

20th February, 2013

**To Insurance Companies
Reinsurance Companies**

**GUIDELINES ON EXTERNAL AUDITORS TO INSURANCE AND
REINSURANCE COMPANIES**

These guidelines on External Auditors are issued pursuant to section 3A of the Insurance Act for observance by Insurance and Reinsurance companies.

These guidelines aim to ensure the insurers have their financial statements prepared accurately and are free from material misstatement, whether due to fraud or error. This will create greater public trust in the insurance industry.

To this end, the Insurance Regulatory Authority issues these guidelines on external auditors to be effective from 30th June, 2013.



SAMMY M. MAKOVE
COMMISSIONER OF INSURANCE & CHIEF EXECUTIVE OFFICER

THE INSURANCE ACT (CAP 487)
IRA/PG 14
GUIDELINES TO THE INSURANCE INDUSTRY
ON EXTERNAL AUDITORS

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1.0 AUTHORIZATION

IN EXERCISE of the powers conferred by sections 3A (a), (b) and (g) of the Insurance Act, the Insurance Regulatory Authority (herein referred to as Authority) issues the Guidelines set out here below, for observance by all insurers registered under the Insurance Act Cap 487, in respect to the engagement of external auditors.

2.0 INTRODUCTION

The Authority requires all insurers to have their financial statements prepared on an annual basis in accordance with International Financial Reporting Standards (IFRS) and audited in accordance with the International Standards on Auditing (ISA). A qualified, independent external auditor is essential for accurate financial reporting of an insurer and an intermediary.

3.0 OBJECTIVES

The objective of these guidelines is to ensure:

- 3.1 There is a reliable financial reporting process for both public and supervisory purposes;
- 3.2 There are clearly defined roles and responsibilities of the Board, Management and the External Auditor in regard to the financial reporting process;
- 3.3 With reasonable assurance, the financial statements of the insurer and intermediary are free from material misstatement, whether due to fraud or error.

4.0 GENERAL PRINCIPLES

- 4.1 A person is regarded as being qualified as an Auditor under circumstances where he or she:
- 4.1.1 is a member of the Institute of Certified Public Accountants of Kenya or any other equivalent qualification recognized by the Authority;
 - 4.1.2 has been authorized by the Institute of Certified Public Accountants of Kenya to practice auditing for the relevant period;
 - 4.1.3 has at least five years' experience in insurance accounting at partner level;
 - 4.1.4 has at least four years' experience in insurance accounting at manager level; and
 - 4.1.5 Is not disqualified from acting as an auditor under any legislation.
- 4.2 An insurer shall ensure that the appointed auditor is independent and has no conflict of interest with respect to the insurer.
- 4.3 The auditor, on an annual basis, shall be required to complete a formal independence and 'fit and proper' declarations which shall be submitted to the Authority by the insurer when seeking approval for the appointment of the auditor.(See Appendix for the declaration forms)
- 4.4 The insurer shall notify the Authority in writing if, at any, time it forms the opinion that its auditor is not independent.
- 4.5 The Board shall be required to carry out the following oversight functions:

- 4.5.1 Oversee the preparation of the financial statements, financial reporting and disclosure processes;
 - 4.5.2 Monitor whether accounting policies and practices of the insurer are operating as intended;
 - 4.5.3 Oversee the audit process and review the auditor's plans and material findings;
 - 4.5.4 Oversee the processes for hiring, removing and assessing the performance and independence of the external auditor and to ensure that the appointed auditor has the necessary knowledge, skills, expertise, integrity and resources to conduct the audit; and
 - 4.5.5 Investigate the circumstances relating to the resignation or removal of an external auditor, and ensure prompt actions are taken to mitigate any identified risks to the integrity of the financial reporting process.
- 4.6 The Board shall be required to safeguard and promote an effective relationship with the external auditor by ensuring that:
- 4.6.1 The terms of engagement of the external auditor are clear and appropriate to the scope of the audit and resources required to conduct the audit and specify the level of audit fees to be paid;
 - 4.6.2 The auditor undertakes a specific responsibility under the terms of engagement to perform the audit in accordance with applicable auditing standards;
 - 4.6.3 There are adequate policies and a process to ensure the independence of the external auditor, including policies and processes that address the auditor's compliance with applicable ethical and professional standards, restrictions and conditions

for the provision of non-audit services which are subject to approval by the Board, partner or firm periodic rotation as appropriate, and safeguards to eliminate or reduce to an acceptable level identified threats to the independence of the external auditor;

4.6.4 There is adequate dialogue with the external auditor on the scope and timing of the audit to understand the issues of risk, information on the insurer's operating environment which is relevant to the audit, and any areas in which the Board may request for specific procedures to be carried out by the external auditor, whether as a part or an extension of the audit engagement;

4.6.5 There is unrestricted access by the external auditor to information and persons within the insurer as necessary to conduct the audit; and

4.6.6 There is an evaluation of the effectiveness of the external audit process at the end of the audit cycle.

4.7 The auditor of an insurer is obliged to:

4.7.1 Audit the insurer's financial statements and report to the insurer in accordance with International Standards on Auditing (ISA);

4.7.2 Report to the insurer's Board and the Authority in accordance with all ISA requirements, including but not limited to ISA 260, "Communication With Those Charged with Governance" and ISA 265, "Communicating Deficiencies in Internal Control to Those Charged with Governance and Management";

4.7.3 Certify the insurer's compliance with such obligations and matters as may be specified in the Insurance Act, Regulations and Guidelines;

4.7.4 Provide such certifications, confirmations or any other information specified by the Authority in a written notice sent to the insurer and the auditor; and

4.7.5 Carry out such other duties as may be required of the auditor by the Insurance Act, Regulations and Guidelines.

5.0 SPECIFIC REQUIREMENTS

5.1 On an annual basis, the insurer shall seek approval from the Authority for the appointment of the auditor.

5.2 An insurer shall be required to disclose any information required by the Authority in regards to the auditor that they intend to engage.

5.3 If an Auditor resigns or is replaced, the insurer shall notify the Authority and give the reasons for the resignation or replacement. Such a notification needs to include a statement from the insurer on whether there were any disagreements with the former auditor over the content of the auditor's opinion.

5.4 The Authority may require an insurer to replace an auditor when the auditor fails to adequately perform the required functions or duties, is subject to conflict of interest or no longer meets eligibility requirements.

5.5 In relying on the audit evidence generated by the insurer's actuarial function, the auditor shall be required to:

5.5.1 Evaluate the competence, capabilities and objectivity of the actuarial function;

- 5.5.2 Obtain an understanding of the work of the actuarial function;
and
- 5.5.3 Evaluate the appropriateness of the work as evidence for the
assertion.

- 5.6 The auditor may consider incorporating a fellow of the actuaries of
Kenya or equivalent as would qualify to be a fellow of the actuaries of
Kenya in the engagement team to provide him/her with reasonable
assurance that actuarial work performed by the management's
actuary has been performed in accordance with the generally accepted
actuarial principles and forms a suitable basis for deriving audit
conclusions.

- 5.7 The scope of consultation shall, at a minimum, include:
 - 5.7.1 Verifying the quantum of policyholder reserves and benefits
using generally accepted actuarial principles; and
 - 5.7.2 Verifying the liability adequacy test as required by the
International Financial Reporting Standards.

- 5.8 Auditors tenure with an insurance company shall be determined on
the following basis;
 - 5.8.1 Audit partners are permitted to be responsible for the audit of a
specific insurer for a period of not more than three
(3)consecutive years;
 - 5.8.2 Audit managers are permitted to support a partner for the audit
of a specific insurer for a period of not more than three (3)
consecutive years;

5.8.3 Audit staff other than the audit manager are permitted to support the audit manager and the audit partner on the audit of specific insurer for a period of not more than three (3) consecutive years, thereafter at least 50% of the audit staff working on an audit of a specific insurer shall be required to be replaced;

5.8.4 An audit firm is permitted to carry out the audit for a specific insurer for a period of up to seven(7) consecutive years;

5.8.5 An insurer may replace an auditor at any stage; and

5.8.6 The insurer shall not engage the replaced audit firm before expiry of a period of at least three (3) years.

6.0 REPORTING REQUIREMENTS

6.1 The insurer shall submit copies of the long form report and the management report to the Authority within four (4) months of the end of the financial year.

6.2 The Auditor shall report to the Authority directly and immediately in circumstances where the insurer has breached, or is likely to breach solvency requirements.

6.3 The Auditor shall report to the Authority directly where an insurer or its directors may have contravened the Act or any other law and the contravention may prejudice the interests of policyholders.

6.4 Where such a report is made directly to Authority, the auditor is not under any obligation to disclose this to the management and/or the directors of the insurer if the Auditor:

6.4.1 considers that by doing so the interests of policy holders may be jeopardised; or

- 6.4.2 Has lost confidence in the Board or Management of the insurance company.
- 6.5 Where the auditor of an insurer is an individual, he or she shall sign the audit report.
- 6.6 Where the auditor is a partnership, the audit report shall be signed by an individual who is
 - 6.6.1 qualified to act as the auditor of a licensed insurer;
 - 6.6.2 approved by the Authority to act as the auditor partner of the insurance company; and

7.0 ENFORCEMENT

7.1 Remedial Measures

When the Authority determines non-compliance with the provisions of these guidelines, it may take any intervention measures or steps prescribed in the Insurance Act.

7.2 Administrative Sanctions

7.2.1 Where the Authority determines that an insurer has not met the requirements of this directive, the Authority may impose any or all of the administrative sanctions to correct the situation in accordance with the provisions of the Insurance Act, including but not limited to:

- a) Prohibition from declaring and/or paying dividends;
- b) Declaration that a person may not take the office of Auditor;
- c) Rejection of an audit, and requiring the insurer to commission a further audit conducted by an auditor of the Authority's choice, at the expense of the insurer;

8.0 EFFECTIVE DATE

8.1 The effective date of this Regulation is 30th June 2013.

9.0 ENQUIRY

Enquiries on any aspect of these guidelines should be referred to;

Address: **The Technical Manager,
Insurance Regulatory Authority,
P.O. Box 43505-00100,
Nairobi.**

Telephone: **+254 20 4996000**

Facsimile: **+254 20 2710126**

Email: guidelines@ira.go.ke



Bima Bora Kwa Taifa
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10.0 APPENDIX

Appendix I: fit and proper declaration form (for individuals)

Name: _____

Position: _____

Department: _____

Please answer all the 'YES'/'NO' questions, sign the form and send it to the *Authority*. All "YES" answers must be explained.

Specific tests to assess fitness and propriety

<p>1. Have you ever been subject to any proceeding of a disciplinary or criminal nature, or have been notified of any impending proceedings or of any investigation, which might lead to such proceedings?</p>	<p>Yes</p>	<p>No</p>
<p>Please provide details</p>		
<p>2. Have you, or any business in which you have had controlling interest or have exercised significant influence, been investigated, disciplined, suspended or criticized by a regulatory or professional body, a court or tribunal, whether publicly or privately?</p>	<p>Yes</p>	<p>No</p>
<p>Please provide details</p>		
<p>3. Have you ever been associated, in ownership or management capacity, with a company, partnership or other business association that has been refused registration, authorization, membership or a license to conduct trade, business or profession, or has had that registration, authorization, membership or license revoked, withdrawn or terminated?</p>	<p>Yes</p>	<p>No</p>
<p>Please provide details</p>		
<p>4. As a result of the removal of the relevant license, registration or other authority mentioned in question 3 above, have you ever been refused the right to carry on a trade, business or profession requiring a license, registration or other authorization?</p>	<p>Yes</p>	<p>No</p>

Please provide details		
5. Have you ever been subject of any justified complaint relating to regulated activities?	Yes	No
Please provide details		
6. Have you ever been charged or convicted of any criminal offence, particularly an offence relating to dishonesty, fraud, financial crime or other criminal acts or been involved in acts of misfeasance or serious misconduct?	Yes	No
Please provide details		
7. Have you ever contravened any of the requirements and standards of a regulatory body, professional body, government or its agencies?	Yes	No
Please provide details		
8. Have you ever been a director, partner, or otherwise involved in the management, of a business that has gone into receivership, insolvency or liquidation while you have been connected with that business or within one year after that connection?	Yes	No
Please provide details		
9. Have you ever been dismissed, asked to resign or resigned, from employment or from a position of trust, fiduciary appointment or similar because of questions about your honesty and integrity?	Yes	No
Please provide details		
10. Have you ever been disqualified, under the Companies legislation or any other legislation or regulation from acting as director or serving in a managerial capacity?	Yes	No

Please provide details		
11. Have you ever been diagnosed as being mentally ill or unstable?	Yes	No
Please provide details		
12. Have you ever been disciplined by a professional, trade or regulatory body; or dismissed or requested to resign from any position or office for negligence, incompetence or mismanagement?	Yes	No
Please provide details		
13. Have you ever been the subject of any adverse judgment or award, in Kenya, Uganda, Tanzania or elsewhere that remains outstanding or was not satisfied within a reasonable period?	Yes	No
Please provide details		
14. Have you ever made any arrangements or composition with your creditors, filed for bankruptcy, been adjudged bankrupt, had your assets sequestrated, or been involved in proceedings relating to any of these?	Yes	No
Please provide details		
15. Have you ever been a senior officer of a company or a shareholder in a position to exercise significant influence in the company that:	Yes	No
<ul style="list-style-type: none"> a. Has been the subject of any adverse judgment or award, in Kenya or elsewhere, that remains outstanding or was not satisfied within a reasonable period; b. Has, in Kenya or elsewhere, made any arrangements or composition with its creditors, filed for bankruptcy, been adjudged bankrupt, had assets sequestrated, or been involved in proceedings relating to any of the foregoing? 		
Please provide details		
16. Do you have reasons to believe that any of your close	Yes	No

relatives or business associates, if subject to the above tests, would have responded by a ‘Yes’ to any of the above questions?		
Please provide details		
17. Do you have any liability towards any financial institution for which you are in default?	Yes	No
If Yes, please provide details		

Signature and acknowledgement

I hereby declare that:

- a. To the best of my knowledge and belief the statements made and the information supplied in this questionnaire and the attachments are correct and that there are no other facts that are relevant to the firm for assessing my fitness and propriety;
- b. I understand that the firm may seek additional information from any third parties it deems necessary in view of assessing my fitness and propriety; and
- c. I undertake to bring to the attention of the firm any matter which may potentially affect my status as being a fit and proper person as and when they arise.

Signed: _____ **Date:** ____/____/20__

Appendix II: CONFIRMATIONS ON INDEPENDENCE FOR ENGAGEMENT TEAM MEMBERS

This confirmation of independence and compliance with ethical requirements is provided in respect of the audit of the financial statements of the *[Company name] and its related entities [name if applicable]* for the *[period/year]* ended *[insert year/period end date]*.

This form should be completed at the engagement planning stage by each professional staff member, including partner and manager

To [audit firm]

Independence

Consider points for threats to independence:

- 1. A “self-interest threat” occurs when the Firm or a member of the Engagement Team could benefit from a Financial Interest in, or other self-interest conflict with, the client.**
- 2. A “self-review threat” occurs when any product or judgment of previous Engagements needs to be reevaluated in reaching audit conclusions, or when a member of the Engagement Team was previously a Director or Officer of the client, or was an employee in a position to exert direct and significant influence over the accounts being audited.**
- 3. An “advocacy threat” occurs when a Firm, or a member of the Engagement Team, promotes, or may be perceived to promote, the client’s position or opinion to the point that objectivity may be, or could be perceived to be, compromised.**
- 4. A “familiarity threat” occurs when, by virtue of a close relationship with the client or its Directors, Officers, or employees, a Firm or a member of the Engagement Team becomes too sympathetic to the client’s interests or to the interests of its Directors, Officers or employees.**
- 5. An “intimidation threat” occurs when a member of the Engagement Team may be deterred from acting objectively and exercising professional skepticism by threats, actual or perceived, from the Directors, Officers or employees of the client.**

I confirm that I am in compliance with the applicable independence rules with respect to **[Company Name]** and all of its related entities and that I have read and understand the independence rules, including the rules specified below:

- 1. I or my immediate family members (spouse, spousal equivalent, and dependents) do not have a direct or material indirect financial interest in this audit client or any related entity.**

- 2. I or my immediate family members will not trade in securities of this client or any related entity for the duration of the engagement, which starts at the beginning of the entity's fiscal year and ends when the audit report for the year has been signed.**
- 3. I or my immediate family members have not served as a trustee or as an executor over any interest that has or is committed to acquire a direct or material indirect financial interest in this audit client or any related entity.**
- 4. I or my immediate family members are not the beneficiaries of any estate or trust which has a direct financial interest in this audit client or any related entity.**
- 5. I or my immediate family members do not have a financial interest in any entity in which the audit client or any related entity also has a financial interest with significant influence.**
- 6. I or my immediate family members do not have any loans or guarantees to or from this audit client, any related entity or any significant shareholder, officer or director thereof (none of which are financial institutions).**
- 7. I or my immediate family members do not have any loans, other than those extended under normal lending procedures and within the ordinary course of business with this audit client or any related entity or any significant shareholder, officer or director thereof (which is a financial institution).**
- 8. I or my immediate family members do not have any bank deposits or accounts, brokerage accounts or insurance arrangements with this client or any related entity other than under normal commercial terms.**
- 9. I or my immediate family members do not have a material financial interest in a joint venture, closely held business investment or business relationship (or commitment to do so) with the client or any related entity or any officer, director or other individual who performs senior managerial functions for this client thereof.**
- 10. I do not have a close personal relationship with a director, officer or any employee of the client or related entity that is in a position to exert direct and significant influence over the financial statements.**
- 11. No close family member is a director, officer or is in a position to exert direct and significant influence over the financial statements of this client or any related entity, or was employed in such a role during the financial period covered by the audit report.**

12. I was not employed by this client or any related entity at any point during the audit or the financial period covered by the audit report.

13. I will not entertain an offer of employment with the client or a related entity where acceptance of such an offer would result in [Firm] having to resign as auditor under external independence standards.

I further confirm that, should these circumstances change during the engagement period, I will notify the audit engagement partner responsible for the audit engagement of any such changes in a timely manner.

Name of engagement team member	Designation/engagement role	Signature