

**Decision No. 62 of 2007**  
**Dated 17/4/2007**  
**Regarding Issuance of Guide for Application of**  
**Executive Rules of Corporate Governance in**  
**Unlisted Securities Brokerage Companies**

**Chairman of the Capital Market Authority**

After considering Law on Joint Stock Companies, Companies Limited by Shares, and Companies with Limited Liability promulgated by Law No. 95 of 1992 and its Amendments

Capital Market Law promulgated by Law No. 95 of 1992;

Law on Central Depository and Registry of Securities promulgated by Law No. 93 of 2000;

Executive Regulations of Law on Joint Stock Companies, Companies Limited by Shares, and Companies with Limited Liability, which are promulgated by Minister of Investment and International Corporation Affairs' Decree No. 96 of 1982;

Executive Regulations of the Capital Market Law, which are promulgated by Minister of Economy and Foreign Trade's Decree No. 135 of 1993;

Executive Regulations of the Law on Central Depository and Registry of Securities, which are promulgated by Minister of Foreign Trade's Decree No. 906 of 2001;

Minister of Investment's Decree No. 332 of 2005 regarding promulgating guide for corporate governance rules and criteria;

Minister of Investment's Decree No. 243 of 2006 regarding Egyptian Accounting Standards;

CMA BOD Decision issued in its session No. 3 of 2007; and

CMA BOD Decision No. 11 of 2007 regarding executive rules of corporate governance for unlisted securities brokerage companies,

**DECIDED**

**Article (1)**

Unlisted securities brokerage companies shall refer to the attached guide for application of executive rules of corporate governance promulgated by CMA BOD Decision No. 11 of 2007.

**Article (2)**

This decision shall be applicable as of the date of its issuance.

Dr. Hani Sarei El-Din  
CMA Chairman

**Guide for Application of  
Executive Rules of Corporate Governance in  
Securities Brokerage Companies Unlisted at  
Cairo and Alexandria Stock Exchanges (CASE)**

## **Introduction**

With the purpose of making the corporate governance rules applicable, the Capital Market Authority (CMA) has, in coordination with companies participating in the capital market, been completing its efforts to ensure that all companies and stakeholders are aware of and understand all principles and details that will enable them to apply the same optimally and efficiently.

Thus, the CMA has pursued issuing this guide to the end, being a manual of practical application and a supplementary to the executive rules of governance. Members of boards of directors and CEOs in companies participating in the capital market, and internal and external auditors can use it as reference to be familiar with their respective role, competences, and obligations in terms of application of executive rules of governance.

The attached guide includes details of a number of issues and obligations that are referred to in general in the executive rules to help concerned departments at companies for which the provisions of governance executive rules are meant better understand these rules and interpret the general provisions therein.

In addition, this guide includes an annex covering internal control, as well as detailed organization of the internal audit department involving its functions, formation, work system, staff requirements, and relevant required training. The CMA has made efforts to present in detail provisions of internal control and internal audit department given their importance and recent introduction in companies participating in the capital market, thus, assisting them in respect of working on developing their internal systems.

## **1. Important terms used in the executive rules of governance and application guide**

### **Corporate governance:**

Corporate governance is the framework where companies operate and exist. It focuses on relationship among the executive management, members of the board of directors, shareholders, stakeholders, and entities developing governmental regulations, and how these parties interact in terms of supervision on the operations of a company.

### **Cumulative voting upon election of board members:**

A method of voting whereby shareholders can allocate total votes allowed for them to candidates of the board of directors in any way they like. The number of votes to be cast by a single shareholder should be proportionate to the number of shares held times number of candidates to be elected to the board of directors. This technique enables minority shareholders to elect one, or two, candidates to the board of directors by casting all their votes to one, or two candidates.

### **Independent member of the board of directors:**

A member of the board of directors is considered independent if he meets the following conditions:

1. If he is not an employee working for any of the parties related to the company, or is a relative to one of them during the last five years
2. If he is not connected to a company that provides consulting services of the company, or any other parties related to the company
3. If he does not have any personal interests in the company, any of the parties related thereto, or top management staff thereof
4. If he is not connected to a non-profit organization or associations which receives a significant amount of finance from the company or one of the related parties
5. If he is not working for another company in an executive position where executive staff work as members of the board of directors
6. If he does not have any relation that results in financial transactions with the company, parent company, subsidiaries, or sister companies.

### **Non-executive member:**

A member of the board of directors who is not available for management of the company on a full time basis, that is, he is not on its staff list, and does not get a monthly, or annual pay from the company.

### **Stakeholders:**

Parties with interests related to a company and protected by the law. They are entitled to compensation in case their rights are violated, and to access to information related to their interests.

### **Unlisted Securities Brokerage Companies:**

All companies operating in the capital markets which are engaged in one of the activities set forth in the Capital Market Law No. 95 of 1992, its Executive Regulations and Amendments; have license from the CMA to pursue business; and have no securities listed at the exchange and,

consequently, are not subject to rules of listing, continuing to listing and delisting securities at the Exchange.

## **2. Most important functions of the board of directors**

### **A. Approve strategic approaches and main objectives, and supervise their implementation, including:**

1. Develop a comprehensive strategy for the company, major work plans and policies for implementation
2. Define the optimal capital structure of the company, its strategies, and financial objectives; approval of the draft annual budget; and recognize annual financial positions
3. Approve major capital expenditure, and supervise implementation, ownership and disposition of assets
4. Set performance targets and monitor implementation
5. Review organizational structures of the company periodically and approve the same

### **B. Develop systems and controls for internal control and supervise the same, including:**

1. Check validity of financial and accounting systems
2. Check efficiency and suitability of the internal control systems and procedures at the company
3. Follow up on executive management's progress with achievement of major objectives of the company

### **C. Address strategic risks affecting major policies of the company;** and check if the company applies sufficient control systems to manage all other risks

### **D. Approve mechanisms and systems that ensure compliance of the company with executive rules of corporate governance;** provide general supervision of the same; and monitor efficiency and need for amendment (if any)

### **E. Approve documented policies regulating relationship with stakeholders** to preserve their rights. Specifically, these policies should cover the following:

1. Mechanisms to compensate stakeholders in case of violation of their rights that are recognized by systems and protected by contracts.
2. Mechanisms to respond to complaints or settle disputes that may rise between the company and stakeholders
3. Proper mechanisms that establish good relationships with customers, and suppliers, and maintain confidentiality of related information
4. Professional ethics code for managers and employees of the company that comply with proper professional and ethical criteria, and regulate their relationship with stakeholders. The board of directors should also develop mechanisms to monitor application of these rules and compliance therewith
5. Observe social responsibility of the company

- F. **Develop policies and procedures that guarantee the company's observance of systems, regulations and compliance with disclosure of material information to shareholders, creditors, and other stakeholders.**

### **3. General Obligations of Board of Directors and Members**

- a. A board of directors shall have all competences and powers necessary for management of a company. Final responsibility for management of the company rests with it even if it forms committees, or delegates others to perform some of its functions.
- b. The board of directors shall perform its tasks objectively, bona fide, and seriously. Its decisions shall be based on sufficient information provided by the executive management, or any other reliable source
- c. A member of the board of directors shall consider himself a representative of all shareholders, and shall be obliged to do what is required to achieve the interest of the company in general, not the interests of the group that voted for his election to the board.
- d. The board of directors shall determine the powers to be delegated to the executive management, process of decision taking, and term of such delegation. The board of directors shall decide on issues over which it shall keep authority to decide on. The executive management shall report periodically upon its practice of delegated powers.
- e. The board of directors must develop procedures to orient new board members to the operations of the company, especially financial and legal affairs, and train them if necessary
- f. The board of directors must make sure that the company provide sufficient information about its affairs to all executive, non-executive and independent members of the board of directors, so as to enable them to perform their duties efficiently

### **4. Obligations of board of directors regarding disclosure and transparency**

The board of directors must prepare an annual report to be submitted to shareholders wherein the company discloses the following specifically, in addition to matters required by the law:

1. Overview of the company operations and its financial position
2. Future outlook for the company operations during the next year, and its strategic orientation vis-à-vis competition and change in business environment
3. Activities and business results of subsidiaries (if any)
4. A summary on changes in the main structure of the capital of the company
5. Results of annual audit of the efficiency of the internal control structure at the company and its ability to detect errors
6. Composition of the board of directors and categorization of its members, i.e., executive member, non-executive member, or independent member
7. List of meetings of the board of directors and percentage of attendance by each member
8. Brief description of the functions and tasks of the committees formed by the board of directors, their chiefs, members, and frequency of meetings
9. Results of the annual audit of the assessment process of various activities

10. Status of staff, salaries, social fringe benefits, training, and career progress
11. The company's social contribution to society
12. Disclose transactions with relevant parties
13. Extent of company's compliance with following up on and application of the executive rules of corporate governance, and reasons for non-compliance with application of certain rules
14. Names of joint stock companies where a member of the board of directors of the company is a member of their boards of directors simultaneously
15. Penalties imposed on the company by the Capital Market Authority, or any other control entity
16. Activities and business results of subsidiaries (if any)
17. List of changes to ownership structure of the company during the fiscal year

**Comment [o1]:** Item 16 and 3 are identical in the Arabic version

#### **5. Role of auditor regarding monitoring application of the executive rules of governance:**

- Prepare his report on review of financial statements of the company according to international and Egyptian audit criteria
- Prepare his report on review of the management report regarding the extent of the company's compliance with application of governance principles
- Send a copy of the above two reports to the Capital Market Authority fifteen (15) days prior to meeting of the general assembly. In his report on review of management report regarding the extent of compliance with the executive rules of governance, he should show:
  - a. That the call for ordinary or extraordinary general assembly meetings held during the year included invitation for all shareholders; that, if that was not possible (due to the large number of shareholders), arrangements were made to allow online voting; that the invitation was sent in a timely manner with all documentation clarifying and explaining all agenda items attached; and whether shareholders were given the chance to discuss agenda items, and whether their voting of decisions was performed in a legal manner;
  - b. That formation of the board of directors includes executive, non-executive and independent members; that he had access to minutes of meetings of the board of directors showing how far the board of directors was committed to minimum frequency of meetings, how far non-executive members participated in the operation of the board, how much data and information about the company's operations they had access to; that all remuneration acquired by the executive board members is disclosed; and that there are no distinction in terms of remuneration paid to board directors on the basis of their capacity.
  - c. How far the board of directors was accurate in terms of preparing periodic or annual financial statements of the company in due times

- d. That the board of directors formed basic sub-committees, especially the audit committee; if all members were non-executive; how far the committee complied with the minimum frequency of meetings; and how efficient its relation with the auditor and supervising internal audit were;
- e. How efficient and tight the structure of internal control in the company was; how the management of internal audit was independent of other company departments; how far the professional criteria of internal audit were applied in accordance with the annex of this guide; and how efficient reports of this management, their frequency, and feedback from the executive management and board of directors regarding these reports were;
- f. Whether or not there was a documented system known by board members, managers, staff, and shareholders regarding conflict of interests according to laws and executive rules of governance.



## **Annex**

### **Internal Control and Internal Audit Department**

#### **1. Objectives of internal control of the company**

1. Implementing operations of an organization in accordance with ethical and economical principles efficiently and effectively.
2. Achieving obligations in terms of accountability.
3. Compliance with regulations and laws.
4. Protecting resources from loss, misuse and damage (wastage).

#### **2. Components of Internal Control Integrated Structure**

The integrated structure of internal control should comprise the following:

- **Control environment**

The environment in which a company operates, and which affects staff's awareness of control. The elements of such environment consist of the following:

- a) Personal, professional and the ethical integrity of management and staff
- b) Commitment to efficiency
- c) Top management's philosophy and its operational method
- d) Human resources policies and practices

- **Risk Assessment and Analysis**

This means identifying and analyzing risks so as to achieve the targets of an organization, determining proper action needed to address such risks. This includes determining risks related to the organization's target, or overall risks attributed to either internal or external levels at the level of the company or activity.

Risks threatening the unit need to be assessed so as to evaluate the probability of their incidence, determine levels of risk the company can accept, and develop methods of addressing such risks.

- **Control activities**

Control activities are represented in the procedures established to handle such risks in order to accomplish the company objectives. Such activities need to conform with the company plan in terms of costing, and to be comprehensive. They should also be closely related to control targets and cover all tiers and jobs.

In case of operating an electronic information system, control activities comprises general control activities and control procedures for applications and programs. It should be noted that there can be interference between both types of control procedures, i.e. general control and applications control.

**Control activities include a set of various activities for detection and deterrence, for example:**

- a) Procedures related to delegation of authority and approval.
- b) separation of tasks (approval, operation, registration, review and auditing)
- c) Investigation procedures
- d) Settlement processes
- e) Processes of checking and reviewing operational performance
- f) Supervision (assignments, audit, acceptance, instructions and training)

- **Information and Communication**

Information and communication are necessary tools for the achievement of internal auditing. Therefore, immediate registration and classification of operations and events with a view to acquiring proper, reliable information, which may be required at all levels in the company in a timely manner and proper form to provide for internal control.

Effective communication is also very necessary to achieve the objectives of internal control. It should flow in a bottom-up, throughout, and top-down manner. All staff should receive a distinct message from top management that the responsibilities of internal control must be taken seriously into consideration and that they should understand their roles as regards their roles in the internal control system. In addition, they should understand how to relate their works to that of others and how important efficient communication with external parties is.

**Follow Up**

Follow up is the process used to evaluate the quality of the applied internal control system that is applied at specific intervals. It is performed within the framework of routine activities and/ or assessments. Continuous follow up of the internal control system is conducted by tracking the repeated operational activities of the company. This includes monitoring how far administrative work, supervisory activities and other acts of staff are conducted properly.

The follow up process should guarantee that results and recommendations of audit and assessment have been properly and promptly implemented.

**3. Role and Responsibilities of Each Individual in company regarding Internal control**

**Directors:**

Directors are directly held responsible for internal control activities in the company. Their responsibility is to design, implement and supervise proper operation and to be committed to the internal control system. Their responsibilities may vary according to their positions and characteristics of the company itself.

**Internal control official**

An internal control official is responsible for applying laws and regulations that the company has to follow including relevant instructions of other control entities. He has to report any violations to top management of the company. In case, no action is taken, he has to escalate it to the Authority. Job duties include performing routine checks, reviewing and following up on register

Comment [o2]: CMA?

of clients' orders and signature, record of trading transactions by board members and managers, and verifying that daily sales and purchases are credited to the client's account and that there is a file for each customer at the company. The internal controller should be familiar with the document cycle starting with the customer's initial transactions with the company.

The internal controller is also committed to providing the Authority with a list of company employees and their relatives who have business through the company after approval of the Authority. He also has to verify that the company does not carry out any order of purchases or sales on behalf of one of the managers or employees in transactions where the other party is one of the clients, and check that bills are printed and approved daily. Moreover, he has to keep a file of customers' complaints that are related to actions taken and duration of studying of complaints. He should be provided with powers inside the company required to perform the above tasks.

#### **Company staff**

Internal control is an explicit or implicit part of the duties of every employee in the company. Therefore, company employees are held responsible for not complying with the ethics code or for violating policies.

#### **External Auditor:**

An external auditor support establishment of an efficient internal control structure where evaluating the extent of the control system efficiency is considered one of the field norms criteria of external auditing. The external auditor submits recommendations for the support of the internal control system. He evaluates the internal auditing system as a basic part of determining the size, the scope and the timing for conducting checks and tests.

#### **Internal Auditor:**

An internal auditor is responsible for designing and setting the optimal control method to ensure compliance with the rules and the procedures set forth in the bylaws of the company. He is responsible for reporting to the board of directors any relevant violations, and following up on measures taken to remove the same. The main duties of the internal auditor include verifying separation of clients' accounts from company account; how to deal with customers in terms of checks, how to credit the check to the client's account upon receipt, how to ensure that the company is dealing with the client personally, or his legal proxy upon cashing the amounts resulting from the transaction, how to pay sales proceeds to clients, and how the company deals with credit and debit balances; and verifying the document cycle of the company and review all procedures.

#### **4. Internal Audit Department:**

The internal audit department is an independent unit established in the company to review and evaluate the various company activities with the purpose of assisting officials therein to perform their responsibilities efficiently and effectively by providing analysis, assessment and recommendations related to monitoring of activities subject to review. The internal audit department assists the company in accomplishing its targets and protecting its assets.

#### **5. Criteria for internal audit department:**

A company internal audit department must have the following criteria:

### **5.1 Organizational Independence:**

- The internal audit department shall be fully and organizationally independent so as to enable it to derive the means to accomplish its tasks and responsibilities. This cannot be realized without its independence. Therefore, it reports to the company board of directors.
- Activities of internal audit shall not be subject to any interference from internal or external entities when defining the scope of the audit, performing assignments, and reporting results.
- Targets, powers, and responsibilities of the internal audit department shall be identified in a written guide approved by the board of directors. Such guide must define the position and the function of the internal audit department in the organizational structure of the company. Besides, it should stress necessity of enabling internal auditors access information they need, unconditional access to records and financial resources, and communicating with persons who are related to the activities subject to auditing.
- The audit plan and its implementation program shall not state any restrictions on the scope of internal audit that prevents the internal audit department from achieving its objectives and plans. The department should be notified of this in writing.
- The manager of the internal audit department shall submit a report to the board of directors of the company on an annual basis, or at a frequency of shorter intervals. Such report should highlight the results and the important recommendations of the audit process. The board of directors should be notified in writing of any important deviations from the approved auditing plans and the reasons for this.
- Management of the company shall be responsible for taking proper actions and decisions related to the results of the auditing process. The management may decide to bear the responsibility of the risk and not to correct the reported situation due to cost consideration, or due to other reasons. The person in charge of the internal audit department shall notify the management of the company about this.

### **5.2 Objectivity:**

- Objectivity means performing auditing process in a manner that makes the internal auditors believe in the credibility of the results they achieve while making no material concessions at the expense of work quality, and not being affected by opinion of others. This requires assigning internal auditors to tasks in a way that prevents an actual or expected conflict of interests. The manager of the internal audit department shall periodically require his employees to provide information on the incidence of conflict of interests. This should be disclosed before initiating the audit process.
- Internal auditors must report any cases where conflict of interest occurs. Accordingly, such auditors must be re-allocated to other tasks
- Internal auditors must be reshuffled and reallocated to tasks periodically whenever possible
- Persons transferred to the internal audit department, or those working therein on a temporary basis, must not be assigned tasks of audit of activities they have been doing unless three years have elapsed at least.
- The company's internal audit department must not design work systems, or develop

executive procedures for the company's business

### **5.3 Professional qualification of internal auditors**

- Internal audit department staff must have the knowledge, skills, training, as well as other proper qualifications to be capable of undertaking their responsibilities
- Qualified consultants specialized in accounting, economy, finance, statistics, data processing, engineering, taxes, and law, can be engaged as need be when conducting audit tasks. However, an internal auditor does not have to be qualified in all these fields.
- Internal auditors must have sufficient knowledge to detect signs of manipulation
- Internal auditors must have experience in dealing with individuals and communicate with various entities efficiently
- Internal auditors must maintain their efficiency and technical capabilities through development and on-going education. They should also be familiar with latest developments and changes in internal audit criteria, procedures and methods.

### **5.4 Professional due diligence**

- Due diligence means reasonable and efficient care. It does not mean perfect or extraordinary care. It requires an auditor to perform examination, but does not need detailed audit of all operations.
- An internal auditor must practice professional due diligence by taking into consideration the following:
  1. Scope of work required for achieving objectives of audit
  2. Level of relative difficulty and importance of matters to which audit procedures will be applied
  3. Extent of effectiveness and efficiency of risk management and control procedures
  4. Possibility of committing material errors, fraud, or non-compliance with prescribed policies and procedures
  5. Cost of operation vis-à-vis expected benefit
- When conducting audits, the responsibilities of an internal auditor in terms of detecting manipulation includes the following:
  1. Having sufficient knowledge about expected manipulation, which enables identifying indicators of certain manipulation. This knowledge includes characteristics, techniques and types of manipulation.
  2. Being aware of opportunities that allow for manipulation such as weaknesses in control systems
  3. Reporting to manager of internal audit department any possible manipulation, together with supporting evidence
- Upon completion of examination task, internal auditors must evaluate all findings for the purpose of
  1. Determining whether control procedures need to be strengthened to minimize possible future manipulation
  2. Designing audit tests to help uncover any similar manipulation in the future

3. Helping development of capacities and skills of an internal auditor regarding knowledge of all future manipulations

#### **5.5 Quality control (quality control of internal auditing)**

- The internal audit department must adopt a plan for monitoring and assessing overall efficiency of the quality control program. This process must include internal and external assessment.
- Internal assessment must include the following:
  1. On-going examination of performance of the internal audit department
  2. Periodic review through self-assessment, or by persons from within the organization to be audited.
- Internal review should be conducted periodically by staff members from the internal audit department
- Manager of the internal audit department must monitor the process of internal review. When selecting and giving instructions to the internal review team, he should make sure that the team is qualified and independent.
- Manager of the internal audit department must receive a report about every internal review operation and make sure proper procedure have been taken.
- Outsourced review of the operations of the internal audit department must be conducted to determine the quality of its operations. This should be performed by qualified persons who are independent of the organization to be audited, and should not have conflict of interest in terms of form and content. Upon completion of the examination, an official report must be issued.
- Outsourced review must be conducted at least once every five years unless there are circumstances justifying longer intervals

#### **6. Objectives of criteria required for Internal Audit Department**

Performance of internal audit function is subject to a group of consistent professional criteria that targets the following:

- Develop basic principles that reflect what the internal audit practice should be like.
- Provide framework to govern performance of the internal audit activities, which can add value to the company subject of audit
- Develop basis to be used for assessment of performance of the internal audit department
- Enhance possibility of improving operations of an establishment subject of audit.

#### **7. Management of internal audit activities**

- Manager of the internal audit department must have a guide approved by board of directors, stating therein objective, responsibilities and powers of the internal audit department, and determining its position in the organizational structure which should ensure a proper degree of independence. The audit activities include the following.

##### **7.1 Planning internal audit activities**

- Manager of the internal audit department must develop plans for fulfillment of management responsibilities. These plans should conform to the internal audit department manual and

- objectives of the organization to be audited
- Objectives of the internal audit department should be achievable through operation plans and specific budgets, measurable (as much as possible), and accompanied with benchmarks and achievable target dates.
  - Risk assessment process is very important and essential for preparing an efficient audit agenda. It includes defining activities to be audited, and risk factors that such activities may be exposed to and their relative importance
  - Manager of the internal audit department must set weights for risk factors to assess their relative significance and the extent of their impact on selection of an activity for audit
  - Risk assessment process must provide a method for organizing and integrating professional judgments to develop the audit agenda. Generally, the manager of the internal audit department must give higher priority for auditing high risk activities.
  - Staffing plans and budgets (including number of auditors, knowledge, skills and training , other qualification elements required for performing tasks on the audit agenda, administrative activities, education and training requirements, and research and development activities in the field of auditing) must be developed.

### **7.2 Policies and procedures**

- Manager of the internal audit department must provide a documented policies and procedures guide for staff involved in audit activities so that the form and content of such documented policies and procedures may be suitable for the size and structure of the internal audit department.

### **7.3 Personnel Management and performance development**

- Management systems for personnel under the audit internal department must include the following:
  - Documented job description of every level of internal auditors
  - Selection of qualified and efficient persons
  - Providing training and on-going education for each internal auditor
  - Providing guidelines to internal auditors regarding their performance and career progress
  - Performance assessment of each internal auditor once each year at least

### **7.4 Supervision**

- Manager of the internal audit department shall be responsible for providing proper oversight of audit tasks, including:
  - a) Provide appropriate instructions to assistants at the startup of the audit process and approve the audit program
  - b) Ensure implementation of the audit program according to the established framework and reasons for deviation
  - c) Check if work documents are enough to support audit findings
  - d) Check if audit reports are accurate, objective, clear, and brief, and are submitted in a timely manner
  - e) Check if audit targets have been achieved

### **7.5 Coordination with external auditors**

- Manager of the internal audit department must coordinate operations of internal and external auditor to minimize double efforts and ensure efficient auditing
- Manager of the internal audit department shall be responsible for coordination with external auditors
- Manager of the internal audit department should perform periodic assessment of coordination between the internal audit department and external auditors. This assessment may cover evaluation of efficiency of internal and external auditing, including total cost of auditing

#### **7.6 Assessment of efficiency and effectiveness of internal control**

- The internal audit department must, in light of findings of risk assessment, evaluate efficiency of control aspects of the unit subject of audit, its operations and information systems. This should include the following:
  - The internal audit department to examine efficiency and effectiveness of the internal control system with the purpose of determining whether the established system provides reasonable assurance that the objectives of the unit subject of audit will be achieved cost-effectively and efficiently.
  - Provide reasonable assurance to control deviations within allowable levels.
  - Determine whether the system is working as planned through comparing actual vis-à-vis planned performance; and document such activities to provide extra assurance that the systems are working as planned.

#### **7.7 Assessment of quality of performance**

- Internal auditors must check how far operational objectives and overall program objectives have been met, and how far they comply with the overall goals of the unit. This should include checking the following:
  1. Compliance with policies, plans, procedures, systems, and instructions
  2. Protection of assets
  3. Cost-effective utilization of available resources
  4. Achieve the general purposes and special objectives set for operations or programs.
- Internal auditors must check financial and operational information for validity and completeness, and methods used to determine, measure, and classify it, and report on the same. Information systems provide data necessary for decision making
- Internal auditors must examine systems established to ensure compliance with policies, plans, procedures, laws, and instructions, which may have an important effect on work and reports
- Internal auditors should examine methods of asset protection, and, whenever appropriate, verify if such assets exist.
- Internal auditors should assess efficiency of available sources subject to audit
- Internal auditors should examine operations and programs to determine efficiency of utilization of available resources subject to audit
- Extent of achievement of General and specific objectives of an operation may be assessed in whole, or in part.
- Internal auditors must report audit findings to the proper management tier. The report should include audit criteria as set by management and used by internal auditors, and disclose the efficiency of these criteria.



## **7.8 Governance**

- The internal audit department must assess the governance process at the unit subject of audit, and provide appropriate recommendations with the purpose of achieving the following objectives:
  1. Support appropriate ethics code and values at the unit
  2. Check effectiveness of performance of the management of the establishment and organizational accountability therein
  3. Report information related to risks and effectiveness of control at appropriate management tiers at the unit
  4. Coordinate activities and communicate information effectively among the department, internal and external auditors and management of the unit.

## **7.9 Planning internal audit assignment**

- a) Upon planning internal audit assignment, auditors must take into consideration the following:
  - Assignment objectives and methods adopted for performance control
  - Assignment scope
  - Potential material risks related to the activity covered by the assignment, objectives, allocated resources, operations, and methods used to keep potential impact of risks at an acceptable level
  - Effectiveness and efficiency of risk management and control systems related to the activity covered by the assignment compared to the control framework.
  - Opportunities of performing material improvements to the risk management and control systems related to the activity subject to review
- b) Internal auditors must conduct a preliminary assessment of risks relevant to the activity subject to audit. The objectives of the assignment must reflect findings of this report.
- c) Planning processes should be documented and should include the following:
  - Objectives of the audit assignment, scope of work including relevant systems, records, individuals, and assets (including those that may be in the possession of a third party)
  - Obtaining information about nature of activities covered by the audit assignment
- d) Other audit requirements must be determined, for example, period covered by the audit and estimated dates to complete work
- e) Resources required for conducting the audit assignment, number and level of required assistants at the internal audit department on the basis of the nature of the audit assignment, and completion date must be identified.
- f) The internal auditor should prepare the work program including the following:
  - Procedures necessary to determine, analyze, assess, and document information during the audit process; and coordination with external auditors if necessary
  - Statement of objectives of the internal audit process
  - Statement of scope and degree of tests required to achieve the milestones of the assignment objectives
  - Determining technical aspects, risks, stages, and processes to be examined

- Statement of nature and duration of required testing
  - The program to be prepared prior to startup of auditing, and be modified during implementation as need be
- g) Planning for a certain assignment must include when, how, and to whom results of audit should be reported.
- h) Approval of work plan in writing by the manager of the internal audit department, or his duly authorized representative prior to startup of operation. In addition, any modifications to the work plan should be approved in a timely manner.

### **7.10 Implementing internal audit assignments**

This includes the following:

#### **1. Collecting, examining, and valuating information**

- Information must be collected about all matters related to audit objectives, valuated, and examined using analytical audit procedures
- Analytical audit procedures enable using amounts denominated in monetary units, or quantities, or percentages. They also help identify circumstances that require follow-up audit procedures and clarify findings and unexpected relations that internal auditors must examine and value. This examination and assessment includes asking the management for explanations, and applying other audit procedures until internal auditors are convinced that such findings or relationships have been explained properly and sufficiently.
- Findings or unjustified relationships produced by the application of analytical audit procedures may be an indicator of some serious state such as potential error, manipulation or an illegal act. If not sufficiently explained, they must be reported to proper management tiers.

#### **2. Documentation**

- The auditor must prepare working paper that document audit to be examined by the manager of the internal audit department. Organization, design and contents of the work papers depends on the nature of the audit assignment
- Manager of the internal audit department must develop policies to define type of files of work papers for the audit assignment that must be maintained, used forms, indexing, and any other relevant matters. Standard audit papers should be used such as questionnaires and audit programs to improve efficiency of the audit assignment
- All work papers should be examined to ensure that they support in a relevant manner the internal audit report and that all audit procedures have been conducted.
- Work papers are considered property of the organization subject to audit. Files of work papers must be controlled by the manager of the internal audit department, and be available for all authorized personnel.

#### **3. The Report and communicating results**

- Summary reports can be produced highlighting major findings of the audit and submitted to higher management tiers higher than the entity or activity subject to audit. They can be issued separate from, or together with the final audit report, and a copy of the summary

report can be given to them. The manager of the internal audit department must, prior to communicating findings, do the following:

1. Estimate potential risks of the organization subject to audit
  2. Discuss the issue with the unit management and/ or the legal advisor
  3. Control distribution of the report by determining who can use the findings
- Internal auditors must discuss findings and recommendations with proper management tiers prior to issuance of the written final reports during the audit process and/ or meetings after completion of the audit
  - Reports must be objective, clear, and brief. They should be issued in due time and include reasons, findings and recommendations while maintaining a neutral position.
  - The reports should highlight objective, scope, and findings of audit, and opinion of the auditor (whenever appropriate)
  - The reports may include recommendations for improvements in the future, and recognizes satisfactory performance and remedial actions.
  - The audit report should state improvements implemented by the entity subject to audit since the last audit.
  - The audit report should include feedback from the entity subject to the audit about the findings of the auditor or his recommendations. The internal auditor must, as part of his discussion with the entity subject to audit, secure its approval of the audit findings and work plan for improvement of its operations whenever this is necessary.
  - The manager of the internal audit department, or his delegate, must review and approve report of the final audit report prior to issuance and decide who should receive it.
  - Audit reports must be distributed to the members of the organization subject to audit who have the capacity of ensuring that audit findings will get due care.

#### **4. Follow up of internal audits**

- Responsibility for monitoring audits must be identified in the approved internal auditing manual
- Management must be responsible for taking proper action in response to reported audit findings. The manager of the internal audit department shall be responsible for assessing actions taken by the management to address issues reported in the audit findings in a timely manner. Internal auditors must, when preparing follow up reporting, take into consideration the nature of follow up measures taken by others in the unit subject of audit.
- If the management of the organization subject to audit decides to take the risk of not remedying the reported situation due to costs, or any other causes, top management must be notified of the decision of the management of the unit subject of audit regarding major findings of the audit
- Manager of the internal audit department must identify nature, typing and extent of follow up
- If some of the reported findings are so important as to call for immediate action by the management, internal auditors must follow up on implementation of such immediate actions so that they are modified according to the impact they will have on the unit subject of audit.
- Internal auditors must check if actions taken on the basis of the audit findings remedy

- relevant issues.
- Manager of internal audit department shall be responsible for scheduling follow up activities as part of scheduling audits. Agenda of follow up activities must be approved on the basis of risks involved and extent of exposure, in addition to difficulty and significance of timing for implementing remedial actions.

### **8. Major principles of professional conduct by internal auditors**

Internal auditors must comply with the following principles:

#### **Integrity**

Performing the job honestly, diligently, and carefully within the limits of the law and according to professional requirements; avoiding participation in any illegal action or activity; abstaining from acting in a manner that may be offensive to the profession or the establishment where they are employed; and respect and support legitimate objectives of the establishment and ethics code therein, thus enhancing trust.

#### **Objectivity**

Non participation of any activity or relationships that may affect neutral assessment by the auditor; abstaining from accepting valuable gifts from the staff in the entity where they work, clients, suppliers, or co-workers; taking care of disclosing all significant facts found during preparation of reports on internal audit findings, including illegitimate practices while respecting value and ownership of information they have access to, and not disclosing any information unless they are authorized to do so, and unless there are legal or professional requirements.

#### **Privacy of information**

This means that auditors should be custodian of information they have access to during the audit process, protect information they obtain during performing of their job duties, and do not use this information for personal gains in any way that contravenes the law, or damage ethical targets of the entity they work for.

#### **Professional qualification**

It means that auditors should perform their work efficiently and professionally as a result of available knowledge, necessary skills, and experience; and constant and continuous pursuit of enhancing efficiency and quality of services rendered through training and on-going professional education.