

LEGAL NOTICE NO.....

THE INSURANCE ACT
(Cap. 487)

GUIDELINES ON EXTERNAL AUDITORS, 2018

IN EXERCISE of the powers conferred by section 3A(a), (b) and (g) of the Insurance Act, the Insurance Regulatory Authority issues the following guidelines—

GUIDELINES ON EXTERNAL AUDITORS, 2018

1. These guidelines may be cited as the Guidelines on External Auditors, 2018. Citation.
2. In these guidelines, unless the context otherwise requires— Interpretation.

Definitions

3. The regulated entities shall prepare their financial statements on an annual basis and in accordance with the International Financial Reporting Standards (IFRS) or any other approved financial reporting standards. These financial statements shall be audited in accordance with the International Standards on Auditing (ISA). Introduction.
4. The purpose of these guidelines is to ensure that - Objectives.
 - (1) There is a reliable financial reporting framework;
 - (2) There are clearly defined roles and responsibilities of the board, management and the external auditor in regard to financial reporting;
 - (3) There is reasonable assurance that the financial statements are free from material misstatement, whether due to fraud or error.

5. These guideline shall apply to all entities registered under the Act where appropriate.
6. A regulated entity shall on an annual basis appoint an external auditor who shall be approved by the Authority.
7. The external auditor shall:
 - (1) Be a member of the Institute of Certified Public Accountants of Kenya (ICPAK) or any other professional accounting body recognized by the Authority;
 - (2) Be authorized by the Institute of Certified Public Accountants of Kenya to practice;
 - (3) Have at least five years' experience in insurance accounting; and
 - (4) Meet the fit and proper requirements as prescribed by the Authority.
8. An entity shall ensure that the appointed auditor is independent and has no conflict of interest.
9. An entity shall submit the independence declaration form and the fit and proper form completed by the auditor on an annual basis when seeking approval for the appointment of the auditor.
10. An entity shall in writing notify the Authority within seven days of any circumstance that may impair the independence, fitness and propriety of the auditor.
11. An entity shall within seven days notify the Authority of the resignation or replacement of an external auditor and give reasons for the resignation or replacement.
12. The auditor shall:
 - (1) Audit the entity's financial statements and report to the entity in accordance with International Standards on Auditing (ISA);
 - (2) Certify the entity's compliance with such obligations and matters as may be specified in the Insurance Act, Regulations and Guidelines; and
 - (3) Carry out such other duties as may be required of the auditor under the

Insurance Act, Regulations and Guidelines.

13. An entity may be required to replace an auditor when the auditor fails to adequately perform the required functions, is subject to conflict of interest or no longer meets eligibility requirements.
14. In relying on the audit evidence generated from the insurer's actuarial function, the auditor shall be required to:
 - (1) Evaluate the objectivity of the actuarial function;
 - (2) Obtain an understanding of the work of the actuarial function;
 - (3) Perform a liability adequacy test; and
 - (4) Evaluate the appropriateness of the actuarial work as evidence for their use.
15. An entity shall ensure;
 - (1) Audit partners audit for a period of not more than three (3) consecutive years;
 - (2) Audit staff support the audit manager and the audit partner for a period of not more than three (3) consecutive years and thereafter at least 50% of the audit staff working on an audit shall be replaced;
 - (3) An audit firm conducts an audit for a period of up to seven (7) consecutive years and may be replaced at any stage; and
 - (4) The replaced audit firm is not engaged before expiry of a period of at least three (3) years.
16. The audit report shall be signed by the audit partner approved by the Authority.
17. An entity's board shall carry out the following oversight functions:
 - (1) Oversee the preparation of the financial statements, financial reporting and disclosure processes;
 - (2) Monitor whether accounting policies and practices of the entity are

Responsibilities
of the Board

operating as intended;

- (3) Oversee the audit process and review the auditor's plans and material findings; and
- (4) Oversee the processes for hiring, removing and assessing the performance and independence of the external auditor and to ensure that the external auditor has the necessary knowledge, skills, expertise, integrity and resources to conduct the audit.

18. The Board shall safeguard and promote an effective relationship with the external auditor:

- (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;
- (2) Audit tasks are performed in accordance with the terms of the audit engagement and the International Standards on Auditing;
- (3) There are adequate policies and a process to ensure the independence, periodic rotation, ethical and professional standards of the external auditor;
- (4) There is adequate dialogue with the external auditor on the scope and timing of the audit;
- (5) There is sufficient access by the external auditor to information and persons within the entity as necessary to conduct the audit; and
- (6) There is an evaluation of the effectiveness of the external audit process at the end of the audit cycle.

19. An entity shall submit financial statements and the management report as prescribed by the Authority.

Reporting
Requirements.

20. The Auditor shall within seven days directly report to the Authority in circumstances where the entity is in breach or its directors may have contravened the Insurance Act or any other law and the contravention may prejudice the interests of policyholders.

21. Where such a report is made directly to the Authority, the auditor is not under any obligation to disclose this to the management and the directors

of the entity if the Auditor:

- (1) considers that by doing so the interests of policyholders may be jeopardised; or
- (2) Has lost confidence in the Board or Management of the entity.

22. Where the Authority determines non-compliance with the provisions of these guidelines, it may take any intervention prescribed in the Act. Enforcement.

23. Where the Authority determines that an entity has not met the requirements of these guidelines, 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: Administrative Sanctions

- (1) Prohibition from declaring and paying dividends;
- (2) Declaration that a person may not take the office of Auditor;
- (3) Rejection of an audit, and requiring the regulated entity to commission a further audit conducted by an auditor of the Authority's choice, at the expense of the regulated entity.
- (4) Direct the entity to take appropriate remedial action.
- (5) Impose additional reporting requirements and monitoring activities;
- (6) Withdraw or impose conditions on the business license taking into account the nature of the breach and;
- (7) Monetary penalties not exceeding Kenya Shillings One Million.

Fit and Proper Assessment Form to be completed the external auditor of the entity.

Fit and Proper Form

Please answer all the questions by placing a tick (✓) in the appropriate column, sign the form and send it to the Authority. All “YES” answers must be explained.

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|---|-----|----|
| Name of Audit Partner | | |
| Name of the Audit Firm | | |
| Regulated Entity | | |
| 1. Have you been licensed to do audit work by any professional body? | Yes | No |
| Please provide details | | |
| 2. Have you been refused the right or restricted in your right to carry on any trade, business or profession for which a specific licence, registration or other authorization is required by law in any jurisdiction within the past 10 years? | Yes | No |
| Please provide details | | |
| 3. Have you been issued a prohibition order under any law or has been prohibited from operating in other jurisdiction by any regulatory authority? | Yes | No |
| Please provide details | | |
| 4. Have you been censured, disciplined, suspended or refused registration by the Authority or any other regulatory authority, in Kenya or elsewhere? | Yes | No |
| Please provide details | | |

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|---|-----|----|
| 5. Have you been the subject of any complaint made reasonably and in good faith relating to activities regulated by the Authority or under any law in any jurisdiction? | Yes | No |
| Please provide details | | |
| 6. Have you been the subject of any proceedings of a disciplinary or criminal nature or have been notified of any potential proceedings or of any investigation which might lead to those proceedings, under any law in any jurisdiction; of misfeasance or serious misconduct? | Yes | No |
| Please provide details | | |
| 7. Have you been convicted of any offence, or been subject to any pending proceedings which may lead to such a conviction, under any law in any jurisdiction? | Yes | No |
| Please provide details | | |
| 8. Have you had any judgment (including a finding of fraud, misrepresentation, or dishonesty) entered against you in any civil proceedings or are you a party to any pending proceedings which may lead to such a judgment, under any law in any jurisdiction? | Yes | No |
| Please provide details | | |
| 9. Have you had any civil penalty enforcement action taken against you by the Authority or any other regulatory authority under any law in any jurisdiction? | Yes | No |
| Please provide details | | |

| | | |
|---|-----|----|
| 10. Have you ever contravened or abetted another person in breach of any laws or regulations, business rules or codes of conduct, in Kenya or elsewhere? | Yes | No |
| Please provide details | | |
| 11. Have you ever been the subject of any investigations or disciplinary proceedings or been issued a warning or reprimand by any regulatory authority, an operator of a market or clearing facility, professional body or government agency, in Kenya or elsewhere? | Yes | No |
| Please provide details | | |
| 12. Have you ever been refused a fidelity or surety bond, in Kenya or elsewhere? | Yes | No |
| Please provide details | | |
| 13. Have you ever been a director, partner or concerned in the management of a business that has been censured, disciplined, suspended or refused membership or registration by any regulatory authority, professional body or government agency, in Kenya or elsewhere? | Yes | No |
| Please provide details | | |
| 14. Have you been a director, partner or concerned in the management of a business that has gone into insolvency, liquidation or administration during the period when, or within a period of one year after, you were a director, partner or concerned in the management of the business, in Kenya or elsewhere? | Yes | No |
| Please provide details | | |

| | | |
|--|-----|----|
| 15. Have you ever been dismissed or asked to resign, from office, employment, a position of trust, or a fiduciary appointment or similar position, in Kenya or elsewhere? | Yes | No |
| Please provide details | | |
| 16. Have you ever been subject to disciplinary proceedings by your current or former employer(s), in Kenya or elsewhere? | Yes | No |
| Please provide details | | |
| 17. Have you ever been disqualified from acting as a director or disqualified from acting in any managerial capacity, in Kenya or elsewhere? | Yes | No |
| Please provide details | | |
| 18. Have you ever been found liable for an offence committed by a body corporate as a result of the offence having proved to have been committed with the consent or connivance of, or neglect attributable to yourself in Kenya or elsewhere? | Yes | No |
| Please provide details | | |
| 19. Are you unable to fulfil any financial obligations, in Kenya or elsewhere? | Yes | No |
| Please provide details | | |
| 20. Are you subject to a judgment debt which is unsatisfied, either in whole or in part, in Kenya or elsewhere? | Yes | No |
| Please provide details | | |

Signature and acknowledgement

- a. I am aware that it is an offence to knowingly or recklessly provide any information, which is false or misleading in connection with an application for an approval to an external auditor of an insurer.
- b. I am also aware that provision of false information in this regard may result in rejection of this application by the Authority.
- c. I certify that the information given above is complete and accurate to the best of my knowledge, and that there are no other facts relevant to this application of which the Authority should be aware.
- d. I undertake to inform the authority of any changes material to the applications which arise while the application is under consideration.

Name of Audit Partner

Name: _____

Signed: _____

Date: ____/____/20__

Principal Officer

Name: _____

Signed: _____

Date: ____/____/20__

In the presence of ;

Commissioner of Oaths

Name: _____

Signed: _____

Date: ____/____/20__

Independence Declaration Form

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*].

Independence
Declaration Form

This form should be completed at the engagement planning stage by the audit team.

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 re-evaluated 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 scepticism 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

Issued on the 2018.

ABDIRAHIN H ABDI
Chairman,
Insurance Regulatory Authority.

GODFREY K KIPTUM
Ag. CEO & Commissioner of Insurance
Insurance Regulatory Authority.