p>After Regina's resignation, we assigned new employee, Kristine Cervantes, to oversee the collection of direct premium receivables.</p> <p>As of date, we observe some improvement and reduction of receivables.</p> <p>With her active and experienced from previous employer, we are hoping we</p>

Cycle	Item No.	Observations	Recommendation	Status of Recommendations As of January 1, 2020
				can minimize those accounts that beyond 90 days.
Petty Cash Management	18	Non-compliance with the policy for Petty Cash Fund	Assess whether the current limit of reimbursement from petty cash should be updated. Upon updating, strict compliance must be observed.	Implemented use of petty cash fund at Head office level at maximum of P3,000.00 per transaction. Some exception, exceed P3,000 due urgency of the expenses. For branches, only advised not to exceed P1,000 but with consideration on case to case basis due to limited time of replenishment.
Petty Cash Management	19	Petty Cash Vouchers are not pre-numbered	Pre-number the Petty Cash Vouchers for control purposes.	Implemented



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