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NATIONAL BANK OF ETHIOPIA
አዲስ አበባ / ADDIS ABABA

LICENSING AND SUPERVISION OF INSURANCE BUSINESS

Risk-Based Internal Audit Directive No. SIB/55/2022

Whereas, risk-based internal audit, being supplemental to the risk based supervision, enhances soundness of an insurance company;

Whereas, risk-based internal audit improves the effectiveness of internal control system and enhances corporate governance of an insurance company;

Whereas, there is a need to have an internal audit function that not only independently ensures accuracy, reliability, timeliness and completeness of transactions as well as financial and operational information, but also compliance with accounting principles, directives, policies, procedures, relevant laws and efficiency & effectiveness of resources used;

Now, therefore, in accordance with Article 64(2) of the Insurance Business Proclamation No. 746/2012 as amended by Insurance Business (Amendment) Proclamation No.1163/2019, the National Bank of Ethiopia has hereby issued this Directive.

1. **Short Title**

This Directive may be cited as “**Risk-Based Internal Audit Directive No. SIB/55/2022**”.

2. **Definitions**

In this Directive, unless the context provides otherwise:

- 2.1. “**audit charter**” means a formal written document that defines the purpose, authority and responsibility of an internal audit function;
- 2.2. “**chief internal auditor**” means head of internal audit function of an insurance company; by whatever title he/she may be referred to, who is directly reporting to the Board;
- 2.3. “**independence**” means freedom from conditions that threaten the ability of the internal audit function to carry out its internal audit responsibilities in an unbiased manner;



- 2.4. **“insurance company”** means a company licensed by the National Bank to undertake insurance business or an insurance company owned by the Government;
- 2.5. **“National Bank”** means the National Bank of Ethiopia;
- 2.6. **“objectivity”** means an unbiased mental attitude that allows internal auditors to perform engagements in such a manner that they have an honest belief in their work product and that no quality compromises are made;
- 2.7. **“risk-based internal audit”** means an audit system that focuses on significant and risky areas or activities and ensures compliance with accounting principles, laws, policies and procedures; analyses effectiveness of the internal control system; and independently and objectively report on material facts and figures;
- 2.8. **“risk register”** means the main depository of key risks and respective controls identified across an insurance company’s departments/units or business lines; and
- 2.9. **“senior management”** means chief executive officer, senior executive officer and any official, as may be defined by individual insurance company, responsible for the day-to-day running of an insurance company;

3. **Scope of Application**

The provisions of this Directive shall be applicable to all insurance companies and an Ethiopian reinsurer.

4. **General Requirements**

- 4.1. An insurance company shall adopt risk-based internal audit methodology and ensure that its importance is understood throughout the company.
- 4.2. An insurance company shall establish an internal audit function directly responsible to the board of directors on all matters related to the performance of its mandate; with sufficient independence and authority as well as structure and staffing commensurate with the size and complexity of the insurance business.



