



Banking and Payments Authority of Kosovo

Pursuant to the authority given under Section 17.b of UNMIK Regulation No. 2001/24 date of October 1, 2001 on Amending UNMIK Regulation No. 1999/20, on Banking and Payments Authority of Kosovo and Section 3.3 of UNMIK Regulation No.2001/25 date of October 5, 2001 on Licensing, Supervision and Regulation of Insurance Companies and Insurance intermediaries,

For the purpose of execution Section 49 of UNMIK Regulation Nr. 2001/25

Governing Board of the Banking and Payment Authority of Kosovo, at the meeting held on March 28, 2002 adopt the following:

Rule 22 on Prescribing Additional Requirements to be Included in the Engagement Letter of External Auditors

Section 1

1. Scope of Rule

This rule applies to all companies licensed by the BPK.

2. Legal Authority

This rule supplements Section 49, Chapter VII of the Insurance Regulation requiring the BPK to prescribe additional requirements that must be included in the engagement letter of the external auditor of a licensed company. It must be read together with Section 49, Chapter VII of the Insurance Regulation.

3. Definitions

In this rule, the following terms mean:

“Board of directors” means the highest-ranking governing body of a corporation composed of members appointed by the voting equity holders. In this rule, the term “board of directors” refers to:

- a) In the case of a corporation or company created and existing under the laws of Kosovo, the board of directors body, itself.
- b) In the case of a foreign company incorporated in another jurisdiction, but which is licensed to conduct insurance business in Kosovo, the

senior officer of the company's office in Kosovo, who is a resident of Kosovo and accepted as such by the BPK.

"Board" refers to board of directors as defined in this rule.

"External auditor" means an individual, partnership, corporation, association or firm, engaged in the business of rendering audit services as a profession, possessing the necessary education, training and qualification to express an opinion in regard to the financial condition and results of operation of a licensed company and whose appointment as such is approved and accepted by the BPK.

"Licensed company" or "company" refers to either, or both, insurance company or insurance intermediary company.

"Senior officer" is the highest ranking officer of a licensed company whether using the title of "president", "vice president", "managing director", "country representative", "manager" or such other title or titles.

Section 2

Matters Required to be Included in the Engagement Letter of External Auditors

1. Requirements Under Section 49 of the Insurance Regulation

The terms, conditions and matters required to be included in the engagement letter of the external auditor of a licensed company prescribed under Section 49 of the insurance regulation, in summary, include the following:

- a) Frequency of the audit. Licensed companies must have their financial statements audited annually to conform to their financial/accounting period.
- b) Appointment of the external auditor must be in writing (the "engagement letter" and subject to the approval of the BPK.
- c) Independence of the auditor. The auditor or its firm must not be a related party, as defined under Rule 27 of the licensed company.
- d) Scope of the audit work shall include:
 1. Review of the adequacy of internal audit and internal control practices and procedures, note deficiencies and make recommendations for implementation.

2. Express and opinion as to whether the financial statements present a true and fair view of the financial condition and activities of the licensed company in accordance with International Accounting Standards.
 3. Present an audit report and findings to the board of directors of the licensed company.
- e) Degree of regulatory compliance. The audit report must express an opinion on whether the licensed company is in compliance with the Insurance Regulations and these Rules as approved by the BPK.
- f) The external auditor must report directly to the BPK the following matters:
1. A fraudulent act committed by an employee of the licensed company or its subsidiary, or any irregularity or deficiency in its administration or operations that may be reasonably expected to result in a material loss of the licensed company.
 2. If the licensed company is systematically contravening the Insurance Regulations or these rules.
 3. If the audit report's conclusions are being suppressed, ignored or unduly influenced by the licensed company's management or board of directors, directly or indirectly.

2. Additional Matters to be Included in the Engagement Letter of External Auditors

In addition to the requirements prescribed under Section 49 of the Insurance Regulation, the following matters must also be incorporated in the audit engagement letter:

- a) The engagement letter must contain the acceptance signature of the auditor agreeing to its terms and conditions.
- b) The board of director's responsibility to keep the BPK informed about the affairs of the licensed company's business.
- c) The right of the auditor to communicate with the BKP any information or opinion on a matter of which he becomes aware that

is relevant to the supervisory oversight of the BPK on the licensed company.

- d) The auditor's duty to report matters of material significance to the BPK.
- e) The auditor's duty to provide access to his working papers for regulatory purposes upon the request of the BPK.
- f) In the case of a licensed company created under the laws of foreign jurisdiction:
 - 1. The duty of the senior officer to keep the regulator of that foreign jurisdiction informed of the affairs of the company's business; and
 - 2. The duty of the auditor to inform the foreign regulatory authority on matters pertaining to paragraphs c) and d) above.
- g. The auditor's duty to disclose subsequent events that are material to, or reasonably expected to materially impact, the financial statements and/or the auditor's opinion thereon.
- h. The auditor's duty to make disclosures on related-party transactions and such other subject matters as may be required by the BPK consistent with generally accepted standards of disclosure applicable to the licensed company.

Section 3 Entry into Force

This present rule shall enter into force on April 1, 2002.

David Weatherman
Acting Managing Director