

*Elżbieta Izabela Szczepankiewicz\**  
*Poznań University of Economics*

**THE ROLE AND TASKS OF THE INTERNAL AUDIT  
AND AUDIT COMMITTEE AS BODIES SUPPORTING  
EFFECTIVE *CORPORATE GOVERNANCE*  
IN INSURANCE SECTOR INSTITUTIONS IN POLAND**

**JEL Classification:** *M42*

**Keywords:** *insurance sector institutions, corporate governance*

**Abstract:** *Faced with the risk of consecutive waves of financial crisis and economic recession, government committees, financial supervision authorities and financial institutions themselves – both in Poland and worldwide – have launched a number of measures to make the supervision of insurance sector institutions more effective, particularly in aspects related to efficient risk management and internal control. The article describes the impact of the amendment of laws and other regulations on the development of the present internal control systems in insurance sector institutions. It draws attention to the need for a new structure of the internal control system, and the role and purpose of the internal audit and the*

---

© Copyright Polskie Towarzystwo Ekonomiczne Oddział w Toruniu.

Date of submission: March 4, 2012; date of acceptance: June 15, 2012.

\* Contact: [elzbieta.szczepankiewicz@ue.poznan.pl](mailto:elzbieta.szczepankiewicz@ue.poznan.pl), Katedra Rachunkowości, Uniwersytet Ekonomiczny w Poznaniu, Al. Niepodległości 10, 61-875 Poznań, Poland.

*audit committee as the bodies supporting effective supervision in insurance undertakings and reinsurance undertakings.*

## INTRODUCTION

The issues related to corporate governance in public companies and financial institutions have been the area of interest of a variety of international organizations for more than 30 years. It should be noted that the recent financial crisis has shown that traditional corporate governance practices used by public companies and financial institutions is not effective enough.

At present, financial supervision authorities in the EU and Poland are trying to increase the effectiveness of corporate governance in financial institutions, including insurance and reinsurance undertakings. Over the last couple of years, a number of risk analyses have been performed to assess key risks inherent in the insurance and reinsurance sector. Bankruptcies were discussed, as well as existing solvency models implemented in various countries. It was not until 2009 that works were completed on a draft of a new solvency regime which was set out in detail in **Directive 2009/138/EC on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II)**.

Even though the new regulations Solvency II will not become formally effective until late 2012, insurance and reinsurance undertakings must now take appropriate measures to adapt the accounting policy, risk analysis methods and risk management, reporting and IT systems to the new regulations. Recent legislative amendments in Poland, however, imposes a set of formal obligations on insurance and reinsurance undertakings, requiring them to set up an audit committee to assess the undertaking's internal control and risk management systems, and supervise internal audit activities, if an appropriate function has already been established in the undertaking, as well as to develop and implement principles governing risk acceptance and the internal control system. Audit committees, internal audit, internal control system, as well as external audit and financial supervision currently constitute the key elements of corporate governance and monitoring of activity in insurance and reinsurance undertakings. Insurers should regard the above activities as the preparation for the implementation of guidelines laid down in Solvency II.

The purpose of the present article is to discuss the roles and tasks of internal control system and corporate governance in the Polish insurance sector institutions. It describes the impact of the amendment of laws and other regulations on the development of the present internal control systems

in insurance sector institutions. The article places a special emphasis on the new roles and tasks of internal audit and the audit committee as bodies working towards more effective corporate governance in Polish insurance and reinsurance undertakings.

## **THE INTERNAL CONTROL AND FINANCIAL SUPERVISION IN INSURANCE SECTOR INSTITUTIONS IN THE LIGHT OF INTERNATIONAL REGULATIONS**

Many international institutions dealing with corporate governance<sup>1</sup>, as well as Polish Financial Supervision Authority<sup>2</sup>, are currently debating on how to increase the effectiveness of both external and internal supervision of the activity of public companies and financial institutions, including institutions operating in the insurance and reinsurance sector.

In the US setting, all aspects relating to the development of effective systems of internal control in public companies, are regulated by the Sarbanes Oxley Act (SOX) enacted in 2002. The Act was passed in the wake of the disclosure of a number of financial frauds and the collapse of several major financial institutions worldwide. SOX was enacted in order to prevent similar financial scandals in the future. Following the USA's announcement of SOX, an EU-wide debate was launched to create similar regulations for Europe. Following the US example, a number of European countries also developed similar regulations for stock exchange listed companies. In December 2002 the European Commission adopted Directive 2002/87/EC on the supplementary supervision of credit institutions, insurance undertakings and investment firms in a financial conglomerate. The guidelines enacted in 1970-2000 were amended, and new legislation was passed. Following the US example, a number of European countries also developed similar regulations for stock exchange listed companies.

In establishing their national regulations, legislative bodies and national financial supervision authorities in the EU Member States also follow pro-

---

<sup>1</sup> A major contribution in terms of general rules pertaining to corporate governance has been made by the Organization for Economic Cooperation and Development (OECD). After joining forces with the World Bank, the OECD established the Global Corporate Governance Forum. In 2004, it published a new version of the "OECD Corporate Governance Principles".

<sup>2</sup> Due to high social and economic importance, the activity of institutions operating in the financial sector is subject to mandatory financial supervision. The main institution tasked with the supervision of financial institutions in Poland is the Polish Financial Supervision Authority (KNF), regulated by the Act on the Supervision of the Financial Market (2006).

visions set out in EU Directives. In Europe, the basic issues in corporate governance in insurance undertakings and reinsurance undertakings are governed, inter alia, by the EU Directives:

- Directive 2002/87/EC on the supplementary supervision of credit institutions, insurance undertakings and investment firms in a financial conglomerate,
- Directive 2003/71/EC regulates the obligations of supervisory councils and their committees in companies quoted on the stock exchange,
- Directive 2005/68/EC on reinsurance,
- Directive 2006/43/EC making the assessment of internal control systems and the appointment of audit committees in public interest institutions mandatory,
- Directive 2009/138/EC on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II).

The EU Member States are required to transpose solutions adopted under Directive No. 2009/138/EC (Solvency II) for the insurance sector institutions into their national laws by 31 October 2012. It needs to be stressed that the new governance and supervision system regime applicable to the insurance sector required under Solvency II is more complex than any previous regulations in force. It is based on three main pillars aimed at securing the institution's operations, encompassing quantitative (capital-related), qualitative and reporting requirements. Therefore, the EU Member States have an obligation to demand the introduction of an effective governance system from all insurance sector undertakings. (Kiedrowska, Szczepankiewicz, 2011). Insurance and reinsurance undertakings should take steps to ensure continuity and regularity in the performance of their activities, including the development of contingency plans. To that end, the undertaking shall employ appropriate and proportionate systems, resources and procedures. The system should ensure sound and prudent management of the undertaking's business and be adjusted to the nature, scale and degree of complexity of the undertaking's activity. The internal governance system should comprise the following elements (Art. 41-48 of the Solvency II):

- effective risk-management system,
- effective internal control systems (procedures of control),
- effective internal audit function,
- effective actuarial function,
- outsourcing of critical or important operational functions or activities.

Insurance and reinsurance undertakings should have written policies in relation to at least risk management, internal control, internal audit and, where relevant, outsourcing. They shall ensure that those policies are implemented. (Art. 41 of the Solvency II).

Table 1 shows the elements of the internal governance system in insurance and reinsurance undertakings in the light of Solvency II.

**Table 1. The elements of the internal governance system in insurance and reinsurance undertakings in the light of Solvency II**

Area	Articles	Characteristic
Effective risk-management system	Art.44	<p>Undertakings should have in place an effective risk-management system comprising strategies, processes and reporting procedures necessary to identify, measure, monitor, manage and report, on a continuous basis the risks, to which they are or could be exposed, and their interdependencies. The risk-management system should cover the risks to be included in the calculation of the Solvency Capital Requirement. As part of its risk-management system every undertaking should conduct its own risk and solvency assessment. That assessment shall include at least the following:</p> <ul style="list-style-type: none"> <li>a) the overall solvency needs to take into account the specific risk profile, approved risk tolerance limits and the business strategy of the undertaking;</li> <li>b) the compliance, on a continuous basis, with the capital requirements</li> </ul>
Effective internal control system	Art.46	<p>Undertakings should have an effective internal control system. That system should at least include administrative and accounting procedures, an internal control framework, appropriate reporting arrangements at all levels of the undertaking and a compliance function</p>
Effective internal audit function	Art.47	<p>Undertakings should provide for an effective internal audit function. The internal audit function should include an evaluation of the adequacy and effectiveness of the internal control system and other elements of the system of governance. The internal audit function should be objective and independent from the operational functions. Any findings and recommendations of the internal audit should be reported to the administrative, management or supervisory body which should determine what actions are to be taken with respect to each of the internal audit findings and recommendations and shall ensure that those actions are carried out.</p>
Effective actuarial function	Art.48	<p>Undertakings should provide for an effective actuarial function to:</p> <ul style="list-style-type: none"> <li>a) coordinate the calculation of technical provisions;</li> <li>b) ensure the appropriateness of the methodologies and underlying models used as well as the assumptions made in the calculation of technical provisions;</li> <li>c) assess the sufficiency and quality of the data used in the calculation of technical provisions;</li> </ul>

Table 1 Continued

Area	Articles	Characteristic
Effective actuarial function	Art.48	d) compare the best estimates against experience; e) inform the administrative, management or supervisory body of the reliability and adequacy of the calculation of technical provisions; f) oversee the calculation of technical provisions. The actuarial function should be carried out by individuals who have the knowledge of actuarial and financial mathematics, commensurate with the nature, scale and complexity of the risks inherent in the business of the insurance or reinsurance undertaking, and who are able to demonstrate their relevant experience with applicable professional and other standards.
Outsourcing	Art.49	Outsourcing of critical or important operational functions or activities should not be undertaken in such a way as to lead to any of the following: a) materially impairing the quality of the system of governance of the undertaking concerned; b) unduly increasing the operational risk; c) impairing the ability of the supervisory authorities to monitor the compliance of the undertaking with its obligations; d) undermining continuous and satisfactory service to policy holders. Undertakings should notify the supervisory authorities prior to the outsourcing of critical or important functions or activities.

Source: Author's own study based on Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009 on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II) (OJ L 335, 17.12.200).

The oversight of activities of insurance undertakings and reinsurance undertakings in individual EU countries is the responsibility of national financial supervision committees. **Standards** for institutions operating in the insurance and reinsurance sector (e.g. Standard No. 2.2.6. on Enterprise Risk Management for Capital Adequacy and Solvency Purposes and other) are laid down by the International Association of Insurance Supervisors (IAIS). This Association develops standards in conformity with the recommendations issued by the Basel Committee on Banking Supervision (BCBS) and internationally recognized internal control standards (such as Report of COSO II) published by The Committee of Sponsoring Organizations of the Treadway Commission (COSO)<sup>3</sup>, as well as international internal auditing standards published by The Institute of Internal Auditors (IIA).

---

<sup>3</sup> COSO II published by The Committee of Sponsoring Organizations of the Treadway Commission – COSO, which they created: The American Institute of Certified Public Ac-

In addition to compliance with appropriate EU Directives and Standards, insurance and reinsurance undertakings operating in individual states must mainly conform with national laws and other regulations.

### **THE INTERNAL CONTROL AND FINANCIAL SUPERVISION IN INSURANCE SECTOR INSTITUTIONS IN THE LIGHT OF POLISH REGULATIONS**

The internal audit function and audit committee, as well as the internal control system should be a mainstay of internal control performed in a Polish insurance sector institutions in terms of corporate governance. An important element complementing the internal control function in an organization is financial review performed by a certified external auditor, as well as the external financial supervision. Insurance sector institutions have also been gradually adopting regulations governing such issues as roles of the audit committee, establishment of internal control systems and internal audit functions.

The insurance sector institutions operating in Poland today are obliged to comply with a significant number of revised national laws, including:

- The Act on the Insurance Activity (2003, as well as amendments 2010),
- The Act on Insurance and Pension Funds Supervision and on Insurance Ombudsman (2003),
- The Act on the Supplementary supervision of credit institutions, insurance undertakings, reinsurance undertakings and investment firms in a financial conglomerate (2005),
- The Act on the Financial Market Supervision (2006),
- The Act on Statutory Auditors and on the Public Supervision (2009),
- resolutions of the Polish Financial Supervision Authority (KNF).

In view of the lack of appropriate Polish regulations on basis Solvency II, the Polish Financial Supervision Authority advises insurance sector institutions to follow international standards. The insurance and reinsurance undertakings should also take into consideration:

- KNF recommendations and guidelines developed on the basis of the International Association of Insurance Supervisors recommendations and standards (e.g. Standard No. 2.2.6. on Enterprise Risk Management for Capital Adequacy and Solvency Purposes (2008) and other),

- COSO internal control reports: Internal Control – Integrated Framework<sup>4</sup> (1992, 1994) and Enterprise Risk Management – Integrated Framework (2004), published by the Committee of Sponsoring Organizations of the Treadway Commission,
- The International Standards for the Professional Practice of Internal Audit, announced in an updated version by the Institute of Internal Auditors (IIA) in 2009.

If a given insurance or reinsurance undertakings is quoted on the Warsaw Stock Exchange, should also take into consideration the Good Practice of WSE-listed Companies (2007) and other regulations of Warsaw Stock Exchange.

Legislative amendments (2009-2010), however, impose a set of formal obligations on insurance undertakings and reinsurance undertakings, requiring them to set up an audit committee to assess the institution's internal control and risk management systems, and supervise internal audit activities, if an appropriate function has already been established in the institution, as well as to develop and implement principles governing risk acceptance and the internal control system. The amended the Act on Statutory Auditors and on the Public Supervision of 2009 contains provisions which have normalized the most important issues related to appointing audit committees and their functioning in financial institutions<sup>5</sup>, as well as in insurance and reinsurance undertakings. Audit committees were to be appointed and operate in insurance and reinsurance undertakings since December 9<sup>th</sup>, 2009. Under Art. 86 sections 7-9 Act on Statutory Auditors and on the Public Supervision (2009), an audit committee operating in a insurance and reinsurance undertakings is obliged to perform the following activities:

- monitoring of the financial reporting process;
- monitoring of the effectiveness of internal control systems, internal audit and risk management;

---

<sup>4</sup> The COSO Report defines internal control as a process initiated and exercised by the supervisory board, management board, the executive and other staff members to ensure the achievement of specific goals: effectiveness and efficiency of operations, reliability of financial reporting, compliance with applicable laws and regulations. Internal control exercised within an organization is a system comprising five interrelated elements. They are linked to the management process and determined by the way in which the management runs the organization. Elements of the internal control system include: internal control environment, risk identification and analysis, control activities, information and communication, as well as monitoring.

<sup>5</sup> The Act on Statutory Auditors made it mandatory to appoint an audit committee and to hold financial reviews in banks, insurance and reinsurance undertakings and investment funds management companies and other entities, as public interest institutions.



- monitoring of financial review activities;
- monitoring of independence of the certified auditor and the person/entity authorized to examine financial reports, including cases of providing other services in addition to financial review activities.

In insurance and reinsurance undertakings with supervisory boards consisting of not more than 5 members, the audit committee's tasks may be entrusted to the supervisory board (Art. 86 of the Act on Statutory Auditors and on the Public Supervision 2009).

The amended Act on the Insurance Activity of 2010 contains provisions which have normalized the most important issues related to appointing the management system and the internal control system. As per the said regulations, an insurance undertaking is obliged to have a management system being a collection of rules and procedures pertaining to insurance's decision-making processes and to the assessment risks of insurance activity. The management system must at least be composed of: an effective risk-management system and an effective internal control system. As per the provisions of the Act on the Insurance Activity, the purpose of the effective internal control system is to support the decision-making processes thus contributing to: the effectiveness and efficiency of undertaking's operations, the reliability of financial reporting and compliance of undertaking's operations with the laws in force and the internal regulations. The effective internal control system comprises: risk control mechanisms, internal control procedures, including procedures for assuring that the undertaking's operations abide by the laws and internal regulations, as well as internal audit<sup>6</sup>.

The management board of an insurance undertaking shall be responsible for the development, introduction and functioning of internal regulations, which determine the manner of performing insurance activity, in particular in respect of activities commissioned to other undertakings, including internal control rules of proceedings, adjusted to the scale of activity and the size and profile of risk inherent in the activity of the insurance undertaking (Art. 30 of the Act on the Insurance Activity 2010). The scheme of operations shall contain the specification of the organization of the insurance activity, including rules for risks acceptance and the system of internal control (Art. 93 of the Act on the Insurance Activity 2010). The internal audit function is responsible for an independent and objective examination and assessment of the risk management system and the internal control procedures' adequacy and effectiveness. The information about the discovered irregularities and the conclusions of the internal audit, as well as about the actions taken in order to repair them, are provided on a regular basis to

---

<sup>6</sup> The definition of internal control in Polish regulations was modeled on the definition provided in the COSO Report.

the insurance undertaking's supervisory board. The supervision authority (KNF) verifies whether the insurance undertaking shall ensure compliance of the activity with prudential requirements resulting from the law, including solvency, internal control and risk management requirements (Art. 35 h of the Act on the Insurance Activity 2010).

### **THE ROLE AND TASKS OF INTERNAL AUDIT AND ACTUARIAL FUNCTION IN INSURANCE SECTOR INSTITUTIONS**

Over the last couple of years, internal audit functions have also been set up in other financial institutions, such as commercial banks and brokerage firms operating in banks. Although the announcement of Solvency II for two years had passed yet to be established Polish law for insurance sector institutions in this area. In view of the lack of appropriate Polish regulations, the Polish Financial Supervision Authority (KNF) advises insurance sector institutions to follow international standards.

That is why insurance sector institutions in the organization and conduct of the internal audit may apply to International Standards for the Professional Practice of Internal Auditing, published by the Institute of Internal Auditors (IIA). Following the example of the public finance sector (which formally adopted the standards effective from July 2006), Polish institutions have been increasingly embracing the standards in their operations. These standards are likely in 2012 will be adopted for use in the Polish insurance sector institutions, similarly as it has in recent years in banks and other financial institutions.

Under the regulations of the Internal Audit Standards (IIA), internal auditing is an independent, objective assurance and consulting activity designed to add value<sup>7</sup> and improve an undertaking's operations. It helps an undertaking accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.<sup>8</sup> Internal audits should provide unit management with an unbiased and independent evaluation of management and internal control mechanisms, inclusive of financial control procedures, are in place and operate adequately, effectively and efficiently. An internal

---

<sup>7</sup> Value is provided by improving opportunities to achieve organizational objectives, identifying operational improvement, and/or reducing risk exposure through both assurance and consulting services – Definition's of The International Standards for the Professional Practice of Internal Audit (Internal Audit Standards IIA), [www.iaa.org](http://www.iaa.org).

<sup>8</sup> Definition of the Internal Audit Standards (IIA).

audit encompasses examination and evaluation of risk management and task execution quality (Szczepankiewicz 2009). Internal audits include assurance activities (evaluation) and consulting services. Assurance services involve the internal auditor's objective assessment of evidence to provide an independent opinion or conclusions regarding an undertaking, an operation, a function, a process, system, or other subject matter.<sup>9</sup> An internal audit should cover all areas of undertaking operations. Audit by counseling should also lead to the facilitation of institution operations. An internal auditor can submit requests to the management or the management of audited undertakings, which should result in the facilitation of the operation of a undertaking or its organizational undertakings (Szczepankiewicz 2010).

Auditing is a management tool used by the undertaking's management board to obtain reasonable assurance that:

- the undertaking's aims and tasks are effectively pursued,
- internal control procedures and other mechanisms are adequate and effectively support correct operation of the undertaking,
- procedures and other mechanisms laid down in legal regulations,
- procedures and other mechanisms adopted by the management board are consistently implemented and followed.

The aims of internal audit are pursued on the basis of a wide range of courses of action set out in IIA's Standards, such as responsibility of the undertaking's management for the internal control system; auditing approach oriented towards improvement of the undertaking's operations; ensuring high quality of auditing; independence, impartiality and objectivity of auditors in issuing opinions; professional approach, proficiency and due care of the auditor's operations; effective use of internal audit resources; free flow of information and proper communication, and others. The roles and tasks of internal audit are defined in the IIA's Standards, from which the most important are:

- Standard No. 1000 – Purpose, Authority, and Responsibility,
- Standard No. 1100 – Independence and Objectivity,
- Standard No. 1110 – Organizational Independence,
- Standard No. 1120 – Individual Objectivity,
- Standard No. 1200 – Proficiency and Due Professional Care,
- Standard No. 1230 – Continuing Professional Development,
- Standard No. 1300 – Quality Assurance and Improvement Program,
- Standard No. 2000 – Managing the Internal Audit Activity,

---

<sup>9</sup> Definition of the Internal Audit Standards (IIA).

- Standard No. 2060 – Reporting to Senior Management and the Board,
- Standard No. 2110 – Governance,
- Standard No. 2120 – Risk Management,
- Standard No. 2130 – Control,
- Standard No. 2200 – Engagement Planning,
- Standard No. 2230 – Engagement Resource Allocation,
- Standard No. 2330 – Documenting Information,
- Standard No. 2400 – Communicating Results,
- Standard No. 2420 – Quality of Communications,
- Standard No. 2500 – Monitoring Progress,
- Standard No. 2600 – Resolution of Management’s Acceptance of Risks.

Furthermore, it is crucial that the auditors in their activities should be free from any pressures of influences, either from the undertaking’s top management, or managers/staff members of audited units. The auditor’s independence is facilitated by the fact that, from the organizational point of view, auditors are accountable directly to the undertaking’s top management, e.g. chairman of the management board, supervisory board or the audit committee (IIA Standard No. 1100).

At present, in view of the fact that there are no legal provisions in place that would regulate the problem of qualifications required of internal auditors in insurance sector institutions, auditing is usually performed by specialists with several years' experience in internal audit or internal control, acquired by working in financial institutions, in the public finance sector or other business entities. Many internal auditors hold postgraduate diplomas in internal auditing from Polish universities and Internal Auditor Certificates issued by the Polish Institute of Internal Control in Warsaw. Internal audits are also sometimes conducted by specialists with certified auditor qualifications. Many internal auditors in insurance sector institutions also hold international certificates of qualifications such as:

- Certified Internal Auditor (CIA),
- Certified Information Systems Auditor (CISA),
- Certified Fraud Examiner (CFE),
- Certification in Control Self Assessment (CCSA),
- Certified Financial Services Auditor (CFSA),
- Chartered Financial Analyst (CFA),
- Certified Internal Controls Auditor (CICA),
- Certified Controls Specialist (CCS),
- Association of Chartered Certified Accountants (ACCA).

Insurance and reinsurance undertakings should provide for an effective actuarial function to e.g.: coordinate the calculation of technical provisions; ensure the appropriateness of the methodologies; assess the sufficiency and quality of the data used in the calculation of technical provisions as well as inform the administrative, management or supervisory body of the reliability and adequacy of the calculation of technical provisions.

The actuarial function should be carried out by persons who have knowledge of actuarial and financial mathematics (Art. 48 of the Solvency II). In Polish insurance sector institutions, the actuarial function is performed by individuals who have the knowledge of law and economy, as well as actuarial and financial mathematics. Many of them also hold international certificates of qualifications such as: CFA, ACCA, CCS and others.

### **THE ROLE AND TASKS OF AUDIT COMMITTEE IN INSURANCE SECTOR INSTITUTIONS**

Over the last couple of years, audit committees have also been set up in other financial institutions. Pioneering efforts in this field were made by commercial banks. Other major Polish insurance and reinsurance undertakings have also been gradually adopting regulations governing such issues as the roles of the audit committee. Previously, many financial institutions established audit committees operating at their supervisory boards, without setting up internal audit units. Supervisory boards empowered audit committees only with the responsibility for financial reporting and involvement in the appointment of a certified auditor. Few institutions tasked audit committees with supervision over internal control, internal audit and risk management.<sup>10</sup> That state of affairs was a result of the lack of detailed regulations in this area.

At present, similarly to commercial banks, the audit committee supports the supervisory board, or another supervisory body functioning within an insurance and reinsurance undertakings, in the execution of control and supervision obligations. The main tasks of the audit committee in insurance and reinsurance undertakings should be described in detail in the rules of

---

<sup>10</sup> In 2008, the Supervisory Board of the Warsaw Stock Exchange (WSE), following a motion filed by the WSE's Management Board, adopted new *corporate governance* principles "Best Practice of WSE Listed Companies", to be effective from 1 January 2008, which significantly changed the approach to the rules of operation and tasks of the audit committee. In this way, the role of the audit committee, according to provisions set out in Directive no. 2006/43/EC, was linked directly with financial reporting, ensuring independence and high quality of internal audit, external audit, internal control and risk management.

operation of the audit committee. The rules of operation should set out in detail all tasks and the course of action in the following areas:

- supervision of risk-management system,
- supervision of internal control system (procedures),
- supervision of internal audit function, actuarial function and the risk management department,
- supervision of financial reporting process,
- supervision of services in financial statement review and other financial services,
- supervision of relations with brokerage firms operating in undertaking's and other external entities.

Table 1 lists sample tasks performed by audit committees in insurance and reinsurance undertakings.

**Table 1. The main areas of activity and exemplary detailed tasks of audit committees in insurance and reinsurance undertakings**

Areas	Exemplary detailed tasks of audit committees
Supervision of the risk-management system	<p>The audit committee:</p> <ol style="list-style-type: none"> <li>1) supervises the adequacy of the risk factors and activity threats identification systems implemented by the management board,</li> <li>2) comments on the draft principles of careful and stable management as well as the acceptable levels of risk in the areas of the undertaking's activity,</li> <li>3) comments on draft principles of internal capital assessment, capital management and capital planning procedures,</li> <li>4) comments on draft regulations and amendments to undertaking regulations on the principles of adherence to standards, including the risk policy,</li> <li>5) assesses the procedure for exposing irregularities in the undertaking as implemented by the relevant units.</li> </ol>
Supervision of the internal control system	<p>The audit committee supervises:</p> <ol style="list-style-type: none"> <li>1) the effectiveness of internal control systems, the including compliance of undertaking's operations with the laws in force, the internal procedures, the Articles of Association, and the principles of corporate governance,</li> <li>2) adherence to procedures and the operation of the internal control systems which reduce the risk of irregularities arising in the undertaking and implementation of the abuse exposure policy,</li> <li>3) the assessment of the impact and the manner of implementation of new regulations in internal control system, including KNF's regulations, the standards of auditors.</li> </ol>
Supervision of internal audit function, actuarial function and the risk management department	<p>The audit committee supervises:</p> <ol style="list-style-type: none"> <li>1) The effectiveness of actuarial function and access to sources of information and statutory auditor's opinions and recommendations,</li> <li>2) the effectiveness of internal audit works and access to sources of information and statutory auditor's opinions and recommendations,</li> <li>3) the effectiveness of work of the risk management department, the KNF's recommendations and the position of the management board regarding the said recommendations.</li> </ol>

Table 2 Continued

Areas	Exemplary detailed tasks of audit committees
Supervision of financial reporting	<ol style="list-style-type: none"> <li>1) Analyzes information about important changes in accounting or financial reporting presented by the management board, and in the figures and assessments crucial for financial statements,</li> <li>2) analyzes annual financial statements and the results of their audit along with the management board and statutory auditors,</li> <li>3) gives recommendations for the approval of the financial statement audited by a statutory auditor to the supervisory board.</li> </ol>
Supervision of services in financial statement review and other financial services	<ol style="list-style-type: none"> <li>1) Recommends a statutory auditor and their change to the supervisory board, assesses his/her performance and independence, taking into consideration the applicable regulations and corporate governance rules,</li> <li>2) comments on the delivery of services other than financial statements auditing by the statutory auditor, presents the institution's position on this subject,</li> <li>3) gives recommendations for the amount of remuneration due to the statutory auditor for auditing financial statements or other services provided to the institution and assesses the amount of remuneration paid to the statutory auditor,</li> <li>4) monitors the independence of the statutory auditor and his/her objectivity in auditing financial statements and interim reports,</li> <li>5) assesses the effectiveness of the reviews of interim reports and the audits of financial statements, the response of the management board to the statutory auditor's recommendations expressed in the letter to the management board.</li> </ol>
Relations with brokerage firms and other external entities (outsourcing)	<ol style="list-style-type: none"> <li>1) Supervises the effectiveness of outsourcing of critical or important operational functions or activities (e.g. the assessment of the impact: materially impairing the quality of the system of governance of the undertaking; unduly increasing the operational risk; impairing the ability of the supervisory authorities to monitor the compliance of the undertaking with its obligations and undermining continuous and satisfactory service to policy holders),</li> <li>2) gives recommendations regarding the decision approving the conclusion of an important agreement by and between the brokerage firms operating in the undertaking and other external entities.</li> <li>2) monitors the agreements concluded by and between the its brokerage firms operating in the undertaking and other external entities, including the adequacy of remuneration for the services provided .</li> </ol>

Source: Author's own study based on Rekomendacje dotyczące funkcjonowania komitetu audytu, Urząd Komisji Nadzoru Finansowego, Warszawa, Listopad 2010.

Under the Act on Statutory Auditors and on the Public Supervision (2009), at least one independent member of the audit committee should have appropriate qualifications in accounting or financial review (Art. 86, section 4).

## CONCLUSIONS

Over the last couple of years, there has been a lot of discussion on the international scene about increasing the effectiveness of risk management

and adequacy of internal control systems in insurance and reinsurance undertakings, and about the role and purpose of the bodies responsible for the supervision and assessment of these areas. The recent economic crisis has shown that supervisory actions and new regulations must be introduced worldwide in the insurance and reinsurance sector. Insurance sector institutions should take into consideration the new risks taken on a global scale, as well as operational risk. The audit committee, internal audit and internal control system should be the three main pillars of the internal control framework in insurance and reinsurance undertakings. An important element complementing the internal control function in insurance and reinsurance undertakings is financial statement review performed by a statutory auditor and supervision exercised by national financial supervision committees.

Regulations (Solvency II and other directives, as well as standards) are made to extend the competences and responsibilities of supervisory boards and their committees. The role, the aims, the independence and the professionalism of internal audit are also debated. The supervisory solutions and regulations for insurance and reinsurance companies, which apply in particular EU countries are similar. They differ in the degree of integration of supervision and their position in a given country.

## LITERATURE

- Dobre Praktyki Spółek Notowanych na GPW (2007)*, załącznik do Uchwały Nr 12/1170/2007 Rady Giełdy Papierów Wartościowych w Warszawie S.A., [www.gpw.com.pl](http://www.gpw.com.pl) (stan na 10.03.2011r.)
- Dyrektywa 2002/87/WE Parlamentu Europejskiego i Rady z dnia 16 grudnia 2002 r. w sprawie dodatkowego nadzoru nad instytucjami kredytowymi, zakładami ubezpieczeń oraz przedsiębiorstwami inwestycyjnymi konglomeratu finansowego i zmieniająca dyrektywy Rady 73/239/EWG, 79/267/EWG, 92/49/EWG, 92/96/EWG, 93/6/EWG i 93/22/EWG oraz dyrektywy 98/78/WE i 2000/12/WE Parlamentu Europejskiego i Rady (Dz.U. L 35 z 11.2.2003)*
- Dyrektywa 2005/68/WE Parlamentu Europejskiego i Rady z dnia 16 listopada 2005 r. w sprawie reasekuracji oraz zmieniająca dyrektywy Rady 73/239/EWG, 92/49/EWG, a także dyrektywy 98/78/WE i 2002/83/WE, (Dz. Urz. UE L 323 z 09.12.2005)*
- Dyrektywa 2006/43/WE Parlamentu Europejskiego i Rady z 17.05.2006 r. w sprawie ustawowych badań rocznych sprawozdań finansowych i skonsolidowanych sprawozdań finansowych (...), (Dz. Urz. UE L 157/87 z 09.06.2006, ze zm.)*



- Dyrektywa 2009/138/EC Parlamentu Europejskiego i Rady z dnia 25 listopada w sprawie podejmowania i prowadzenia działalności ubezpieczeniowej i reasekuracyjnej (Wyłączalność II) (Dz. Urz. L 335, z 17.12.2009)
- International Association of Insurance Supervisors (2008): Standard No. 2.2.6. on Enterprise Risk Management for Capital Adequacy and Solvency Purposes, [www.iaisweb.org](http://www.iaisweb.org). (stan na 10.03.2011r.)
- Kiedrowska M., Szczepankiewicz E.I (2011), *Internal control in the concept of integrated Enterprise Risk Management (ERM) system in insurance undertakings*, [in:] *Zarządzanie finansami – doświadczenia i perspektywy globalizacji*, Zeszyty Naukowe Uniwersytetu Szczecińskiego Nr 640 (Finanse, Rynki, Ubezpieczenia Nr 38), Szczecin.
- Rekomendacje dotyczące funkcjonowania komitetu audytu (2010), Urząd Komisji Nadzoru Finansowego, Warszawa.
- Report of COSO II: Enterprise Risk Management – Integrated Framework (2004), Committee of Sponsoring Organizations of the Treadway Commission, USA, [www.sox-online.com/coso\\_cobit.html](http://www.sox-online.com/coso_cobit.html) (1.03.2011)
- Report of COSO: Internal Control – Integrated Framework (1992, 1994), Committee of Sponsoring Organizations of the Treadway Commission, USA, [www.sox-online.com/coso\\_cobit.html](http://www.sox-online.com/coso_cobit.html) (10.03.2011r.)
- Szczepankiewicz E.I. (2010), *The conditions and rules of internal audit in local governments units*, [in:] E. Urbańczyk (red.), *Zarządzanie finansami w jednostkach samorządu terytorialnego*, Zeszyty Naukowe nr 30 Polskiego Stowarzyszenia Zarządzania Wiedzą, Bydgoszcz.
- The International Standards for the Professional Practice of Internal Audit (1998, 2001, 2009), The Institute of Internal Auditors (IIA), USA, [www.iiia.org](http://www.iiia.org) (10.03.2009 r.)
- Ustawa z dnia 15 kwietnia 2005 r. o nadzorze uzupełniającym nad instytucjami kredytowymi, zakładami ubezpieczeń i firmami inwestycyjnymi wchodzącymi w skład konglomeratu finansowego (Dz.U. 2005 nr 83 poz. 719).
- Ustawa z dnia 21 lipca 2006 r. o nadzorze nad rynkiem finansowym (Dz. U. Nr 157, poz. 1119 z późn. zm.).
- Ustawa z dnia 22 maja 2003 r. o działalności ubezpieczeniowej (Dz.U. 2010, nr 11, poz. 66).
- Ustawa z dnia 22 maja 2003 r. o nadzorze ubezpieczeniowym i emerytalnym oraz Rzeczniku Ubezpieczonych (Dz.U. 2003 nr 124 poz. 1153).
- Ustawa z dnia 7 maja 2009 r. o biegłych rewidentach i ich samorządzie, podmiotach uprawnionych do badania sprawozdań finansowych oraz o nadzorze publicznym (Dz.U Nr 77, poz. 649).

