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DECREE
of Národná banka Slovenska
of 9 March 2010

stipulating the details of the system of internal control and on the activity of the internal audit department of an insurance undertaking, reinsurance undertaking, branch of a foreign insurance undertaking and reinsurance undertaking

In compliance with Article No. 36, paragraph 19, letter b of Act No. 8/2008 Coll. on Insurance and on amendments and supplements to certain laws, Národná banka Slovenska hereby lays down the following rules:

Article 1

- (1) The system of internal control in an insurance undertaking, reinsurance undertaking, branch of a foreign insurance undertaking or reinsurance undertaking (hereinafter referred to as the “insurance undertaking”) includes the control environment and the control processes of the insurance undertaking.
- (2) The control environment is understood to be the organisational and procedural structure of the insurance undertaking introduced by the bodies of the insurance undertaking for the purposes of informing, controlling, managing and monitoring the activities of the insurance undertaking leading to the achievement of goals of that insurance undertaking.
- (3) Control processes are understood to be procedures and activities that are a part of the management of an insurance undertaking to ensure that the insurance undertaking’s risks are detected and that the level of risk set by the process or risk management is not exceeded. Control processes involve direct procedural control, indirect procedural control and internal audit.
- (4) Direct procedural control is understood to be all forms of on-going control measures, procedures and mechanisms in the organisational departments of the insurance undertaking that are a direct part of regular working procedures. Direct procedural control is performed through employees participating in the individual work procedures of controlled processes.
- (5) Indirect procedural control is understood to be all forms of on-going control measures, procedures and mechanisms of the organisational departments of the insurance undertaking that are an indirect part of work procedures. Indirect procedural control is performed by management staff responsible for the controlled processes.

- (6) Internal audit is understood to be objective verification and consulting activity independent from the operating and business procedures of the insurance undertaking aimed at improving work processes and procedures and at increasing the effectiveness of risk management as well as other management and control processes of the insurance undertaking.

Article 2

(1) Activities of the internal audit department include:

- a) Drawing up and performing a plan of activities of internal audit
- b) Receiving recommendations from the insurance undertaking management regarding the processing of a plan of activities of the internal department audit for the following calendar year, comments regarding the activity of the internal audit department for the following calendar year and comments to audit reports
- c) Verification and evaluation of the adequacy and effectiveness of the system of internal control of the insurance undertaking
- d) Evaluating of activities and processes of the insurance undertaking for the purpose of ensuring their concordance with the generally binding legal regulations as well as the internal regulations of the insurance undertaking
- e) Evaluating activities and processes of the insurance undertaking for the purpose of increasing the effectiveness of activities performed and ensuring the protection of property of the insurance undertaking
- f) Proposing relevant recommendations to eliminate identified discrepancies in the control processes of the system of internal control of an insurance undertaking
- g) Developing evaluations and recommendations regarding internal controls
- h) Verification of the fulfilment of proposed measures to deal with the discrepancies identified in the course of performing an internal audit
- i) Announcing to the statutory body of the insurance undertaking and responsible management representatives of the insurance undertaking (hereinafter referred to as the “insurance undertaking management”) if the elimination of identified discrepancies and fulfilment of recommended measures to deal with the discrepancies did not take place in adequate time
- j) Receiving information about activities and results of the insurance undertaking and information regarding functioning and changes in the internal control system of the insurance undertaking on an on-going basis
- k) Documenting activities of the internal audit department and developing audit reports
- l) Supervising the process of investigating suspected internal and external frauds and other illegal activities
- m) Evaluating processes of the insurance undertaking aimed at preventing and detecting fraud and other illegal activity
- n) Receiving information about all cases of suspected fraud and other illegal activities and/or violation of control mechanisms on an on-going basis
- o) Providing consultations for insurance undertaking management to ensure constant improvement of the effectiveness of the internal control system
- p) Informing the Supervisory Board, the Audit Board, if such has been established, and the Národná banka Slovenska of any violation of duties of the insurance undertaking stipulated by generally binding legal regulations and further facts that may influence proper performance of insurance activity

- q) Developing a report on the results of the activity of the internal audit department for the previous calendar year, a report of measures introduced to remedy detected flaws in the activity of the insurance undertaking, and a plan of activities of the internal audit for the following calendar year
 - r) Performing further activities connected with the internal audit of an insurance undertaking
- (2) As part of activities of the internal audit department, activities not related to the internal audit of an insurance undertaking and that may influence independence of the internal audit department are not performed.

Article 3

This decree shall come into effect on April 1, 2010.

Jozef Makúch in his own hand
Governor

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