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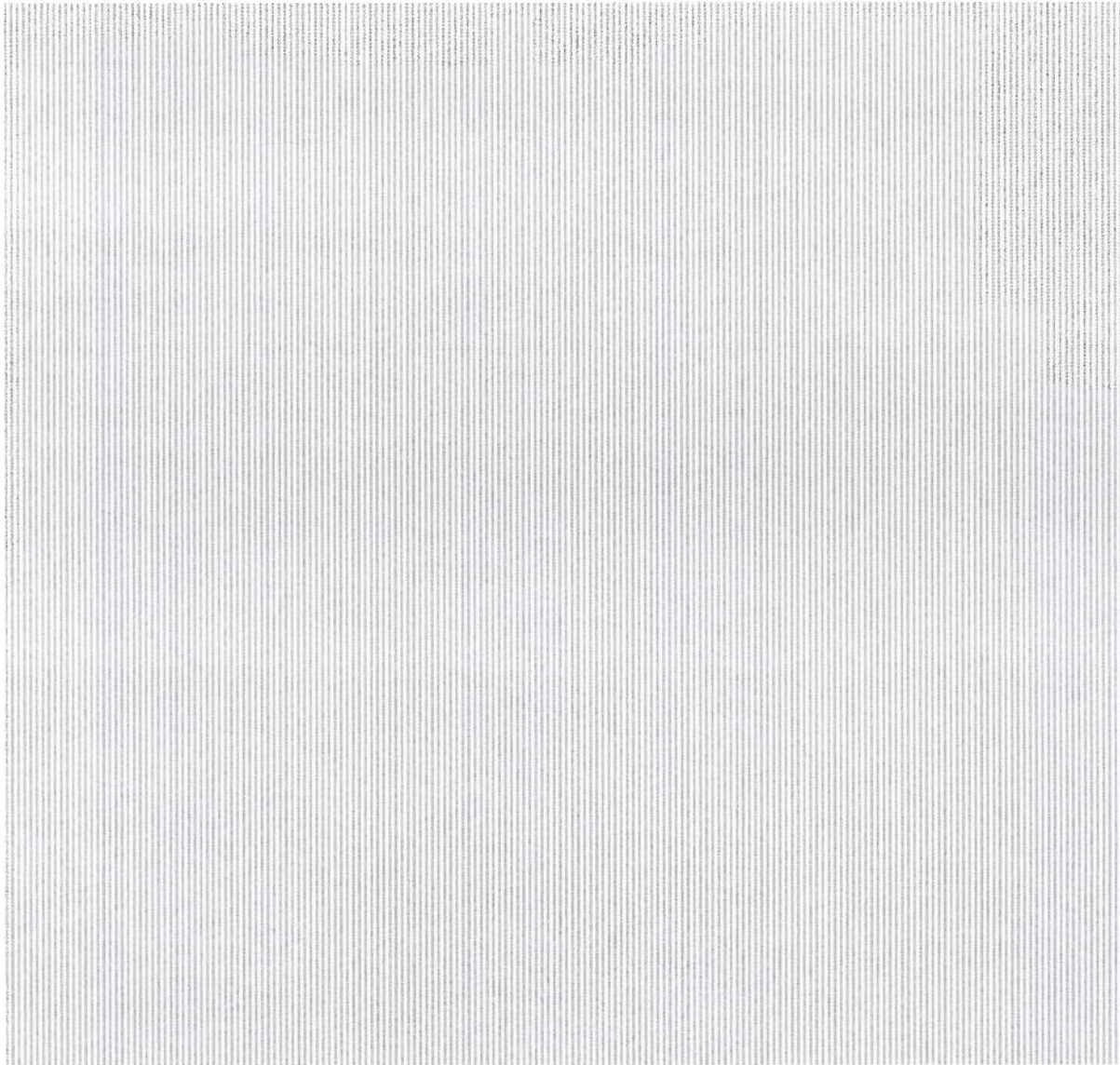
## INTERNAL AUDIT CHARTER

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**Source:**

The International standards for the professional practice of internal auditing issued by the Institute of Internal Auditors (IIA)

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## INTERNAL AUDIT CHARTER

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This charter describes the mission, authority, responsibilities, and standards of the internal audit function inside the Central Bank of Egypt (CBE).

### 1 - MISSION

The mission of the Internal Audit (IA) Sector is to provide independent, objective assurance and consulting, services that can assist in improving the CBE's overall activities and operations. This will assist the CBE accomplish its objectives by adopting an objective approach to evaluate and improve the effectiveness of risk management, control and governance processes.

### 2 - GENERAL PROVISIONS

- 2.1 The IA Sector is an independent unit within the CBE that reports directly to the Governor. Audit findings are presented to both the Governor and the Audit committee.
- 2.2 External access to IA records must be authorized by the Governor or the Audit committee based on the Head of Internal Audit Sector recommendation.

### 3 - PROFESSIONAL STANDARDS

- 3.1 The Bank's IA function complies with the definition, code of ethics, and the international standards for the professional practice of internal auditing issued by the Institute of Internal Auditors (IIA).
- 3.2 IA staff should comply with the internal auditors' Code of Ethics issued by the CBE.
- 3.3 The IA function supports the exchange of knowledge and experience among the CBE internal auditors and other central banks.

### 4 - INTERNAL AUDIT ENGAGEMENTS

- 4.1 IA engagements cover the following processes and operations:
  - 4.1.1 - Banking Operations including branches, and banknote issuance
  - 4.1.2 - Print House
  - 4.1.3 - Information Technology & payment system
  - 4.1.4 - Treasury including Reserve Management Unit, External Debt and Correspondence Accounts, and Domestic Market (Back office)
  - 4.1.5 - Finance
  - 4.1.6 - Risk Management
  - 4.1.7 - Human Resources
  - 4.1.8 - Administration, and Occupational Safety and Health
  - 4.1.9 - Legal
  - 4.1.10 - Anti-Money Laundering and Combating Financing of Terrorism
  - 4.1.11 - Governor's Office

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### 4.2 - Nature of the Internal Audit engagements

The IA function carries out assurance and consultancy engagements.

#### 4.2.1 - The IA will apply the risk based approach to ensure:

- Effectiveness and efficiency of risk management's daily operations.
- Reliability and integrity of financial and operational data and information.
- Availability and reliability of information systems and the adequacy of its security.
- Safeguarding of assets.
- Compliance with laws, regulations and contracts.

Audit opinions are issued through IA. Opinions reflect the evaluation of an audit activity or operation and are issued using one of the following;

| <i>An overall audit opinion of:</i> | <i>denotes that one or more of the following conditions exist</i>  |
|-------------------------------------|--|
| Satisfactory                        | The environment is found to be generally well controlled. Minor deficiencies on the securities, operational, financial, internal control, or regulatory may have been noted.<br>Decrease of the likelihood and impact of an error resulting from the issues identified should be low to moderate or decrease in performance.   |
| Needs Improvement                   | The increase of significant security, operational, financial, internal control, or regulatory deficiencies has been noted. These deficiencies could, if not corrected in a timely fashion, have a negative impact on either the audited operation or other related activity.<br>The overall system of internal controls needs improvement to achieve a satisfactory level of risk mitigation.  |
| Unsatisfactory                      | Extreme or severe control issues in securities, operational, financial, internal control, or regulatory shortcomings that pose or have already resulted in substantial exposure are identified<br>There is a clear and urgent need for management to rearrange the available resources to reduce the control risk to a level that is satisfactory and comparable to other activities in the Bank.<br>The impact of negative outcomes from identified control issues, collectively or individually would be high. |

4.2.2 - At the request of the Bank's units, the IA function may carry out advisory engagements. The scope, purpose, implementation and monitoring terms of these engagements are defined by the senior management.

4.2.3 - Conduct specific engagements at the request of the Governor or the Bank's Management or the Audit Committee as appropriate.

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### 5 - INDEPENDENCE AND OBJECTIVITY

IA is an independent function, and internal auditors shall perform their tasks with objectivity.

#### 5. 1 - Independence

5.1.1 - To guarantee the independence necessary for the exercise of its duties, the IA Sector is placed under the authority of the Head of Internal Audit Sector, who reports to the Governor and the Audit committee.

5.1.2 - IA should not be restricted in the scope of its work, or impeded in the accomplishment of its engagements or the communication of its results to the responsible authority. If any difficulty arises in this respect, the Head of Internal Audit Sector shall refer the matter to the Governor and the Audit committee.

#### 5. 2 - Objectivity

Internal auditors should have an impartial and unprejudiced attitude and should avoid conflicts of interest.

#### 5. 3 - Breach of Independence and Objectivity

5.3.1 - The Head of Internal Audit Sector ensures, by taking appropriate measures, that the objectivity and independence of internal auditors is never compromised in practice or in appearance.

5.3.2 - Internal auditors may not audit operations or activities for which they were responsible in the past twelve months.

5.3.3 - The Head of Internal Audit Sector takes the necessary measures to guarantee that the independence and objectivity of the internal auditors are not at risk.

### 6- PROFICIENCY

6. 1 - Internal auditors must possess or collectively acquire the knowledge, skills and other competencies necessary to perform their individual duties.

6. 2 - Internal auditors shall not undertake any engagement for which they do not have the competencies required.

6. 3 - The Head of Internal Audit Sector with the prior approval of the Governor shall obtain the opinion and support of qualified individuals if the internal audit teams do not have the knowledge, skills or other competencies required in order to carry out the relevant tasks (Outsourcing and/or Co-sourcing).

### 7- AUTHORITY

7. 1 - IA is authorised to access directly and without restrictions any necessary data and information to perform its duties, in accordance with laws, regulations and codes of ethics. Internal auditors shall comply with confidentiality obligations issued by the CBE.

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- 7.2 - All Business areas within the CBE should in a timely manner inform the IA of any significant incidents that had or could have negative impact on the Bank's overall activities or reputation. In this respect, the IA may also require permanent access to incident and relevant data and information (systems, reports, logs, etc...).

### 8- RESPONSIBILITIES

The Head of Internal Audit Sector manages ensuring added value for the CBE and supporting communications between the IA function and the auditee.

The IA function is subject to rules and procedures in accordance with professional standards. The IA framework consists of the following internal audit processes:

- Annual planning process
- The IA methodology which comprises five phases:
  - Plan phase
  - Perform phase
  - Report phase
  - Wrap-Up phase
  - Follow-Up phase
- IA quality assurance and improvement program

#### 8.1 - Annual planning

8.1.1 - IA shall develop a three year audit plan as a result of comprehensively assessing the risks of all CBE entities. The process allocates audit resources based on risk, satisfies statutory requirements, and provides flexibility to address changes in the Bank's risk profile. This is all accomplished whilst taking into consideration prior audit results. The plan may include engagements defined by the Bank's management.

8.1.2 - IA shall submit the plan to the Governor and the Audit committee for approval.

#### 8.2 - Internal Audit Methodology

##### 8.2.1 - Plan phase

This phase includes; reaffirming audit timing, sending audit announcements, coordination, organizing the audit team, preparing the audit execution plan, initial meeting with auditee management, holding team kick-off meeting, and determining the planned audit work.

##### 8.2.2 - Perform phase

This phase includes; acquiring a detailed understanding of the process, evaluating controls, documenting results.

##### 8.2.3 - Report phase

8.2.3.1 - This phase includes: drafting audit comments for identified issues, assisting management in developing action plans, developing an overall opinion on the audited entity, drafting the

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final audit report and conducting an end of fieldwork meeting with the auditee, conducting the internal concur process, finalizing the audit report, conducting a final closing meeting with auditee management and issue the final report.

8.2.3.2 - Reporting shall be accurate, objective, clear, concise, constructive and comprehensive.

8.2.4 - Wrap-Up phase

This phase includes; finalizing review and closure of work papers, quality control activities.

8.2.5 - Follow-Up phase

IA shall follow-up on business units corrective action plans until closure, any exceptions will be reported to the Governor and the Audit committee.

8.3 - Internal Audit quality assurance and improvement program

The Head of Internal Audit Sector implements a process which enables him to monitor and assess the overall quality of the Internal Audit Activity, and to identify opportunities for improvement, and he shall communicate the results of the quality assurance and improvement program to the Governor and the Audit committee.

8.3.1 - This process includes ongoing quality control activities during audit engagements, as well as periodical internal assessments.

8.3.2 - Quality assessment reviews by accredited external examiners for IA Audit every five years. The assessment's manager report is communicated to the Governor and the Audit committee.

**9- Relations with external auditors**

9.1 - IA shall maintain close coordination with external auditors regarding the audit of the Bank's annual financial statements.

9.2 - Furthermore, external auditors provide an assessment of the internal control systems' efficiency.

**10- Signatures:**

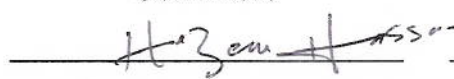
Head of Internal Audit  
Sector



Date

4 January 2011

Chairman of the Audit  
Committee



Date

12 Jan. 2011

Governor of the  
Central Bank of Egypt



Date

18/1/2011