Syrian Arab Republic
The Monetary and Credit Council

The Monetary and Credit Council Decision (123/M.C.C/S4)

The Monetary and Credit Council, pursuant to the provisions of the paragraphs /**2.C**/ and /**2.E**/ of /**Article 2**/ and the provisions of the fourth Section of the Central Bank of Syria Law and the Basic Monetary System No. /23/ dated 17 March 2002, and in reference to the “Principles of Internal Audit in Banks and the Relationship of the Supervisory Authority with Auditors” issued by the Basel Committee on Banking Supervision in August 2001, and based on the memorandum of The Monetary and Credit Council in its session held on 30 March 2005,

decides the following:

Article 1: Adoption of the instructions related to the internal audit requirements in banks attached to this decision and requesting all banks operating in the Syrian Arab Republic to work on implementing and executing what is stated therein.

Article 2: This decision shall be communicated to whom it may concern for implementation.

Damascus on 30 March 2005

Chairperson of The Monetary and Credit Council
Dr. Adeeb Mayyaleh

Accredited by the Prime Minister
Eng. Muhammed Naji Itry

Secretary of The Monetary and Credit Council
Hana’a Audeh

Instructions for Internal Audit Requirements in Banks

Based on paragraphs /**2.C**/ and /**2.E**/ of /**Article 2**/ of the Central Bank of Syria Law No. /23/ of 2002, and in reference to the "Principles of Internal Audit in Banks and the Relationship of the Supervisory Authority with Auditors" issued by the Basel Committee on Banking Supervision in August 2001, all banks operating in the Syrian Arab Republic are requested to work on the following:

Article 1: Each bank must ensure that its administrative structure includes a permanent internal audit department that is appropriate to its size and to the nature of its operations, comprising a sufficient number of competent workers, whose efforts are part of the continuous control over the bank's internal control system and internal procedures.

Article 2: **Scope, Objectives, and Tasks of the Internal Audit Function**

The scope of the internal audit work includes:

a. Developing an audit plan, examining and evaluating the bank's conditions, communicating the results to the concerned parties, and following up on the implementation of the recommendations made.
b. Establishing methodological principles for risk assessment, reviewing them, and periodically adjusting them to reflect the effects of changes in work methods.
c. Examining and evaluating the adequacy and effectiveness of internal control systems.
d. Reviewing the effectiveness and implementation of the risk management system and its evaluation methods.
e. Reviewing the management and financial information systems, including the electronic information system and electronic banking services.
f. Reviewing the accuracy and credibility of accounting records and financial reports.
g. Reviewing methods of preserving assets.
h. Monitoring the internal control system related to the assessment and estimation of risks and their impact on the bank's own funds.
i. Reviewing the systems in place to ensure compliance with legal requirements and established policies and procedures.
j. Reviewing any developments and any practical changes, while ensuring that all risks accompanying them are identified at an early stage.
k. Conducting any special verification operations.

Article 3: **Independence of the Internal Audit Department**

a. The internal audit department must operate under the supervision of the bank's board of directors or the audit committee affiliated to it and must have the freedom to objectively and impartially report its findings to the board of directors.

The head of this department has the authority to directly communicate with the board of directors or the chairperson of the board, the audit committee, the external inspector, and the appointed internal banking controller according to /**Article 109**/ and /**Article 110**/ of Law No. 23 of 2002, and to report any legal or regulatory violations committed by any administrative level in the bank.

The independence of the internal audit department is represented by the independence of its work from the audited activities and the absence of conflicts of interest arising from these activities.

b. The function and work of the internal audit department are monitored and evaluated by the internal controller or by another independent entity such as the Banking Supervision Department or the external inspector (external audit commissioner) or the audit committee associated with the bank's board of directors.

Article 4: <u>Audit System</u>

a. Every bank must have an internal audit system that defines at least the following:
    - The objectives and comprehensiveness of the internal audit function.
    - The position of the internal audit department within the bank's administrative structure.
    - The authority and responsibilities of the internal audit department and its relationship with other administrative units and functions.
    - The responsibility and duties of the head of the internal audit department.
b. The internal audit system shall be established by the internal audit department, reviewed periodically, and amended according to changes in the bank's activity.
c. The internal audit system shall be approved by the board of directors, the general management, and the audit committee where applicable.
d. The audit system must allow the internal audit department to contact any employee and be able to review and audit any file, activity, document, or record and review the minutes of any committee sessions of the bank.

Article 5: <u>Integrity and Objectivity of the Internal Audit Function</u>

The internal audit department must operate with objectivity and impartiality, free from bias, interference, and conflicts of interest. On this basis, a policy of role rotation among the members of this department should be followed, without intervening in the operational processes of other departments.

The internal audit department may express its opinion on certain matters and operations upon request from the audit committee, the board of directors, or senior management, without this opinion affecting its programs and work plans.

Article 6: <u>Professional Competence</u>

To ensure the proper functioning of the internal audit function, every internal auditor must possess the necessary professional competence. This requires ongoing training programs for members of the internal audit department and consideration of the nature and role of the internal auditor and their ability to obtain, examine, evaluate, and objectively communicate information. In this context, role rotation among the members of the internal audit department is preferred to achieve integrated work.

Article 7: <u>Audit Scope</u>

The internal audit department must be able to access any documents or files, including administrative information and minutes of sessions of any administrative unit within the bank's organizational structure, so that all units and departments of this structure are subject to the internal audit scope.

The audit scope must include examining, monitoring, and evaluating the adequacy of the internal control system and analyzing its risks, in addition to examining, monitoring, and evaluating the following:

- The extent to which all operating units comply with established policies and procedures.
- The quantitative and qualitative risks faced by the bank.
- The risk management system established by the general management that links risks to the bank's own funds level.
- The reliance on electronic information systems.
- Operations and activities of subsidiary institutions, whether banking or non-banking. If these subsidiaries have their own internal audit departments, they must send copies of their reports to the internal audit department of the parent bank, which implies that the internal audit department has the authority to access any information or documents from the subsidiaries.
- The process of employing individuals in the internal audit departments of the subsidiaries.

Article 8: <u>Types of Internal Audit</u>

The scope of internal audit must cover the following aspects:

a. Financial audit aimed at evaluating the accuracy and fairness of financial data and the reliance on international accounting standards.
b. Audit of compliance with laws, instructions, policies, and established procedures.
c. Operational audit aimed at evaluating the quality and suitability of other systems and procedures followed in the bank, analyzing the administrative structure, and assessing the efficiency of procedures related to tasks and functions.
d. Administrative audit aimed at evaluating the quality of methods used by management in risk monitoring.

Article 9: Internal Audit Procedures

The internal audit department must establish a program and procedures for auditing, taking into account the number and competence of human elements and other available resources. The internal audit procedures must include:

a. Documenting audit work and results with work papers and evidential documents.
b. Including the recommendations and suggestions of the internal audit department in the audit results, in addition to the opinion of the audited entity.
c. Preparing audit reports as quickly as possible and sending copies to the audited entity and summarized copies to the general management, the audit committee, and the board of directors.
d. The general management must address the issues that were the focus of attention and comments by the internal audit department.
e. Following up on developments that were the subject of its recommendations and ensuring the implementation of its proposals.

Article 10: Responsibilities of the Internal Audit Department Manager

The manager of the internal audit department is responsible for ensuring the following:

a. The compliance of the internal audit department with the internal audit standards issued by the Institute of Internal Auditors known as "Standards for the Professional Practice of Internal Auditing."
b. The existence of an internal audit system, an audit plan, and written policies and procedures for the department, and providing a continuous training program for its employees.
c. Informing the board of directors, general management, and the internal audit committee, where applicable, about the soundness of the internal control system in the bank and the extent of the internal audit department's achievement of its objectives.
d. Informing the appointed internal banking controller in the bank pursuant to /**Article 109**/ and /**Article 110**/ of Law No. 23 of 2002 about the risks concentrated in some audited areas.
e. Constant consultation and cooperation with the bank's external inspector to achieve a clear vision of the bank's situation and to inform them of any matters that involve specific risks that may affect their work.

Article 11: The Internal Audit Committee

In case the bank's operations are multiple and complex, the board of directors may appoint an internal audit committee linked to it. This committee shall work to reinforce the internal control system and facilitate the work of internal and external auditing to maintain an appropriate control system. If the board of directors opts to establish an internal audit committee, it must prepare a specific system for the composition of this committee, defining its tasks, authorities, and how to communicate its reports to the board of directors.

It is essential that the internal audit committee, if it exists, includes at least three members from the board of directors, provided that these members do not constitute the majority of the audit committee members. They must possess the banking qualifications and competencies necessary to carry out the audit committee's tasks. In addition, one of them, at least, must have experience in auditing, accounting, or financial analysis. This committee should also include one or more directors from the general management, in addition to the manager of the internal audit department.

The work of the internal audit committee includes the following tasks:

a. Encouraging cooperation between the board members, general management, internal audit department, external inspector, and the Banking Supervision Department.
b. Validating the work of the internal audit department, the audit plan prepared by this department, and its human and material resource needs.
c. Receiving recommendations and suggestions from the internal audit department in the bank and the general management's plans for addressing these recommendations.
d. Receiving the audit plan of the external inspector, the results of their work, and their recommendations.
e. Discussing the operation of the internal control system.
f. Monitoring the activity of the internal audit department.
g. Ensuring the accuracy of the financial information provided to the management and other users of this information.
h. Ensuring the bank's compliance with the applicable laws, instructions, and established policies.
i. Providing opinions on the appointment of the external inspector, determining the terms of their appointment, and periodically reviewing them.
j. Any auditing or accounting matters that require attention.

Article 12: <u>Utilizing External Sources for Internal Control</u>

Banks may resort to external entities for internal control if they lack sufficient and competent human force, provided that the bank's board of directors and its general management remain responsible for the adequacy and effectiveness of the internal control and internal oversight systems in the bank.

When a bank opts to utilize external entities for internal control, the contract signed between the bank and the external audit entity must include the following:

- Tasks and responsibilities of the internal audit institution.

- General management's approval of the risk assessment conducted by the internal audit institution.
- General management's approval of the work plan of the internal audit institution.
- Allowing the external inspector to access the records of this entity and its work papers related to the auditing of the bank's operations.