

Internal Audit for Insurance Companies

ΑΘΗΝΑ 21-01-2009

ΓΡΥΠΑΙΟΣ ΙΩΑΝΝΗΣ
ΚΟΤΖΑΚΟΥΛΑΚΗΣ ΝΙΚΟΛΑΟΣ

ΕΝΩΣΗ ΑΣΦΑΛΙΣΤΙΚΩΝ ΕΤΑΙΡΕΙΩΝ
ΥΠΟΕΠΤΡΟΠΗ ΕΣΩΤΕΡΙΚΟΥ ΕΛΕΓΧΟΥ

What is Internal Audit ?

Internal Audit

Internal Control

External Audit

**Supervisory
Authorities**

What is Internal Control ?

Internal control is :

- policies and procedures
- how people feel about their work
- a dirty word

Lack of internal control can lead to :

- loss of assets
- poor management decisions
- fraud
- loss of customers

Examples of internal control :

- authorizations
- team meetings
- statistical process control
- reconciliation
- strategic planning
- reviews of operating performance
- budget system
- access procedures

What do people think about CONTROL?

- False Statement 1
 - Internal control starts with a strong set of policies and procedures
- Correct Statement 1
 - Internal control starts with a strong control environment
- False Statement 2
 - Management says : “Internal control, that’s what I have internal auditors for!”
- Correct Statement 2
 - Management is the owner of internal control

What do people think about CONTROL?

- False Statement 3
 - “Internal control is a finance thing. We do what the Financial Director tells us to do.”
- Correct Statement 3
 - Internal control is integral to every aspect of the business
- False Statement 4
 - Internal controls are essentially negative, like a list of “you shall nots”
- Correct Statement 4
 - Internal control makes the right things happen the first time - and every time

What do people think about CONTROL?

- False Statement 5
 - Internal controls are a necessary evil. They take time away from our core activities, which are producing, selling and serving customers.
- Correct Statement 5
 - Internal controls should be “built into, not onto” business processes.
- False Statement 6
 - If controls are strong enough, we can be sure there will be no fraud, and financial statements will be accurate.
- Correct Statement 6
 - Internal controls provide reasonable, but not absolute assurance that the organization’s objectives will be achieved.

Definition of Internal Control

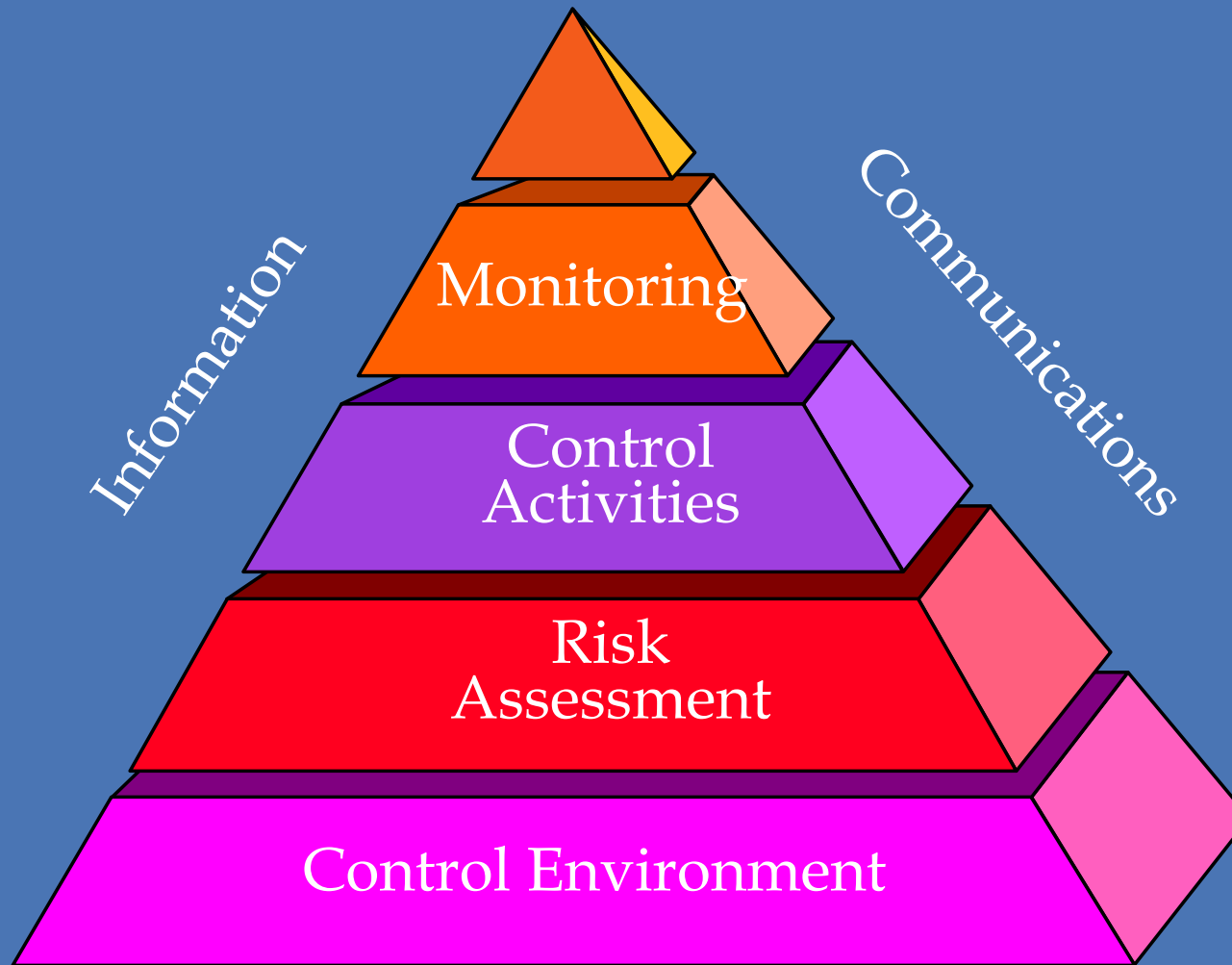
Internal control is a process within an organization designed to provide *reasonable assurance* regarding the achievement of objectives in the following categories:

1. The reliability and integrity of information.
2. Compliance with policies, plans, procedures, laws, regulations, and contracts.
3. The safeguarding of assets.
4. The economical and efficient use of resources.
5. The accomplishment of established objectives and goals for operations or programs.

Key Elements of Internal Control

- Internal control is a *process*.
- Internal control is *effected by people*.
- Internal control can be expected to provide only *reasonable assurance*.
- Internal control is geared to the *achievement of objectives*.

Components of Internal Control



Internal Control Components

Control Environment

- Integrity and ethical values
- Commitment to competence
- Board of Directors and Audit Committee
- Management's philosophy and operating style
- Organizational structure
- Assignment of authority and responsibility
- Human resource policies and practices

Internal Control Components *(continued)*

Risk Assessment

- Objectives - entity wide
- Objectives - activity level
- Risks
- Managing change

Roles and Responsibilities

- **Top management** is directly responsible
 - President = “owner” of internal control
 - Other managers - “chairmen” of their areas
- **Other Personnel** - all play a role
- **Board of Directors** gives guidance and oversight
- **Internal Audit** evaluates effectiveness
- **External Parties** - have effect, but no responsibility.

Evaluating Internal Control

Reasonable assurance that:

- Board and management understand the extent to which the entity's operations objectives are being achieved
- Published financial statements are being prepared reliably
- Applicable laws and regulations are being complied with

Some Control Types

- Preventive: that prevent undesirable events from occurring
- Detective : controls that detect undesirable events which have already occurred
- Directive : controls that cause or encourage a desirable event to occur

What is RISK ?

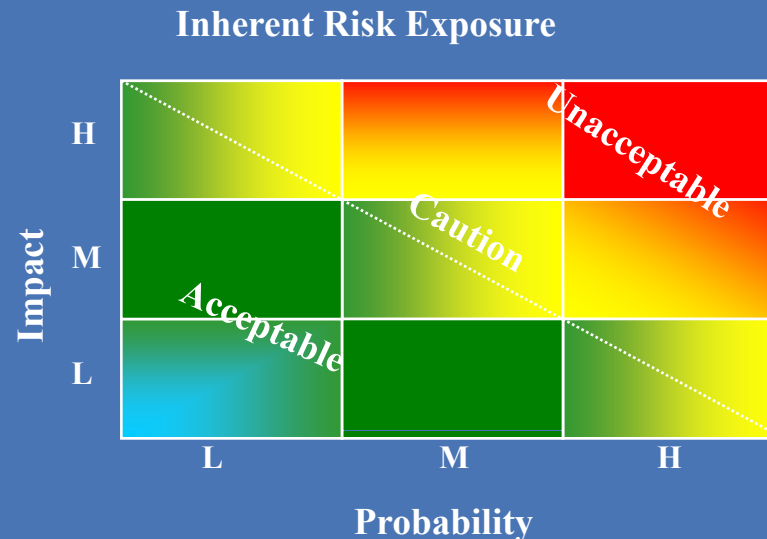
Risk

Risk is the possibility of an event occurring that will have an impact on the achievement of objectives.

In other words: Anything that could jeopardize the achievement of an objective.

Useful synonyms : “Threat” or “Obstacle”

Risk is measured in terms of impact and likelihood.



THE NEW DEFINITION OF



INTERNAL AUDIT

Internal Auditing Definition

Internal auditing is an independent and objective assurance and consulting activity that is guided by a philosophy of adding value to improve the operations of the organization.

It assists an organization in accomplishing its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of the organization's risk management, control, and governance processes.

External Auditing

Scope of external audit = express an opinion

Whether financial statements

- have been properly prepared within the framework of
 - recognized accounting policies
 - applicable legislation
- give a fair view of financial position and results

Internal vs. External Audit

- External Audit
 - Traditionally a History Prospective
 - Nature of work is Financial Statement Audits
 - Providing Assurance
- Internal Audit
 - A Forward Prospective
 - Strategic Solutions in addition to Compliance
 - Value Contribution, Process/Operational, Financial/Transactional, Risk Management

INTERNAL & EXTERNAL AUDIT COMPARED

	EXTERNAL AUDIT	INTERNAL AUDIT
Who for?	Shareholders and Directors.	All management and the audit committee.
Reporting on?	The truth and fairness of the financial statements.	Assurance and advice on the system of controls: effectiveness, economy and efficiency.
Who sets the scope of the work?	Auditor (in order to gain sufficient, relevant and reliable evidence to form a reasonable basis for his opinion).	Management, internal audit and the audit committee.
What might the scope of the work be?	Financial primarily.	Operational, managerial, strategic, financial.

INTERNAL & EXTERNAL AUDIT COMPARED

	EXTERNAL AUDIT	INTERNAL AUDIT
What is the relevance of materiality?	Key issue.	Less relevant, concern is more with systems breakdown.
How might we define error?	A financial or disclosure misstatement in the statutory accounts which is material.	Something resulting in financial loss, having a detrimental effect on the business or preventing the organization and its directors from meeting their goals and objectives.
Expectation in respect of error?	Expected to detect.	Expected to prevent.
What time period is the focus?	A set period in the past.	Recent past and future.

INTERNAL & EXTERNAL AUDIT COMPARED

	EXTERNAL AUDIT	INTERNAL AUDIT
Deliverables?	An audit opinion, value score card and management letter.	Comprehensive report on findings with workable solutions.
Responsibility in terms of fraud?	Not specifically looked for. Expected to identify any material fraud.	Not specifically looked for. Expected to identify weaknesses in controls falling within the scope of the assignment creating risk of significant loss. There is a greater expectation on internal audit to identify potential for fraud.
Relationship with management?	Must be seen to be independent.	Work with management to help achieve business goals whilst remaining independent.

Types of internal Audit

Main types

- Operational audits
- Information technology audits

Other types

- Compliance audits
- Fraud / investigative audits
- Financial audits
- Performance audits
- Special request audits

Audit Customers :

- Government
- Supervisory Authorities
- Board of Directors
- Management
- Employees
- Clients

INTERNAL AUDITING IS NOT FRAUD AUDITING

**BUT THE INTERNAL AUDITOR MUST BE ABLE
TO DETECT THOSE FRAUDS THAT:**

- ARE MACROSCOPIC
- APPEAR ON THE BOOKS
- ARE PERPETRATED PRECISELY WHERE ONE SHOULD EXPECT

THE IIA STANDARDS

FOR THE PROFESSIONAL PRACTICE OF
INTERNAL AUDITING

APPLICABLE ALL OVER THE WORLD

1000 series Attribute Standards

2000 series Performance Standards

Nnnn series Implementation Standards

THE IIA STANDARDS

- They are the criteria by which the operations of an Internal Audit Department are evaluated and measured.
- They are intended to represent the practice of Internal Auditing as it should be.
- They are meant to serve the entire profession of internal auditing in all types of organizations where internal auditors are found.

Attribute Standard 1000: Purpose, Authority and Responsibility

The nature of assurance or consulting services provided to the organization should be defined in the audit charter. If assurances are to be provided to parties outside the organization, the nature of these assurances should also be defined in the charter.

Attribute Standard 1100: Independence and Objectivity

1110: Organizational Independence

CAE should report to a level within the company that allows the internal audit activity to fulfil its responsibilities

1120: Individual Objectivity

Internal auditors should have an impartial, unbiased attitude and avoid conflicts of interest

1130: Impairments to Independence or Objectivity

If independence or objectivity is impaired in fact or appearance, the details of the impairment should be disclosed to appropriate parties

Attribute Standard 1200: Proficiency and Due Professional Care

1210: Proficiency

Internal auditors should possess the knowledge, skills, and other competencies needed to perform their individual responsibilities.

1220: Due Professional Care

Internal auditors should apply the care and skill expected of a reasonably prudent and competent internal auditor. (no implication for infallibility)

1230: Continuing Professional Development

Internal auditors should enhance their knowledge, skills, and other competencies through continuing professional development.

Attribute Standard 1300:

Quality Assurance and Improvement Program

1310: Quality Program Assessments

Internal and external assessments on the overall effectiveness of the quality program.

1320: Reporting on the Quality Program

Results of external assessments should be communicated to the board.

1330: Use of “conducted in accordance with the Standards

1340: Disclosure of Non-compliance

If non-compliance impacts the overall scope or operation of the internal audit activity, disclosure should be made to senior management and the board

Performance Standard 2000:

Managing the Internal Audit Activity

2010: Planning

CAE should establish plans to determine the priorities of the internal audit activity

2020: Communication and Approval

Plans should be communicated to senior management & the board for approval.

2030: Resource Management

CAE should ensure that resources are appropriate, sufficient and effectively deployed

2040: Policies & Procedures

Policies&Procedures should guide the internal audit activity

2050: Coordination of internal&external providers

2060: Reporting to Board and Senior Management

Report on purpose, authority, responsibility and performance of audit activity
38 relative to plan

Performance Standard 2100:

Nature of Work

2110: Risk Management

Internal audit activity should identify and evaluate significant exposures to risk and contribute to the improvement of risk management and control systems.

2120: Control

Internal audit activity should assist the organization in maintaining effective controls by evaluating their effectiveness and efficiency and by promoting continuous improvement.

2130: Governance

The internal audit activity should contribute to the organization's governance process by evaluating and improving the process through which (1) values and goals are established and communicated, (2) the accomplishment of goals is monitored, (3) accountability is ensured, and (4) values are preserved.

Performance Standard 2200:

Engagement Planning

2210: Engagement Objectives

Engagement objectives should address the risks, controls and governance processes associated with the activities under review.

2220: Engagement Scope

Scope should satisfy the objectives of the engagement.

2230: Engagement Resource Allocation

Staffing should be based on an evaluation of the nature, complexity, time constraints and available resources of each engagement.

2240: Engagement Work Program

Work programs must be recorded and achieve engagement objectives.

Performance Standard 2300: Performing the Engagement

2310: Identifying Information

Internal auditors should identify sufficient, reliable, relevant, and useful information to achieve the engagement's objectives.

2320: Analysis and Evaluation

Internal auditors should base conclusions and engagement results on appropriate analyses and evaluations.

2330: Recording Information

Internal auditors should record relevant information to support the conclusions and engagement results.

2340: Engagement Supervision

Engagements should be properly supervised to ensure objectives are achieved, quality is assured, and staff is developed.

Performance Standard 2400:

Communicating Results

2410: Criteria for Communicating

Communications should include the engagement's objectives and scope as well as applicable conclusions, recommendations, and action plans.

2420: Quality of Communications

Communications should be accurate, objective, clear, concise, constructive, complete, and timely..

2430: Disclosure of non-compliance with Standards

2440: Disseminating Results

The chief audit executive should disseminate results to the appropriate individuals.

Performance Standard 2500:

Monitoring Progress

The CAE should establish and maintain a system to monitor the disposition of results communicated to management.

The CAE should establish a follow-up process to monitor and ensure that management actions have been effectively implemented or that senior management has accepted the risk of not taking action.

The internal audit activity should monitor the disposition of results of consulting engagements to the extent agreed upon with the client.

Performance Standard 2600: Management's acceptance of risk

When the chief audit executive believes that senior management has accepted a level of residual risk that is unacceptable to the organization, the chief audit executive should discuss the matter with senior management. If the decision regarding residual risk is not resolved, the chief audit executive and senior management should report the matter to the board for resolution.

THE CODE OF ETHICS



OF THE
INSTITUTE OF INTERNAL AUDITORS

THE I.I.A. CODE OF ETHICS

Integrity

Internal Auditors:

1. Shall perform their work with honesty, diligence and responsibility
2. Shall observe the law and make disclosures expected by the law and the profession
3. Shall not knowingly be a party to any illegal activity, or engage in acts that are discreditable to profession of internal auditing or the organization
4. Shall respect and contribute to the legitimate and ethical objectives of the organization

THE I.I.A. CODE OF ETHICS

- To promote the ethical culture in the profession of internal auditing.
- It is necessary and appropriate for the profession
- Its objective is assurance about risk management, control and governance
- It applies to both individuals and entities that provide internal audit services.

THE I.I.A. CODE OF ETHICS

Objectivity Internal Auditors:

1. Shall not participate in any activity or relationship that may impair or be presumed to impair their unbiased assessment. This participation includes those activities or relationships that may be in conflict with the interests of the organization
2. Shall not accept anything that may impair or be presumed to impair their professional judgement
3. Shall disclose all material facts known to them that, if not disclosed, may distort the reporting of activities under review.

THE I.I.A. CODE OF ETHICS

Confidentiality Internal Auditors:

1. Shall be prudent in the use and protection of information acquired in the course of their duties
2. Shall not use information for any personal gain or in any manner that would be contrary to the law or detriment to the legitimate and ethical objectives of the organization

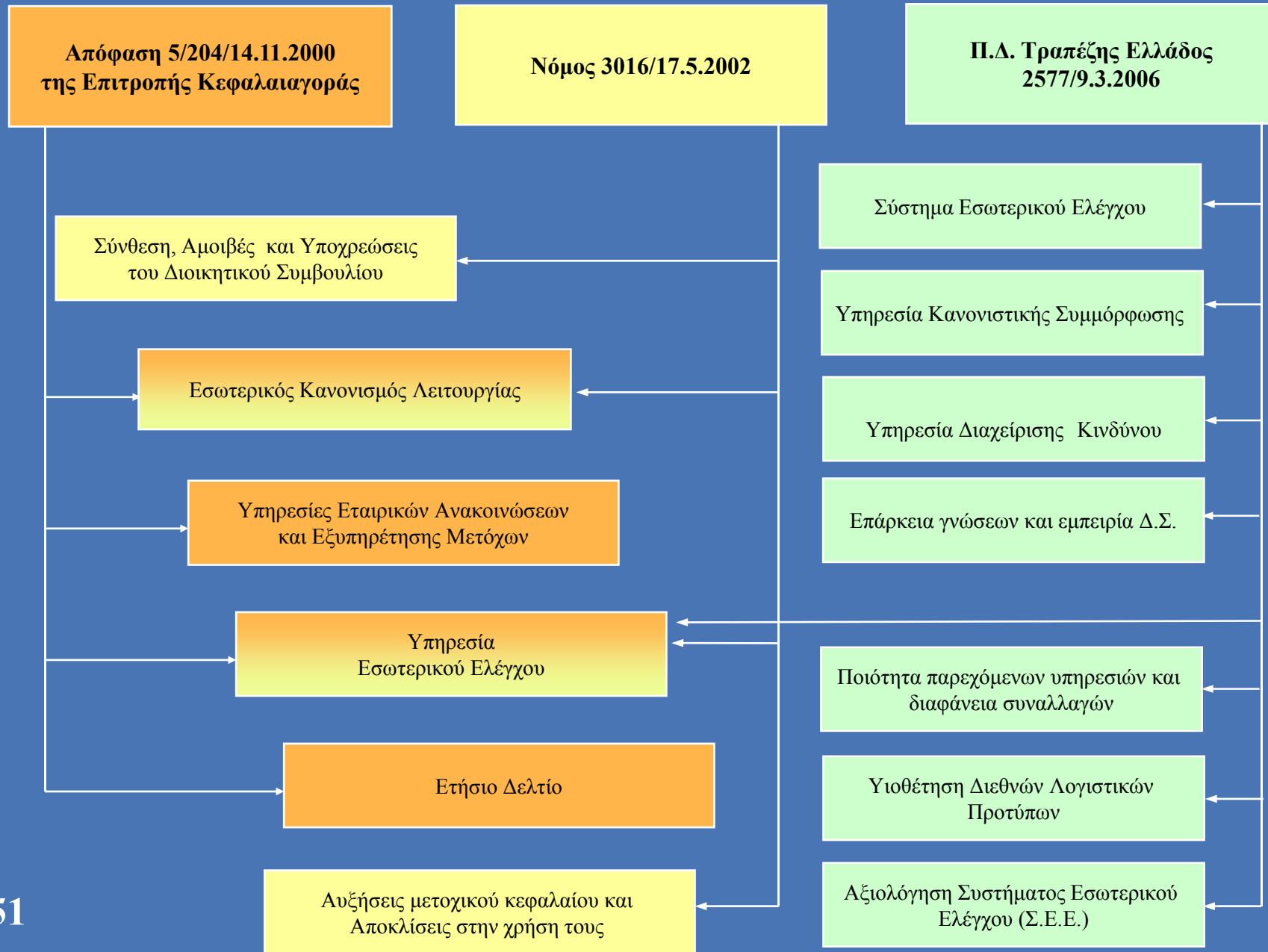
THE I.I.A. CODE OF ETHICS

Competency

Internal Auditors:

1. Shall engage only in those services for which they have the **necessary knowledge, skills, and experience.**
2. Shall perform internal auditing services in accordance with the *Standards for the Professional Practice of Internal Auditing*
3. Shall **continually improve** their proficiency and the effectiveness and quality of their services.

Γενικότερο Ελληνικό Θεσμικό Πλαίσιο



Θεσμικό Πλαίσιο Ασφαλιστικών Εταιρειών

Οριοθέτηση και υλοποίηση θεσμικού πλαισίου σε συνάρτηση με τις κανονιστικές εξελίξεις του Solvency II για την σταδιακή προσαρμογή της ελληνικής ασφαλιστικής αγοράς.

Πρόσφατες κανονιστικές εξελίξεις:

- *Απόφαση ΕΠΕΙΑ 3/133/18.11.2008 (Γενικές Ασφαλίσεις), Άρθρο III*
- *Νομοσχέδιο που τροποποιεί τον Ν.Δ. 400/70 και εισάγει οργανωτικές υποχρεώσεις:*
 - *Υπεύθυνος Εσωτερικού Ελέγχου*
 - *Υπεύθυνος Διαχείρισης Κινδύνων*
 - *Καλή διοικητική / λογιστική οργάνωση*
 - *Κατάλληλες διαδικασίες Εσωτερικού Ελέγχου*
 - *Εσωτερικός Κανονισμός Λειτουργίας*

Ορισμός Εταιρικής Διακυβέρνησης

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Βασικά συστατικά επί των οποίων θα πρέπει να θεμελιωθεί η Εταιρική Διακυβέρνηση ώστε να είναι αποτελεσματική, είναι:

- το Διοικητικό Συμβούλιο,
- η Ανώτατη Διοίκηση,
- οι Εσωτερικοί Ελεγκτές
- οι Εξωτερικοί Ελεγκτές της εταιρείας.