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APPLICATION OF EVIDENCE-COLLECTION TECHNIQUES IN EXAMINING THE BASIC AUDIT OBJECTIVES IN INSURANCE COMPANIES

Biljana Jovkovic*

Faculty of Economics, University of Kragujevac, Kragujevac, Serbia

The independent auditor expresses his or her opinion on financial reports, whose primary role is to reduce the asymmetry of information between insurance companies' management and the existing and potential investors. Through reducing the information risk of the presented financial reports, audit provides the safer making of investment decisions of the users of these reports. In order for this basic function of audit to realize, it is necessary that auditors should collect sufficient pieces of evidence by applying adequate and relevant examination techniques. The goal of this paper is to point at the specific position of audit when an insurance company is a client, and in this regard, at a need for the differentiation of the priorities of individual audit objectives as well as the necessity of the customization of the implemented evidence-collection techniques implemented in an audit engagement with an insurance company simultaneously respectfully referring to the prescribed ordinary procedures imposed by the professional regulation. In the paper, an attempt has been made to comprehensively analyze the effectiveness of individual evidence-collection techniques for the purpose of proving the achievement of each individual objective of the audit as well as their different applicability in the examination of certain balance-sheet positions in financial reports of insurance companies.

Keywords: evidence-collection techniques, audit objectives, financial reports of insurance companies

JEL Classification: G22, M42

INTRODUCTION

An audit opinion on financial statements based on the mere observation of the figures presented and items without evidence would resemble guessing, which would have consequences for the people who would make their decision based on such an issued statement. The importance of obtaining pieces of evidence is in that they inspire confidence in the work performed by the auditor. The basic phases of the audit process are: defining the conditions of an engagement, planning, risk assessment and internal controls operation, the performance of substantive examination procedures, and the submission of audit reports. The terms of an audit engagement are clearly defined in an engagement letter inclusive of the audit objectives and

* *Correspondence to:* B. Jovkovic, Faculty of Economics, University of Kragujevac; D. Pucara 3, 34000 Kragujevac, Serbia; e-mail: bjovkovic@kg.ac.rs

the auditor's and the client's responsibilities. The audit process continues with planning for a more efficient and effective performance. The audit plan and the program containing the nature, volume, and time of audit procedures are documented. Depending on the quality of the internal control system, the volume of tests and substantive testing to be carried out in the process of collecting evidence is determined (Jovković, 2011, 94). In the last phase, the auditor expresses an opinion on the financial statements based on the evidence obtained. The diversity of evidence influences the credibility of the audit report. Evidence must be sufficient, representative and reliable, which is the case when they are collected by applying the appropriate evidence collection techniques that are in accordance with the audit objective whose accomplishment is being tested.

The adequacy of the application of certain audit techniques in the process of examining the achievement of the basic audit objectives for individual balance sheet items in the financial statements of insurance companies is exactly the subject of the research presented in the paper is. The auditor is particularly interested in making sure that insurance companies consistently apply appropriate accounting policies. The following specific positions require special attention to be paid by the auditor: provisions for damage, unearned premiums, the mathematical reserves of life insurance, provisions for risk etc. Due to the high degree of inherent risks characteristic for carrying out this business, there is a risk of the overlooking of some errors. For this reason, the auditor is required to plan his or her audit in insurance with an attitude of special professional skepticism, adapting the procedures of collecting audit evidence for all balance sheet items characteristic for insurance.

The aim is to identify priority audit objectives in investigating certain balance sheet items in financial statements when an insurance company is the audit client, and, in compliance with the determined objectives emphasized in the audit examination, to recommend appropriate and effective techniques for collecting evidence. Based on the analysis of the audit examination objectives and the applied techniques, it is important that the key issues in the implementation of individual and commonly used evidence collection techniques that will enable the identification of the necessary modifications in their implementation should be identified.

The basic hypothesis of the paper which we start from is that the use of certain methods for collecting evidence depends on the individual audit objectives that have a different significance for certain balance sheet items when an insurance company is the client. Insurance companies are major financial institutions and the absence of proving audit examining objectives due to the application of inadequate assessment techniques would produce the uncertainty of the accuracy of their financial statements. In accordance with the defined basic research hypothesis, we will analyze whether the application of the acknowledged evidence-collection techniques in the audit process is more frequent in certain audit objectives if an insurance company is the client.

Respecting the aim and the subject of the research, the adequate methods defined with the research topic are applied in the paper. In order to understand the specifics of the audit process in insurance companies, a comparative analysis of the applied methods and techniques used in auditing insurance companies and other companies as well is applied. The methods of deduction, analysis, synthesis, and particularly the induction procedures are applied, starting from the basic individual assumptions with the purpose of making general conclusions. The paper is supported by a graphical view of the structure of the audit reports according to the opinions expressed in the insurance sector for 2012 and 2011.

Bearing in mind the subject and the aim of the research, as well as the defined hypothesis, the paper firstly analyzes the regulation of the audit profession in the Republic of Serbia. After presenting the key regulatory requirements, attention will be focused on the basic audit objectives and the basic management assertions, whose achievement is examined in the audit engagement. The defining of the audit examination objectives will allow the consideration of the effectiveness of the applied evidence-collection techniques that either confirm or deny the accuracy of the management assertions. The entire analysis will be completed by presenting the structure of the audit reports according to the expressed opinions in the insurance sector in the last two business years, which will enable the assessment of the quality of financial reporting in this area and opportunities for improving the audit profession in the future.

AUDIT REGULATIONS IN SERBIA

The auditing profession in the Republic of Serbia is regulated by the Law on Audit, which was adopted in July 2013. Before its coming into force, this field had also been included along with accounting into the single unit that had been regulated by the Law on Accounting and Auditing. (the Law on Accounting and Auditing, "The Official Gazette of RS", no. 46/2006) Once the new law had come into force, the two fields were separated into the two individual laws. According to the current Law, audit is

> "an audit which is obligatory for the regular annual financial statements of large and medium-sized legal entities classified in accordance with the law regulating accounting, of public companies regulated in accordance with the law which regulates the capital market regardless of their size as well as of all legal entities i.e. entrepreneurs whose business turnover in the preceding business year exceeded EUR 4,400,000 in the dinar equivalent. Statutory audit is performed in compliance with this law, the other laws that regulate the mandatory audit of financial statements for individual legal entities, the ISA, and the "Professional Codes of Ethics for Auditors" (Law on Audit, Article 21, Paragraph 1).

Auditing firms are themselves the beneficiaries of insurance with insurance companies. According to the provisions of the Law, "an auditing firm is required to insure against liability for damage done to a legal entity while performing audit activities i.e. to the third party in the case of the breach of the audit contract i.e. the violation of the audit rules" (Law on Audit, Article 18).

THE MAIN OBJECTIVES OF FINANCIAL STATEMENT AUDIT

The overall objective of the financial statement audit of insurance companies, enterprises, and other clients is to express an opinion on whether such financial statements are, in all materially important aspects, properly presented and prepared according to the defined financial reporting framework (Law on Audit, Article 30, Paragraph 3). To express an opinion on the accuracy of the financial statements of an insurance company, it is necessary that the auditor should be convinced of the accuracy of all the balance sheet items in the financial statements and the disclosure of other relevant information by the management. Accordingly, the realization of the main audit objective and the fulfillment of its primary mission are achieved by decomposing the overall audit objective on a set of objectives, whose successful implementation creates conditions for expressing a competent opinion. The management of an insurance company is primarily responsible for the recording, processing, summarizing and presenting of financial information. (Jovković, 2010, 152) Therefore, specific audit objectives are related to the explicit and implicit management assertions associated with the presented balance sheet items. An assertion is considered to be a statement of the management given either explicitly or otherwise, which is incorporated in their financial statements and directly relates to the fair presentation of the key balance sheet items in these statements. It is necessary for an audit examination to determine whether these assertions made by the management have been achieved or they have failed to fulfill. The realization of the objectives related to the need to check individual balance sheet items creates conditions for the realization of the main objective – giving an opinion on the accuracy and objectivity of the financial statements.

The derived audit objectives whose achievement is necessary to prove by collecting evidence are as follows (Rittenberg, Schwieger & Johnstone, 2008, 152):

- Existence or occurrence;
- Wholeness or completeness;
- Rights and obligations;
- Valuation or allocation;
- Accuracy;
- Demarcation, and
- Presentation and Disclosure.

The first derived objective of the financial statement audit of an insurance company refers to the examining and proving of the management's assertions that the assets, equity and liabilities of the company that are presented do exist, that is to say, that the presented revenues, expenses and gains or losses actually took place in the given accounting period. An assertion needs to be proved for both the balance sheet items that have the material form of existence, such as fixed assets, cash, land, securities etc., and for the balance sheet items that are non-material, such as claims for contractual premiums, claims from coinsurers and reinsurers, liabilities for insurance claims and the like. Different evidence-collection techniques are applied, depending on whether the assets of an insurance company have a material or a non-material form. The auditor will be convinced of the existence of building structures by visiting the premises, whereas for the confirmation of the existence of claims for premiums, it will be necessary to seek the confirmation of the counterparty, which means that the confirmation technique will be applied. The application of this technique first requires access to contracted insurances, then a review of the submitted open-item statements and sending requests for confirmation to the insured in order to gain confidence that the presented claims truly exist. The evidence-collection technique provides assurance that the audit objective has been achieved, rather than some other, such as a proper valuation, for whose examination another appropriate technique is necessary to apply. The above statement may be misrepresented if the amount of realization includes part of a fictitious realization, or if the value of the balance sheet items includes the transactions that have occurred after the termination of the accounting period. When the auditor is analyzing the accuracy of the assertions of the management on the existence or occurrence in the insurance company, as opposed to clients from other sectors, the auditor is mainly concerned with a possibility of the overvaluation of the balance of certain balance sheet items through the inclusion of the balance sheet items that do not exist or the inclusion of the effects of the transactions that did not truly occur (the presentation of fictitious claims for premiums, the presentation of claims from coinsurers – where such rights do not exist etc. are just some of the examples of an overvaluation of balance sheet items). In the Group 24 accounts, an insurance company shall disclose its cash equivalents, cash, immediately bankable securities, and demand deposits. Given the uncertainty of risk emergence, there is a need for insurance organizations to own significant funds in order to be able to meet their potential liabilities to policyholders. The objective of the existence is in the center of the audit of financial resources and the auditor is primarily interested in testing its achievement, while testing other objectives achievement has a secondary character, and they do not pose a particular problem to the auditor in the testing process. One of the basic procedures of the assurance of the existence of the above funds is the attendance of the auditor in inventorying cash. Due to the independent auditor's attendance in the inventorying and examining of the record of the Committee for inventorying cash, cash equivalents, and securities, the evidence on the existence of the above funds as well as possible discrepancies between the inventory and the book balance are acquired.

Completeness is the audit objective which refers to the need that financial statements show all the economic transactions and the amounts that occurred in the insurance company in the period covered by the financial report. Completeness means showing all the revenues and expenditures, changes in equity, liabilities, and assets that occurred during the reporting period (Eilifsen, Messier, Glover & Prawitt, 2014, 129). Therefore, the assertion of the management is that balance sheets include all liabilities, assets, equity, revenues, expenses, gains and losses. By performing appropriate evidence-collection methods, it is necessary to prove whether all the transactions and accounts that should be included in financial statements are actually included and that there are no undisclosed assets, liabilities, or omitted transactions. When performing an audit in an insurance company, the necessity of acquiring the belief that the income statement of the insurance company includes all the transactions of the sales of the insurance services in the accounting period and that there are no omitted transactions in that respect is emphasized. The checking of the completeness of assertion is what the testing of the existence of the possible undervaluation of certain balance sheet items, i.e. determining whether there is omission of some balance sheet items and effects of certain transactions that should be included in balance sheet reports (omitting the presentation of liabilities for claims, omitting the presentation of provisions on various grounds that are necessary to carry out etc.) is aimed at. To uncover the omitted transactions or parts of the balance sheet items with auditing procedures is much more difficult than testing the assertion of the existence, as the starting point of examination is what needs to be entered, not what has been entered. The transaction that is most frequently left out has no material trace in the records of an insurance company and the documentation indicative of the occurrence of the transaction is frequently absent. When an omission of transactions is observed, the problem of the accuracy of the amounts that should have been included implies the inaccuracy of the assertions of the management on accuracy and evaluation. This objective is of special importance in auditing clients in insurance because an incomplete presentation of the sale of the insurance services entails two consequences: the undervaluation of revenues at the time of sale and the occurrence of liabilities for claims when the risk is realized. The effect of negative consequences is twofold: the absence of entering revenues and the emergence of expenditures where there are no accrued revenues. The document inspection technique is used for proving the accomplishment of the objective of the completeness in audit in the following accounting period, usually for transactions of payment and collections of cash. By reviewing transactions in the following period, it is possible to detect cash payments arising from the liabilities that were not included at the balance sheet date and should have been reported, or there was a collection of cash based on claims by, for example, the coinsurer, that were not shown on the balance sheet. The reason for moving the examining period to the following period lies in that, in the case of the unfulfilled objective of completeness, there is no material trace in accounting, which confirms that there are real business events that should have been included in the records. Therefore, the transactions of the following period are tested in order to draw conclusions retroactively about the existence of undervaluation.

The derived audit objective concerning the rights and the obligations is related to the need to assure auditors that the property is owned by the particular insurance company i.e. that the obligations are the company's debt obligation in a particular accounting period. An insurance company has presented demand deposits and time deposits at commercial banks in the balance sheet since they keep part of technical provisions in a liquid form; therefore, when it comes to these items, the priority is to assure that the company has the right of the ownership of the assets presented. The auditor is convinced of the ownership of the demand deposits at commercial banks and the existence of any possible restrictions on access and use (given the lien statement) using the basic audit technique of confirmation from the independent third party, in this case – the bank. Based on the confirmation, if the banks have confirmed the presented amounts to the auditor, it can be concluded that the assets exist, they are the property of the insurance company, and are accurately presented. In this way, the assurance of the achievement of many audit objectives can simultaneously be obtained. The right of ownership needs to be proven for the other types of assets as well, such as land with an abstract from the land registry, equipment based on the sales contract etc. In the case of the sale of an insurance service, when the policyholder fails to immediately pay the a corresponding premium, the insurance company has the right to present the corresponding claim as the company property (the Law of Obligations, Article 148, paragraph 1) on the basis of the debtor-creditor relationship arising from such insurance. Based on the record of the resulting, declared and recognized damage of the policyholder based on the realization of the insured risk, the insurance company is obligated to pay for the damages and, therefore, it presents the resulting obligations. The assertions of the management regarding the rights and obligations of the company only concern only the balance sheet items and, by applying appropriate techniques (the confirmation and the document inspection techniques), the auditor is assured of the validity of the assertions.

An assertion of the management with respect to valuation and allocation refers to the presentation of the assets, liabilities, equity, income and expenses in the financial statements of a company in appropriate amounts. When it comes to an insurance company, it is extremely important that the elements of financial statements be properly valuated and that there should be no under- or overvaluation of the balance sheet items. A special emphasis in the audit process is put on receivables from business relations included in the balance sheet and it is necessary to prove that they reflect the actual payable amount. The area that the auditor checks with special professional skepticism is the correct calculation of allowance for the impairment of receivables, which directly influences and determines the accuracy of the presented amounts. Reporting liabilities on reserving for the equalization of the company's obligations for the risks taken in a series of accounting periods is often present and is typical of insurance companies, so it is important that the value of the specified liabilities should properly be expressed so as to avoid their under- or overvaluation. Long-term provisions are calculated in insurance companies with the aim of creating a cover for risks taken. The most important objective is to make sure they have properly been valuated i.e. whether they are over- or undervalued. The undervaluation of long-term provisions would result in the presentation of the better financial situation of the company in the observed period, which could cause the company to become illiquid or insolvent in the case of risk events. When long-term provisions are overvalued, the latent provisions are created in the company, i.e. larger calculations on the provisions for expenses in the current period will present a smaller periodic result than it should be according to the actual state of the matters. If provisions in the following period are properly calculated, the surplus of the previously calculated provisions will be eliminated in favor of the revenue, which would mean moving part of the gain from one accounting period to the other and its misrepresentation in a series of accounting periods. In the auditing process, it is necessary to be assured of the regularity of the valuation and disclosure of long-term provisions for risk equalization for another, however no less significant, reason. Specifically, these provisions are part of the technical provisions of an insurance company in addition to unearned premiums and claims provisions. Technical provisions are established to protect the interests of policyholders and stand for the reserves deposited in certain specified types of investments in order for insurance companies to be able to respond to claims for compensation arising from the risks assumed by the insurance contract at any point in time in their business doing. The basic technique used in testing the valuation of provisions is the calculation control technique, with the application of the actuarial method of provision calculation. In the implementation of this technique, unlike other audit engagements, the auditor needs to have the knowledge of the actuarial profession in order for such an assessment to be valid.

Accuracy is an assertion relating to the mathematical accuracy of transactions recorded in financial statements as well as a proper addition and the recording of these transactions in the synthetic records. For example, it is necessary to be sure that the mathematical calculation of the distribution of gross premiums to the part related to the technical premium and expense loading and then the distribution of the corresponding amounts of the premium to the periods of the policy duration are accurate. Similarly, to examine the accuracy of the calculation of liabilities for claims reported by policyholders, which are reported and liquidated or reported however not liquidated during the accounting period. The auditor directs his or her special attention to the examination of the regularity of the mathematical calculation of unearned premiums, mathematical reserves and provisions for risk equalization. An examination is carried out over whether the calculation is properly executed and whether the provision is covered in the prescribed forms of the records. The calculation control technique is the most commonly applied one. During the examination of such a balance sheet, when for example an audit client has funds in a foreign currency account, it is then necessary to make sure that his or her foreign funds are properly converted into the dinar equivalent and that the determined exchange losses are properly covered (International Financial Reporting Standards, 112). The examination begins by inspecting the structure of the funds on such a foreign currency account, the assessment of assets in the dinar equivalent against the middle exchange rate of the National Bank of Serbia at the balance sheet date, in accordance with the provisions of the law (the Law on Accounting, Article 6, Paragraph 5).

Demarcation as an audit objective implies that all the transactions that occurred near the date of the periodic results calculation are recorded and displayed in the period which they actually refer to in compliance with the requirement of the basic accounting principles of the causality of the confrontation of corresponding expenditures with corresponding revenues. This problem is particularly present in insurance companies since there is a discrepancy between the time of the conclusion of the insurance contract (the insurance time duration) and the result calculation period. In this regard, the key problem is to determine the accuracy of the demarcation of the collected premiums on the earned premium and the unearned premium referring to the future accounting periods. The misallocation of premiums between the earned and the unearned parts has resulted in incompletely reported revenue in different accounting periods, resulting in the misstatements of the achieved periodic results and the misstatements of the sum of the balance sheet if the unearned premiums, as the passive positions, are under- or overvalued. By means of the document inspection technique, an analysis of the calculation of unearned premiums for every type of insurance that the company has in its portfolio should necessarily be carried out, the analytical records the demarcation of premiums to the earned and the unearned ones should necessarily be reviewed and the accounting entries based on the performed calculation should be implemented. In the sample document analysis, the auditor will examine the data on the basis of which his or her calculation has been made, as follows: the premium amount, the date of commencement and the expiration of insurance coverage, the number of days of insurance, the number of days of insurance after the periodic calculation, the amount of insurance coverage – the risk at the beginning of the insurance period, the amount of the insurance coverage – the risk at the end of the insurance period, and the like.

The objective of presentation and disclosure refers to the assurance of the fact that all the components of financial statements are properly classified and described and that necessary disclosures are made in the notes in addition to financial statements. If there are certain restrictions over the property or access to certain forms of the property, if there is information about the obligations that may be relevant to users of financial statements, then those facts must be disclosed. By applying the techniques of the examination of the management, the auditor learns if he or she has achieved the presentation and required disclosures objective, and makes a decision on meeting this objective by financial reporting on the insurance company.

Not only does the quality of the financial statements of an insurance company depend on the preparation of the statement at the end of the accounting period, but it also depends on the inclusion of every business transaction during the accounting period. More precisely, every business transaction has its own documentation, recording and reporting aspects. (Pjanić, Stojanović & Jakšić, 1994, 1277). Only those transactions which are confirmed by a document as a written identification of its emergence can be considered as relevant transactions (Pjanic *et al*, 1994, 1277). The correct documents, as the basis of records, provide a confirmation to the overall quality of the accounting system of the society and are the thread that runs through the recording aspect to the very reporting, determining the accuracy and objectivity of the report. The reporting aspect of transactions is a need for data systematization in business books and their presentation in the prescribed forms. According to the Law on Accounting (2013, Article 2, Paragraph 1, Item 7), insurance companies are required to prepare an annual conclusion consisting of: the balance sheet, the income statement, the statement of the achieved results, the cash flow statement, the statement of changes in equity, and notes in addition to the financial statements. These statements are subject to statutory audit and the auditor gives an opinion on their accuracy and objectivity in the auditor's report, thus achieving the main objective of an audit.

EVIDENCE-COLLECTION TECHNIQUES

An audit examination is a carefully planned activity aimed at determining activities to be conducted during an audit engagement. The most important parameter the auditor should express while planning activities is the risk that the auditor is willing to accept in his or her engagement. It is used for defining adequate evidence-collection techniques and the implementation of the examining procedures that will lead to the achievement of the basic audit objectives.

The techniques used in obtaining evidence are: (Whittington & Pany, 2014, 143)

- Inspection;
- Observation;
- Inquiry and confirmation;
- Calculation control, and
- Analytical procedures.

The inspection (review) of documents and reports consists of examining records and documents, either internal or external, in paper or in an electronic form. The review of documents enables the auditor to gain an accurate knowledge of the conditions in the agreements concluded by the insurance company or the provisions of the insurance policies issued. Some documents represent direct audit evidence on the existence of funds. For example, a piece of evidence is a financial instrument, such as a stock or a bond, and by reviewing it, one can acquire a belief of the existence of these funds. However, the review of these documents may not necessarily provide audit evidence about the value of assets whose existence is proven. During an inspection, the auditor can assess the accuracy of the documents, or may reveal the existence of changed or suspicious positions in the document. Confirmation and searching are two important examination processes in auditing, associated with the inspection of documents. Confirmation involves the selection of positions in the financial statement and the review of documents that form the basis for the entry of the transactions related to the balance sheet position in order to determine the validity and accuracy of the entries. For example, when testing the sales of insurance services, the auditor can choose transactions from the sales journal and confirm the transaction by reviewing the insurance policy. Confirmation is extensively used for the detection of overvaluation in financial statements. So, this is an important procedure in obtaining evidence related to the assertion of existence or occurrence. In searching, the auditor selects documents created when the transaction occurred and analyzes whether the document has properly been entered in the records and contained in the financial statement position. In searching, the direction of testing is opposite to the one used in confirmation; it starts from documents towards the financial statement, by reconstructing the original data flow through the accounting system. For example, when testing the completeness of the sale of insurance, the auditor can select a sample of insurance policies and monitor the transaction throughout the entries in the sales journal and the general ledger. Since this procedure provides assurance that the data from the original documents are included in the final account balance, it is especially beneficial for the detection of a restraint in financial statements. This is an important procedure in gaining evidence related to the assertion of completeness. Review or inspection may be used for the acquisition of evidence on the physically present assets in insurance companies. The review of visible, tangible assets provides the auditor with direct personal knowledge of their existence and physical condition. Although the review of visible assets, such as observing a company's equipment, its business premises, the means of transport etc. provides the strong evidence of the assertion on existence, this procedure does not provide evidence on the rights of the company over the assets.

Observation is a technique that consists in monitoring the process or procedures performed by another person, e.g. inventorying supplies. Observation relates to the observing of the existing means or procedures performed by another person. An activity can routinely be treated in a particular type of transaction, such as when receiving cash to see if the employees perform their duties in accordance with the policies and procedures of the company. Observation is particularly important in acquiring the understanding of the internal control. Through these observations, the auditor acquires direct personal knowledge of the audit objectives. The auditor should be careful when assessing the reliability of the audit evidence obtained through observation because it is limited by the time it is performed in. For example, when the auditor performs an internal control observation, pieces of evidence are limited in that they are indicative of the operation at the time of the particular observation, i.e. the client's personnel can be at their best behavior complying with the internal control procedures when the audit team are present and observe the execution of certain business transactions.

Inquiry is a technique for obtaining information from employees in a legal entity or from external experts. Inquiry means seeking information from the well-informed client's personnel, either in the financial or the non-financial sector. It is often carried out additionally, along with other audit procedures. It is implemented through obtaining evidence about the functioning of the internal control system. In auditing accounting estimates, it is necessary to obtain an opinion of the certified actuary in order to gain assurance that the estimates of the provisions are properly being conducted. Inquiry can be formal (written) and informal (verbal). Written statements have a higher value for the ease of proof and reference. Answers obtained through inquiry can provide the auditor with the information which he or she did not previously have or the one confirming other pieces of evidence. For example, an effective inquiry may direct the auditor towards marking an unexpected risk of material errors, or inquiring can confirm the auditor's understanding of the client's internal control. Answers may provide information significantly different from other evidence the auditor has obtained. For example, an inquiry of employees in the accounting department can provide the auditor with information on the existence of the ignoring of internal control by managers. In this case, such an inquiry provides guidance for auditors to adjust or perform additional audit procedures. The reliability of the audit evidence obtained through inquiring is under the influence of the skills, knowledge and experience of the auditor's in his or her performing an inquiry given that the auditor is the one to analyze and evaluate responses during the execution of an inquiry and he or she improves subsequent questions according to the given responses.

Confirmation is a technique of finding the confirmation of the information contained in the financial statements addressing third parties independent of the company which is the client in an audit. It is the process of acquiring representative information on the current conditions directly from the third party. This leads to information about the existence, over- or undervaluation of the assets of an insurance company. A request for the confirmation of the balances arising from the contractual relationship between an insurance company and its insured, financial institutions and other third parties is made in writing and submitted to the third parties selected by the auditor. When the application of a technique in an insurance company is concerned, it is important that the auditor is entirely in control of the selection of the items that will be subject to a confirmation to the third party, making requests for a confirmation and the process of sending a request to third parties. The third party sends a response to the confirmation directly to the auditor's address. In practice, there are two types of confirmation applied: positive and negative confirmation (International Standards on Auditing, 215). A positive confirmation requires from the third party to provide a response to the request regardless of whether the requested information is true or not, i.e. whether there is a confirmation of the requested amount or a discrepancy in the stated amount. A negative confirmation requires a response on the third party's part only if there is a discrepancy in the stated amount. The application of a positive confirmation provides greater security given the fact that, in any case, third parties respond to the request made by the external auditor. Confirmation is used in auditing since evidence is objective and is derived from an independent source.

Calculation control or recalculation refers to the verification of the mathematical accuracy of documents or records. Generally speaking, auditors use audit software to perform recalculations for analytical accounts receivable and for matching with the amounts in the general ledger. This is often an important starting procedure. For example, the auditor first wants to make sure that the details of the analysis of accounts receivable for premiums match with the general ledger balance before he or she has decided to send a confirmation.

Analytical procedures include an analysis of significant indicators and trends, including an investigation of the fluctuations and relationships inconsistent with other relevant information or those deviating from the expected amounts. A comparison of the calculated values with the values achieved in the previous period, the planned values, or the actual values of other insurance companies can be performed. Analytical procedures refer to an assessment of the financial information stated in the statements of the company on the basis of studying the relationship between both financial and non-financial data. Analytical procedures may be used in the stage of audit planning, in the stage of collecting substantial evidence as well as in the stage of a general review at the end of the audit. Analytical procedures are generally used for developing expectations for the amounts in financial statements and for the purpose of assessing the acceptability of financial statements in this regard. These procedures are based on the assumption that the dependence between the observed data will continue in the future unless some special circumstances lead to a change in the trends. Unusual transactions or business events, changes in the accounting policy, changes in operations, errors and illegal acts and the occurrence of random events can serve as examples of the occurrence of the particular circumstances leading to the discontinuity of the observed trends. Analytical procedures may be in the form of an analytical review or analysis. An analytical review refers to a need to examine individual documents that provide us with pieces of evidence, for example on the placement of insurance organizations, on the security of the placement and is a substantive examination of the balance sheet items. An analytical review of the contents of the revenues from insurance premiums determines the existence of the concentration risk in the insurance portfolio, the concentration of a specific geographical area, or the insured. An analysis refers to the calculation of the indicators and trends based on the data derived from statements of insurance companies and, comparing results with planned results, the results of the previous period, or an industry trend, appropriate conclusions are derived.

Due to the achieved level of the development of information technologies and software, it is possible to apply many of the evidence-collection techniques in the audit process using software customized for audit purposes. Computer-assisted audit tools and techniques (CAATT) use audit software in order to perform many of the evidence-collection techniques (Boynton & Johnson, 2006, 246). The evidence may be of varying degrees of reliability, depending on the availability of evidence and the method of its creation, recording, and the correspondence of the documents as shown in the Figure 1.

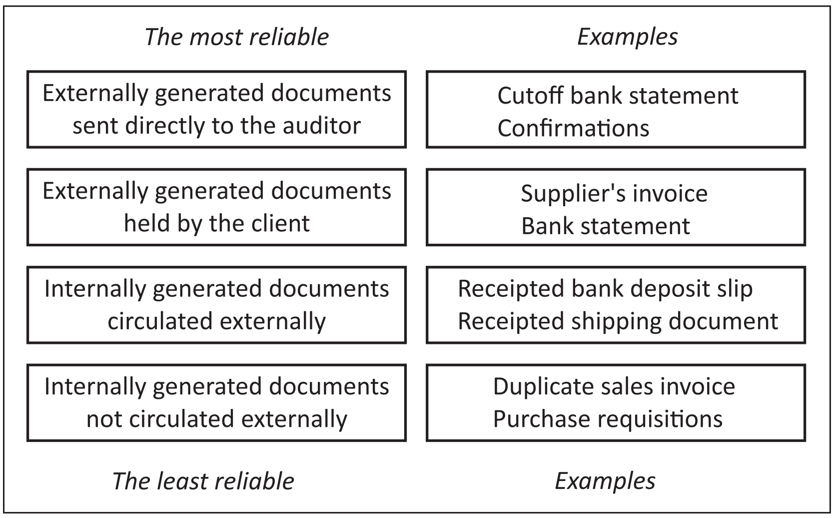

Figure 1 The impact of the movement of documents on the reliability of evidence

Source: Cosserat & Rodda, 2009, 167

The most reliable source of evidence for the auditor in the examination of the financial statements of an insurance company provides the use of the confirmation technique given that insurance companies hold a significant amount of assets in the form of cash for the purpose of settling claims. The least reliable pieces of evidence are documents on the claim assessment, as they are created internally in an insurance company and are the basis for entering the most important expenditures – expenditures on compensation, which are the largest according to the share in the total operating expenses.

THE AUDIT OPINION ON INSURANCE COMPANIES IN SERBIA FOR THE YEARS 2012 AND 2011

The auditor shall submit a report setting out the auditor's opinion on the accuracy and objectivity of the financial statements. The auditor's opinion may be: an unqualified opinion, a qualified opinion, a disclaimer of an opinion, and an adverse opinion (Hooks, 2011, 596).

The unqualified audit opinion is the most desirable form of opinion for an audit client, the users of financial statements and for the auditor him- or herself. It is expressed when, based on an analysis of the collected evidence, the auditor believes that the financial statements in all material respects fairly present the financial position of the company, its financial performance, changes in equity, and the cash flows for the audited year, in accordance with the international accounting standards and regulations. When the auditor discovers irregularities bearing no great importance for him or her to express a qualified opinion, but being not unimportant to be ignored, the auditor expresses an unqualified opinion drawing attention to some issues or minor oversights noted during the audit. A qualified opinion is given for financial statements properly presented in compliance with the accounting standards and legal requirements, except for some irregularities that are material in nature and essential for decision-makers – users of financial statements and of the auditor's report, but have no fundamental significance that would lead the auditor to express an adverse opinion. When the auditor has more reasons for a qualified opinion, it is then necessary that the cumulative effect of the overall findings which are the basis for a qualified opinion should be assessed (Soltani, 2007, 349). If the cumulative effect of the basis of discrepancies is such that it affects the accuracy of financial statements, then the discrepancies can be characterized as fundamental oversights suggesting that the auditor should formulate an adverse opinion.

When the nature of the perceived problem is such that it completely challenges the usefulness of the financial statements for users, the discrepancies are considered as fundamental and such financial statements are deemed to be unreliable in the auditor's opinion. In the case of the fundamental deficiencies, the auditor's qualified opinion would not be a sufficient warning to the users of the audit reports on and the financial statements of insurance companies with respect to the false information about the financial and earning position of the company. If, due to the circumstances of performing audit procedures, there is an uncertainty about the accuracy of certain balance sheet items which the auditor has no evidence on and such an uncertainty has a fundamental impact on the financial statements as a whole, the statements are considered as unreliable and the auditor disclaims an opinion in the audit report due to the lack of evidence. A disclaimer of opinion is more related to the conditions of audit performance than to the character of the financial statements.

When an insurance company is the audit client, the independent auditor's report is specific compared to the one on other companies because the independent auditor's report must be structured in compliance with the requirements of the Resolution on the contents of the audit report on an insurance company's financial statements, adopted by the National Bank of Serbia. According to the Resolution ("The Official Gazette of RS", no. 54/ 2005) the audit report contains the auditor's opinion and his or her report as well as analyses and appendixes. An analysis with the audit report includes: general information on the company, an internal control system analysis, a bookkeeping analysis, a balance sheet analysis, the income statement, the cash flow statement, the statement of changes in equity, notes to the financial statements, the indicators of company operations, an analysis of the human resources, the organizational and technical capacity of the company, an internal audit functioning analysis, and an external control findings analysis. The reasons for prescribing the stated analyticity and the presentation of the analyses lie in the importance of insurance, from a social aspect, and a need for maintaining the necessary financial discipline. A lack of trust in the financial reporting of the companies, a lack of the necessary credibility of the information contained in financial statements would have a domino effect on the security breach that insurance should provide both in the financial and the real sectors of the economy. The auditors expressed their opinions in their reports for the insurance sector in the Republic of Serbia, globally observed, for the business years 2012 and 2011, as shown in the Table 1.

Table 1 The auditor's opinions in the audit report for the insurance sector in 2011 and 2012 and the review of the audit companies engaged by the insurance companies

NO.	NAME OF COMPANY	AUDITOR'S OPINION IN REPORT 2011	NAME OF AUDIT COMPANY	AUDITOR'S OPINION IN REPORT 2012	NAME OF AUDIT COMPANY
1	METLIFE	Unqualified	DELLOITE	Unqualified	DELLOITE
2	AMS	Unqualified	VINČIĆ	Unqualified	VINČIĆ
3	AXA NEŽIVOTNO	Unqualified	PWC	Unqualified	PWC
4	BASLER NEŽIVOTNO	Unqualified	PWC	Unqualified	PWC
5	BASLER ŽIVOTNO	Unqualified	PWC	Unqualified	PWC
6	CREDIT AGRICOLE LIFE (AXA)	Unqualified	PWC	Unqualified	PWC
7	DDOR RE	Unqualified	KPMG	Unqualified	KPMG
8	DELTA GENERALI	Unqualified	PWC	Unqualified	ERNST & YOUNG
9	DELTA GENERALI RE	Unqualified	PWC	Unqualified	ERNST & YOUNG
10	DUNAV OSIGURANJE	Unqualified	KPMG	Sa rezervom	KPMG
11	DUNAV RE	Unqualified	KPMG	Unqualified	KPMG
12	ENERGO PROJEKT GARANT	Unqualified	MOORE STEPHENS	Unqualified	MOORE STEPHENS
13	GLOBOS	Unqualified	MOORE STEPHENS	Unqualified	MOORE STEPHENS
14	GRAWE	Unqualified	KPMG	Unqualified	KPMG
15	MERKUR	Unqualified	KPMG	Unqualified	KPMG
16	SAVA ŽIVOTNO	Unqualified	KPMG	Unqualified	KPMG
17	UNIKA NEŽIVOTNO	Unqualified	KPMG	Unqualified	KPMG
18	UNIKA ŽIVOTNO	Unqualified	KPMG	Unqualified	KPMG
19	WIENER	Unqualified	KPMG	Unqualified	KPMG
20	WIENER RE	Unqualified	KPMG	Unqualified	KPMG
21	DDOR NOVI SAD	Unqualified opinion with drawind attention	ERNST & YOUNG	Unqualified	ERNST & YOUNG
22	MILENIJUM	Unqualified opinion with drawind attention	PRIVREDNI SAVETNIK	Unqualified opinion with drawind attention	PRIVREDNI SAVETNIK
23	SOCIETE GENERALI	Unqualified opinion with drawind attention	DELLOITE	Unqualified	ERNST & YOUNG

NO.	NAME OF COMPANY	AUDITOR'S OPINION IN REPORT 2011	NAME OF AUDIT COMPANY	AUDITOR'S OPINION IN REPORT 2012	NAME OF AUDIT COMPANY
24	TAKOVO	Unqualified opinion with drawind attention	VINČIĆ	Sa rezervom	VINČIĆ
25	SAVA	Unqualified opinion with drawind attention	KPMG	Unqualified opinion with drawind attention	KPMG
26	TRIGLAV KOPAONIK	Unqualified opinion with drawind attention	KPMG	Unqualified opinion with drawind attention	ERNST & YOUNG
27	AS NEŽIVOTNO	Sa rezervom	VINČIĆ	Unqualified opinion with drawind attention	VINČIĆ
28	SOGAZ OSIGURANJE			Unqualified	PWC

Source: Author, based on the disclosed financial statements for insurance companies individually, http://www.nbs.rs/internet/cirilica/60/60_1/60_1_1.html, the time of the review: February 2014

Out of the 28 insurance companies in Serbia in 2012, the 22 companies received an unqualified opinion, the four companies received an unqualified opinion with drawing attention, and the two companies received a qualified opinion. Compared to the prior year, there was an increase in the share of unqualified audit opinions by 4% (from 74.07% to 78.57%), as can be seen in the Figure 2.

CONCLUSION

The main objective of audit stems from the role of audit to verify financial statements and to authoritatively and competently communicate an opinion on the accuracy and objectivity of financial statements to interested users. A realistic picture on the financial stability of an insurance company is important to protect the interests of the current and potential clients. An overvaluation of assets, in order to conceal an unauthorized appropriation of a company's assets, would directly endanger the interests of the insured given the fact that the insurance company would encounter difficulties to fulfill its obligations at the time of a risk event and a need for compensation. The role of the insurance industry – to compensate to policyholders and provide security – would be challenged if insurance companies themselves were not able to respond to servicing the incurred obligations to policyholders. Due to the social importance of insurance, there is an emphasized need of the real financial reporting of insurance companies and a need for conducting the audit of their statements with special professional skepticism in order for users of audited financial statements to rely on the information disclosed in them. Otherwise, insurance would not provide security in the community but, on the contrary, would rather be a source of uncertainty that has far-reaching negative effects due to the domino effect in the financial system of a country.

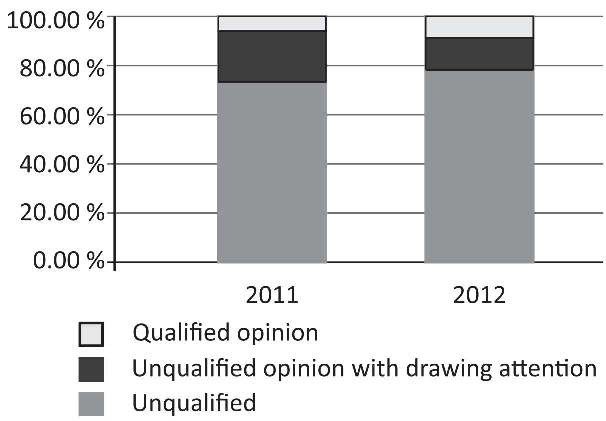

Figure 2 The share of the auditor's opinions for the insurance companies in 2011 and 2012

Source: Author

The key hypothesis which the paper started from has been confirmed through the use of appropriate evidence-collection techniques, depending on which individual audit objectives are to be confirmed in the examination of individual balance sheet items in the financial statements of insurance companies. The paper also confirms that individual audit objectives do not have the same importance for each balance sheet position; some audit objectives, such as existence and ownership, are emphasized when the auditor is checking active balance sheet positions; on the other hand, audit objectives such as valuation and completeness are emphasized when examining passive balance sheet positions, especially in the examination of claim provisions and long-term provisions.

The main contribution of the paper lies in the analysis of the adequacy of the application of the existing methods and the testing procedures used by auditors in the process of collecting evidence on the financial statements of insurance companies and the critical review of their adequacy to the specifics of the business activities carried out by an insurance company. The analysis provides the defining of the suggestions for the improvement and modification of certain techniques in accordance with the differentiation of the priority of certain audit objectives.

The objective of existence is preferred to the other audit objectives when examining the funds of an insurance company, which requires an improvement of the confirmation technique in terms of its exclusive use in the form of a positive confirmation and its use for examining all deposits that make up the technical provisions of a company. The uncertainty of the risk emergence necessitates keeping large amounts of cash in an insurance company, which increases a possibility of its embezzlement. The audit objective of completeness is considered to be the primary objective for examining the income statement and a company's liabilities in the balance sheet. A more detailed examination of the objective of completeness imposes the necessity of a consistent approach of searching in evidence collection. This evidence-collection method is necessary to adjust when it comes to examining in an insurance company, in terms of its extensive application to an increasing number of the examined units by exclusively using a random sample of the entire population of the same document type.

The main limitation of the paper relates to the partial analysis of the application of the evidence-collection techniques only to the most important and specific balance sheet items in insurance companies without deepening this issue on all the balance sheet items that exist in the society and in companies engaged in other activities so as to avoid the unnecessary extensiveness of the paper. It also shows the application of the most important evidence-collection techniques adjusting in evidence collection in insurance companies, but not all the techniques for all the audit objectives. Since insurance is based on the existence of risk, future research should focus on examining assumed risks and the risk of an insurance company's business activities, with the relevant verification methods used by the auditor in order to, based on the analysis, enable an improvement of the audit evidence collection procedures in auditing financial statements of insurance companies. Improving the audit procedures through the adaptation of the application of the known evidence-collection techniques increases the credibility of financial statements and makes business decision making based on audited information safer.

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Biljana Jovkovic is an assistant professor at the Faculty of Economics, University of Kragujevac, where she received her doctorate degree. She teaches the subjects: Financial Organization Accounting and Audit of Financial Statements. The key areas of her interest are accounting in insurance companies and banks, audit of financial statements, internal control and internal audit.