

Pursuant to Article 7 paragraph 2 indent 7 and Article 9 paragraph 1 indent 2 read in conjunction with Article 7 paragraph 2 indent 8, Article 54 paragraph 14 indent 4 and Article 59 paragraph 11 of the Law on Insurance Companies ("Official Gazette of the Republic of Srpska" No. 17/05, 1/06, 64/06, 74/10, 47/17 and 58/19) and pursuant to Article 18 paragraph 1 point of Articles of Association of Insurance Agency of the Republic of Srpska ("Official Gazette of the Republic of Srpska", No. 2/15 and 76/16), at its session held on 9 September 2019, the Board of Directors of Insurance Agency of the Republic of Srpska issued the following

RULEBOOK ON INTERNAL AUDIT IN AN INSURANCE COMPANY

Article 1

This Rulebook regulates organization and business activities of internal audit in an insurance company as well as manner of and deadlines for submitting reports on the business activities of the internal audit made by Insurance Agency of the Republic of Srpska (hereinafter: the Agency).

Article 2

(1) An insurance company shall be obligated to organize internal audit which shall be independent within the context of function and organization and independent of other organizational parts of insurance companies and activities they audit in accordance with the size of organizational structure and the complexity of business activities.

(2) Within the meaning of this Rulebook, internal audit shall provide independent and objective opinion on issues representing the subject of the audit, give advice and recommendations for improvement for existing system of internal audits and business activities of insurance companies and provide help to audit committee and shareholders meeting for them to achieve their goals by applying systematic, disciplined and documented approach to valuing and improvement of existing manner of inspection, risk management and process management.

Article 3

(1) Insurance company is obligated to issue an internal document arranging establishment and work of internal audit in accordance with the law regulating setting up and functioning of companies, International Professional Practices Framework of Internal Auditing and this Rulebook.

(2) The document referred to in paragraph 1 of this Article shall define:

- 1) organizational structure of internal audit,
- 2) conditions referring to appointing of and releasing from duty internal auditor as well as the organizational chart referring to the rest of the employees in the organizational part of internal audit if the said organizational part is being created,
- 3) authorizations and duties of internal audit,
- 4) other details related to the business activities of internal audit.

(3) Opinion on the document referred to in paragraph 1 of this Article shall be provided by the company audit committee prior to its adoption.

Article 4

(1) An insurance company is obligated to employ at least one person to perform duties of internal audit.

(2) The manager of organizational structure of internal audit i.e. at least one person performing duties of internal audit in an insurance company which does not have organizational structure of internal audit shall be obligated to perform a duty of authorized internal auditor if the said organizational structure is organized within the insurance company.

(3) Person performing duties of business internal audit shall not perform other duties in an insurance company, shall not be authorized and responsible for the preparation of documents and other documents that may be subject to internal audit nor they may be a member of insurance companies' body.

(4) An insurance company may hire other experts in certain area to perform duties referring to internal audit of specific areas of business activities.

Article 5

(1) Insurance companies are obligated to provide regular professional training to persons who are performing duties of internal audit.

(2) In order to improve the functioning of internal audit in insurance companies and in cooperation with relevant institutions and associations, the Insurance Agency may organize professional training for persons performing internal audit.

Article 6

(1) Scope of work of internal audit is determined by regulations regulating founding and functioning of companies and International Professional Practices Framework of Internal Auditing.

(2) Internal audit reports directly to audit committee for insurance companies.

(3) Internal auditor must be provided access to necessary documents and provided all oral or written information and data by insurance company bodies and employees.

(4) Insurance company bodies and employees are prohibited to prevent, limit or aggravate the functioning of internal audit or make any impact on opinions and qualifications stated by the internal auditor in their report by any manner of means.

Article 7

(1) An insurance company shall perform internal audit in accordance with:

- 1) annual work plan and
- 2) individual audit operational plan

(2) Internal audit annual work plan shall be created pursuant to documented risk estimation and shall contain at least the following:

- 1) internal audit's goals and tasks as well as priorities in performing functions of internal audit,
- 2) risks defined clearly and in detail and business areas where those risks may occur,
- 3) business areas being priority for performing internal audit, bearing in mind risk estimation,
- 4) manner of implementation of internal audit plan and responsibilities of internal auditor referring to the implementation of the plan,
- 5) list of planned audits containing deadlines for performing them.

(3) Individual audit operational plan shall contain at least the following:

- 1) general data (name of symbols from annual work plan, description of area of audit, reasons to perform an audit),
- 2) risk estimation and audit objectives,
- 3) area of audit and audit approach and
- 4) necessary resources and time period of the audit.

(4) Plans referred to in paragraph 1 of this Article shall be prepared by internal audit and adopted by audit committee of an insurance company.

(5) In addition to performing internal audit referred to in internal audit annual work plan, individual internal audit may be performed upon the request of audit committee, board of directors and shareholders meeting.

Article 8

- (1) Internal auditor shall write a report for each internal audit that was performed.
- (2) Internal audit report shall be founded on reviews and appropriate documents.
- (3) Internal audit reports referred to in paragraph 1 of this Article shall be delivered to board of directors as well as to authorized officials of organizational part of insurance company within whose competence are areas of business activities that were internal audit subject matter.
- (4) Internal audit report shall contain at least the following:
 - 1) time of the audit,
 - 2) names of persons who performed the audit,
 - 3) name of audited organizational part,
 - 4) audit scope and objectives,
 - 5) reasons for performing the audit, relevant information referring to area being audited,
 - 6) list of areas of audit,
 - 7) audit reports, description of relevant reports stating basic causes of certain shortcomings and their impact on performing duties,
 - 8) adequacy and efficiency assessment of internal control in areas of audit,
 - 9) general assessment of efficiency and adequacy of risk management in areas of audit,
 - 10) clear presentation and summary of applied individual audit procedures
 - 11) observations, conclusions, opinions and practical recommendations with deadlines to remove detected shortcomings,
 - 12) response of organizational part of insurance company within whose competence are areas of business activities that were internal audit subject matter.

Article 9

- (1) Internal audit of insurance companies shall make internal audit activity reports in accordance with deadlines stated in internal audit plans and those reports shall be at least semi-annual and annual in terms of frequency.
- (2) Internal audit activity reports shall contain at least:
 - 1) data on insurance company,
 - 2) data on organizational part of internal audit and internal auditors,
 - 3) data on application of internal audit work standards and methodology,
 - 4) information on realization of internal audit work plan,
 - 5) review of all conducted audits in the reporting period and ongoing activities,
 - 6) review of basic conclusions of audit and recommendations from all internal audits performed during the reporting period,
 - 7) information on implementing recommendations, i.e. the status of recommendations to be followed and deadlines for their following contained in the internal audit reports.
- (3) Reports referred to in paragraph 1 of this Article shall be submitted by internal audit to auditing committee of an insurance company.
- (4) Insurance company shareholders assembly shall consider annual internal audit activity report together with the opinion of audit committee and financial statements of insurance companies at the same time.

Article 10

- (1) Insurance company is obligated to deliver internal audit annual work plan to the Agency by 28 February of the current year at latest.

(2) Insurance company is obligated to deliver reports referred to in Article 9 paragraph 1 of this Rulebook to the Agency meeting the following deadlines:

1) semi-annual by 31 July of current year,

2) annual by 30 April of the following year together with reviewed financial statements and opinion of the audit committee.

Article 11

(1) Insurance company is obligated to harmonize their business activities with the provision of Article 4 paragraph 2 of this Rulebook within one year from the entry into force of the Rulebook.

(2) The Rulebook enters into force on the eight day from the day of publishing in the “Official Gazette of the Republic of Srpska.”

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9 September 2019
Banja Luka

Chairman of the
board of directors,
Goran Račić