

ORDINANCE No. 32 of 13.09.2006 on the requirements to the organization and activity of the internal control unit of the insurer and of the persons included in an insurance group

Adopted by Decision № 64-H of 13.09.2006 of the Financial Supervision Commission, promulgated in the State Gazette, No. 81 of 6.10.2006

**Chapter One
GENERAL PROVISIONS**

Art. 1. (1) This Ordinance shall determine the requirements to the organization and activity of the internal control unit of an insurer and of the persons included in an insurance group.

(2) The provisions of the Ordinance shall also apply to a branch of an insurer from a third country.

Art. 2. Internal control is a continuous process performed by the management bodies, by the persons holding managerial positions and by any other person working under contract for the insurer, which aims to ensure to a reasonable extent:

1. achievement of the goals and objectives and fulfillment of the tasks;
2. economic and effective use of resources;
3. adequate control on various risks and their management;
4. safeguarding of assets;
5. reliability and completeness of the financial and management information;
6. performance of the assigned activities in accordance with the requirements established for the insurer;
7. compliance with anti-money laundering and terrorism financing measures;
8. lawfulness of the activity, observance of the policies, plans, internal rules and procedures.

Art. 3. (1) The organization of the internal control of insurers shall correspond to:

1. the size and specifics of their work;
2. the diversity of insurances offered and the risks covered;
3. the degree and scope of the operating control exercised on the activity by the management;
4. the scope and reliability of reporting and information.

(2) The organization of internal control is subject to the requirements for economy, effectiveness and reasonable sufficiency of control.

**Chapter Two
INTERNAL CONTROL UNIT
Section I
General requirements**

Art. 4. (1) The internal control unit shall perform the internal audit function. Its activity is independent and objective, aimed at improving the organization and activity of the insurer and in order to achieve the objectives it shall apply a systematic and disciplined approach of assessment and improvement of the effectiveness of risk management, control and management processes.

(2) In performing its activity the internal control unit shall examine and assess:

1. compliance with law and internal acts in carrying out the activity of insurer;
2. the reporting system and the information system;

3. the accuracy, completeness and timeliness of prepared accounting and other documents and reports;
4. the management systems and the risk assessment methods;
5. protection of the insurer's assets against poor management and abuse;
6. adequacy and observance of internal procedures for conclusion of insurance and reinsurance contracts, for acceptance and examination of claims and for determination of payment thereon;
7. performance and reporting of the activities assigned by the insurer, incl. the activity and reporting of insurance agents.

(3) In performing his activity the head of the internal control unit and his subordinates from the internal control unit, hereinafter referred to as "internal auditors", shall have the right:

1. to unlimited access to:
 - a) the official premises and the assets of the insurer;
 - b) the decisions of the management bodies and the other officials;
 - c) the reporting and information systems;
2. require and gather data, statistics and other documents in connection with the performance of their duties;
3. attract external experts with appropriate qualification and experience in performing specific control activities.

(4) Internal auditors shall not have powers and responsibilities for the audited activities and objects and their position may not be combined with other positions at the insurer, incl. members of a management or supervisory body of the insurer.

(5) The persons under Article 13 of the Insurance Code or Article 22 thereof, as the case may be, the persons holding managerial positions at the insurer and the employees of the insurer shall assist internal auditors in the performance of their activity.

(6) The audits and control activities performed by the persons under Article 13 of the Insurance Code or Article 22 thereof, as the case may be, the persons holding managerial positions and by other persons at the insurer shall not replace the functions of internal audit.

Art. 5. (1) Internal auditors shall possess:

1. professional skills in the application of the standards for the professional practice of internal auditing, the procedures and techniques for conducting audit;
2. knowledge and experience in the application of accounting standards;
3. knowledge of the principles of corporate governance, risk management and best insurance practice.

(2) Internal auditors shall be guided by the rules of the code of ethics and the best practices of ethic behaviour, be honest, impartial, conscientious, loyal, as well as have good communication skills.

Art. 6. (1) A person with high moral and professional reputation and sufficient experience necessary for the position may be appointed as head of the internal control unit.

(2) The head of the internal control unit may not combine other positions at the insurer, incl. as a member of a management or supervisory body. The head of the internal control unit may hold the position at more than one insurer within an insurance group.

(3) The head of the internal control unit shall ensure and shall be responsible for the application of the principles and standards for the professional practice of internal auditing and the code of ethics and for the efficiency of internal audit work.

(4) The head of the internal control unit shall approve an annual plan of work of the internal control unit including specific audit engagements. The annual plan may be amended if necessary.

Art. 7. The management body of the insurer shall prepare internal rules for the

organization and work of the internal control unit, which shall be approved by the general meeting of shareholders or the members of cooperatives, as the case may be.

Art. 8. (1) The internal rules shall determine the powers of internal auditors, the procedure for conducting audit activities, their documentation and reporting of the results.

(2) The rules shall ensure:

1. independence and initiative of the head of the internal control unit in planning and assigning audits;
2. unlimited access to the assets and the information;
3. direct relations of the head of the internal control unit with the management bodies;
4. right of the head of the internal control unit to select the other internal auditors in accordance with the qualification requirements;
5. avoidance of conflict of interest in performance of the tasks by internal auditors;
6. conditions for attracting experts in the performance of specific engagements when special knowledge and skills are required.

Art. 9. (1) For the implementation of the annual plan the head of the internal control unit shall prepare the necessary estimates of resources and shall approve a programme for implementation of the specific audit engagement and related activities.

(2) All objects of internal audit shall be covered within a period of no more than three years. The frequency of audit activities on individual objects and control systems shall be determined in accordance with their importance and the risk for the insurer.

Section II

Internal audit reporting

Art. 10. An audit report shall be prepared for the performance of every audit engagement, which shall contain a summary, objectives and scope of the engagement, findings, conclusions and recommendations.

Art. 11. (1) The head of the internal control unit in accordance with the standards for the professional practice of internal auditing shall approve requirements to the reports and documents prepared and gathered by internal auditors.

(2) The information gathered during the conduct of the audit engagement shall justify the findings, assessments and recommendations made.

Art. 12. (1) The report under Article 10 shall be submitted to the head of the audited object and to the head of the internal control unit.

(2) The head of the audited unit shall present explanations of and/or objections to the findings and recommendations made within the time limits set in the rules.

(3) Internal auditors shall give an opinion on the written explanations or objections presented by the head of the internal control unit.

(4) After performing the procedures under Paragraphs 1 - 3 the head of the internal control unit shall submit the report and the documents under Paragraphs 2 and 3 to the management body of the insurer.

(5) The competent body shall enforce measures for removal of violations and weaknesses found and shall notify the head of the internal control unit thereof.

Art. 13. (1) Where significant violations and weaknesses are found or where the measures taken for their removal are insufficient, as well as in case of violations and weaknesses made by the persons authorized to represent or manage the insurer, the report shall be submitted to the competent management body.

(2) Where violations and weaknesses of the competent management body are found or if in the cases of Paragraph 1 the measures taken by such body for their removal are insufficient, the report shall be submitted to a higher level according to the statute and to the

deputy chairperson of the Financial Supervision Commission in charge of Insurance Supervision Division, hereinafter referred to as “deputy chairperson”.

Section III **Annual report on the activity**

Art. 14. The annual report on the activity of the internal control unit, which is prepared by its head, shall provide information about the main results from the performance of audit engagements, the measures taken and their fulfillment. It covers the issues of organization and major tasks to be resolved in the next and following years.

Chapter Three **INTERNAL CONTROL IN INSURANCE GROUP**

Art. 15. The management bodies of insurers over which supplementary supervision is exercised under Article 299 (1) of the Insurance Code shall ensure:

1. maintenance of control systems and application of procedures in accordance with the requirements of this Ordinance in respect of direct and/or jointly controlled companies;
2. compatibility and coordination of the systems for risk assessment and control at insurance group level;
3. the necessary scope of management information and the procedure for preparation of consolidated financial statements.

Art. 16. The management bodies of the insurers under Article 15 shall ensure functioning of internal control systems, which are adequate to the organization of the insurance group and the specifics of the subsidiaries.

Chapter Four **RELATIONS WITH THE FINANCIAL SUPERVISION COMMISSION**

Art. 17. (1) The deputy chairperson shall evaluate the organization and effectiveness of the internal control unit at insurers and insurance groups.

(2) The deputy chairperson and the head of the internal control unit shall hold periodic discussions and consultations about the risks from the insurer’s activity and the measures that need be taken.

Art. 18. Insurers and insurers which are part of an insurance group shall submit to the deputy chairperson the annual reports on the activity of the internal control unit and upon request, the audit reports prepared in the performance of audit engagements.

SUPPLEMENTARY PROVISION

§ 1. Within the meaning of this Ordinance:

1. “Standards for the professional practice of internal auditing” shall be the International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors, Altamonte Springs, Florida, USA, and their translation in Bulgarian published by the Institute of Bulgarian Auditors in Bulgaria.
2. “Code of Ethics” shall be the Code of Ethics issued by the Internal Auditing issued by the Institute of Internal Auditors, Altamonte Springs, Florida, USA, and its translation in Bulgarian published by the Institute of Bulgarian Auditors in Bulgaria.
3. “Audit engagement” shall be a specific audit order, assignment or review, including identification, analysis, assessment and documentation of sufficient information for

expressing opinion on the objectives set. One engagement may include different tasks, processes and activities.

TRANSITIONAL AND FINAL PROVISIONS

§ 2. Insurers shall bring their activity in compliance with the requirements of this Ordinance by 31 December 2006.

§ 3. This Ordinance is issued pursuant to Article 62 para 9 of the Insurance Code and is adopted by Decision № 64-H of 13.IX.2006.