

Pursuant to Article 122, Paragraph (1), Point 5) and Article 131, Paragraph (2) of the Law on Insurance Supervision (Official Gazette of the Republic of Macedonia Nos. 27/02, 84/02, 98/02, 33/04, 88/05, 79/07, 08/08, 88/08, 56/09, 67/10), the Council of Experts of the Insurance Supervision Agency adopted the following

RULEBOOK
on the Layout and the Contents of the Auditor's Report
and the Minimum Scope of Audit of Insurance and Reinsurance Undertakings

I. GENERAL PROVISIONS

Article 1

This Rulebook prescribes the layout and the contents of the Auditor's Report and the minimum scope of Audit of the operations and the annual financial statements of insurance and reinsurance undertakings (hereinafter: Insurance Undertakings) that is carried out by an Audit Company and non-acceptance of the Auditor's Report.

Article 2

The audit of the operations of insurance undertakings and the annual financial statements of insurance undertakings shall be carried out in compliance with the Law on Audit, Law on Insurance Supervision, International Standards on Auditing, Code of Ethics of the International Federation of Accountants (IFAC), the provisions of this Rulebook and other rules applicable to auditing.

II. THE LAYOUT AND THE CONTENTS OF THE AUDITOR'S REPORT AND THE MINIMUM SCOPE OF AUDIT

Audit of Financial Statements

Article 3

- (1) The audit referred to in Article 1 of this Rulebook shall comprise an audit of the operations and of the annual financial statements of insurance undertakings, prepared by insurance undertaking pursuant to the accounting regulation in force (hereinafter: Audit of the Insurance undertaking).
- (2) Upon completion of the audit of the insurance undertaking, the Audit Company shall draw up a Report on the Financial Statements of the Insurance undertaking, as an opinion whether the annual financial statements of the insurance undertaking have been prepared in compliance with the accounting regulation in force, whether the financial statements

reflect a true and objective image, and whether they present objectively, from all material aspects, the financial position of the insurance undertaking on the date of the financial statements and the operations performance and the cash flows for the year ending on the date of the financial statements.

- (3) The Audit Company shall enclose with the Report (Opinion) referred to in Paragraph 2 of this Article the financial statements of the insurance undertaking subject to auditing, prepared in compliance with the accounting regulation in force.

Additional Reports

Article 4

The Audit Company shall prepare and enclose with the Report (Opinion) referred to in Article 3, Paragraph 2 and the financial statements referred to in Article 3, Paragraph 3 of this Rulebook the following additional reports, too:

1. A letter by the Audit Company to the insurance undertaking's supervisory body and managing body;
2. An overview of corrections to the financial statements of the insurance undertaking proposed by the Audit Company, with a separate listing of corrections that have been accepted by the insurance undertaking and accordingly made to the financial statements and a separate listing of corrections that have not been accepted by the insurance undertaking;
3. Report on the position and changes of the technical provisions;
4. Report on the position and structure of invested funds that cover the technical provisions and/or mathematical provisions;
5. Report on the position and structure of other funds invested (from the capital);
6. Report on the implementation of the risk management rules;
7. Report on the implementation of internal audit;
8. Report on how the trading books are kept;
9. Report on the quality of the information system;
10. Report on the accuracy and completeness of the statements submitted to the Insurance Supervision Agency (hereinafter: the Agency); and
11. Report on the valuation of balance and off-balance items and accounting policies.

Letter to the Supervisory Body and the Managing Body of the Undertaking

Article 5

The letter to the supervisory body and the managing body of the undertaking referred to in Article 4, Point 1 of this Rulebook shall include a description of the detected irregularities, weaknesses or defaults in the operations of the insurance undertaking that have been identified during auditing and recommendations for the elimination of such irregularities, weaknesses or deficiencies.

Report on the Position and Changes of the Technical Provisions

Article 6

- (1) The Report on the position and changes of the technical provisions referred to in Article 4, Point 3 of this Rulebook shall include:
- The position of the technical provisions at the start and at the end of the business year and the changes in the amount of the technical provisions throughout the year;
 - An opinion regarding the calculation methods for the technical provisions that have been applied by the insurance undertaking so as to determine the undertaking's technical provisions, and in case the insurance undertaking has not applied the adopted methods, a description of such a derogation and its effect on the financial performance and financial position of the insurance undertaking;
 - Opinion on the position of technical provisions given by an independent certified actuary that shall include an assessment of the position and adequacy of the technical provisions set aside;
 - Description of the activities undertaken by the insurance undertaking so as to implement the recommendations by the Audit Company for the previous business year, along with the auditor's assessment of adequacy of the undertaken activities;
 - Recommendation by the Audit Company listing the detected weaknesses and risks arising from the way the technical provisions had been set aside.
- (2) As an independent certified actuary in terms of Paragraph 1, Indent 3 of this Article, in addition to persons meeting the requirements of Article 112 of the Law on Insurance Supervision, shall be deemed a person holding a certified actuary licence obtained abroad, as well as persons who have passed the actuarial exam in compliance with the actuarial curriculum adopted by the international and European actuarial associations.
- (3) Persons referred to in Paragraph 2 of this Article shall not be employees of the insurance undertaking or persons related to the insurance undertaking the statements of which are subject to auditing.

Report on the Position and Structure of Invested Funds that Cover the Technical Provisions and/or Mathematical Provisions

Article 7

The Report on the position and structure of invested funds that cover the technical provisions and/or mathematical provisions referred to in Article 4, Point 4 of this Rulebook shall include:

- Description of the position and the structure of the funds that cover the technical provisions and/or mathematical provisions with a comparative overview of the technical provisions and mathematical provisions set aside, as well as position of invested funds that cover the technical provisions and/or mathematical provisions at the start and at the end of the business year, and changes thereto throughout the year;
- Description of the activities undertaken by the insurance undertaking so as to implement the recommendations by the Audit Company for the previous business year, along with the auditor's assessment of adequacy of the undertaken activities;

- Opinion on the position and the structure of the invested funds that cover the technical and/or mathematical provisions regarding the compliance with the provisions of the Law on Insurance Supervision and the by-laws adopted thereafter, with a listing of detected weaknesses, irregularities and risks arising from the way the funds had been invested that cover the technical and/or mathematical provisions, along with a Recommendation by the Audit Company for elimination of the detected weaknesses, irregularities and risks.

Report on the Position and Structure of Other Funds Invested (from the Capital)

Article 8

The Report on the position and the structure of other funds invested (from the capital) referred to in Article 4, Point 5 of this Rulebook shall include:

- Description of the position and the structure of the other funds invested (from the capital) as well as the position of the other funds invested (from the capital) at the start and at the end of the business year and changes thereto throughout the year;
- Description of the activities undertaken by the insurance undertaking so as to implement the recommendations by the Audit Company for the previous business year, along with the auditor's assessment of adequacy of the undertaken activities;
- Opinion on the position and the structure of other funds invested (from the capital) relating to compliance with the provisions of the Law on Insurance Supervision and the by-laws adopted thereafter, with listing of the detected weaknesses, irregularities and risks arising from the way the other funds had been invested (from the capital), along with a Recommendation by the Audit Company for elimination of the detected weaknesses, irregularities and risks arising from the way the other funds (from the capital) had been invested.

Report on the Implementation of the Risk Management Rules

Article 9

The Report on the compliance with the risk management rules referred to in Article 4, Point 6 of this Rulebook shall include:

- Description of the types of risk the insurance undertaking is exposed to within its operations, in particular the description of the following risks: Capital and adequacy of capital and compliance with the minimum capital requirements, investment risk, credit risk, foreign exchange risk, interest rate risk, reinsurance risk and liquidity risk;
- Description of policies and procedures for individual risks management, their enforcement by the insurance undertaking, detected deficiencies in the individual risks management;
- Description of the activities undertaken by the insurance undertaking so as to implement the recommendations by the Audit Company for the previous business year, along with the auditor's assessment of adequacy of the undertaken activities;
- Opinion on the adequacy in identifying, measuring and managing the individual risks, along with a Recommendation by the Audit Company regarding possible corrections to

the calculations of the capital and adequacy of capital, liquidity and solvency risk management, and the management of other risks that the undertaking is exposed to, as well as Recommendation by the Audit Company for improvement of the risk management policies and procedures;

- Opinion on the adequacy and suitability of the internal audits in the undertaking related to individual risks management, along with a Recommendation by the Audit Company for the improvement of the efficiency and adequacy of the internal audit system in the insurance undertaking.

Report on the Operations of the Internal Audit Service

Article 10

The Report on the operations of internal audit referred to in Article 4, Point 7 of this Rulebook shall include:

- Description of the operations of the Internal Audit Service with information about the expertise of the Internal Audit Service staff;
- Opinion on the activities undertaken by the insurance undertaking so as to implement the recommendations by the Audit Company for the previous business year, along with the auditor's assessment of adequacy of the undertaken activities;
- Opinion on the operations of the Internal Audit Service (the auditor shall find whether the operations of the Internal Audit Service is in compliance with the law and the general acts of the undertaking, whether the auditor is independent, whether the auditor carries out the operations in compliance with the rules of the profession, whether the auditor makes an assessment of the legality of the operations of the insurance undertaking and the adequacy of the internal audit system in the insurance undertaking in a way that a secure and stable management of the insurance undertaking is ensured), inventory of deficiencies in the operations of the internal Audit Service and risks arising there from, along with a Recommendation by the Audit Company for the improvement of the operations of the Internal Audit Service.

Report on How the Trading Books are Kept

Article 11

The Report on how the trading books are kept referred to in Article 4, Point 8 of this Rulebook shall include:

- Description of the manner in which the trading books are kept;
- Description of the activities undertaken by the insurance undertaking so as to implement the recommendations by the Audit Company for the previous business year, along with the auditor's assessment of adequacy of the undertaken activities;
- Opinion on the manner in which the trading books are kept (the auditor shall assess whether the insurance undertaking keeps its business books, i.e. the journal, the ledger and all the other supporting books in order and up-to-date, in a way that shall ensure controlling of the accuracy of the data, storing and using of the data, and inspecting of the chronology of the entries made and observing all the changes of accounts in the

books. The auditor shall particularly assess whether the material records of uncompleted insurance policies – forms of stringent records with the undertaking and by the responsible persons is kept safely, fully and up to date, and shall make an inventory of the deficiencies in trading books keeping and the risks arising from the way the trading books are kept;

- Recommendation by the Audit Company for the improvement of the way the trading books are kept.

Report on the Information System

Article 12

(1) The Report on the information system of the insurance undertaking referred to in Article 4, Point 9 of this Rulebook shall include:

- Description of the position and the adequacy of the information system management, its compliance with the business objectives and prescribed internal procedures for the operation of the insurance undertaking, efficiency in the operation of the information system, policy and organisation of the security and protection of the information system and data, adequacy of the external, system and other controls, technological equipment, detected weaknesses and risks of the system and other data about the functioning and the security of the information system;
- Description of the activities undertaken by the insurance undertaking so as to implement the recommendations by the Audit Company for the previous business year, along with the auditor's assessment of adequacy of the undertaken activities;
- Opinion of the auditor on the adequacy of the information system management, along with the Recommendation by the Audit Company for the improvement of the way the information system is managed.

(2) The Report referred to in Paragraph 1 of this Article shall include an assessment of the position and the adequacy of the information system management regarding its compliance with the internationally acknowledged standards of information systems auditing.

Report on the Accuracy and Completeness of the Statements Submitted to the Insurance Supervision Agency

Article 13

(1) The Report on the accuracy and the completeness of the statements submitted to the Agency referred to in Article 4, Point 10 of this Rulebook shall include an assessment by the auditor of the accuracy and the completeness of the statements which, pursuant to the Law on Insurance Supervision, Law on Mandatory Traffic Insurance and be-laws adopted thereafter, are to be submitted by the insurance undertaking to the Agency. A criterion for determining the accuracy and completeness is, inter alia, the compliance with the audited financial statements of the insurance undertaking.

(2) The Report referred to in Paragraph 1 of this Article shall also include a Recommendation by the Audit Company regarding the accuracy and completeness requirement for the statements submitted to the Agency.

Report on the Valuation of Balance and Off-balance Items and Accounting Policies

Article 14

- (1) The Report on the valuation of balance and off-balance items and accounting policies referred to in Article 4, Point 11 of this Rulebook shall include an Opinion of the auditor on the applied accounting, valuation of balance and off-balance items, methods applied for the valuation of financial investments and investments in real estates and other items, as well as their compliance with the IFRS, Law on Insurance Supervision and by-laws adopted thereafter.
- (2) The Report referred to in Paragraph 1 of this Article shall also include a Recommendation by the Audit Company regarding the improvement of the way the balance and off-balance items and accounting policies are valued.

III. MANNER AND DEADLINES FOR THE SUBMISSION OF THE AUDITOR'S REPORT (OPINION)

Article 15

- (1) Insurance undertakings shall be required to submit the Auditor's Report (opinion) referred to in Article 3, Paragraph 2, the financial statements referred to in Article 3, Paragraph 3 and the supporting information and reports referred to in Article 4 of this Rulebook within the deadlines set forth in the Law on Insurance Supervision.
- (2) If the insurance undertaking had accepted the corrections referred to in Article 4, Point 1.2 of this Rulebook, the corresponding amendments in the insurance undertaking's business books shall be made the latest within the deadline for submission of the quarterly reports for the first coming quarter to the Agency.

IV. NON-ACCEPTANCE OF THE AUDITOR'S REPORT (OPINION)

Article 16

- (1) The Agency shall not accept the Auditor's Report (Opinion) if it finds that it had been drawn up contrary to the provisions of the Law on Insurance Supervision and the provisions of this Rulebook.
- (2) In case of non-acceptance of the Auditor's Report (Opinion), the Agency shall adopt a Resolution on the Non-Acceptance of the Auditor's Report (Opinion) therewith imposing to the insurance undertaking to designate another audit company that will carry out the audit of the operations of the insurance undertaking and setting a deadline for the submission of a new auditor's report (opinion).

V. MANNER OF PUBLICATION OF THE AUDITOR'S REPORT (OPINION)

Article 17

(1) The insurance undertaking shall be required within 15 days from the day of the adoption of the Auditor's Report (Opinion) by the Shareholders Assembly, and not later than six months from the day when the calendar year subject to the report ends, to publish the Report on the conducted audit of the operations and financial statements, in the following manner:

- On its web site, the insurance undertaking shall publish: The Auditor's Report (Opinion) referred to in Article 3, Paragraph 2 and the financial statements referred to in Article 3, Paragraph 3 of this Rulebook. They shall remain posted on the insurance undertaking's web site until the publication of the Report for the next year;
- In at least one daily newspaper, the insurance undertaking shall publish the Auditor's Report (Opinion) referred to in Article 3, Paragraph 2 and the financial statements referred to in Article 3, Paragraph 3 of this Rulebook – without the Notes.

VI. TRANSITIONAL AND FINAL PROVISIONS

Article 19

This Rulebook shall enter into force on the day of its promulgation in the "Official Gazette of the Republic of Macedonia" and shall apply to financial statements with positions on 31.12.2011.

No. 0101-2795/3

23.12.2010

Skopje

President of the Council of Experts

Dr. Klime Poposki