

Directions for Assessing the Effectiveness of the Internal Audit Function in Insurance Enterprises

1. Legal basis

These Directions are set forth in accordance with Paragraph 4, Article 20 of the Regulations Governing Implementation of Internal Control and Auditing System of Insurance Enterprises to enhance the effectiveness of insurance enterprises' internal audits.

2. Assessment method and frequency

(1) Assessment will be conducted mainly through onsite inspection and by reviewing the internal audit reports submitted by insurance enterprises through the designated reporting system.

(2) Assessment will be conducted once every two years in principle.

3. Assessment items (see the attached for key assessment items and additional score items)

(1) Internal audit organization and system

A. Manpower allocation and professionalism

Manpower of internal audit unit, personnel qualifications and training.

B. Independence

i. Independence of internal auditors.

ii. Operation of the internal audit unit.

C. Internal reporting mechanism

The delivery and comprehensiveness of internal audit reports.

(2) The performance of internal audit

A. Scope and depth of internal audit

i. The comprehensiveness of internal audit manual and appropriateness of scope of audit specified in the annual audit plan.

ii. The frequency and the execution of internal audit conducted.

B. The comprehensiveness of internal audit results

i. The content of internal audit reports and appropriateness of audit trail saved.

ii. The execution of internal audit work performed on the tasks required by the competent authority.

iii. The execution of self-inspection.

(3) Internal audit management

A. The filing of internal audit information with the competent authority.

B. The follow-up of findings uncovered in financial examination

i. The internal audit unit's follow-up of findings uncovered by the authority

in financial examination.

- ii. The internal audit unit's evaluation of the other business units' performance.

C. The reporting mechanism

The reporting of suspected fraud or significant contingent events and subsequent actions taken.

D. The supervision of subsidiaries

The follow-up and assessment of subsidiary's internal audit.

(4) Other items

- A. Opinions on internal control system offered by the internal audit unit are adopted.
- B. The internal audit unit provides information and plays an active communication role in the competent authority's examination on behalf of the insurance enterprise.

(5) Significant and subsequent events

In the event there are major incidents not included in the aforementioned assessment items or occurring after the competent authority has conducted a financial examination that may affect the effectiveness of internal audit system, scores would be deducted in internal audit assessment in view of the severity of such major incidents.

4. The handling of assessment results

- (1) The competent authority would host an internal audit forum for insurance enterprises to publicize the assessment results.
- (2) The competent authority would timely commend insurance enterprises that perform well in internal audit assessment or have outstanding performance in specific audit work. The competent authority would also require insurance enterprises to reward meritorious internal audit unit personnel.
- (3) For insurance enterprises that perform poorly in internal audit assessment, the competent authority will meet with the chairman of the insurance enterprise and require its board of directors to oversee the remedial actions and use the results as reference in assessing the competence of the enterprise's chief auditor.
- (4) The assessment results would be used as reference in competent authority's decision to adjust examination frequency and financial supervision.

5. These Directions do not apply to branches of foreign insurance enterprises in Taiwan, reinsurance companies and insurance cooperatives.