TO: ALL PRE-NEED COMPANIES DOING BUSINESS IN THE PHILIPPINES

SUBJECT: Adoption and Implementation of the Manual of Examination of Pre-Need Companies

WHEREAS, the Commission shall require every pre-need company to keep its books, records, accounts and vouchers in such manner that the Commission's authorized representatives may readily verify the company's annual statements and ascertain whether the company is solvent and has complied with the provisions of the Pre-Need Code of the Philippines (PNC) or the circulars, instructions, rulings or decisions of the Commission.¹

WHEREAS, the Commission shall, at least once a year and whenever it considers that the public interest so demands, cause an examination to be made into the affairs, financial condition and method of business of every pre-need company, and of any other person, firm or corporation managing the fund or affairs and/or property of such pre-need company. Such examination shall be carried in a manner prescribed by the Commission.²

WHEREAS, the Commission shall have the authority to make, amend and rescind such accounting rules and regulations applicable for pre-need companies. The Commission may prescribe, among other things, the form or forms in which required information shall be set forth, the items or details to be shown in the components of the financial statements, and the recognition and measurement basis to be adopted for each account, after considering the nature of the operation of the pre-need industry. Pre-need companies shall strictly comply with such accounting rules and regulations as prescribed by the Commission.³

¹ Section 45 of the Pre-Need Code.
² Section 46 of the Pre-Need Code.
³ Section 47 of the Pre-Need Code.
NOW THEREFORE, by the power vested in the Insurance Commission under Section 6 of the PNC a Manual of Examination of Pre-Need Companies is hereby adopted by the Commission for the guidance of all its examiners in conducting examination/verification of the annual statements of pre-need companies.

ATTACHED HERETO is the Manual in the Examination / Verification of Pre-Need Companies.

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Insurance Commissioner
A MANUAL
IN THE
EXAMINATION/VERIFICATION
OF
PRE-NEED COMPANIES
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1. INTRODUCTION

The examination of Pre-need companies shall embodied in Section 46 of the Pre-need Code of the Philippines otherwise known RA9829. It is through this medium that the function of the Insurance Commission in regulating the companies and protecting the interest of the planholders. There are two (2) types of examination done by the Insurance Commission – on-site and off-site verification of Annual Statements of Pre-need companies including its Annual Statements of each type of plans.

The concepts presented in this Manual of Examination can be applied to all examination, however its periodic review is recommended and modified to keep pace with the changes of business environment, accountings and auditing standards, various circulars that may be issued by the Insurance Commission.

It is entirely the standard procedures and were not claimed to be complete and absolute, as the examiners may require additional documents and perform additional procedures, as necessary in exercising judgments at every stage of examination process.
11. CHART OF ACCOUNTS

A. ASSETS

1. **Investment in Trust Funds** – refers to a fund set up from the planholders’ payments to pay for the cost of benefits and services, termination values payable to planholders and other costs necessary to ensure the delivery of benefits or services to planholders as provided for in the contracts.

2. **Insurance Premium Fund** – this represents corporate assets that are restricted to cover the payment of insurance premiums after the paying period of the pre-need plan.


4. **Cash on hand and in banks** – includes currency or cash items on hand (such as cash items awaiting deposits and cash in working funds).
   4.1 **Undeposited collections** – represents cash in currency notes, coins, checks, and any other cash items in favor of the company to be deposited in the bank on the following banking day.
   4.2 ** Petty cash fund** – fund used to defray immediate minimal disbursements which are evidenced by duly accomplished and approved petty cash vouchers.
   4.3 **Commission fund** – fund set up for the purpose of paying commissions to agents whose amounts are less than the minimum amount prescribed for check payment.
   4.4 **Documentary Stamps Fund** – set-up for documentary stamps affixed to plan contract, agreements, promissory notes, agent’s certificates of authority and other legal documents.
   4.5 **Cash in banks – current** – represents checking account balances in banks maintained by the company’s head office, branches/agencies.
   4.6 **Cash in banks – savings** – represents savings/demand deposit account balances in banks maintained by both the company’s head office and branches/agencies.

5. **Mutual Funds/Unit Investment Trust Fund (UITF)** – Both funds are pooled and open-ended investments meaning they are pooled by different kinds of funds, people and companies to be invested and diversified to other investments like stocks, bonds,
securities, money market and other mutual funds and trust funds. They are open-ended investments meaning you can buy or redeem anytime you want.

6. Short-term Investments – a money market investment usually savings deposit account (SDA) with Bangko Sentral.

7. Corporate Bonds – cost of placements in long term commercial paper and other long term debt to a private corporation whether domestic or foreign.

8. Real Estate – represents the cost of real estate properties whether for office or other uses which are occupied wholly or in part by the company for operation of the business, or real estate held as investment for the production of income and/or real estate acquired in satisfaction of debt including the cost of addition or capital additions therein.

9. Planholders Loan – loans granted to a planholder at a prescribed rate, fully secured by the value of their pre-need plan.

10. Stocks – all transactions affecting acquisitions and sale/disposal of other companies’ preferred or common stocks acquired for investment purposes.

11. Accounts Receivables – This account shall be limited to the following:
   a) Insurance Claims Receivable – claims from the insurer for the unpaid balance of instalments arising from the demise or disability of an insured planholder;
   b) Receivable from trustee – these are advances made by the pre-need company to settle obligations to availing planholders, which are reimbursable by the trustee. This amount must be deducted from the trust fund.
   c) Advances to DOSRI (Directors, Officers, Stockholders and related interests) such as employees, agencies and agents.

Notes: Each of the foregoing items shall be separately disclosed to the notes to financial statements of the company.

Allowance for Doubtful Accounts – Accounts Receivable – these accounts are set up to provide for possible losses arising from non-collection of receivable and of long outstanding receivable which are doubtful of collection and which may not be collected in the future.
12. **Due from Trust fund** – this account represents advances by the company for plan benefits paid to planholders that are chargeable to the trust fund. This amount must be deducted from the trust fund.

13. **Notes Receivable** - this represents interest bearing loans granted by the company and evidenced by duly approved and notarized promissory notes.

14. **Accrued Investment Income** – this shall represent interest receivable pertaining to interest accrued arising from cash and cash equivalents, financial assets and loans and receivable.

15. **Inventories** – (it is applicable for life plans) it consists of caskets, urns and memorial lots, shall be carried at the lower of cost or net realizable value. All other requirements of PAS 2 shall be complied with respect to this account.

16. **Property and Equipment** - these are tangible items that are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes, and are expected to be used during more than one period

   **Allowance for Depreciation for Property and Equipment** – this represents the aggregate of the estimated depreciation provided by the company on its property and equipment.

17. **Other Assets** – this account is a major non-current asset grouping in the balance sheet which absorbs subsidiary account balances amounting to less than five percent (5%) of Total Assets. If more than five percent (5%), each subsidiary account shall be presented separately in the trial balance.

   Example of other asset accounts under this classification include, but is not limited to the following:

   - **Pre-operating expenses/prepayments** – this represents actual expenses incurred in establishing a pre-need company, or in opening a branch office thereof. The cost may include legal fees, promotional fees, incorporation fees, etc., the combined amount of which, is amortized normally over a period of five (5) years or over the period of expected usage, which is equal or less than 12 months or within the normal operating cycle.
• **Retirement Pension Asset** – assets bought with the contributions to a pension plan for the exclusive purpose of financing pension plan benefits of the employees.

• **Deferred Tax Asset** – refers to a situation where a company has overpaid taxes or taxes paid in advance, or it is the carry-over of losses, thus reducing the company’s future tax liability, in the sense, the loss is an asset.

• **Creditable Withholding Tax** - is an amount that is withheld from income payment.

• **Input Tax** – this represents the outstanding balance of value added tax added to the price when you purchase goods or services liable to VAT

• **Deposits** – deposit on leased properties which may be applied on the last period of occupancy or may be refunded upon termination of the agreement as provided in the contract.

• **Goodwill** - is an intangible assets that arise when the company acquire another for a price higher than the fair market value of its assets.

**B. LIABILITIES:**

1. **Pre-need Reserves** – this represents the Actuarial Reserve Liabilities (ARL) set up by the company pertaining to the accrued net liabilities of the pre-need plan company to its planholders. This amount is determined and certified by an actuary accredited by the Insurance Commission (IC) in accordance with generally accepted actuarial principles and practices together with the standards and guidelines set by the IC; or, in their absence, the actuarial standards and guidelines of the Actuarial Society of the Philippines (ASP), or, in their absence, the international actuarial principles and standards. In the determination of the actuarial reserve of any Plan, the Actuary should take into account the deferred charges. The actuarial reserve should not be less than the corresponding Termination or Surrender Value of the Plan and shall be equal to the amount shown in the ARL as required under SEC Rule 23.2.3.

   a) Pre-need Reserves (PNR) shall be set up for all pre-need benefits guaranteed and payable by the pre-need company as defined in the pre-need plan contracts;

   b) In recognizing PNR for educational and pension plans, the general requirements of PAS 37 on provisioning and the specific methodology provided below shall be complied with by the company. For life plans, the requirements of PFRS 4 (Insurance Contracts) shall be complied with by the company;
(c) The amount recognized as a provision to cover the PNR shall be the best estimate of the expenditure required to settle the present obligation at the balance sheet date. The risks and uncertainties that inevitably surround many events and circumstances shall be taken into account in reaching the best estimate of a provision;

(d) Since the effect of the time value of money for pre-need plans is material, the amount of provision shall be the present value of the funding expected to be required to settle the obligation with due consideration of the different probabilities, as follows:

(i) On Currently-Being Paid Plans
   (1) Provision for termination values applying the surrender rate experience of the company. The trend of surrender rate experience shall be disclosed in the company’s notes to financial statements;

   (2) Liability shall be set-up for the portion of currently-being-paid plans that will reach full payment, applying the full payment experience of the company. It shall be equivalent to the present value of future maturity benefits reduced by the present value of future trust fund contributions required per Product Model discounted at the approved hurdle rate per Product Model of the company.

   Currently-Being-Paid Plans pertain to accounts that are up-to-date in payment and include in-force plans as defined in the contract provision, i.e., plans within the 60-day grace period.

(ii) On Lapsed Plans within the Allowable Reinstatement Period
    Provision for termination values applying the reinstatement experience of the company. The trend of reinstatement experience shall be disclosed in the company’s notes to financial statements;

(iii) Fully Paid Plans
    (1) For those due for payment within the next five (5) years, the reserve shall be the present value of future maturity benefits discounted at the attainable rate; as determined and certified by the company’s trustee using industry best practices and principles which shall indicated in such certification;

    (2) For those not yet due for payment within the next five (5) years, the reserve shall be the present value of future maturity benefits discounted at the approved hurdle rate per Product Model of the company.

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(e) Future events that may affect the foregoing amounts shall be reflected in the amount of the provision for PNR where there is sufficient objective evidence that they will occur;

(f) The rate of surrender, cancellation, reinstatement, utilization, and inflation when applied, must consider the actual experience of the company in the last three (3) years, or the industry, in the absence of a reliable company experience;

(g) The computation of the foregoing assumptions shall be validated by a qualified actuary of the pre-need company. His or her validation report shall be provided to its external auditors for purposes of statutory audit of the financial statements of the company, and shall be submitted to the Commission as a separate report;

(h) The probability of pre-termination on surrender of fully paid plans, shall be considered in determining the Pre-need Reserves of fully paid plans. A pre-termination experience on fully paid plans of 5% and below shall be considered insignificant. In such cases, derecognition of liability shall be recorded at pre-termination date;

(i) The disclosure requirements under PAS 1 relative to methods and assumptions used to estimate the PNR including the sensitivity of the PNR amount, shall be complied with;

(j) Any excess in the amount of the trust fund as a result of the initial adoption of the revised reserving method shall neither be released from the fund nor be credited/offset to future required contributions;

(k) Individual subsidiary accounts for education plans and for pension plans must be maintained (e.g. (1) “Pre-need Reserves – Education Plans”; (2) “Pre-need Reserves – Pension Plans”).

2. Insurance Premium Reserve – this includes the cost of purchasing insurance premiums after paying period of the pre-need plans. This is additional liabilities of the company as Other Reserves in the AVR.

3. Planholders’ Benefits Payable - this includes amount payable to planholders and beneficiaries in the course of settlement and incurred but not reported claims on the pre-need contract such as due but unpaid matured benefits, surrender benefits and annuity payments.

4. Planholders’ Deposit –

   (I) Planholders’ deposit – Insurance premium - this includes amount collected from the planholder for the payment of planholder’s insurance premium to the insurer.

   (II) Planholders’ deposit – Others – this includes amount received from the planholder for a new plan not yet issued; excess fractional payments of a regular installment and payment received with application for the reimbursement of lapsed plan, within two years from date of lapse, with pending approval.
5. **Counselors' Bond Reserve** – this account represents the aggregate amount of deductions from salesmen and agents’ commission, bonuses, and other cash incentives to accumulate a reserve. Upon separation of a salesman or agent from the company, his accountability will be charged to this accumulated bond reserves.

6. **Accounts Payable** – this is a major grouping among current liabilities in the Balance Sheet which pertains to liabilities of the company as a result of indebtedness due to any corporations, individual or supplier which shall include, but is not limited to the following:
   - (1) SSS Premiums Payable – this pertains to SSS premiums/contributions withheld from the salaries of officers and staff representing employees’ contributions to the SSS.
   - (2) SSS Loans Payable – this pertains to the SSS salary loan amortization deducted from the salaries of officers and staff with outstanding loan accounts with the SSS.
   - (3) Medicare Payable – this represents medicare premiums deducted from the salaries of officers and staff.
   - (4) Pag-ibig Payable – this represents the contributions to the Home Development Mutual Fund (HDMF) deducted from the salaries of officers and staff and remitted by the company to HDMF every month.
   - (5) Insurance Premium Payable - this includes liabilities for unpaid premiums on group insurance of company’s personnel and non-life insurance premiums for company’s property and equipment, etc.

7. **Taxes Payable** – this represents value added tax, documentary stamp tax and other taxes payable by the pre-need company to the government in accordance with RA8424.

8. **Accrued Expenses** – is an expenses payable that was incurred as of the date of balance sheet but were not yet paid.

9. **Other Liabilities** - represents other items not properly classified in any of the preceding liability captions or items not sufficiently material to warrant a separate caption. If it is in excess of five percent (5%) of total liabilities, it shall be stated separately.

**C. STOCKHOLDERS’ EQUITY**

1. **Capital Stock Subscribed** – this represents the value at par of the total number of shares of capital stocks subscribed by the stockholders of the company and duly covered by subscriptions agreement.

2. **Capital Stocks** – this represents ownership interest of the stockholders in the company composed of capital stocks issued and outstanding as at report date.

3. **Treasury Stocks** – this represents stocks already issued but reacquired by the company.
4. **Additional Paid-In Capital** – this represents the excess paid by an investor over and above the par-value price of a stock issue and is often included in the contributed surplus account in the shareholders’ equity section of a company’s balance sheet. Additional paid-in-capital can arise from issuing either preferred or common stock.

5. **Deposit For Future Subscription** – A separate account in equity to classify a contract to deliver its own equity instruments from “Outstanding Capital Stock” if and only if:
   
   a. the unissued authorized capital stock of the entity is insufficient to cover the amount of shares indicated in the contract;

   b. There is Board of Directors’ approval on the proposed increase in authorized capital stock (for which a deposit was received by the corporation);

   c. There is stockholders’ approval of said proposed increase; and

   d. The application for the approval of the proposed increase has been filed with the Commission.

6. **Contingency Surplus** – this pertains to cash or in kind contributions of stockholders to cover any deficiency in the computation of capital impairment as required in the Pre-need Code.

7. **Capital Paid In Excess Of Par** – this pertains to payment of shares of stock of the company in excess of par.

8. **Special Surplus Funds** – this refers to reserves pertaining to the fluctuation in the market/appraisal value of investments in stocks, real estate or revaluation of foreign currency.

9. **Fluctuation Reserve – ITF (Investment in Trust fund)** – this pertains to the difference between the market value and the cost of investments of the available for sale financial assets held in trust funds every end of the year. It represents the unrealized appreciation/decrease/devaluation in the market.

10. **Fluctuation Reserve – Corporate assets** – this pertains to the difference between the market and the cost of investments of the available for sale financial assets of the company every end of the year. It represents the unrealized appreciation/decrease/devaluation in the market.

11. **Retained Earnings** – this is the accumulated earnings of the Company

   11.1 **Retained Earnings - trust fund** – this pertains to the accumulated income of the investment in trust fund.

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11.2 **Retained earnings – corporate funds** - pertains to the accumulated earnings of the company reduced by whatever losses the company may incur during a certain accounting period or by dividend declarations.

**D. NOMINAL ACCOUNTS**

**REVENUES**

1. **Premium Revenue** – premiums from sale of pre-need plans shall be recognized as earned when collected. When premiums are recognized as income, the related cost of contracts shall be computed, with the result that benefits and expenses are matched with such revenue.

2. **Trust Fund Income** – income generated by the Trust Fund shall be included in the Trust Fund Account under the assets section of the Balance Sheet.

   The amount of the trust fund income shall be disclosed in the notes to financial statements. The portion of the retained earnings representing the trust fund income shall be automatically restricted to payments of benefits of plan holders and such other related payments as allowed under the Pre Need Rules.

3. **Investment Income** – interest Income shall be recognized in the Statement of Income as it accrues, taking into account the effective yield of the asset or liability or an applicable floating rate. Interest income and expense includes the amortization of any discount or other differences between the initial carrying amount of an interest bearing instrument and its amount at maturity calculated in an effective interest rate basis. Investment income shall likewise include dividends, which are included on the date the shares become quoted ex dividend.

   3.1 **Interest – Mortgage Loans** - this represents interest earned during the year arising from interest bearing loans duly secured by a mortgage of real estate properties at interest rates duly agreed upon between the parties in accordance with the provisions of the real estate mortgage contract

   3.2 **Interest – Notes Receivable** - this refers to the interest earned during the year derived from interest bearing promissory notes / guaranteed loans, whether short term or long term. Interest rates used are in accordance with the provisions of the corresponding promissory notes.

   3.3 **Interest – Short Term Investments / Commercial papers** - these are interests received and/or accrued arising from investments in short term money market placements, repurchase agreements, commercial papers and the like.
3.4 Interest – chattel mortgage loans - this refers to interest earned during the year pertaining to interest bearing loans duly secured by mortgage on chattels, such as cars or motor vehicles. This is covered by Chattel Mortgage Contract. Interest rated used are in accordance with the provisions of the chattel mortgage contract.

3.5 Interest – savings deposits - includes interest income earned from savings accounts deposits and which are already subjected to final tax.

4. Realized Gains Or Losses Recorded In The Statement Of Income – realized gains or losses on the sale of available for sale financial assets are calculated as the difference between the net sales proceeds and the carrying value. This is recognized in the Statement of Income when the sales transaction occurred.

5. Other Operating Income – this may include service fee and loading income, surcharge and amendment fees and miscellaneous income, etc.

5.1 Handling Fee – this represents handling charges associated with installment payments other than annual basis or spot-cast sales.

5.2 New Issue Fee – this is normally a one-time charge to new planholders to cover underwriting and processing service of the application, which can be a fixed amount or a percentage of the contract price.

5.3 Amendment Fee – this represents a fixed amount or percentage of the contract price charged to planholders who apply for amendment of their in-force plans to cover processing cost and services. This shall also include reconstruction/re- replacement fee for lost contracts.

5.4 Reinstatement fee – this represents a fixed charge or a percentage of the contract price, charged to planholders applying for reinstatement of lapsed plans to cover processing cost and services.

5.5 Surcharge on Lapsed Plan – this represents additional charge to planholders on past-due installment payments of lapsed plans, and is different and separate from reinstatement fee.

6. Dividend Income - these are income derived from cash dividend declaration on stock investments, whether collected, accrued, or earned but not yet received.

7. Gain On Sale Of Stocks - this account represents capital gains derived from the disposal or sale of stock investments or investments in securities which is already subjected to final tax.
8. **Gain On Sale Of Real Estate** - this account represents capital gains derived from the disposal or sale of real estate held for sale or capital assets (i.e., townhouse to condominium units) which are already subjected to final tax.

9. **Gain On Sale Of Assets – Others** - This account represents gains derived from the disposal or sale of property other than real estate such as capital assets like property and equipment.

10. **Rental Income / Income On Real Estate** - This pertains to the income generated from the rental of real property or payment to the company for the use/rental of office equipment or office premises which are owned or leased by the company. This includes rentals on office space utilization, bodega, parking space, etc. This income is subject to 5% expanded withholding tax as provided for in the internal revenue code.

11. **Investment Income** - This refers to any income derived from all other investments which are not properly classified under any of the other accounts.

12. **Miscellaneous Income** - Any income received or earned from various sources which cannot be properly classified under any of the income accounts as previously defined are taken up under miscellaneous income. It includes, among other things, income derived from SSS collection fee, proceeds from the sale of old newspapers, recoveries from accounts receivables, other collection and others.

**EXPENSE ACCOUNTS**

**COST OF CONTRACTS ISSUED** –

This account pertains to:

I. **Increase (decrease) in Actuarial Reserve Liabilities** – this account is equal to the actuarial reserve as determined by an actuary accredited by the Commission as at the end of the current year minus the sum of the reserve as of end of previous year and any additional actuarial reserve liabilities credited during the year from installments of contract price collected less realized gross income, and any increase in the reserve on account of change in valuation basis, if any such change occurred during the year.

II. **Amount of trust fund contribution for the year.**

III. **IC Registration fees** - cost for registration/filing fee paid to the Commission.

IV. **Taxes** – pertains to the documentary tax paid by the pre-need company in relation to the sale of pre-need plans.

**DIRECT/ACQUISITION COSTS** – this is a major grouping of costs and expenses accounts immediately related to sales of pre-need plans, and of acquiring the same.

I. **Commission bonuses, and incentives** – compensation paid to sales personnel for the production of new business, and for servicing existing business pursuant to a formal “commission agreement”.

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2. **Collection fees and bonuses** – covers incentives granted for collection of non-commissionable installment accounts by authorized agents.

3. **Insurance**

4. **Other expenses that constitute direct cost of contracts issued** – this account includes cost of prizes, awards, and incidental expenses incurred in giving prizes and awards, and other benefits granted to sales personnel for outstanding achievement in selling pre-need plans.

**General and Administrative Expenses**

1. **Salaries** - Basic Salaries and Allowances, including bonuses and 13th month pay of all company officers and staff.

2. **Philhealth Contributions** - Employer’s/Company’s share in the contribution for Philhealth benefits of officers and staff.

3. **SSS Contribution** - Employer’s/Company’s share in the contribution to the SSS for the benefit of officers and staff of the company.

4. **Pag-ibig Contributions** – Company’s / Employer’s share in the contribution to the Pag-ibig Fund of the Home Development Mutual Fund for the benefit of the employees of the company.

5. **Employees Compensation And Maternity Contributions** - Company’s / Employer’s share in the contributions to the SSS for the maternity, sickness and disability benefits of all the employees of the company.

6. **Retirement Fund** - Company’s / Employer’s contribution to the Retirement Fund computed on the basis of a certain percentage of the annual salary of the employees, the actuarial computation of which is in accordance with the company retirement plan.

7. **Hospitalization** - Employer’s contribution for the employee’s hospitalization benefits under a group insurance coverage.

8. **Transportation Expenses** - Transportation expenses of the directors, officers, and employees and messenger costs in connection with the business operations.

9. **Representation Expenses** - Representation and entertainment expenses of the officers and staff for the promotion of the business of the company.

10. **Miscellaneous Losses** - Losses and other charges that are not classifiable under any of the expense accounts such as shortages, losses on uncollected accounts, charges, etc.
11. **Investment Management Fees** - Fees paid to investment managers for the handling of the company’s portfolio.

12. **Medical Supplies** - Expenses incurred by the company for the purchase of medicines and other medical supplies for the use or issuance to the employees.

13. **Printed Forms** - Expenses incurred by the company for printed forms/materials which may be used in the conduct of the company’s business.

14. **Stationeries And Supplies** - Cost of various office supplies used in the business operations.

15. **Director’s Fees** - Fees paid to the members of the Board of Directors for their attendance in the monthly and annual meetings or whatever special meetings that the Board of Directors may have.

16. **Corporate Secretary’s Fees** - Fees granted to the corporate secretary for services rendered during the monthly board of directors’ meetings and during the annual stockholders’ meetings or any other special meetings that the Board of Directors or stockholders may hold.

17. **Auditor’s Fees** - Professional fees paid to the external auditors for the year end audit examination of the company’s book of accounts. It also includes the monthly retainer fee, charges for the auditor’s out of pocket expenses and fees for any special audit examination or consultations, including any audit and tax consultations, which may be required by the company from time to time.

18. **Actuarial Fees** - Professional fees paid to the external actuaries for whatever actuarial services that they may render for the benefit of the company.

19. **Service Fees** - Fees paid to certain authorized individuals for services rendered to the company on a contractual of temporary basis. It also includes the service fees as classified under the uniform accounting entries of the insurance business pool such as HDMF YRT Pool and the Pag-ibig MRI Pool.

20. **Legal Fees** - Retainer Fees and other professional fees paid to external lawyers and the company’s legal counsel for whatever legal service that they may render. It includes fees for the legal assistance that they may extend in handling court cases, court settlements, notarial fees, consultancy fees, and other legal matters.

21. **Advertising Expenses** - Cost of advertising and promotion of the company, introduction of new plans, publication of the synopsis of the company’s annual report, placement ads, etc.
22. **Bank Charges** - Cost of checkbooks and charges imposed by the banks for overdrafts and bounced checks, payment of safety deposit box (if any), charges for the regional clearing of provincial checks and other such charges.

23. **Telephone And Telegram** - Cost of telephone services, both local and long distance toll charges, and telegrams.

24. **Light And Water** - Cost of power and water consumption.

25. **Taxes And Licenses – Non Deductible Taxes** - Taxes which are not deductible for income tax purposed such as income tax assessments and penalty charges and renewal of the agents’ certificates of authority.

26. **Taxes And Licenses – Deductible Taxes** - Taxes which are allowable deductions or expenses for income tax computation such as payment for business license, mayor’s permit, etc.

27. **Interest Expense** - The cost incurred by an entity for borrowed funds. Interest expense is a non-operating expense shown on the income statement. It represents interest payable on any borrowings – bonds, loans, convertible debt or lines of credit. It is essentially calculated as the interest rate times the outstanding principal amount of the debt. Interest expense on the income statement represents interest accrued during the period covered by the financial statements, and not the amount of interest paid over that period.

28. **Repairs And Maintenance** - The costs incurred to bring an asset back to an earlier condition or to keep the asset operating at its present condition (as opposed to improving the asset).

29. **Bad Debts / Provision For Doubtful Accounts** - Any uncollectible accounts receivables, advances to agents and other such receivables which need to be written off shall be charged to this account.

30. **Depreciation Expenses** - Periodic amortization of the asset cost of the company’s depreciable fixed assets. It represents an estimate of the decline in service potential of the asset occurring during the period.

31. **Suspense** - This is a temporary classification of accounts pending clarification of certain aspects of the transaction or compliance of certain requirements, documentation or otherwise. This account could be either a debit or a credit and needs to be reclassified subsequently as to their proper accounts. All transactions under this classification must be properly cleared out and reclassified every end of the accounting period.

32. **Miscellaneous Expense** - Operating and administrative expenses which cannot be specifically classified under any of the other expense accounts are recognized as miscellaneous expense.

11-D-7
33. *Provision For Taxes* - A provision for income taxes is the estimated amount that a business or individual taxpayer expects to pay in income taxes for the current year.
111. EXAMINATION CYCLE.

A. ADMINISTRATIVE GUIDELINES

ON SITE EXAMINATION

1.1. PREPARATIONS

Section 46 of the Pre-need Code (PNC) provides that the Commissioner shall, at least once a year and whenever it considers the public interest so demands, cause an examination to be made into the affairs, financial condition and methods of doing business of every pre-need company authorized to transact business in the Philippines and any other person, firm or corporation managing the fund, affairs and/or property of such pre-need company...."

The pre-need company will be billed for supervision fee according to the size of the company beginning January of every year pursuant to Insurance Circular Letter No. 2014-15 dated 15 May 2014.

Basic purpose of Examination
1. To detect as early as possible those companies in financial trouble and/or engaging in unlawful and improper activities.
2. To develop the information needed for appropriate regulatory action.

On the first day of on-site examination, the examiners present their designation letter to the President of the company, authorizing them to conduct the said examination (Exhibit A.1). The examiners are then endorsed by the President to the Chief Accountant who will be responsible in bringing them to the department where they will working and in introducing them to the respective officers of accounting department. Upon meeting with the Chief Accountant, the examiner-in-charge should:

1. Expect that they will be given a permanent area where they can work and leave in place the records/documents they are using throughout their audit.
2. Discuss the company’s record keeping system.
3. Arranging for the availability of schedules and supporting documents
4. Discussing significant changes in company operation.
5. Gives the listing of requirements, i.e., the books/records/documents, etc. that they will be using in their examination to the officer/employee in charge. (Exhibit A.2).
1.2 CONCLUDING THE EXAMINATION

During the course of examination, the examiners should constantly remind them of any record/documents not yet submitted/presented. The examiner also encouraged to discuss tentative findings with the company’s officials, in order to assist the examiners in ascertaining facts and in verifying the accuracy of the findings if necessary, the company will be given at least two (2) to three (3) days within which to submit the documents not yet presented to the office of Pre-need Division.

Then a report on the examination will be prepared. The examination report shall contain:

- Draft of Findings and Recommendations
- Working Balance Sheet (WBS)
- Computation of Compliances
- Analysis of Investment in Trust Funds
- Working Trial Balance
- Reconciliation of Audited Financial Statements VS Annual Statement
- Schedule of all assets Account contain in WBS
- Schedule of all liabilities contain in WBS
- Schedule of Paid-up Capital
- All working papers that the examiners done in the company.
- All the attachment submitted in the acceptance of Annual Statement.
- Designation Letter duly received by the company
- Office Order
DESIGNATION LETTER

Exhibit A.1

May 15, 2018

MR. JUAN DELA CRUZ, President
X INSURANCE COMPANY
1234 Anywhere Street
Makati, City

Dear Mr. Juan de la Cruz

This will be presented to you by MARIA CLARA, Supervising Insurance Specialist and CRISOSTOMO IBARRA, Insurance Specialist 11 of this Commission, whom I have designated as my representatives to make an examination into the affairs, financial condition and methods of doing business of X INSURANCE COMPANY as of December 31, 2017 pursuant to Section 46 of the Pre-need Code of the Philippines.

Please extend to them your assistance and cooperation for the early completion of the examination.

Very truly yours,

DENNIS B. FUNA
Insurance Commissioner

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ON-SITE EXAMINATION

Republic of the Philippines
Department of Finance
INSURANCE COMMISSION
Manila

Date____________

The Chief Accountant
And Other Official Concerned

In connection with the examination made into the affairs, financial condition and methods of doing business of the ______________________ as of ____________________, please present and/or submit to the examiner/s the following:

1. Non-Financial Records/Documents

1 For Review and/or Verification

a. Stock and Transfer Book
b. Corporate Stock Certificate (stubs, etc.)
c. Minutes of Stockholders’ and Board of Directors’ Meetings;
d. Articles of Incorporation, By-Laws and Amendments thereto, if any;
e. General Information Sheet duly received by SEC
f. Other Agreements such as Trust Fund Agreement, Sales Counselor etc.
g. Manual of Operating Procedures, if any;
h. Fidelity and Surety Bond for Cashier and Other Accountable Officers;

2 For submission:

a. List of all books of account currently being used;
b. List of stockholder as of __________ indicating nationality, number of shares owned, par value per share, percentage of ownership, contributed surplus, and indicate in the remarks column whether stockholder is an affiliate or sister company;
c. List of current directors and chairman of the Board of Directors, indicating date of election;
d. List of branches and regional/service officers

111-A-4
11. Financial Records/Documents
   1. Adjusted Trial Balance as of cut-off date of examination
   2. Auditor’s Adjustment
   3. Detailed Schedule of
      a. All Asset Accounts;
      b. All Liability Accounts
   4. All Books of Accounts currently being used
   5. Other Records
      a. Official Receipts
      b. Cash Vouchers
      c. Paid/returned Checks
      d. Claims Benefits Folders
      e. Control of Accountable Forms
      f. Bank Reconciliation Statements for all deposits in Checking Accounts
   6. Photocopies of proofs of tax payments;
      a. Documentary Stamp Tax
      b. Value Added Tax
      c. Expanded Withholding Tax
      d. Real Estate tax on property owned; and
   7. Other records which may be needed from time to time.

The above documents are to be submitted within five (5) days from receipt hereof.

Very truly Yours,

Supervising Insurance Specialist

Received:______
Name/Signature______
Title_____________
Date Received_______

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The company will be given ten (10) days from receipt of the final report to comply with the requirements based on the results of the examination and/or make good the capital impairment pursuant to Section 9 of the PNC. Any deficiency in the trust fund, when compared to the reserve liabilities as reported in the pre-need reserve valuation report, shall be funded by the pre-need company within sixty (60) days from receipt of the transmittal letter pursuant to Section 36 of PNC. In case of insurance premium fund requirement, it should be always equal or more than the insurance premium reserve liability. The company’s trustee banks has always complied with the liquidity reserve requirement under Section 37 of the PNC.

On the other hand, if upon examination and the company was given enough time to comply to make good any deficiencies and still not complying, then it will be disclosed that the condition of the company is one of insolvency, or that its continuance in business would be hazardous to its plan holders and creditors, the Commissioner shall order the company to cease and desist order from transacting business in the Philippines and the case will be transferred to the Regulation Conservation and Liquidation Division (CRL) for possible action under Section 48 and 49 of the PNC.

ANNUAL STATEMENT VERIFICATION

2.1 FILING

Section 42 & 43 of the Pre-need Code provides that “every pre-need company doing business in the Philippines shall terminate its fiscal period on the thirty-first (31st) day of December, and shall annually on or before the thirtieth (30th) day of April of each year render to the Commissioner annual financial statement as well as annual financial statement of each type of plan, signed and sworn to by its chief executive officer, chief finance officer and external auditors in accordance with a uniform accounting system that shall be prescribed by the Commission, showing in such form and details the exact condition of its affairs.

Any material omission of disclosures, misstatement or misleading information found in the financial statements whether interim or annual, shall constitute a violation and the officer signing such statement shall be subject to the penalty provided for under Section 42 of the PNC.

Under Insurance Circular Letter 2014-15 dated 15 May 2014, the filing fee of the pre-need company is twenty thousand pesos (Ps20,000.00) plus a one (1%) percent as legal research fund. A penalty of five thousand pesos (Ps5,000) is imposed for each day of delay in the filing of Annual Statement.
2.2 ACCEPTANCE OF ANNUAL STATEMENT

This procedures covers the process of acceptance of Annual Statement including Annual Statements of Trust Funds for each type of Plan, together with the audited financial statements and other required documents. (ISO-QMS Division Procedures – Document code IC-FPN-DP-001)

Before the end of first (1st) quarter of every year, the Insurance Commission issue an circular letter to every pre-need company reminding them of the filing of Annual Statement on or before April 30 of that year (Exhibit A.3 and A.4) furnishing them one copy of each of the annual statement blank form and extra pages of exhibit and recapitulation and Income Statement Form for statistical purposes.

The required documents to be filed must be attached together with the Annual Statement of Pre-need company and Annual Statement of Trust Funds for each type of plan, properly and completely accomplished, otherwise cannot be accepted for filing.

2.3 ASSIGNMENT

The Annual Statement are then forwarded to the assigned Supervisor and examiner for verification and on-site examination.

2.4 MINIMUM VERIFICATION PROCEDURES

1. Notwithstanding that in acceptance of Annual Statement was complete, still, find out if there were no omissions.
2. Check horizontal and vertical footings of all exhibits, schedules and recapitulations. See to it that the totals of supporting exhibits, schedules and recapitulations tally with the controlling accounts in pages 2 and 3 of the Annual Statement. Place tick marks on items already checked.
3. Check figures in the annual statement against the figures in the adjusted trial balance and audited financial statements. Any difference should be reconciled.
4. Read Auditor’s Opinion for possible audit exceptions which may affect the company’s financial statement. Read also the notes to financial statements for disclosures made by the auditors regarding the assets, liabilities and net worth accounts. These may necessitate adjustments. Examples are assets pledged to secure.
5. Prepare a comparative balance sheet of previous and current years (A/S figures). Indicate sources of increase or decrease in assets, liabilities and net worth accounts. Get ratios for each and every investment over total assets, particularly those granted to sister/affiliated companies.
6. Refer to latest examination report and/or approved annual statement for requirements not complied. Always compare treatment of accounts with the latest examination report and approved annual statement. Any variation must be explained. Know the basis of unaccounted asset account and analyze documents submitted by the company.

7. Review briefly all the accounts, paying particular attention to Investment in Trust Fund, Insurance Premium Funds and Cash on hand and in banks.

8. Consolidate all data for additional requirements and call the attention of the company to submit the additional requirements.

9. While waiting for the submission of the company on the additional requirements, proceed with the regular verification. List down documents, findings and recommendation for each account, if any.


11. Prepare consolidated trust fund statement reconciled with the investment in trust fund in the statement of financial condition (WBS).

12. Compute company’s compliance such as:
   
   A. Capital Impairment
   
   B. Trust Fund Requirement
   
   C. Insurance Premium Reserve Requirement.
   
   D. Liquidity Reserve Requirement.

13. Consolidate findings, recommendations and conditions on verification and prepare transmittal letter to the company. In case of any deficiencies in the computation of compliances, follow through until deficiencies is fully covered up, conditions are complied, then the annual statement is finally approved.

14. Check copy of the published Synopsis of the Annual Statement against the copy of the transmitted approved synopsis, then acknowledged the receipt of published synopsis.

2.5. VERIFICATION, ANALYSIS, AND EVALUATION OF ACCOUNTS

Guided by the examination/verification procedures, the pre-need examiners verifies and analyses the accounts in the Annual Statement.

If documents submitted are sufficient and the analysis of the accounts are completed, the computation of compliances with the capital requirement/ impairment including trust fund, liquidity, and insurance premium fund requirements are prepared.

If additional documents are needed to satisfy the veracity of the result of verification the examiner may advise the company thru email, before the final result are reviewed.
The results of the verification are reviewed by the Supervising Insurance Specialist and passed upon by the Division manager.

2.6 TRANSMITTAL OF THE RESULTS OF EXAMINATION

A transmittal letter is prepared addressed to the Board of Directors advising them of the results of the verification with attachments of working balance sheet, summary of non-admitted assets and computation of compliances.

The company is given ten (10) days from receipt of the letter within which to cover up any capital impairment and in case of trust fund deficiency it shall be funded by the pre-need company within sixty (60) days from receipt of the transmittal letter pursuant to Section 36 of PNC.

This procedures contains in the ISO-QMS Division Procedures (IC-FPN-DP-002).

2.7 APPROVAL OF THE ANNUAL STATEMENT

After the company has fully covered up the capital impairment, trust fund deficiencies and complied with insurance premium reserve liabilities and liquidity reserve requirements, or if no deficiency or impairment is noted, the Annual Statement is approved and the synopsis of the annual statement is transmitted to the company for publication in two (2) newspapers of general circulation in the City of Manila, in compliance with Section 44 of the PNC. The newspaper publication requirement is subject to Insurance Circular Letter No. 2016-34 dated 21 June 2016.

2.8 PUBLICATION OF THE SYNOPSIS and NEWSPAPERS CLIPPINGS

Pursuant to Section 44 of the PNC, the company is required to furnish the Insurance Commission with the pertinent newspaper clippings of the published synopsis within thirty (30) days from receipt of the approval letter. The newspaper clippings together with the duplicate of the approval letter are attached to the examination/verification folder and forwarded to Records Division of the Insurance Commission for file.
CHECKLIST OF DOCUMENTS TO BE SUBMITTED TO FORM PART OF THE ANNUAL STATEMENTS OF  
(NAME OF COMPANY)  
For the Year Ended 31 December 20__

A. One (1) copy of each of the following:
   1. Audited Financial Statements (AFS) duly stamped by the Bureau of Internal Revenue (BIR);
   2. Adjusted Trial Balance (ATB) signed by the Chief Accountant;
   3. Reconciliation Statement of the AFS versus the ATB figures;
   4. Detailed Reconciliation Statement of Trust Fund Balances per Trustee Bank(s) versus AFS/AS;
   5. Annual Pre-need Reserve Valuation Report together with:
      a. Certification by the actuary and/or any accountable officer of the company on the actuary and
         completeness of the in-force files used in valuation of reserves; and
      b. Certification on the prudent adequacy of the Pre-need reserve that it shall provide at least the
         guaranteed contractual benefits under each pre-need contract of the company.
   6. List of current members of board of directors and officers, their respective addresses, position and
      committee membership;
   7. Sworn Statement from the responsible officers of the company stating that:
      "Any deficiency in Trust Funds has been duly addressed, attaching the necessary documents as
      proofs thereof;"
   8. Sworn Statement of the company's insurer certifying the coverage on the life insurance policies or
      guarantees on premium payments assumed by the insurance company, indicating the extent, term and
      duration of such coverage/guarantees;
   9. Documents supporting the accounts held as corporate assets:
      a. Certification of Custodian for Petty Cash Fund, Revolving Fund, etc.;
      b. Bank reconciliation statements as of 31 December 20__ and 31 January 20__ using adjusted
         balance method, together with bank statements, pasbooks and certificates of all current, savings
         and time deposit accounts, respectively;
      c. Official receipts, bank validated deposit slips and bank statements to support year-end deposit in
         transit, if any;
      d. Confirmation of Sales of Investment in Bonds and Treasury Bills (Government Securities) together
         with Statement of Securities Account of BTr-ROSS as 31 December 20__, if any;
      e. Statement of Holdings as of year-end from the company's custodian bank for dollar denominated
         bonds, if any;
      f. Statement of Accounts as of year-end from Philippine Depository and Trust Corporation (PDTC) for
         scriptless stock investments;
      g. Statement of Net Asset Value (NAV/pu) of Unit Investment Trust Fund (UITF), Mutual Funds and
         related investments;
      h. Report from a licensed real estate appraiser accredited by the Philippine Association of Real Estate
         Appraisers to support any increase or decrease in fair value of real estate properties;
      i. Documents supporting investments in commercial papers;
      j. Documents supporting mortgage loans and other loans accounts;
      k. BIR tax returns/payments for the year on Income Tax and Value Added Tax (VAT);
      l. Summary of taxes paid including Documentary Stamps Tax (DST), withholding taxes and all other
         taxes;
      m. Other documents to support all other corporate assets and liability accounts.

B. USB Flash drive containing excel files of the following:
   1. Annual Statements showing the financial condition of the pre-need company and all its exhibits and
      schedules, with amendments on the following:
      a. Table of Contents showing the Summary of Investment for the year ended December 31, 20__ and
         Certification, Notarized and Sealed on pages 48 and 49, respectively;
      b. Exhibit 4 - Summary of Monthly Deposits to the Trust Fund with modified columns such as:
         (1) Month
         (2) Amount Collected
         (3) Amount of Required Deposit

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(4) Amount of Actual Deposit
(5) Remarks

**c. Exhibit 5 - Summary of Monthly Withdrawals from the Trust Fund with modified columns such as:**

<table>
<thead>
<tr>
<th>Column</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Month</td>
</tr>
<tr>
<td>2</td>
<td>Total Amount of Benefits Paid</td>
</tr>
<tr>
<td>3</td>
<td>Total Amount of Withdrawal</td>
</tr>
<tr>
<td>4</td>
<td>Planholders' Benefits</td>
</tr>
<tr>
<td>5</td>
<td>Trustee's Fees</td>
</tr>
<tr>
<td>6</td>
<td>Taxes</td>
</tr>
<tr>
<td>7</td>
<td>Others</td>
</tr>
<tr>
<td>8</td>
<td>Description for &quot;Others&quot;</td>
</tr>
</tbody>
</table>

2. Annual Statements of Trust Funds per type of plan and all its exhibits and schedules;
3. Complete details of Exhibit 6, Exhibit 7 and Exhibit 8;
4. Adjusted Trial Balance (ATB);
5. Reconciliation Statement of the AFS versus the ATB figures;
6. Detailed Reconciliation Statement of Trust Fund Balances per Trustee Bank(s) versus AFS/AS;
7. PDF copy of Audited Financial Statements (AFS) duly stamped by the Bureau of Internal Revenue (BIR);
ANNUAL STATEMENT of Trust Funds for the Year Ended December 31, 20__ of 

(Name of Pre-need Company) 

(TYPE OF PLAN) 

Table of Contents 

Pages 

1 COMPANY INFORMATION 

EXHIBITS: 

2 1 Balance Sheet 
3 2 Income Statement 
4 3 List of Trustees 
5 4 Summary of Monthly Deposits to the Trust Fund - Per Trustee 
6 5 Summary of Monthly Withdrawals from the Trust Fund - Per Trustee 

SCHEDULES: 

7 1 Government Securities 
8 2 Cash on Hand and in Banks 
9 3 Mutual Funds/UITF 
10 4 Short Term Investments 
11 5 Corporate Bonds 
12 6 Mortgage Loans 
13 7 Planholders' Loans 
14 8 Stocks 
15 9 Real Estate 
16 10 Other Investment 
17 11 Accrued Investment Income 
18 12 Other Assets 
19 13 Accrued Trust Fees 
20 14 Accrued Taxes 
21 15 Other Liabilities 
22 16 Retained Earnings 
23 CERTIFICATION, NOTARIZED AND SEALED 

Date of Filing: 

Company Representative: 

Contact Number: 

IC Representative/Examiner: 

Date Received: 

11-A-12
B. AUDIT GUIDELINES

1. PHYSICAL INVENTORY

Generally, all assets are subject to physical count including those assets covered by Trust Agreement (Investment Management Agreement –IMA). However, focus shall be on the following:

a. Cash on Hand and in Banks
b. Bonds and Stocks
c. Real Estate
d. Real Estate Mortgage Loan
e. Collateral Loan
f. Guaranteed Loan
g. Commercial Papers
h. Car Loan

Objectives: To prove existence, ownership and amount of the item being examined, and to verify its status and/or condition (not pledged, restricted, free from lien or any encumbrance).

The physical inventory of cash and investments are usually done soon after the end of the calendar year, usually on the first quarter of the year, to give a reasonable time to the company to complete the documents and supporting schedules.

On the day of the count/inventory, the examiner-in-charge informs the company in advance of the physical count to be done for the year under examination. The company is given reasonable time, when appropriate, to put the required documents together.

At the time of inventory, the company provides the examiners with the (1) schedules and working papers relative to the asset being examined (2) items to be counted preferably arranged in a manner listed in the schedules. A company representative should be available at all times to answer any queries relative to the asset being counted. Any finding(s), exception(s), differences are immediately communicated to the company representative.

2. AUDIT PROCEDURES

2.1 INVESTMENT IN TRUST FUND:

Investment in Trust Funds – refers to the net asset value in a trust set up in a duly licensed trustee (banks) for providing for the cost of the benefits or services to be rendered. The pre-need company deposits the prescribed portion of the payments received from the plan holders pursuant to Sec.31.
Section 30 of R.A. 9829 requires the following:

(a) that pre-need company established a trust fund per pre-need plan category which is being administered by a trustee bank under trust agreements for the fulfillment of the company’s obligations to its plan holders.

(b) a portion of the installment payment collected shall be deposited by the pre-need company in the trust fund, the amount of which will be as determined by the actuary based on the viability study of the pre-need plan approved by the Commission.

(c) assets in the trust fund shall at all times remain for the sole benefit of the plan holders. The provision of any law to the contrary notwithstanding, in case of insolvency of the pre-need company, the general creditors shall not be entitled to the trust fund.

(d) The trust fund shall at all times be sufficient to cover the required pre-need reserve.

Section 31 of Pre-need Code – Deposits to the Trust fund
Section 32 of Pre-need Code – Terms and Conditions of a Trust Fund
Section 33 of the Pre-need Code – Responsibilities of the Trustee
Section 34 of the Pre-need Code – Limitations in the Investments in Trust Fund

AUDIT OBJECTIVES:

To determine that investments in trust funds are properly classified and valued in the Annual Statement.

To check the asset investments in trust funds and its corresponding limitations.

To prove existence of the investments and ownership of pre-need plan

To check the liquidity of its investment in trust fund in accordance with liquidity reserve requirement.

To compute that the investment in trust fund is equal or more than the pre-need reserve liabilities.

To prove consistency of monthly deposit to the trust deposit.
To see to it that the withdrawal is for the sole benefit of the plan holders.

A. Determine if the trust fund investments are properly classified, valued and within the prescribed limitations provided under Section 34 of the Pre-need Code and Circular Letter Nos. 08-2012 and 2017-28.

The following are to be considered:

<table>
<thead>
<tr>
<th>A. Fixed Income Instruments</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Government Securities</td>
</tr>
<tr>
<td>2. Cash in Savings/Time Deposits/Unit Investment Trust Fund (UITF)</td>
</tr>
<tr>
<td>Short-term Investments (BSP)</td>
</tr>
<tr>
<td>3. Corporate Bonds</td>
</tr>
</tbody>
</table>
4. Direct Loans to Corporations

a) Granted to corporations which are financially stable, profitable for the last 3 years and have a good track record of paying their previous loans. Not more than 5% of the Total Trust Fund.

b) These loans shall be fully secured by a real estate mortgage up to the extent of 60% of the zonal valuation of the property at the time the loan was granted. The property shall be covered by a transfer certificate of title registered in the name of the mortgagor and free from liens and encumbrances. The maximum term of the loan should be no longer than 4 years.

c) The property shall be covered by a transfer certificate of title registered in the name of the mortgagor and free from liens and encumbrances. Not more than 10% of the allocated amount of the Trust Fund shall be invested in the property.

d) Existing investments which are not in accordance herewith shall be disposed of within 3 years from the effectivity of the PNC.

B. EQUITIES

a) Investments in equities shall be limited to Not more than 30% of the Total Trust Fund.

b) Investments in duly registered collective investment instruments such as mutual funds are invested only in fixed income instruments and blue chips securities, subject to the limitations prescribed by laws, rules and regulations.

c) These investments shall include stocks issued by companies that are financially stable, actively traded, possess good track record of growth and have declared dividends for the last 3 years. Notwithstanding the prohibition against interests, the trustee may invest in these stocks.

d) Existing investments which are not in accordance herewith shall be disposed of within 3 years from the effectivity of the PNC.
C. REAL ESTATE

a) These shall include real estate properties located in strategic areas of cities and first class municipalities.

b) The transfer certificate of title (TCT) shall be in the name of the seller, free from liens and encumbrances and shall be transferred in the name of the trustee in trust for the planholders unless the seller/transferor is the pre-need company wherein an annotation to the TCT relative to the sale/transfer may be allowed. It shall be recorded at acquisition cost.

c) However, the real estate shall be appraised every 3 years by a licensed real estate appraiser, accredited by the Philippine Association of Real Estate Appraisers, to reflect the increase or decrease in the value of property. In case the appraisal would result in an increase in the value, only 60% of the appraisal increase is allowed to be recorded in the books of the trust fund but in case of decline in value, the entire decline shall be recorded. Appraisal increment should not be used to cover up the required monthly contribution to the trust fund.

<table>
<thead>
<tr>
<th>Other Investments</th>
<th>a) These investments shall have prior approval of the Commission.</th>
<th>Not more than 20% of the Total Trust Fund</th>
<th>Not more than 15% of the Total Trust Fund</th>
<th>Not more than 10% of the TTF</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. Preferred Shares</td>
<td>Refer to CL No.08-2012</td>
<td>Not more than 15% of the TTF</td>
<td>Not more than 10% of the TTF</td>
<td></td>
</tr>
<tr>
<td>b. REITS</td>
<td>Refer to CL No.08-2012</td>
<td>Not more than 15% of the TTF</td>
<td></td>
<td></td>
</tr>
<tr>
<td>c. Tier II Notes</td>
<td>Refer to CL No.08-2012</td>
<td>Not more than 15% of the TTF</td>
<td>Not more than 10% of the TTF</td>
<td></td>
</tr>
<tr>
<td>d. Service Assets</td>
<td>Refer to CL No.08-2012</td>
<td>Not more than 15% of the TTF</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Existing investments which are not in accordance with prescribed limitations shall be disposed of within three (3) years, otherwise these will be disallowed/unqualified assets in the trust fund.

111-B-5
B. Prove Existence
   1. Conduct physical count (applicable to Real Estate, Mortgage Loans and Service Asset accounts). Refer to guidelines on Physical Inventory).
   2. Check balances with the financial statements submitted by the trustee banks (all accounts).

C. Prove Ownership

   For purchase of real estate and service assets, check original purchase contract or deed of sale, evidence of payments, Transfer Certificate of Title (TCT), Condominium Certificate of Title (CCT), Certificate of Ownership (CTO) and Contract Number.

   Verify Certificate Authorizing Registration (CAR) or application with the Register of Deeds in the absence of the TCT or CCT.

D. Check the liquidity of its investment in trust fund in accordance with liquidity reserve requirement

   Get the fifteen percent (15%) of trust fund for each type of plan and/or one hundred twenty five (125%) of the amount of availing plans for the succeeding year, whichever is higher is the liquidity reserve requirement (Sec. 37)

   Then, compare the total allowable investment stated in Section 37 to the liquidity reserve requirement

E. Check the sufficiency of trust fund for each type of plans to the actuarial reserve liabilities of each type of plans.

Check that the trust fund for each type of plan is equal or more than to its actuarial reserve liabilities contain in the Annual Pre-need Reserve Valuation Report (Sec 41) as of examination date. The said report should be duly certified by an actuary accredited by the Insurance Commission in the case of contingent plans such as memorial/life plans and by the pre-need company’s external auditors or by a qualified actuary in the case of scheduled-benefit plans such as pension and education plans, the liabilities of which are not actuarial in nature.

In case of plans approved by SEC (old basket plans), if the above computation resulted to a negative (deficiency) please refer to IC Circular # 23-2012 dated 28 November 2012, for re-computation (TPNR-transitory pre-need reserve).

111-B-6
F. Check accuracy of the collection and deposit made for fully paid and installments of plans sold

1. The deposits to the trust fund shall be made within twenty (20) days from the end of each reference month for payments received from plans whether paid for in full or in installments. (Sec. 31)

2. Failure to make the trust fund deposit shall subject the pre-need company to penalty per IC Circular # 2014-15.

3. Should the Commission discover a deficiency in the trust fund, it shall give notice of the same to the pre-need company and require the said company to make additional deposits.

G. Check the legality of withdrawal from the trust fund.

Except for the payment of the cost of benefits or services, the termination values payable to the planholders, the insurance premium payments for insurance-funded benefits of memorial life plans and other costs necessary to ensure the delivery of benefits or services to planholders, no withdrawal shall be made from the trust fund unless approved by the Commission.

IV. Applicable provisions of the Pre-need Code and IC Circular Letters

   Section 30 – Trust Fund
   Section 31 – Deposits to the Trust fund
   Section 32 – Terms and Conditions of a Trust Fund
   Section 33 – Responsibilities of the Trustee
   Section 34 – Limitations in the Investments in Trust Fund

2.2 INSURANCE PREMIUM FUND

Insurance Premium Fund – this represent corporate assets that are restricted to cover the payment of insurance premiums after the paying period of the pre-need plan. This shall be equal to the amount computed for the Insurance Premium Reserves.

The schedule of Insurance Premium Fund should be presented to IC containing the information in pp. 11 Sch2 of the Annual Statement.

Check the existence of Insurance Premium Fund. This account consist of financial assets such as stocks, securities, debts instruments, cash equivalents (savings and time deposits).

Conduct physical inventories to prove ownership.
2.3 GOVERNMENT SECURITIES

Government Securities – investments in long term government securities and other long term debt instruments issued by the government and its instrumentalities,

The schedule of Government Securities should be presented to IC containing the information on pp 23 SCH3-1 of Annual Statement.

Documents supporting government securities/treasury bills and other debt instruments issued by the government of the Philippines and foreign denominated bonds.

1. Confirmation of Purchase (COP) from the buyer
2. Confirmation of Sale (COS) from seller
3. Statement of account from the Bureau of Treasury (if lodged with the BTr)

Any difference resulting from supporting documents against schedule presented should be reconciled and adequately explained and supported, otherwise it will be treated as unqualified assets in the financial statements.

2.4 CASH ON HAND AND IN BANKS

Cash on hand and in banks – includes currency or cash items on hand (such as cash items awaiting deposits and cash in working funds)

The schedule of Cash on hand and in Banks should be presented to IC containing the information in pp 24 Sch3-2 of the Annual Statement.

A) On hand
1. Funds should be presented for actual physical count during the physical inventory of company’s investment. It consist petty cash fund, commission fund, documentary stamps fund, postage stamps fund, change fund, un-deposited collections, revolving funds, etc.
2. Confirmed amount of funds should reconcile with the general ledger.
3. Cash on hand held by district offices or branches should be supported by a certificate of the custodian as to the existence and amount.

B) In Banks
1. Original Bank statements, passbooks, certificate of time deposits should be available for inspection.
2. Verify bank reconciliation statement as of December 31, under audit using adjusted balance (bank balance to book balance). Any discrepancies, if not supported will be either unqualified assets or non-ledger liabilities. Only interest income not taken up should be treated as non-ledger assets.
3. Deposit in transit should be supported by official receipts, bank validated deposit slips, and passbook or bank statements for the month of January 31, following the year under audit. Deposit in transit should be deposited within a month, if not, company's attention will be invited.

4. Thrift banks, Rural Banks, and Savings and Loan associations, and other non-commercial banks are qualified as assets up to the amount of the PDIC (Philippine Deposit Insurance Corporation) coverage only. At present, the coverage is up to ₱500,000.00.

5. Check item 4 if these is authorized to do business and licensed with the BSP, otherwise treat as unqualified assets and call the company’s attention.

**INTERNAL CONTROL QUESTIONNAIRE**

a. Are all bank accounts and check signatories authorized by the board?
b. Do reconciliation procedures assure the accuracy of the records?
c. Are cash receipts for the day deposited intact the following banking day?
d. Are disbursement made by check?
e. Are persons handling cash or other liquid assets properly bonded?

**2.5 MUTUAL FUNDS/UNIT INVESTMENT TRUST FUND (UITF)**

Mutual Funds/Unit Investment Trust Fund (UITF) – these are collective investments offered by bank e.g. stock and mutual funds

The schedule of Mutual Funds/UITF should be presented to IC containing the information in pp 25 Sch3-3 of the Annual Statement.

Documents supporting mutual funds/UITF should be presented submitted

   a. Participating trust/mutual fund agreement
   b. Confirmation of Participation
   c. Original Certificate from Investment management Co/Custodian bank showing NAVpu (net asset value per unit) corresponding number of units of participation as of examination/verification year.

**2.6 SHORT TERM INVESTMENTS**

Short –term Investments – a money market investment usually savings deposit account (SDA) with Bangko Sentral.

The schedule of Short-term Investments should be presented to IC containing the information in pp 26 Sch3-4 of the Annual Statement.
Special Deposit Account (SDA) facility of the BSP are fixed-term deposits by banks and trust entities of BSP-supervised financial entities. It comes in a 1 week, 2 weeks up to 3 months maturities and subject to a 20% withholding tax.

Documents supporting short-term investment should be presented/submitted

   a. Bank certificate of time deposit/participation agreement

2.7 CORPORATE BONDS

Corporate Bonds — cost of placements in long term commercial paper and other long term debt to a private corporation whether domestic or foreign.

The schedule of Corporate Bonds should be presented to IC containing the information in pp 27 Sch3-5 of the Annual Statement.

Documents supporting bonds should be presented for verification

   a) If on hand – certificates, confirmation of purchase, agreement, custodianship receipt
   b) If sold – confirmation of purchase, official receipt, bank validated deposit slips, bank statement/passbooks
   c) If rolled over – roll over documents such as in item a
   d) If matured – official receipts, bank statements, and bank validated deposit slips

INTERNAL QUESTION QUESTIONNAIRE

Does the board exercise control over investment in corporate bonds?

2.8 MORTGAGE LOANS

Mortgage Loans – outstanding balances of loans secured by collateral

The schedule for real estate mortgage loan should be presented to IC containing the following information:

   a. Name and address of mortgagor
   b. Record of mortgage – registry number, entry number city/province, amount of notation
   c. Term – date given, date due
   d. Amount of original loan
   e. Title Number, location and description of property mortgaged
   f. Balance – principal and interest

Documents evidencing loans should be presented for physical count

   a. Original Certificate of Title
   b. Mortgage Loan Agreement – notarized

111-B-10
Review mortgage note, trust deed, authorization for loan

Review appraisals, title to determine that the loanable amount should not at least exceed the property appraised amount.

2.9 PLANHOLDERS LOAN

Plan holders Loan – loans granted to a plan holder at a prescribed rate, fully secured by the value of the pre-need plan.

The schedule of Plan holders Loan should be presented to IC containing the information in pp 29 Sch3-7 of the Annual Statement.

A. Established consistency between the plan holders loan and supporting records and the plan holders loan and the books
   1. Determine the population size of the plan holders loans account. The examination procedure may be based on a random sample or the entire population of the account depending on its size.

2. Determined the accuracy of information reflected in the schedule. The plan holders loans schedule shall contain at least the following information:
   a. Policy Number
   b. Issue Date
   c. Issue Age
   d. Contract Price
   e. Amount of Benefits
   f. Unpaid Loan Balance as of year end
   g. Interest (Advance/Due and Accrued)
   h. Cash Value

3. Reconcile the plan holders loans with supporting documents
   a. Trace the plan contract to the valuation or in-force file to determine if the contract is in-force.
   b. Compare the outstanding loan balance to the record of the amount of the termination value of the contract to verify collateral

B. Establish consistency between the plan holders loan schedule and the books.
   1. Reconcile the total outstanding plan holders loan balance reflected in the schedule with that in the books and the Annual Statement.

C. Establish the accuracy of the Aggregate Plan holders Loan Amount.
   1. Verify the accuracy of the outstanding plan holders Loan amount.
      a. Select a sample of loan payments from the cash receipt book.
      b. Verify if repayments had been properly recorded/applied in the corresponding plan holders loan record.
c. Verify the balance reflected in the schedule if repayments had been considered in determining the outstanding balances as of financial statement date.

To consider that the loan will be qualified as an asset, be sure that the status of policies are included in the reserves valuation (i.e., if not included, and it is in-force, set up a corresponding reserve, or not considered as qualified assets if policy is considered lapsed.

The excess of the loan balance over the cash surrender value (CSV) is a unqualified (non-admitted) asset.

Loan balance over the corresponding reserve set up is considered as unqualified (non-admitted) asset.

2.10 STOCKS

Stocks – all transactions affecting acquisitions and sale/disposal of other companies’ preferred or common stocks acquired for investment purposes.

The schedule of Stocks should be presented to IC containing the information in pp 30 Sch3-8 of the Annual Statement.

The original certificate of stocks should be presented for actual physical count.

If unissued – confirmation of purchase, paid checks

If sold – confirmation of sale, official receipt, bank statement/passbooks and bank validated deposit slip.

Any difference between physical count against schedule presented should be reconciled and adequately explained.

Ensure that all stocks are in the name of the company, or if not registered under the company, they should be properly endorsed in favor of the company or accompanied by a power of attorney.

INTERNAL CONTROL QUESTIONNAIRE

Are the securities registered in the name of the company?

Are the persons handling securities properly bonded?

Are the duties between the custodian of the securities and the person maintaining the record of investment separated?

111-B-12
2.11 REAL ESTATE

Real Estate - this represents the cost of real estate properties, whether for office or other uses which are occupied wholly or in part by the company for the operation of the business, or real estate held as investment for the production of income, and/or real estate acquired in satisfaction of debt, including the cost of additions or capital improvement thereon.

The schedule of Real Estate should be presented to IC containing the information in pp 31 Sch3-9 of the Annual Statement.

Documents supporting ownership by the company should be presented for actual physical count or inspection:

1. Original transfer certificate of title, appraisal report if necessary
2. For newly acquired property – deed of absolute sale; proof of payment (i.e. cancelled checks, official receipts, cash vouchers.)
3. For installments sales – contract agreement, installment receivable
4. In case of condominium projects – condominium certificate of title (CCT). If not yet available, the pertinent contract/agreement.
5. In case of foreclosed properties – court receipt, loan balance including capitalized interest and penalties.
6. If title is with the Register of Deeds – application for registration duly acknowledged by the Office of the Register of Deeds and the official receipt for filing fee.
7. Real Estate receipt and tax declaration of property.

2.12 OTHER INVESTMENTS

Other Investment – this represents all other investments which the company may have but which cannot be properly classified under the investment account previously mentioned. (i.e. accounts under trust, IMA account)

The schedule of Other Investment should be presented to IC containing the information in pp 32 Sch3-10 of the Annual Statement.

Prove existence and ownership of the investment made.

1. Conduct physical count
2. Ensure that investment are in the name of the company or if not, they are properly endorsed in favor of the company or accompanied by a power of attorney.
2.13 ACCRUED INVESTMENT INCOME

Accrued Investment Income – this shall represent interest receivable pertaining to interest accrued arising from cash and cash equivalents, financial assets and loans and receivable.

The schedule of Accrued Investment Income should be presented to IC containing the information in pp 33 Sch3-11 of the Annual Statement.

Check the accuracy of accrued investment income by checking (compute) that the interest income is accrued on a timely basis, net of withholding tax.

Any difference resulting from the schedule and examiner’s computation should be reconciled and adequately explained.

2.14 ACCOUNTS/NOTES RECEIVABLE

Account description (see PNUCA chart of account)

The schedule of Accounts /Notes Receivable should be presented to IC containing the information in pp 34 Sch3-12 of the Annual Statement.

Prove existence of the amounts owed to the client. This should be stated at net realizable value.

Review the aged of Accounts/Notes Receivable for significant past due accounts

Inquire from management explanations for long outstanding accounts.

2.15 PROPERTY and EQUIPMENT

These includes furnitures, fixtures, office equipment and transportation equipment.

The schedule of Property and Equipment should be presented to IC containing the information in pp 35 Sch3-13 of the Annual Statement.

This should be accounted for net of depreciation computed for 5 years life.

2.16 INVENTORIES

Inventories – (it is applicable for life plans) it consists of caskets, urns and memorial lots, shall be carried at the lower of cost or net realizable value.

The schedule of Inventories should be presented to IC containing the information in pp36 Sch3-14 of the Annual Statement.

Conduct physical count. Refer to guidelines on Physical Inventory
2.17 OTHER ASSETS

Other Assets – this account is a major non-current asset grouping in the balance sheet which absorbs subsidiary account balances amounting to less than five percent (5%) of Total Assets. If more than five percent (5%) each subsidiary account shall be presented separately in the trial balance.

The schedule of Other Assets should be presented to IC containing the information in pp 37 Sch3-15 of the Annual Statement.

This account should be fully explained as to the nature and documented.

LIABILITY ACCOUNT

3.1 PRE-NEED RESERVES

Pre-need Reserves is the amount of liability which the pre-need company establish for a plan holder to meet the contractual obligation as it falls due

To establish the completeness of the in-force or valuation file and the accuracy of the pre-need reserve liabilities.

1. Compare the Actuarial Valuation Report against the Pre-need Reserves reported in the pp, 38 Sch 4 of the Annual Statement. It should be reconciled with each type of plan of the company.
2. The Actuarial Valuation Report consists of two parts; (a) Valuation Report for the product approved by Securities and Exchange Commission (SEC), old plan and, (b) Valuation Report for the product Approved by the Insurance Commission. (IC), new plan.
   If there is a deficiency in the AVR Computation Approved by the SEC against the trust fund establish in the old basket of plan, a Manual Re-Computation shall be done. Refer to CL 23-2012 for guidance in the Computation of TPNR and compare again to the actuarial valuation report, if TPNR was considered in the valuation report.
3. If the AVR Computation reasonably represents the amount of Pre-Need Reserves, proceed with the checking of Pre-Need Reserves versus the Trust Fund Account.
4. The amount determined as Pre-Need Reserves will then be checked against the Trust Fund (net of Due from Trustee and Planholder’s Benefit Payable, both of which are reported as part of Corporate Liabilities)

111-B-15
The Trust Fund (net of Due from Trustee and Planholder’s Benefit Payable) should always be greater than or equal to the Pre-Need Reserves, otherwise a Deficiency in the Trust Fund shall be recognized, for which the company is required to cure by distributing to the trust fund, either from corporate assets or cash infusion.

3.2 INSURANCE PREMIUM RESERVE –
This includes the cost of purchasing insurance premiums after paying period of the pre-need plans. This is additional liabilities of the company as Other Reserves in the AVR.

The company shall set-up other provisions in accordance with PAS 37 to cover its obligations such as Insurance Premium Reserve.

Unless the Commission shall so specifically require, a company may at its option to set up other provisions as a prudent measure.

3.3 PLANHOLDERS’ BENEFIT PAYABLE
This account includes amounts payable to planholders and beneficiaries, in the course of settlement, and incurred but not reported claims on the pre-need contract such as due but unpaid matured benefits, surrender benefits and annuity payments.
The schedule of Planholders’ Benefit Payable should be presented to IC containing the information in pp 40 Sch6 of the Annual Statement.

To establish the completeness/accuracy of the schedule reported planholders’ benefit payable and that the claimants are being treated fairly.

1. Trace the unpaid benefit claims from the register to the schedule
2. Verify that the length of time required to settle claims is reasonable and fair.
3. Trace a sample of closed case without payment, and verify the grounds for resisting claims by examining application and claims files.

3.4 COUNSELORS’ BOND RESERVE
This account represents the aggregate amount of deductions from salesmen and agents’ commission, bonuses, and other cash incentives to accumulate a reserve. Upon separation of a salesman or agent from the company, his accountability will be charged to this accumulated bond reserves.

To check the consistencies of the amount as of balance sheet date.

Determine the consistencies between detailed salesmen and agents’ account balances from the subsidiary ledger to the general ledger and annual statement.

111-B-16
3.5 ACCOUNTS/NOTES PAYABLE

This is a major grouping among current liabilities in the Balance Sheet which pertains to liabilities of the company as a result of indebtedness due to any corporations, individual or supplier.

The schedule of Accounts/Notes Payable should be presented to IC containing the information in pp 43 Sch9 of the Annual Statement.

Verify that the accounts/notes payable amount in the trial balance are properly recorded in the Annual Statement.

3.6 TAXES PAYABLE

This represents value added tax, documentary stamp tax and other taxes payable by the pre-need company to the government in accordance with RA8424.

The schedule of Taxes Payable should be presented to IC containing the information in pp 44 Sch10 of the Annual Statement.

To verify the validity and adequacy of tax liabilities

1. Determine the tax base. Multiply it by the applicable rate to arrive at the tax due for the year.
2. Add the tax due for the year to the beginning balance of taxes payable.
3. Deduct payments and any compromise tax settlements made during the year to arrive at net taxes payable as at end of the year.
4. Compare figure with the reported balance in the Annual Statement. Any material differences should be explained and adjusted accordingly.
5. Valuation of tax liabilities should be in accordance with the provisions, revenue regulations of BIR and other related rulings.

3.7 ACCRUED EXPENSES

This represents expenses already incurred but not yet paid.

The schedule of Accrued Expenses should be presented to IC containing the information in pp45 Sch.11 of the Annual Statement.

To determine validity and adequacy of the liabilities recorded.

1. Obtain schedule/details of accrued expenses and other payables.
2. Accrued expenses shall be valued at amount that maybe established in the examination.
3.8 OTHER LIABILITIES

- represents other items not properly classified in any of the preceding liability captions or items not sufficiently material to warrant a separate caption. If it is in excess of five percent (5%) of total liabilities, it shall be stated separately.

The schedule of Other Liabilities should be presented to IC containing the information in pp46 Sch.12 of the Annual Statement.

To determine validity and adequacy of the liabilities recorded

1. Obtain schedule/details of liabilities
2. For dividends payable, verify declaration of cash dividends against minutes of meeting and board resolution, determined how much has been paid and not yet paid as of examination date.
3. Other Liabilities shall be valued at amount that maybe established in the examination.

STOCKHOLDERS EQUITY

Includes the following accounts:

1. SUBSCRIBED CAPITAL STOCK
   Represents the capital stock subscribed as at report date

2. SUBSCRIPTION RECEIVABLE
   This represents the unpaid portion of the subscribed capital stocks of the company.

3. CAPITAL STOCK PAID-UP
   This represents the total par value of fully paid shares, including stock dividends less any treasury stocks, for which stock certificates have been issued.

4. UNISSUED CAPITAL
   This represents the unissued capital stock and does not include treasury stocks.

5. AUTHORIZED CAPITAL STOCK
   This represents the total capitalization of the company as authorized by both the Insurance Commission and the Securities and Exchange Commission. A memorandum entry for the total amount of its classes of stocks, the total number of shares shall be made in the books.
6. **CONTRIBUTED SURPLUS**
   This represents contributions of stockholders to the company in compliance with the requirement of the Pre-need Code (e.g. cash infusion).

7. **TREASURY STOCKS**
   This represents stocks already issued but reacquired by the company.

8. **CAPITAL PAID IN EXCESS OF PAR VALUE**
   This represents premium on sale of capital stocks.

9. **FLUCTUATION RESERVE – STOCKS, BONDS, GOVERNMENT SECURITIES**
   This represents the unrealized appreciation in market value.

10. **FLUCTUATION RESERVE – FOREIGN CURRENCY**
    This represents difference in the valuation of foreign currency deposits/investments resulting from foreign currency fluctuation using BSP guiding rate at the end of the year.

11. **REVALUATION RESERVE – REAL ESTATE**
    This represents appreciation or increase in book value.

12. **RETAINED EARNINGS**
    This represents the balance of the accumulated profits or losses from company's operations.

To prove existence and accuracy of stockholders equity

**A. Capital Stock**
   1. Obtain current list of stockholders with their respective number of subscription and paid-up capital
   2. Trace to the stock and transfer book and verify/examine movements in the stockholders accounts.
   3. Test examine certificate stubs.
   4. Verify amounts are properly recorded on the Annual Statement
   5. Verify compliance with any prior examination findings and requirements.

**B. Contributed Surplus**
   1. Obtain current list of stockholders with their respective amounts of contributed surplus.
   2. For any increase/decrease in contributed surplus, verify supporting documents. Any differences should be reconciled.

**C. Special Surplus Funds**

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2. Test check computations and tie-up balance per schedule with balance per books. Valued capital stock and contributed surplus at actual amount, while for special surplus is at market value/appraised value.