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Internal Control Handbook

A framework, tools, best practice references, and regional case studies on Internal Control.
A companion to the IFC Corporate Governance Methodology, Section 3: Control Environment.

3 Control Environment

IN PARTNERSHIP WITH

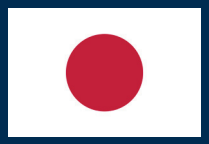

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Table of Content

Foreword **4**
Executive Summary **6**
List of Abbreviations and Acronyms **8**

1- Framework **9**
Definition of Internal Control **10**
Objectives **10**
Components **11**
Roles & Responsibilities **15**
Responsible Parties **16**

2- Tools & Model Documents **20**
Internal Control System Assessment Tool **21**
IFC Sample COSO Coverage Matrix **27**
COSO Internal Control Components Table **31**
Internal Control Review – The Report Generator **37**
Model Document: Internal Control System By-law **42**
Major Internal Control Key Performance Indicators (KPIs) **55**

3- Case Studies **59**

Best Practice References **68**

Foreword

Benefits of a strong internal control system facilitates a company's effective and efficient operation, by enabling it to respond appropriately to significant strategic, financial, operational and other risks to achieve the company's objectives. Additionally, an effective system of internal control, helps a company ensure the quality of internal and external reporting. Lastly, and of emerging importance in recent years, it can help ensure compliance with applicable law and regulations, as well as internal policies with respect to the conduct of business.

On the other hand, a weak internal control system is the root cause of many notorious corporate scandals. For example, in the early 2000, several accounting fraud scandals emerged as a result of the failure to develop and implement adequate internal control measures allowing the detection and prevention of abusive behaviors. These failures led to the demise of many companies, causing substantial losses to investors and harm to stakeholders.

In the aftermath, policymakers and regulators enacted new standards, law, and regulations. The creation of the Public Company Accounting Oversight Board (PCAOB), the adoption of the Sarbanes-Oxley Act, and revisions of the G20/OECD Principles of Corporate Governance were regulatory responses to support better corporate governance and internal control frameworks. Over the past decade, standard setters have continued to develop and improve internal control standards. In 2013, the Committee of Sponsoring Organizations of the Treadway Commission (COSO) published an updated version of the 1992 COSO Internal Control – Integrated Framework in response to the 2008 global financial crisis. In July 2020, the Institute of Internal Auditors (IIA) published the Three Lines Model, introducing greater emphasis on requisite structures and processes, including the role of governing bodies in establishing an adequate control environment.

These improvements are required as businesses operate in increasingly complex environments. For example, the adoption of new technologies has led to cyberthreats and other information technology (IT) risks, increasing vulnerability. The COVID-19 pandemic has also revealed the importance of strong controls for cybersecurity and business continuity planning. A robust and responsive internal control system, equipped with analytical tools, can help companies take advantage of technological advancements while tackling such risks. The lessons of the COVID-19 pandemic will definitely show the importance of internal controls in making company's more resilient. Companies with strong business continuity planning policies and procedures, cyber security and IT controls supporting telecommuting, workplace safety and food safety, for example, have fared better during the pandemic as in times of crisis, internal control vulnerabilities are exacerbated.

In emerging markets, a 2018 IFC study of its portfolio companies revealed that the adoption of robust internal controls and certain corporate governance practices were correlated with a company's financial performance.[1] More specifically, the following

[1] IFC, Governance and Performance in Emerging Markets - Empirical Study on the Link Between Performance and Corporate Governance of IFC Investment Clients, at xv and p. 25 (2018).

practices showed the highest level of correlation: (1) adoption of internationally recognized standards on internal controls, (2) a dedicated internal audit function, (3) a written code of ethics and conduct; (4) financial statements audited by a recognized independent auditing firm, (5) a board that has an audit committee, and (6) a written policy for the approval of related-party transactions.[2]

Despite the obvious financial benefits of good internal controls, many emerging market companies find the adoption and implementation of international standards daunting. With this Handbook, IFC provides guidance and tools to help emerging market companies enhance their internal control practices, allowing them to mitigate risks and add value to their operations. This Handbook will also be helpful to corporate governance practitioners in evaluating the governance of internal controls systems and suggesting improvements to clients.

Charles T. Canfield
Principal Corporate Governance Officer, IFC

[2] Id.

Executive Summary

This Handbook was created out of a growing need from companies seeking guidance on how to strengthen internal controls due to the changing complexity of the business landscape and operating environments as new risks have emerged and boards have enhanced their awareness and oversight of internal controls.

IFC's definition of internal control, which is largely based on COSO, is a process effected by an entity's board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in (i) effectiveness and efficiency of operations; (ii) reliability of financial reporting; (ii) compliance with applicable laws and regulations. Additionally, IFC defines the internal control system as a system that consists of all the procedures, methods and measures instituted by the board of directors and management to ensure that operational activities are undertaken adequately.

The control environment referred to in this Handbook is the foundation for all other components of the internal control system. The board of directors and management should establish the tone from the top regarding the importance of internal controls and expected standards of conduct. The control environment provides discipline, process and structure. Whereas the control activities are the actions established by policies and procedures to help ensure that management's directives to mitigate risks during achievement of objectives are carried out. Control activities are performed at all levels of the entity and at various stages within business processes and across the technology environment. This is one of the five components of the internal control system under COSO.

While Basel is expected to eventually update its 1998 guidance on internal control to align it with the revised COSO Framework published in 2013, as the Basel guidance is largely based on COSO, this tool is suitable for assessing the internal control systems of financial institutions, as long as the user takes into account particular nuances associated with such institutions and uses this tool in conjunction with the Basel 1998 guidance. Nonetheless, this Handbook should not be limited only to financial institutions, it may be used for all paradigms. In-house internal control specialists, advisors, and corporate governance officers will all benefit from the practical tips on the concept and application of sound internal control practices provided in the Handbook.

This Handbook and its tools are based primarily on the COSO *Internal Control – Integrated Framework* (2013), and other best practices including: Basel Committee on Banking Supervision, Framework for Internal Control Systems in Banking Organisations; Guidance on Control by the Canadian Institute of Chartered Accountants; Internal Control: Guidance for Directors on the Combined Code by the Institute of Chartered Accountants in England and Wales; the Sarbanes-Oxley Act Sec. 404 Internal Control Evaluation and Reporting by the U.S. Congress; International Auditing Practices Statement 1004: The Relationship between Banking Supervisors and Banks' External Auditors, and International Standards on Auditing (ISA) by the International Federation of Accountants (IFAC).

Comprising three parts, this Handbook highlights the fundamental principles of internal control and provides a set of tools aimed at helping companies establish control procedures.

Part 1: The Framework. The first part of the Handbook illustrates the framework and outlines the definition, objectives, components of internal control, responsibilities of the board and management and provides a comparison of internal control components defined in the Framework for Internal Control Systems by the Basel Committee on Banking Supervision and the updated 2013 COSO Framework. Additionally, it elaborates on the latest Three Lines Model, which was updated and published by the Institute of Internal Auditors (IIA) in July 2020 identifying structures and processes to support strong governance and risk management.

Part 2: The Tools. This section of the Handbook provides practical tools that companies can use to assess and enhance their existing internal control system. The tools were built on the fundamental principles discussed in Part 1 and decades of IFC Corporate Governance Team's experience in emerging markets. They include: (1) IFC Corporate Governance Methodology Progression Matrix; (2) IFC Sample COSO Coverage Matrix; (3) The COSO Internal Control Components; (4) an Internal Control Review Report Generator; (5) an Internal Control System Model By-Law; and (6) Major Internal Control Key Performance Indicators. The tools are complementing the existing set of tools in the IFC Corporate Governance Methodology and aim to assess if an organization's internal control system reaches the minimum acceptable level, analyze the structures and objectives of the internal control system, and identify gaps and opportunities to improve it.

Part 3: Case Studies. This section of the Handbook presents real-life cases illustrating how emerging-market companies worked with IFC to improve their internal control procedures. The five cases are success stories of companies implementing new practices to enhance their internal control systems, whereby each case highlights one of the five components of the COSO IC Framework and showcases its practical application.

ACKNOWLEDGMENTS

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List of Abbreviations and Acronyms

AC	Audit Committee
BoC	Board of Commissioners
BoD	Board of Directors
CCO	Chief Compliance Officer
CCR	Communication and Corporate Relationship
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CG	Corporate Governance
CIA	Chief Internal Auditor
CIO	Chief Information Officer
COO	Chief Operation Officer
COBIT	Control Objectives for Information and Related Technology
COSO	Committee of Sponsoring Organizations of the Treadway Commission
CRO	Chief Risk Officer
CS	Corporate Secretary
ERM	Enterprise Risk Management
ESG	Environment, Social and Governance
FM	Financial Management
HIR	Head of Investor Relations
HR	Human Resource
IA	Internal Audit
IAD	Internal Audit Department
IC	Internal Control
IS	Information System
IIA	Institute of Internal Auditors
KMF	KazMicroFinance
LAB	Laboratory for Business Activities
ISA	International Standards on Auditing
IT	Information Technology
KPI	Key Performance Indicator
MFI	Microfinance Institution
MIS	Management Information System
PCAOB	Public Company Accounting Oversight Board
RMU	Risk Management Unit
SMART	Specific, Measurable, Attainable, Relevant and Timely
SMT	Senior Management Team
VP	Vice President
ToR	Terms of Reference

Part 1

FRAMEWORK

What is Internal Control?

Similar to the term "corporate governance," there are many varying definitions of internal control. The Committee of Sponsoring Organizations of the Treadway Commission (COSO) defines internal control as:

Internal control is a process, effected by an entity's board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting, and compliance.[3]

The COSO model is a holistic framework, that is generally accepted and used globally. It serves as an underlying basis for other internal control models, including those developed by the Basel Committee on Banking Supervision (Basel's Framework). Sponsored by five nonprofit organizations, COSO aims at providing thought leadership on internal control and enterprise risk management. It achieves its mission through publishing guidance and framework that companies and organizations around the globe can apply in their practices. COSO published its first guidance, *Internal Control – Integrated Framework*, in 1992. The initial framework was subsequently complemented by derivative frameworks on various internal control aspects. In May 2013, COSO issued an updated version of the initial framework.

The COSO model is characterized by several concepts that define the nature of internal control:

1. **Objectives**: Internal control, when effectively established and executed, is a system that allows entities to achieve their objectives. Internal control is focused on the achievement of three categories of objectives (discussed below) and should not be treated as a set of detached control procedures.
2. **Process**: Internal control is an ongoing process executed by and across all levels of an organization. It is not confined to a timeline, positions, units, or set of rules. Companies should not consider internal control an additional burden on top of whichever control procedures they already practice but rather treat it as a streamlined, comprehensive system.
3. **People**: Internal control is not about policies, procedures, and rules. It is all about people: People across all levels of an organization establish objectives and execute activities geared toward achieving those objectives.
4. **Limitations**: Internal control provides reasonable but not absolute assurance of achieving the objectives. Internal control systems, similar to other business processes, can fail. The limitations of internal control systems are related to the relevance of an entity's objectives, management judgment, internal breakdowns, and external events.
5. **Adaptability**: The internal control system is flexible by nature. It can be applied across all levels of an organization: company-wide, subsidiaries, branches, units, and departments. Entities should adjust internal control procedures to the needs of their organizational structure.

An effective internal control system significantly contributes to an entity's preparedness to changes in the economic and market landscape. For an internal control system to be considered effective, all five components of the model should be present and functioning accordingly. Moreover, the components should operate as an integrated system. Every entity is unique in its mission, structure, and operation, so organizations are not expected to have identical internal control systems. While the foundation blocks of internal control are defined by the COSO model, it is up to each entity to decide on specific activities and an in-house structure of internal control systems. The ultimate design and composition of an internal control system should fit the entity's objectives and the environment in which it operates.

1. Objectives

An organization is established to achieve specific tangible results. The role of internal control is to enable the organization to achieve its objectives, which are divided into three categories according to the COSO model:

A. **Operations objectives** pertain to the effectiveness and efficiency of the entity's operations and are tightly linked to an entity's mission and vision. Operation objectives vary depending on the nature of the entity's activities and may include operational and financial performance goals, improved productivity and quality, customer satisfaction, and safeguarding assets against loss. The objectives-setting process starts at the entity-wide level and cascades down to subsidiary, division, unit, and group-level goals.

B. **Reporting objectives** pertain to internal and external financial and non-financial reporting and may encompass reliability, timeliness, transparency, or other terms set forth by regulators, recognized standard-setters, or the

[3] COSO. 2013. *Internal Control - Integrated Framework.* Committee of Sponsoring Organizations of the Treadway Commission. Accessed February 2021. https://www.coso.org/Documents/990025P-Executive-Summary-final-may20.pdf

entity's policies. Reporting objectives are divided into three categories:

a. *External financial* – the reporting objectives that entities strive to achieve to provide its stakeholders with reliable financial information on their activities. Entities publish financial statements that are used by analysts, stakeholders, and regulators as a tool for assessing their operational performances. The format of the external financial reporting is dictated by laws, accounting standards, and accepted frameworks.

b. *External nonfinancial* – the reporting objectives related to the information of non-financial nature entities may need to disclose in accordance with legislative requirements or to execute their external communication policy.

c. *Internal financial & nonfinancial* – the reporting objectives necessary to manage the organization. Boards of directors, management teams, and personnel need different types of information to execute, assess, and decide on the strategy and operation of entities in which they serve. Entities decide on the structure and content of these types of reporting based on internal needs and objectives.

C. **Compliance objectives** pertain to adherence to laws and regulations that the entity is subject to. Compliance objectives also include an entity's adherence to accepted standards in a given industry or country. Although compliance in a broader sense also relates to following the entity's internal policies, the COSO model classifies internal compliance as a part of operations objectives.

There is a limitation to controls as they are effected by people in accordance with an established structure or process. As such, internal control is not a panacea. An adequate internal control system only provides reasonable rather than absolute assurance on whether an entity achieves its objectives.

It is important to understand the existing overlap of objectives. An objective may fall into more than one category. For instance, timely and accurate disclosure of financial statements is a part of the external financial reporting objectives. However, it is also dictated by the requirements of applicable legislation and, therefore, relates to compliance objectives.

Each objective can cascade into multiple sub-objectives to break down specific actions and activities. Sub-objectives are established across the three major categories of objectives and across the organization at subsidiary, branch, and unit levels. Sub-objectives should be set up using the SMART (specific, measurable, attainable, relevant, and time-bound) technique.

2. Components

Organizations should design their internal control system according to existing best practice standards. The COSO Framework focuses on the following five integrated components:

A. **Control Environment** is the set of standards, processes, and structures that provide the basis for carrying out internal control across the organization.

B. **Risk Assessment** involves a formal process for identifying and assessing risks affecting the achievement of objectives.

C. **Control Activities** are the actions established through policies and procedures that help ensure management's directives to mitigate risks affecting the achievement of objectives are carried out, performed at all levels of the entity, at various stages within business processes, and over the technology environment.

D. **Information and Communication** refer to the continual, iterative process of providing, sharing, and obtaining necessary information. Management obtains, generates, and uses relevant and quality information from both internal and external sources to support the functioning of other components of internal control.

E. **Monitoring Activities** are ongoing or separate evaluations to ascertain whether each of the five components of internal control are adequate and functioning.[4]

[4] See Annex 6 of this Handbook, which illustrates five companies that successfully implemented a set of activities aimed at strengthening one of the components of the internal control system.

Below is a brief comparison of internal control components defined in the Framework for Internal Control Systems by the Basel Committee on Banking Supervision[5] and COSO[6]. The updated COSO Framework 2013 introduces 17 principles that define the underlying concept of each component.

Internal Control Components COSO Framework versus Basel Framework for Internal Control Systems

A. Management Oversight and the Control Culture (Basel 1998)	A. Control Environment (COSO 2013)

• Sets the tone of an organization, influencing the control consciousness of its people. It is the foundation for all other components of internal control, providing discipline and structure.
• Control environment factors include:
  ¤ Integrity, ethical values, and competence; philosophy and operating styles of senior leaders
  ¤ The attention and direction provided by the board of directors
  ¤ The way management assigns authority and responsibility and organizes and develops its people
	1. The organization demonstrates a commitment to integrity and ethical values.
	2. The board of directors demonstrates independence from management and exercises oversight of the development and performance of internal control.
	3. Management establishes, with board oversight, structures, reporting lines, and appropriate authorities and responsibilities in pursuit of the organization's objectives.
	4. The organization demonstrates a commitment to attract, develop, and retain competent individuals in alignment with its objectives.
	5. The organization holds individuals accountable for their IC responsibilities in pursuit of its objectives.

B. Risk Recognition and Assessment (Basel 1998)	**B. Risk Assessment (COSO 2013)**
• Identify and analyze relevant risks affecting the achievement of objectives, forming a basis for determining how the risks should be managed. • Assessment should cover all risks facing the bank and be continually assessed and revised accordingly.	6. The organization specifies objectives with sufficient clarity to enable the identification and assessment of risks relating to the objectives. 7. The organization identifies risks affecting the achievement of its objectives across the entity and analyzes risks as a basis for determining how they should be managed. 8. The organization considers the potential for fraud in assessing risks affecting the achievement of its objectives. 9. The organization identifies and assesses changes that could significantly impact the system of internal control.

[5] BIS. 1998. *Basel Committee on Banking Supervision: Framework for Internal Control Systems*. Accessed February 2021. https://www.bis.org/publ/bcbs40.htm. The updated Basel Framework in January 2021 incorporates all changes that the BCBS has published in December 2019, while the Framework for Internal Control Systems hasn't changed since 1998.

[6] Id. at p. 8.

C. Control Activities and the Segregation of Duties (Basel 1998)	C. Control Activities (COSO 2013)

• Policies and procedures to ensure management directives are carried out:
  ¤ Ensure necessary actions are taken to address risks affecting the achievement of the entity's objectives
  ¤ Occur throughout the organization at all levels and in all functions
  ¤ Include a range of activities as diverse as approvals, authorizations, verifications, reconciliations, reviews of operating performance, security of assets, and segregation of duties
	10. The organization selects and develops control activities that will mitigate risks affecting the achievement of its objectives to acceptable levels.
	11. The organization selects and develops general control activities using technology to support the achievement of objectives.
	12. The organization deploys control activities through policies that establish what is expected and procedures that put policies into action.

D. Information and Communication (Basel 1998)	D. Information and Communication (COSO 2013)
• An effective internal control system requires adequate and comprehensive internal financial, operational, and compliance data as well as external market information about events and conditions relevant to decision-making. Information should be reliable, timely, accessible, and provided in a consistent format. • Reliable information systems covering all significant activities of the bank must be secure, monitored independently, and supported by adequate contingency arrangements. • Effective channels of communication are required to ensure that all staff fully understand and adhere to policies and procedures affecting their duties and responsibilities and that other relevant information is reaching the appropriate personnel.	13. The organization obtains, generates, and uses relevant, quality information to support the functioning of IC. 14. The organization internally communicates information necessary to support the functioning of IC, including its objectives and responsibilities. 15. The organization communicates with external parties regarding matters affecting the functioning of internal control.

E. Monitoring Activities and Correcting Deficiencies (Basel 1998)	E. Monitoring Activities (COSO 2013)
• The overall effectiveness of the bank's internal controls should be monitored on an ongoing basis. The monitoring of key risks should be part of the bank's daily activities; and there should be periodic evaluations by the business lines and internal audit. • There should be an effective and comprehensive internal audit of the internal control system carried out by operationally independent, appropriately trained, and competent staff. The internal audit function, as part of the monitoring of the internal control system, should report directly to the board of directors or its audit committee and senior management. • Internal control deficiencies, whether identified by business line, internal audit, or other control personnel, should be reported in a timely manner to the appropriate management level and addressed promptly. Material internal control deficiencies should be reported to senior management and the board of directors.	16. The organization selects, develops, and performs ongoing and/or separate evaluations to ascertain whether the components of internal control are present and functioning. 17. The organization evaluates and communicates IC deficiencies in a timely manner to those parties responsible for taking corrective action, including senior management and the board of directors.

COSO introduced 17 underlying principles pertaining to the five components in 2013 to help entities' management grasp what constitutes effective internal control. The principles may serve as a guidance for establishing an internal control system and evaluating its effectiveness. Although the principles represent building blocks of each component of the internal control system, they remain broad in their application and could be applied to for-profit, nonprofit, government agencies, and other types of organizations.

To take this one step further, COSO introduced points of focus that characterize each of the 17 principles discussed above. The points of focus aim to support the principles and provide management with explicit guidance on establishing effective internal controls. The COSO model introduced 87 points of focus directly linked to the 17 principles that are in turn linked to the five components of internal control. However, it is at the discretion of organization management to decide on what points of focus are relevant to their entities.[7]

Annex 3 of this Handbook presents a full list of points of focus in relation to their respective principles and components.

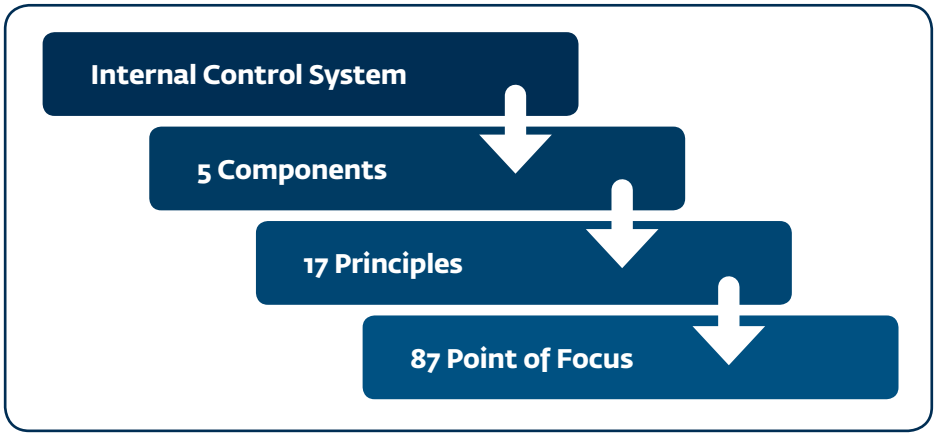

Figure 1: COSO 2013 Framework: Component Structure

[7] Id. at p. 8.

3. Roles and Responsibilities

Internal controls are effected by people, namely the board of directors, management, and other personnel through their actions and communication. Even when internal control activities are outsourced and effected by third parties, an entity's management still bears ultimate responsibility for the internal control system. The Institute of Internal Auditors (IIA) announced a major update in July 2020 to the widely accepted Three Lines of Defense Model. The new model identifies structures and processes to support strong governance and risk management.

According to IIA[8], over the past twenty years, numerous institutions incorporated the former three lines of defense model due to its clarity in defining risk management and control structures in three distinct lines.

There are three main modifications to the former Model. Firstly, the name has changed from the "Three Lines of Defense" to the "Three Lines Model"as boards of directors have learned that corporate governance should not just focus on playing defense, but instead should demonstrate agility and resilience. This is significant as shifting away from the defensive model signals the importance of internal audit, compliance and risk management functions as trusted advisors. The new model addresses relationships between the board and the three lines: management (the first line), risk management and compliance (the second line) and internal audit (the third line). These three lines are prerequisites to an adequate control environment. The new model also goes a step further by addressing: (1) the structure and how roles are assigned; and (2) requisite interactions between the three lines and the board to achieve effective alignment, collaboration, accountability and objectives.

Secondly, leadership roles are identified in the new model, recognizing the important role the board must play in overseeing the three lines as well as protecting value. The Three Lines Model proposes a six-step, principles-based approach for the board to provide delegation and direction for each line with adequate reporting and accountability in return. The new model also defines the role that the board is required to conduct, in addition to the roles of management, risk management and compliance and internal audit (as well as external assurance providers). Another improvement in the new model is that the position of external assurance providers is defined, and the key role of external auditors is addressed.

Thirdly, the new model is relevant for emerging markets as the same principles apply. Accordingly, the IFC Corporate Governance Team has developed tools based on the Three Lines Model functions. For example, on the IFC Corporate Governance Internet website, one can find model charters for the internal audit function, the compliance function and the risk management function.[9] This is also the case for related board committees such as the audit committee and

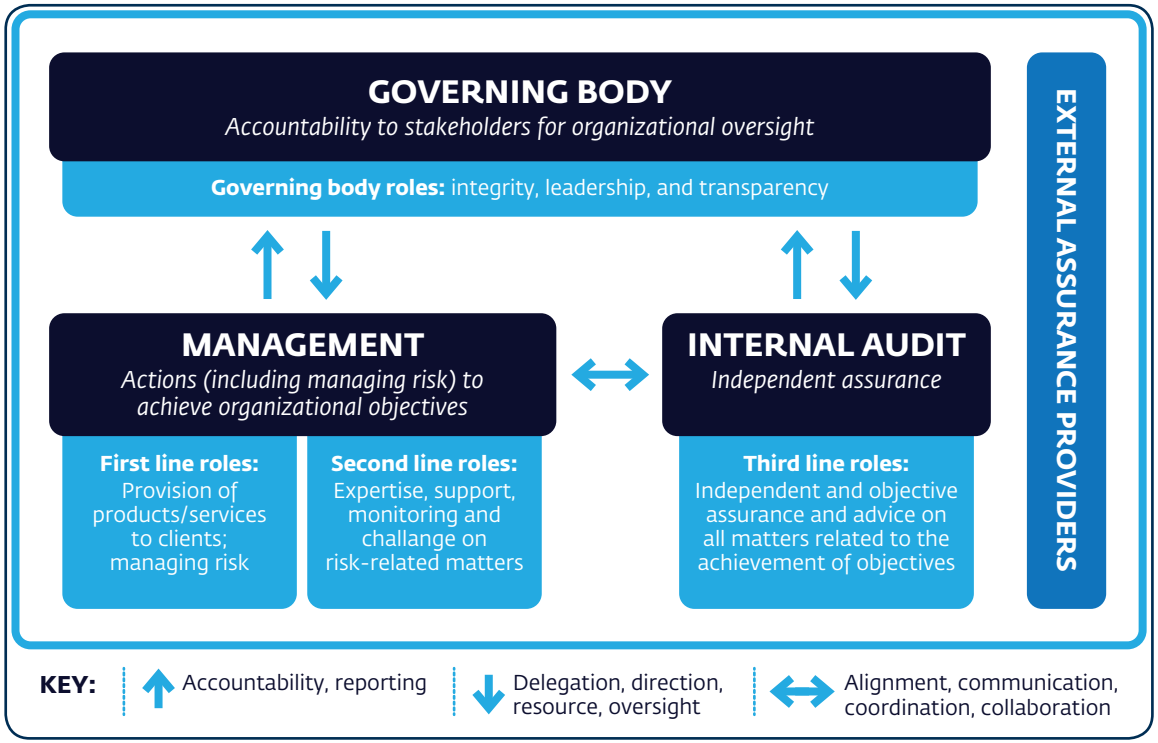

Figure 2: The IIA's Three Lines Model[10]

[8] IIA. 2020. *IIA Issues Important Update to Three Lines Model*. Accessed February 2021. https://na.theiia.org/news/Pages/IIA-Issues-Important-Update-to-Three-Lines-Model.aspx

[9] IFC Corporate Governance Advanced Methodology, available at: https://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/ifc+cg/investment+services/advanced+methodology+for+financial+institutions

[10] IIA. 2020. *The IIA'S Three Lines Model: An update of the Three Lines of Defense*. The Institute of Internal Auditors. Accessed February 2021. https://global.theiia.org/about/about-internal-auditing/Public%20Documents/Three-Lines-Model-Updated.pdf

the risk management committee to ensure effective oversight over, and adequate interaction between, these important functions.

Therefore, the new model highlights the importance of aligning internal audit, compliance and risk management with organizational strategic and operational objectives. This is critical as these functions need to evolve from being the "got your back squad" to value adding functions aligned with corporate strategy. A good starting point for board members is to ask management, internal audit, compliance and risk management is whether or not the Three Lines Model has been adopted by the company, and if not, why?

4. Responsible Parties

In an organization, every person at every level contributes to the internal control system. The level of involvement differs depending on their roles and responsibilities.

4.1. The Board

The board of directors (and its committees) plays an important role as the board oversees and monitors management, approves policies and procedures, and sets the tone, along with senior management, for the organization to establish the importance of an adequate internal control system. The board sets the expectation regarding an entity's integrity and ethical principles as well as transparency and accountability for the internal control performance.

To oversee the internal control system, the board needs to establish adequate and open communication with other participants of the system including management, auditors, and personnel. To succeed in that role, the board needs to be capable, efficient, and objective. An effective board should understand the environment in which an entity operates, dedicate sufficient time to its duties, and be independent in its views and judgment.

Boards often execute certain responsibilities, including those related to internal controls, through board committees. The number, role, and composition of committees vary depending on legal and business requirements. However, the most common committees are audit, compensation, and governance, which all contribute to the oversight of internal control.

The audit committee plays a key role in monitoring the effectiveness of internal control. Through interaction with management, internal and external auditors, the committee oversees the execution of control over the entity's reporting objectives. IFC recommends the best practice of establishing a separate board-level audit committee to assist the full board and management in maintaining an adequate system of internal controls. While there are some instances in which establishing a separate board-level audit committee might not be warranted or realistic, such as in smaller companies with few board members, the ultimate goal is for the board to take adequate responsibility in overseeing this important process.

Figure 3: Everyone is Responsible

Key questions that board members should ask management about Internal Controls:

- What is the role of the audit committee and the board in ensuring that proper internal controls are maintained, risks are managed and that the company is following all relevant laws and regulations?
- Describe how the company's internal controls (operational, financial and compliance, including IT systems) are designed and maintained?
- Are internal controls risk based?
- Were there any significant problems in internal controls in the past 5 years? Please describe.
- Does the board monitor that management responds to the deficiencies identified in Management Letters?
- Are internal controls designed in accordance with a relevant framework, e.g., COSO, COBIT, Basel?

The risk management committee assists the board in overseeing, monitoring, and reviewing the effectiveness of the Company's risk management framework and it has an important role to play together with the audit committee in monitoring the effectiveness of the internal control.

4.2. Management

The management team of an organization, led by the CEO, is accountable to the board and responsible for the execution of the internal control system. The management's role is to design, implement, and sustain effective internal control. A set of responsibilities of the management comprises activities across all five components of internal control:

1. Shaping up the foundation of internal control by providing leadership, definition, and guidance on the organization's standards, principles, structure, and accountability lines
2. Carrying out control over the entity's risks by identifying, measuring, and managing various risks across the entity
3. Developing and implementing control activities geared toward key risks
4. Establishing and sustaining proper communication channels to deliver information necessary for the execution of control at all levels
5. Creating an effective evaluation system to assess and monitor the effectiveness of internal control

4.3. Business-Enabling Units

Functions such as risk, compliance, legal, and quality control represent the entity's business-enabling units. Their responsibility is to provide guidance and assessment of internal control within their respective areas of expertise. They also monitor, share, and address any internal issues and external trends related to their domain expertise.

For instance, a risk management unit is responsible for identifying, evaluating, and developing control procedures to manage an entity's risks. However, it is also in charge of communicating and educating the entity's personnel on established control activities.

The composition, size, and complexity of business-enabling units may vary depending on the structure and need of an organization. Some entities may have separate units for each of the functions, while smaller companies with simpler structures may combine several functions, such as legal and compliance.

4.4. Internal Audit

The primary responsibility of internal audit is to assess the adequacy and effectiveness of internal controls. The internal audit function, regardless of its structure and size and whether it is outsourced or in-house, is expected to be performed by competent professionals and is geared toward evaluating if the internal control system enables the entity to achieve its objectives.

Internal auditors evaluate activities across three major types of objectives discussed earlier: operational, reporting, and compliance. They report on the effectiveness of internal control components and their interplay. Internal auditors also provide a valuable overview on continuous improvement.

To perform their internal control responsibilities effectively, the internal audit function has to be independent and objective. The accountability and reporting lines for internal auditors need to be established to allow for objective, independent judgment on audit matters. This is achieved through establishing direct functional accountability to the audit committee (or the board) and administrative reporting lines to the head of the management team (CEO).

4.5. Personnel

Each individual employed by an organization has established responsibilities and limits of authority vis-à-vis internal control, which should be aligned with the organization's objectives. The quality of activities performed by the entity's personnel directly correlates with the effectiveness of the internal control systems.

The duties of employees are extended over the five components of the internal control system and are often reflected in their job descriptions. Some of the responsibilities include:

1. Familiarizing themselves with and applying the standards and rules required within the entity (Control Environment)
2. Understanding the nature of risks inherent in their respective areas of work (Risk Assessment)
3. Performing various activities to address the entity's risks affecting the achievement of objectives (Control Activities)
4. Generating, consuming, and sharing different types of information to enable the effectiveness of the internal control system (Information and Communication)
5. Identifying and reporting issues that may threaten the effectiveness of the internal control system (Monitoring Activities)

4.6. External Parties

External parties may also affect an entity's ability to achieve its objectives. Outsourced service providers, external auditors, vendors, advisors, suppliers, and customers can all affect the internal control system of the entity.

For example, Management Letters issued by the external auditor can provide valuable information about company's internal control system. In general, Management Letters highlight internal control deficiencies that the external auditor discovered in the conduct of the audit. They are typically communicated to management but should be also reviewed by the audit committee and/or the board of directors and the internal audit function.

Not only do Management Letters identify key control deficiencies, but they also provide recommendations on how to improve the respective weakness.

Executive management should review the Management Letters and initiate corrective action. Internal auditors should also monitor company's progress with addressing action items and update audit committee in this regard. The audit committee and/or the board of directors should ensure that corrective action has been undertaken on issues identified in the Management Letters. Some tips on analyzing Management Letters include:

- Always request the last three years
- Analyze several years all together (comparing deficiencies between periods)
- Look for corrective action
- Look for trends of not correcting deficiencies
- Look for IT system deficiencies
- Consider the materiality of deficiencies
- Follow up on repeated and material deficiencies that go uncorrected

Some business functions, such as accounting, IT, and legal, can be outsourced to third- party providers, allowing them to affect the entity's internal controls. Other external parties, such as suppliers, analysts, and regulators, provide valuable information that can be used across the internal control system. Regardless of the level of involvement of external parties, the ultimate responsibility for the effectiveness of the internal control system lies with the entity's management.

Tools

The Internal Control System Tools included in this Handbook are based on the approach of the COSO and Basel frameworks, which have been integrated into the IFC Corporate Governance Methodology.[11] The Handbook includes the following tools to help companies and organizations assess and develop their internal control systems.

1. **The IFC Corporate Governance Methodology Progression Matrix** is not intended to rate a company rigidly but to ensure it has an acceptable internal control system and a plan to work toward better practices. Similar to the established IFC Corporate Governance Methodology, the tools are arranged in a way that will help companies make improvements by progressing through ". Basic Practices" "Intermediate Practices" "Good

[11] IFC. 2018. *Corporate Governance Methodology*. International Finance Corporation. Accessed February 2021. https://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/ifc+cg/investment+services/corporate+governance+methodology

International Practices" to "Leadership." The Methodology was updated in 2018 and the key update of the Methodology covers significant developments in corporate governance since the 2008 financial crisis, where corporate governance shortcomings, particularly in the area of control environment (internal audit, internal controls, risk governance and compliance) interrupted economic growth. Additionally, the methodology was revised so as to assess environmental, social and governance practices in an integrated fashion.

2. **The IFC Sample COSO Coverage Matrix** is based on the revised COSO 2013 Framework and aimed at identifying responsibilities across the framework principles. The roles assigned to various levels and units are intended to serve as guidance. However, each company needs to fill out the matrix and assign the responsibilities based on their specific corporate structure and operational cycle.
3. **The COSO IC Components Table** lists all 87 points of focus in relation to the 17 principles and five components of the internal control system under the COSO 2013 Framework. The framework's latest version explicitly lists the underlying attributes of the components of the internal control system. The tool serves as a guide to enhancing management's understanding of what constitutes an effective internal control system.
4. **The Internal Control Review Report Generator** details the five risks areas in internal control and indicates which company characteristics could mitigate these key risks and whether a company displays such risk-mitigating features. The report generator also indicates which company data must be collected and guides the collection of this information through interviewing the client or reviewing corporate documents.
5. **The Internal Control System Model By-Law** is a template for companies to develop their own by-laws and supplement the evaluation findings from the IFC Corporate Governance Methodology Progression Matrix.
6. **Major Internal Control Key Performance Indicators** help companies track core indicators and evaluate the performance of internal control system.
7. **Case Studies** introduce five success stories of companies implementing new practices to enhance their internal control systems. Each case highlights one of the five components of the COSO IC Framework and showcases its practical application.

[12] Id. at p. 10.

[13] Id. at p. 8.

Note that the above referenced internal control tools are not differentiated for financial institutions versus nonfinancial institutions because the Basel guidance[12] primarily designed for financial institutions, is substantially identical to the COSO guidance.[13] Basel is expected to eventually update its 1998 guidance on internal control based on the revised 2013 COSO Framework. Until Basel publishes a revised version, this tool is suitable for assessing the internal control systems of financial institutions, as long as the user takes into account particular nuances associated with such institutions and uses this tool in conjunction with the Basel 1998 guidance.

Application

The tools can be used to analyze the structures and objectives of the internal control systems of companies, complementing the existing set of tools in the IFC Corporate Governance Methodology. The assessment aims to gauge if an organization's internal control system reaches the minimum acceptable level and identifies gaps and opportunities to improve it.

While the use of these tools could be limitless, the original intent was for the following applications:

1. Serve as part of the Control Environment analysis of a Corporate Governance Assessment.
2. Function as a standalone tool to help companies assess their Control Environment if they are not subject to a full-scale Corporate Governance Assessment. For example, by evaluating relevant governing documentation, a user should be able to assess a company's understanding and approach to internal controls.
3. Serve as a tool for developing written reviews and analysis of a company's Corporate Governance documentation (similar to the IFC Corporate Governance Methodology for Financial Institutions) and specifically utilized to review the adequacy of a client's governing documentation related to internal controls.
4. Serve as implementation tools and provide guidance to companies in establishing an efficient internal control system.

The full version of tools is provided in Part 2 of this Handbook.

Part 2

TOOLS

1. Internal Control System Assessment Tool:[14]

Part of IFC's Corporate Governance Methodology

Level 1 - Basic Practices	• Minimum acceptable practices in corporate governance and internal control • Elementary • Meeting the basic regulatory/legal requirements • Reactive in nature
Level 2 - Intermediate Practices	• Taking further steps to strengthen internal control system • More established, beginning to form a system • Meeting all internal and some external regulatory/legal requirements
Level 3 - Good International Practices	• Major contribution to improve internal control and corporate governance in the local market • Established, a system is formed • Meeting all internal and external requirements • Proactive and forward looking • Working toward best practice
Level 4 - Leadership	• Best practice in the industry and leadership internationally • A well-established system • Integrated with the corporate governance framework of the organization • Forward-looking in nature and focus on continuous improvement

[14] Note that this tool is based primarily on the COSO *Internal Control – Integrated Framework* (2013). Additional elements are based on other best practices including: (a) Basel Committee on Banking Supervision, *Framework for Internal Control Systems in Banking Organisations* (September, 1998); (b) *Guidance on Control* (1995), Canadian Institute of Chartered Accountants; (c) *Internal Control: Guidance for Directors on the Combined Code* (1999), Institute of Chartered Accountants in England and Wales; (d) Discussion Paper on Risk Management and Internal Control in the EU (2005), Fédération des Experts Comptables Européens; (e) *the Sarbanes-Oxley Act Sec. 404(b) Internal Control Evaluation and Reporting* (2002), the U.S. Congress; (f) *International Auditing Practices Statement 1004: The Relationship between Banking Supervisors and Banks' External Auditors*, the International Federation of Accountants (IFAC); and (g) *International Standards on Auditing* (ISA), including (i) Glossary of Terms (11-38), (ii) ISA 120 – *Framework of International Standards on Auditing*, and (iii) ISA 610 – *Using the Work of Internal Auditing*, IFAC.

	Acceptable	+ Better	+ Desireable	+ Best Practice
I. Purpose	**1.** To ensure proper internal control over the safeguarding of assets against unauthorized acquisition	**1.** To prevent or reduce fraud and theft **2.** To ensure achievement of established objectives and goals	**1.** To ensure reasonable assurance that the objectives and goals will be achieved **2.** To separate the duties of employees, ensuring a system of checks and balances	**1.** To ensure reasonable assurance regarding the achievement of objectives in the following categories: • Effectiveness and efficiency of operations • Reliability of financial reporting • Compliance with applicable laws and regulations
II. Roles and Responsibilities	**1.** Management is responsible for all activities of the organization and assigns responsibility for specific tasks, which affect controls **2.** Personnel contribute to effective internal control, which should be an explicit or implicit part of everyone's job descriptions **3.** The board is responsible for overseeing the system of internal control	**1.** The board and senior management both play key roles in determining the corporate culture and setting the ethical tone **2.** Internal auditors directly examine internal controls and recommend improvements	**1.** The board questions senior management on how it carries out its internal and external reporting responsibilities and ensures relevant and timely corrective action is taken **2.** Personnel review changes on internal controls, consider how they conduct responsibilities in accordance with controls, and discuss ideas for further strengthening controls with senior management **3.** Senior management assess the organization's internal control system in relation to local legal and regulatory requirements **4.** Internal auditors adjust audit plans for internal control changes **5.** The audit committee detects if senior management overrides internal controls, deviates from the code of ethics, or seeks to misrepresent reported financial results **6.** Risk and control personnel provide skills and guidance to	**1.** Relevant and timely corrective action is taken in accordance with international best practices, such as Basel or COSO frameworks **2.** Personnel consider how existing controls affect the components of internal control **3.** The board periodically discusses with senior management, internal audit, and external auditors the condition of the internal control system; it also establishes policy and procedures on how the board will exercise oversight over internal control **4.** Internal auditors adjust audit plans for changes in international best practices, such as Basel or COSO frameworks **5.** Risk and control personnel report to senior management and the board on significant risks to the organization and the quality of risk management **6.** External auditors provide management and the board with a unique, independent, and

	Acceptable	Better	Desireable	Best Practice
			frontline management developing controls and others evaluating internal control **7.** Financial executives help set the tone of the entity's ethical conduct and have a major responsibility for financial statements and for influencing the design, implementation, and monitoring of the entity's reporting system	objective view on the entity's internal control system **7.** Other external parties, such as regulators, professional organizations, and educators, may provide information useful to the organization in developing and improving internal controls
III. Control Environment	**1.** The organization demonstrates a commitment to integrity and ethical values by verbally communicating its values and behavioral standards to employees **2.** Senior management, with board oversight, establishes organizational structure and job descriptions	**1.** The board and management set the appropriate "tone at the top" by demonstrating the importance of integrity and ethical values to support internal controls functioning through their actions, directives, and behaviors **2.** Key areas of responsibilities are defined, and accountability and reporting lines are established **3.** Formalized human resources policies and procedures related to hiring, orientation, training, evaluating, counseling, promoting, compensation, and remedial actions are in place **4.** The board holds management responsible for establishing an adequate system of internal control	**1.** Board and management expectations of integrity and ethical values are defined in an established code of conduct or equivalent and evaluations of performance against the code of conduct are measured **2.** Organizational structure and job descriptions are developed with consideration of the entity's size and activities **3.** Training, certification, and continuing education are in place **4.** The board establishes mechanisms to communicate and hold individuals accountable for internal control responsibilities, including corrective action **5.** All personnel understand the entity's objectives	**1.** Any deviations from the code of conduct are identified and corrective action is taken; the board and audit committee are involved in evaluating the effectiveness of the "tone at the top" **2.** Responsibilities are viewed and defined within the Three Lines Model: (a) management and personnel in day-to-day activities, (b) business-enabling functions providing guidance on and evaluations of controls, and (c) internal auditors who assess and report on controls **3.** The board evaluates the competence of management, who evaluates competence across the organization; written succession plans for key employees exist **4.** Management and the board establish performance measures, incentives, and other rewards based on achievement of objectives and vis-à-vis performance of internal control

	Acceptable	+ Better	+ Desireable	+ Best Practice
				and adherence to the code of conduct **5.** All personnel contribute to the achievement of objectives that align with the entity's risk appetite
IV. Risk Assessment	**1.** The entity has implicitly established its objectives as part of strategy setting **2.** Management establishes mechanisms to identify risks affecting the achievement of objectives **3.** Changes that can significantly affect internal controls are considered	**1.** The entity's objectives are explicitly stated and disseminated across the organization **2.** Mechanisms identify external and internal risks **3.** Regulatory, environmental and social, and economic changes on internal controls are considered	**1.** Management has established entity-wide objectives covering operations, reporting, and compliance that correspond to its strategic plan; plans and budgets are at an appropriate level of detail for each management level **2.** Effective risk-assessment mechanisms involve: (a) appropriate levels of management, (b) estimating the significance of identified risks, and (c) consideration of whether to accept, avoid, mitigate, or transfer the risk **3.** Impacts of new or changing business lines, acquisitions, and dispositions on internal controls are considered	**1.** (a) Management obtains feedback from key managers, other employees, and the board, signifying that communication to employees is effective; (b) management Identify important performance measures for the achievement of entity-wide objectives; (c) All levels of management are involved in objective setting **2.** Consideration of the potential for fraud is incorporated into risk assessment **3.** Changes in management and leadership on internal controls are considered
V. Control Activities	**1.** Management has developed formal or informal appropriate policies and procedures **2.** Assets are physically secured and periodically counted and compared with amounts shown on control records **3.** Duties are segregated among different individuals to reduce the risk of error or fraud **4.** An adequate system of approvals and authorizations is established	**1.** Policies and procedures are formalized, and they are adequate given the size and complexity of the entity **2.** Controls over standing data are put in place **3.** Instances of management overriding a specified tolerance level are flagged and investigated **4.** A verification system (computer matching) is established to compare items with each other or policies to	**1.** Control activities are properly applied to ensure risks are mitigated **2.** Corrective follow-up action is initiated when verifications do not match **3.** Technology acquisition, development, and maintenance are subject to an established methodology or policy with oversight by a technology group or committee at the management level	**1.** Management considers all relevant business processes beyond operating units, IT, and outsourced services; control activities include a variety of manual, automated, preventative, and detective controls **2.** Alternative control activities are implemented where relevant **3.** A board-level technology committee is established **4.** Appropriate and timely action is taken on exceptions or

	Acceptable	+ Better	+ Desireable	+ Best Practice
	5. General IT/IS controls are established for access to information (passwords and user accounts); data back-up copying is periodically performed and access to the data back-up copies is restricted **6.** Management establishes policies and procedures that are integrated into business processes and day-to-day activities **7.** Specific controls exist for high fraud-risk activities, including: cash management, cash reconciliation, payables, receivables, revenue recognition, and manual adjustments/ estimations to financial statements.	address accuracy, completeness and validity of transactions **5.** Adequate Information Security management includes prevention from internal and external threats from sources – telecommunication networks, the Internet, and the Intranet – through authentication, firewalls, and tokens **6.** Management establishes responsibility for control activities with designated personnel	**4.** Control activities are performed in a timely manner by competent personnel	information that requires follow-up; management periodically reviews the functioning and adequacy of controls
VI. Information and Communication	**1.** Information systems are in place to obtain internal and external information **2.** Adequate information channels exist to enable all personnel to understand and execute control responsibilities **3.** Policies and procedures are in place to adequately communicate with external parties, including shareholders, partners, regulators, customers, and analysts	**1.** Information is provided at the right level of detail for different levels of management **2.** Timely information is available to enable effective monitoring of events and activities (both internal and external) as well as prompt reaction to economic/ business factors and control issues **3.** Methods of communication are adequate so that personnel know which behaviors are acceptable and unacceptable **4.** An information disclosure by-law has been developed and adopted	**1.** Management develops and implements controls that identify information to support the control environment and risk assessment and monitoring **2.** Information is accessible, correct, current, protected, retained, sufficient, valid, and verifiable to enable effective monitoring of events and activities as well as prompt reaction to economic/business factors and control issues **3.** Separate lines of communication are established where appropriate, such as whistleblower and/or ethics hotlines	**1.** Sufficient level of resources is provided to develop new or enhanced information system based on a long-range IT plan linked with strategic initiatives **2.** An open communication channel exists between management and the board so that both have information needed to fulfill the entity's objectives **3.** Quality and timely communication is provided to regulators, financial analysts, and other external parties; open external communication channels exist so that customers and suppliers can provide significant input

	Acceptable	Better	Desireable	Best Practice
			4. Relevant information resulting in control assessments by external parties is communicated to the board	**4.** Timely and appropriate follow-up action is executed by management in response to communication from customers, vendors, regulators, or other external parties
VII. Monitoring	**1.** Ongoing monitoring activities are informally conducted by management and accomplished through hands-on involvement	**1.** Management performs formal, ongoing monitoring and assessment of the internal control system and strengthens the system as necessary to ensure its efficient operation **2.** Adequate procedures are in place for ongoing monitoring **3.** Policies and procedures are modified as needed for improvement **4.** Internal control deficiencies are reported to the appropriate management level **5.** The internal audit function is segregated from operations in the organizational structure **6.** External auditors provide the company with management letters that disclose control deficiencies discovered in the conduct of the external audit	**1.** The internal audit function reports directly to the board and/or audit committee **2.** Management and the board review the management letters and initiate corrective action **3.** The internal audit function periodically meets with the board and/or audit committee to review reports issued by the internal audit function **4.** Internal audit staff are competent, and their experiences are adequate for the size and complexity of the company **5.** Self-assessments of controls are conducted by management and/or the board	**1.** The internal audit function reports to an audit committee **2.** Timely follow-up on management letters and corrective actions are initiated and documented **3.** Separate and ongoing evaluations of controls are conducted by the board, management, and relevant personnel **4.** Monitoring activities are built into the entity's recurring operations; they are performed in the ordinary course of running the business on a real-time basis and react dynamically to changing conditions

2. IFC Sample COSO 2013 Coverage Matrix

	COSO 2013 OBJECTIVES					
	Operational Effectiveness	**Reporting**	**Reporting**	**Reporting**	**Reporting**	**Compliance**
		External Financial	**External Non-Financial**	**Internal Financial**	**Internal Non-Financial**	
COSO 2013 PRINCIPLES[15]	Effectiveness and efficiency of operations	Related to internal and external financial and nonfinancial reporting to stakeholders, which would encompass reliability, timeliness, transparency or other terms as established by regulators, standard setters, or the entity's policies				Adhering to laws and regulations that the entity must follow
Control Environment – the set of standards, processes, and structures that provide the basis for carrying out internal control across the organization. (the board of directors and senior management establish the tone at the top regarding the importance of internal control and expected standards of conduct).						
1. The organization demonstrates a commitment to integrity and ethical values.	HR, All Units	Responsible Unit/Person	Communication & Corporate Relations (CCR), Corporate Secretary	Responsible Unit/Person, All Units	HR, Responsible Unit/Person, All Units	Chief Compliance Officer (CCO), All Units, All Employees
2. The board of directors demonstrates independence from management and exercises oversight over the development and performance of internal control.	Board	Audit Committee	Board Disclosure Policy	Responsible Unit/Person	Board	Audit Committee
3. Management establishes, with board oversight, structures, reporting lines, and appropriate authorities and responsibilities in the pursuit of its objectives.	CEO, Senior Management Team (SMT)	CFO, Treasury Head, Chief Risk Officer (CRO)	SMT	SMT, CRO, Treasury Head	SMT	SMT, CCO, Legal
4. The organization demonstrates a commitment to attract, develop, and retain competent individuals in alignment with its objectives.	HR	HR, CFO	HR	HR	HR	HR

[15] COSO. "Internal Control – Integrated Framework". May 2013. https://www.coso.org/Documents/990025P-Executive-Summary-final-may20.pdf

	COSO 2013 OBJECTIVES					
	Operational Effectiveness	**Reporting**	**Reporting**	**Reporting**	**Reporting**	**Compliance**
		External Financial	**External Non-Financial**	**Internal Financial**	**Internal Non-Financial**	
5. The organization holds individuals accountable for their internal control responsibilities in the pursuit of its objectives.	All Employees	All Employees, Internal Control (IC) Unit[16]	All Employees	All Employees	All Employees	All Employees
Risk Assessment – involves a dynamic and iterative process for identifying and analyzing risks to achieve the entity's objectives, forming a basis for determining how risks should be managed. Management considers possible changes in the external environment and within its own business model that may impede its ability to achieve its objectives.						
6. The organization specifies its objectives with sufficient clarity to enable the identification and assessment of risks relating to the objectives.	Board, SMT	SMT, Responsible Unit/Person	CRO	All Units, Responsible Unit/Person	VPs	Legal, All Units
7. The organization identifies risks that may affect the achievement of its objectives across the entity and determines how they should be managed.	SMT, CRO	SMT, Responsible Unit/Person	CRO	Risk Management Unit (Abbreviation)	RMU	RMU
8. The organization considers the potential for fraud in assessing risks that may affect the achievement of its objectives.	CCO, CRO, IC Unit, All VPs	IC Unit, Responsible Unit/ Person	IC Unit, Internal Audit (IA) Unit, CRO, CCR	IA Unit, IC Unit, Responsible Unit/Person	Corporate Relations, IC Unit	All Units
9. The organization identifies and assesses changes that could significantly impact the system of internal control.	All Business Owners, IC Unit	All Business Owners	IC Unit, CCR	Responsible Unit/Person, CCR	CCR	All Units

[16] Internal control and an Internal Control Unit have different connotations. Internal control is an ongoing process performed by all levels of a company's personnel to provide reasonable assurance regarding the achievement of objectives. The Internal Control Unit (Department/Group) is in charge of coordinating and reporting activities across the internal control system. A company may or may not have an Internal Control Unit within its organizational structure and may have assigned the unit's responsibilities to different departments/positions within the organization.

	COSO 2013 OBJECTIVES					
	Operational Effectiveness	**Reporting**	**Reporting**	**Reporting**	**Reporting**	**Compliance**
		External Financial	**External Non-Financial**	**Internal Financial**	**Internal Non-Financial**	
Control Activities – are actions established by the policies and procedures to help ensure that management directives to mitigate risks affecting the achievement of an organization's objectives are carried out. Control activities are performed at all levels of the entity, at various stages within business processes, and over the technology environment. They may be preventive or detective in nature and may encompass a range of manual and automated activities such as authorizations and approvals, verifications, reconciliations, and business performance reviews. Segregation of duties is typically built into the selection and development of control activities. Where segregation of duties is not practical, management selects and develops alternative control activities.						
10. The organization selects and develops control activities that will mitigate risks affecting the achievement of its objectives to acceptable levels.	All Business Owners, IC Unit	IC Unit, CRO, SMT	All Relevant Units	CRO, Responsible Unit/Person	All Relevant Units	All Units
11. The organization selects and develops general control activities using technology to support the achievement of its objectives.	All Units, IT	IC Unit, IT, Chief Internal Auditor (CIA)	IC Unit, IT, CCR	Financial Management (FM) Unit	IC Unit, IT	IC Unit, IT
12. The organization deploys control activities through policies that establish what is expected and procedures that put policies into action.	All Units	CRO, IC Unit, FM Unit	CRO, Corporate Relations	CRO, FM Unit	CCR, CRO	All Relevant Units
Information & Communication – are necessary for the entity to carry out internal control responsibilities in achieving its objectives. Communication occurs both internally and externally and provides the organization with the information needed to carry out day-to-day internal control activities. Communication enables personnel to understand internal control responsibilities and their importance to the achievement of objectives.						
13. The organization obtains or generates and uses relevant, quality information to support the functioning of internal control.	All Units	FM Unit, IT, SMT	SMT, CCR	FM Unit, IT	Corporate Relations	CCO

	COSO 2013 OBJECTIVES					
	Operational Effectiveness	**Reporting**	**Reporting**	**Reporting**	**Reporting**	**Compliance**
		External Financial	**External Non-Financial**	**Internal Financial**	**Internal Non-Financial**	
14. The organization internally communicates information needed to support the functioning of internal control, including its objectives and responsibilities.	Board, SMT	N/A	N/A	SMT, FM Unit	IC Unit, IA Unit	N/A
15. The organization communicates with external parties regarding matters affecting the functioning of internal control.	N/A	IA Unit, IC Unit, External Audit	CCR	CRO, IA Unit	IA Unit, CCR	Attestation by External Auditors
Monitoring Activities – are ongoing evaluations, separate evaluations, or some combinations of the two used to ascertain whether each of the five components of internal control, including controls to effect the principles within each component, is present and functioning. Findings are evaluated and deficiencies are communicated in a timely manner, with serious matters reported to senior management and to the board.						
16. The organization selects, develops, and performs ongoing and/ or separate evaluations to ascertain whether the components of internal control are present and functioning.	Audit Committee, SMT	IA Unit, External Auditors	CRO, IA Unit, CCR	CRO, IA Unit	IA Unit	IA Unit
17. The organization evaluates and communicates internal control deficiencies in a timely manner to those parties responsible for taking corrective action, including senior management and the board of directors, as appropriate.	Audit Committee, SMT	IA Unit, External Auditors	IA Unit, CRO, CCR	IA Unit	IA Unit, CCR	IA Unit

3. COSO Internal Control System Components Table

Component	Principle		Points of Focus
A. Control Environment	1. The organization demonstrates a commitment to integrity & ethical values.	1	Sets the tone at the top
		2	Establishes standards of conduct
		3	Evaluates adherence to standards of conduct
		4	Addresses deviations in a timely manner
	2. The Board of directors demonstrates independence from management and exercises oversight of the development and performance of internal control.	5	Establishes oversight responsibilities
		6	Applies relevant expertise
		7	Operates independently
		8	Provides oversight for the system of internal control
	3. Management establishes, with board oversight, structures, reporting lines, and appropriate authorities, responsibilities in the pursuit of objectives.	9	Considers all structures of the entity
		10	Establishes reporting lines
		11	Defines, assigns, and limits authorities and responsibilities
	5. The organization demonstrates a commitment to attract, develop, and retain competent individuals in alignment with objectives.	12	Establishes policies and practices
		13	Evaluates competence and addresses shortcomings
		14	Attracts, develops, and retains individuals
		15	Plans and prepares for succession

Component	Principle			Points of Focus
			16	Enforces accountability through structures, authorities, and responsibilities
			17	Establishes performance measures, incentives, and rewards
			18	Evaluates performance measures, incentives, and rewards for ongoing relevance
			19	Considers excessive pressures
			20	Evaluates performance and rewards or disciplines individuals
B. Risk Management	6. The organization specifies objectives with sufficient clarity to enable the identification and assessment of risks relating to objectives.	**Operations Objectives**	21	Reflects management's choices
			22	Considers tolerances for risk
			23	Includes operations and financial performance goals
			24	Forms a basis for committing of resources
		External Financial Reporting Objectives	25	Complies with applicable accounting standards
			26	Considers materiality
			27	Reflects entity activities
		External Non-Financial Reporting Objectives	28	Complies with externally established standards and frameworks
			29	Considers the required level of precision
			30	Reflects entity activities

Component	Principle			Points of Focus
		Internal Reporting Objectives	31	Reflects management's choices
			32	Considers the required level of precision
		Compliance Objective	33	Reflects entity activities
			34	Reflects external laws and regulations
			35	Considers tolerances for risk
	7. The organization identifies risks to the achievement of its objectives across the entity and analyzes risks as a basis for determining how the risks should be managed.		36	Includes entity, subsidiary, division, operating unit, and functional levels
			37	Analyzes internal and external factors
			38	Involves appropriate levels of management
			39	Estimates significance of risks identified
			40	Determines how to respond to risks
	8. The organization considers the potential for fraud in assessing risks to the achievement of objectives.		41	Considers various types of fraud
			42	Assesses incentive and pressures
			43	Assesses opportunities
			44	Assesses attitudes and rationalizations
	9. The organization identifies and assesses changes that could significantly impact the system of internal control.		45	Assesses changes in the external environment
			46	Assesses changes in the business model
			47	Assesses changes in leadership

Component	Principle		Points of Focus
C. Control Activities	10. The organization selects and develops control activities that contribute to the mitigation of risks to the achievement of objectives to acceptable levels.	48	Integrates with risk assessment
		49	Considers entity-specific factors
		50	Determines relevant business processes
		51	Evaluates a mix of control activity types
		52	Considers at what level activities are applied
		53	Addresses segregation of duties
	11. The organization selects and develops general control activities over technology to support the achievement of objectives.	54	Determines dependency between the use of technology in business process and technology general controls
		55	Establishes relevant technology infrastructure control activities
		56	Establishes relevant security management process control activities
		57	Establishes relevant technology acquisition, development, and maintenance process control activities
	12. The organization deploys control activities through policies that establish what is expected and procedures that put policies into action.	58	Establishes policies and procedures to support deployment of management's directives
		59	Establishes responsibility and accountability for executing policies and procedures
		60	Performs in a timely manner
		61	Takes corrective action
		62	Performs using competent personnel
		63	Reassesses policies and procedures

Component	Principle		Points of Focus
D. Information & Communication	13. The organization obtains or generates and uses relevant, quality information to support the functioning of IC.	64	Identifies information requirements
		65	Captures internal and external sources of data
		66	Processes relevant data into information
		67	Maintains quality throughout processing
		68	Considers costs and benefits
	14. The organization internally communicates information, incl. objectives and responsibilities for IC, necessary to support the function of IC.	69	Communicates internal control information
		70	Communicates with the board of directors
		71	Provides separate communication lines
		72	Selects relevant method of communication
	15. The organization communicates with external parties regarding matters affecting the functioning of internal control.	73	Communicates to external parties
		74	Enables Inbound Communications
		75	Communicates with the board of directors
		76	Provides separate communication lines
		77	Selects relevant method of communication

Component	Principle		Points of Focus
E. Monitoring Activities	16. The organization selects, develops, and performs ongoing and/or separate evaluations to ascertain whether the components of internal control are present and functioning.	78	Considers a mix of ongoing and separate evaluations
		79	Considers rate of change
		80	Establishes baseline understanding
		81	Uses knowledgeable personnel
		82	Integrates with business processes
		83	Adjusts scope and frequency
		84	Objectively evaluates
	17. The organization evaluates and communicates IC deficiencies in a timely manner to those parties responsible for taking corrective action, incl. senior management and the board of directors, as appropriate.	85	Assesses results
		86	Communicates deficiencies
		87	Monitors corrective actions

4. Internal Control Review - The Report Generator[17]

Addressing the Five Key Internal Control Risks[18]

KEY IC RISK 1: The company has not established a robust control environment[19] for an effective system of internal control.

Client Features that Mitigate IC Risk #1	Questions to Ask	Answer Source[20]
A. There is a lack of commitment to strong ethical values.		
• The company's board oversees the establishment of internal control and sets the tone at the top by communicating and promoting adherence to high ethical values company-wide. • The company has adopted effective standards of conduct.	• What is the board's role in ensuring that adequate internal control system is established and maintained? How is the board's message communicated to all levels within a company? • Does the company have a code of conduct? How are the code and ethical standards enforced? Is periodic training provided? Does staff sign off on the code of conduct? • Does the company have a whistleblower policy? How frequently is it used?	• Code of conduct, internal control by-law, and corporate governance (CG) code • *Board Chair, Chief Executive Officer (CEO), Chief Internal Auditor (CIA), Audit Committee (AC) Chair, and Chief Compliance (or ethics) Officer (CCO)*
B. Basic structures and policies are missing.		
• The company has developed fundamental structures, procedures, roles, and accountability lines that support its core strategic objectives.	• Does the company have established structures and functions company-wide? • Are duties, authority, and responsibilities specified and assigned to relevant bodies and roles? • Do established structures and responsibilities align with the company's strategy and objectives? • Are reporting lines of key roles such as Chief Risk Officer (CRO), CIA, Corporate Secretary (CS), and CCO established to enable their independence?	• Organizational chart, delegation of authorities matrix, AC charter; terms of references (ToR) for CS, CIA, and CRO, management-level committee charters, external auditor management letter • *CEO, CIA, CCO, and CS*

[17] This Report Generator is developed based on the COSO *Internal Control – Integrated Framework, 2013* (COSO Framework) and adapted for the IFC CG Assessment Methodology. COSO Framework defines internal control as "a process, effected by an entity's board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting, and compliance."

[18] The Report Generator details the five risks areas in internal control and indicates which company characteristics could mitigate these key risks. It facilitates an assessment of the company's internal control practices by defining which risk-mitigating features are displayed by the client company and which are not. It also indicates which data must be collected from the company and guides the collection of this information by interviewing the client or reviewing corporate documents.

[19] According to the COSO Framework, the "control environment is defined by the standards, processes, and structures that guide people at all levels in carrying out their responsibilities for internal control and making decisions."

[20] Please note that 'responsible individuals' are designated in italic text while 'documents' are designated in standard font text.

Client Features that Mitigate IC Risk #1	Questions to Ask	Answer Source
• The company has an established Human Resources (HR) policy to recruit and develop the right talent, including procedures for staff evaluation and accountability that are in line with its objectives.	• How does the company's HR policy align with and support the achievement of strategic objectives? • Has the company set its vision, policies, and procedures for attracting, remunerating (incl. risk adjusted compensation), and retaining professionals in alignment with its objectives? • How does the company hold staff accountable and evaluate their performance?	• HR policy, corporate strategy, internal control policy, Key Performance Indicators, and balanced scorecards • *CEO, Chief HR Officer, Chair of the Nomination & Remuneration Committee, and CCO*

KEY IC RISK 2: The identification and assessment of risks pertaining to key objectives is neither adequate nor integrated.

Client Features that Mitigate IC Risk #2	Questions to Ask	Answer Source
A. Risk assessment and objective-setting are misaligned and disconnected.		
• The company has established an adequate system to define and assess risks related to all groups of objectives: » Operations » Reporting: › External financial reporting › External non-financial reporting › Internal reporting » Compliance	• What are the company's practices on setting key strategic objectives and identifying pertaining risks? Are risks defined and assessed across all groups of objectives? Are risks assessed against the risk appetite? • Does the board and the risk and audit committees approve the risk appetite? • Are operational objective risks factored into management choices and decisions? • Do reporting objectives adhere to applicable accounting standards as well as external and internal disclosure frameworks? • Do compliance objectives adhere to applicable internal and external regulations?	• Corporate strategy, Enterprise Risk Management (ERM) policy, risk appetite statement, and the board's by-law • *CRO, Chief Operating Officer (COO), Chief Financial Officer (CFO), CEO, CIA, Board Chair, AC Chair, and Risk Committee Chair*
B. Risk assessment is not comprehensive.		
• The risk-assessment practice encompasses all levels of the company and serves as a ground point for defining the risk-management policy.	• Does the risk-assessment practice incorporate all levels of the company (subsidiary, branches, and units)? • Is the risk-assessment practice followed by: (1) evaluation of significant risks and (2) defining respond mechanisms to such risks?	• Corporate strategy, ERM policy • *CRO, COO, CFO, and CEO*

Client Features that Mitigate IC Risk #2	Questions to Ask	Answer Source
• The company incorporates the evaluation of fraud risk into its risk-assessment practice.	• Does the company consider potential fraudulent actions when assessing risks pertaining to objectives? Are major conditions of fraud instances, such as pressure and incentive, opportunity, and rationalization, assessed? • Does risk assessment consider significant changes in the internal and external environments in which the company operates?	• Corporate strategy, ERM policy, and anti-fraud policy • *CRO, COO, CFO, and CEO*

KEY IC RISK 3: The risk-mitigation practice is weak and does not allow for managing risks to the achievement of key objectives.

Client Features that Mitigate IC Risk #3	Questions to Ask	Answer Source
A. Control activities for key risks are not developed.		
• The company has defined and applied a set of control activities to mitigate key risks, including IT risks, pertaining to key objectives	• How does the company develop control activities to mitigate key risks? Is this process part of the company's risk-management practice? • Does the process of developing control activities: (1) specify related business processes, (2) consider relevant control activity types at each level, and (3) define when and how control activities should be applied and by whom? • Has the company defined specific controls for high fraud-risk activities, including: cash management, cash reconciliation, payables, receivables, revenue recognition, and manual adjustments/estimations to financial statements? • Does the process of developing control activities include controls for mitigating IT and environmental and social risks? Are system-based automated procedures for mitigating risks determined and well understood? • Are IT control activities defined and set for all levels of IT processes, including acquisition, utilization, and maintenance?	• Risk management department policy, Environment, Social, and Governance (ESG) policy, IT policy, and internal control policy[21] • *CRO, COO, CIA, CCO, and CIO*

[21] Please refer to IFC's Policy on Environmental and Social Sustainability for further reference. https://www.ifc.org/wps/wcm/connect/7141585d-c6fa-490b-a812-2ba87245115b/SP_English_2012.pdf?MOD=AJPERES&CVID=kilrwog

Client Features that Mitigate IC Risk #3	Questions to Ask	Answer Source
B. Control activities are not built-in mechanisms.		
• The company incorporates control activities into policies and procedures.	• Do company policies stipulate applicable rules, standards, and expectations? Are company procedures developed to enforce the policies? • Are responsibilities for the execution of policies and procedures established and communicated? What mechanisms are used to track timely and full execution of policies and procedures as well as address any deviations?	• ESG policy, IT policy, Cybersecurity policy, internal control policy • *CRO, COO, CIA, CCO, and CIO*

KEY IC RISK 4: The deployed information channels and content are inappropriate to enable robust internal controls.

Client Features that Mitigate IC Risk #4	Questions to Ask	Answer Source
A. The information channels are missing or inappropriate.		
• The company has established mechanisms to generate, disseminate, use, and store information that is reliable, complete, and relevant for the internal control system.	• Does the company have an information policy that identifies information quality requirements, types, timeline, users, and individuals responsible for its preparation? Do the board and committees approve the information policy? • What are the control activities for assuring information quality, relevance, and completeness?	• Information policy, stakeholder strategy (plan), and investor relations policy • *Head of Investor Relations (HIR), CS, CEO, and Board Chair*
B. Communication channels and practices are weak and limited.		
• The company has established effective communication practices with both internal and external stakeholders to inform them on every aspect of internal control.	• Does the company communicate information on internal controls to its internal users, including staff, management, board and committees, shareholders and owners, in a timely manner? • Are communication channels relevant and user-friendly? • Does the company communicate information on internal controls to external stakeholders, such as regulators, business partners, analysts, and communities, in a timely manner? Are communication channels relevant and accessible? Do they employ inbound communication? • Is there a section in the company's annual report on control deficiencies and fraud instances?	• Information policy, stakeholder strategy (plan), annual report, investor relations policy, company website[22] • *HIR, CS, CEO, Board Chair, and content publisher*

[22] Please refer to IFC's 'Stakeholder Engagement: A Good Practice Handbook for Companies Doing Business in Emerging Markets' for further reference. https://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/sustainability-at-ifc/publications/publications_handbook_stakeholderengagement__wci__1319577185063

KEY IC RISK 5: The completeness and effectiveness of the internal control system is not being monitored.[23]

Client Features that Mitigate IC Risk #5	Questions to Ask	Answer Source
A. Internal control system is not evaluated.		
• The company has developed and enforced an evaluation system, either ongoing or separate, to assess the completeness and functionality of the internal control system.	• Does the company have an evaluation mechanism for its internal controls? Is the evaluation process conducted as a separate assessment, built-in ongoing procedures, or a combination of both? • Who is responsible for conducting a separate evaluation? Does the unit/staff in charge of the process have enough independence and knowledge to evaluate internal controls? Are internal audit (IA) staff involved in the evaluation process? • What are the scope and frequency of separate evaluations? How are the findings reported and communicated?	• Internal control policy and IA unit by-law, ToR • *CEO, CRO, CIA, and CCO*
• The company addresses inadequacies and gaps in internal control by communicating findings at all levels, including the board, management, and staff, and taking corrective actions.	• How are the findings reported and communicated to all levels? • How are corrective actions assigned and addressed? • How does the company monitor and track the progress of corrective actions?	• Internal control policy, IA unit by-law and ToR, annual plan • *CEO, CRO, CIA, CCO, and AC Chair*

[23] According to Principle 16 of the COSO Framework, "monitoring can be done in two ways: through ongoing evaluation or separate evaluation, or a combination of the two. Ongoing evaluations are generally defined, routine operations, built into business processes and performed on a real-time basis. Separate evaluations are conducted periodically by objective management personnel, internal audit, and/or external parties, among others."

5. Model Document: Internal Control System By-Law

Color Coding Conventions:

Black-colored provisions:	Minimum acceptable provisions which are considered minimum requirements that the organization should be in compliance with.
Green-colored provisions:	Better provisions which represent further steps to strengthen corporate governance and risk management in the organization.
Blue-colored provisions:	Desirable provisions indicate that the organization has a more mature corporate governance and established risk management system.
Red-colored provisions:	Best practice provisions which indicate that the organization aspires to conform with the highest international corporate governance and risk management practices.

1. General Provision

1.1. This Internal Control System By-Law (hereinafter the "By-Law") of «_____» Company (hereinafter the "Company") has been drafted in accordance with the Laws of _____ (hereinafter the "Law"), the Charter of the Company and other internal corporate documents, and relevant recommendations of the _____. This By-Law defines the goals and objectives, principles, processes as well as the Company's directors and employees responsible for internal controls.

2. Definitions

2.1. For the purposes of this By-Law, the terms used as follows have the following meanings (*as per the COSO framework*):

2.1.1 Business Processes
- sales, purchasing, production, marketing (etc) processes which are established across the Company to enable it to achieve its objectives.

2.1.2 Chief Internal Auditor
- the most senior executive responsible for Internal Audit of an entity. Similar titles may include Director of Internal Audit, Chief Audit Executive or Head of Internal Audit. This position reports functionally to the Audit Committee of the board and administratively to the Chief Executive Officer.

2.1.3 Control Activities
- the actions established by policies and procedures to help ensure that management's directives to mitigate risks during achievement of objectives are carried out. Control activities are performed at all levels of the entity and at various stages within business processes and across the technology environment. This is one of the five components of the internal control system under COSO.

2.1.4 Control Environment
- the foundation for all other components of the internal control system. The board of directors and management establish the tone from the top regarding the importance of internal control and expecting standards of conduct. The control environment provides discipline, process and structure.

2.1.5 External Audit
- a periodic examination of the books of account and records of an entity conducted by an independent third party (the auditor), to ensure they have been properly maintained, are accurate, comply with established concepts, principles, accounting standards, legal requirements and give a true and fair view of the financial state of the entity (*as per Chartered Institute of Management Accountants'*[24] *Management Accounting Official Terminology*).

2.1.6 Information and Communication
- the identification, capture and exchange of information in a timely and useful manner. Information is necessary for the entity to carry out internal control responsibilities in support of achievement of its objective(s). Communications occurs externally and internally to provide the entity with information needed to carry out day-to-day internal control activities. Communication of relevant information enables all personnel to understand internal control responsibilities and their importance to achievement of objectives. This is one of five components of the internal control system under COSO.

2.1.7 Internal Audit
- an independent, objective assurance and consultation activity designed to add value and improve an entity's operations. It helps an entity accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes (*as per the Institute of Internal Auditors'*[25] *definition*).

[24] https://www.cimaglobal.com

[25] https://global.theiia.org

2.1.8 Internal Control
- a process – effected by an entity's board of directors, management and other personnel – designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting, and compliance.

2.1.9 Internal Control System
- a system encompassing the procedures, methods and measures instituted by the board of directors and management to ensure that operational activities progress towards achievement of entity objectives.

2.1.10 Monitoring Activities
- ongoing or separate evaluations or a combination of the two used to ascertain whether each of the five components of internal control, including controls to effect the principles within each component, are present and functioning. Findings are evaluated and deficiencies are communicated to the relevant parties in a timely manner, with systemic issues reported to management and the board of directors.

2.1.11 Risk
- any factor that can keep an entity from meeting its objectives.

2.1.12 Risk Assessment
- the process for identifying and assessing risks to the achievement of the entity's objectives. It forms the basis for determining how risks will be managed.

2.1.13 Risk Management Framework
- the complete set of five components that provide the foundation and organizational arrangements for designing, implementing, monitoring, reviewing and continually improving risk management throughout the entity.

3. Purpose of the Internal Control System

3.1. The internal control system, at a minimum, aims to safeguard the Company's assets against unauthorized acquisition(s).

3.2. The system should also aim to prevent and eliminate fraud and theft of the Company's assets and ensure achievement of the Company's stated objectives.

3.3. The ultimate purpose is to put in place a system of internal controls, overseen by the board of directors and management, to provide reasonable assurance regarding the achievement of the following categories of objectives:

3.3.1. accuracy and reliability of financial reporting, including internal and external financial and non-financial, against required financial and non-financial reporting standards;

3.3.2. compliance with laws and regulations to which the Company is subject; and

3.3.3. effective and efficient Company operations, including financial performance goals and safeguarding assets against loss.

4. Principles of Internal Control

4.1. The Company's internal control system is based on the following principles:

4.1.1. General Principles

4.1.1.1. The internal control system should function at all times without interruption to allow the Company to identify deviations in a timely and continual basis and help predict such deviations in the future.

4.1.1.2. Each person involved in the internal control

system should be held accountable. As such, the performance of each person carrying out internal control functions should, therefore, be managed by another person within the internal control system.

4.1.1.3. The system of internal control should segregate duties. Hence, the Company should prohibit any duplication of control functions and assign functions to staff, whereby one employee does not oversee a combination of functions relating to the authorization of operations with certain assets, recording of such operations, ensuring and safe-keeping of assets and inventory of these same assets.

4.1.1.4. Uniform authorization and approval of operations standards shall be established. Therefore, management should establish procedures for the approval of all financial and business operations only by authorized persons acting within the scope of their authority.

4.1.1.5. All persons involved in the Company's internal control system are responsible for the adequate performance of such control system.

4.1.1.6. All units and departments of the Company should integrate and cooperate to ensure proper implementation of the internal control system.

4.1.1.7. A culture of continuous development and improvement needs to be realized. As such, the Company's internal control system should be structured in such a way to ensure it can be flexibly "tuned" to address new issues and be receptive to expansions and upgrades in the system.

4.1.1.8. A system for timely reporting of any exception should be put in place to ensure that authorized persons receive such information in a timely manner.

4.1.1.9. The level of complexity of the system of internal control should correspond to the level of importance of the object under control.

4.1.1.10. The board of directors and management should prioritize activities in such a way that ensures the Company's areas of strategic importance are encompassed by the internal control system.

4.1.1.11. The internal control system should be comprehensive enough to cover all areas of business operations.

4.1.2. Control Environment

4.1.2.1. The Company should be committed to sound integrity and ethical values.

4.1.2.2. The board of directors should be independent of management and exercises oversight over the development and maintenance of the internal control system.

4.1.2.3. Management to establish, with board oversight, adequate structures, reporting lines and appropriate authorities and responsibilities.

4.1.2.4. The Company to display commitment to attract, develop, and retain competent individuals essential to meet its objectives.

4.1.2.5. The Company should hold individuals accountable for their internal control responsibilities.

4.1.3. Risk Assessment

4.1.3.1. Objectives, risks and controls should be linked.

4.1.3.2. The Company must specify objectives with sufficient clarity to enable the identification and assessment of risks to achieve its objectives.

4.1.3.3. The Company should identify risks across the entity and analyze them as a basis to determine how risks should be managed.

4.1.3.4. Risk assessment to include evaluations of potential fraud.

4.1.3.5. The Company should periodically identify and assess how changes in the organization could impact the system of internal control.

4.1.4. Control Activities

4.1.4.1. Control activities selected and developed to mitigate risks to achievement of objectives to acceptable levels, with an acceptance that total elimination is unlikely.

4.1.4.2. The Company develops adequate control activities over technology and manual processes.

4.1.4.3. Control activities are manifested in Company policies and embedded into relevant procedures.

4.1.5. Information and Communication

4.1.5.1. Relevant and quality information and communication are incorporated into components of internal control to support the functioning of the internal control system.

4.1.5.2. Adequate information, including objectives and responsibilities for internal control, is communicated to employees.

4.1.5.3. Adequate information should be communicated to external parties regarding internal control.

4.1.5.4. Adequate communication channels should be in place to allow the board and senior management to receive information regarding internal control deficiencies.

4.1.6. Monitoring

4.1.6.1. The Company should develop and undertake ongoing and separate evaluations[26] to ascertain whether the components of internal control exist and are functioning adequately.

4.1.6.2. The Company should evaluate and communicate internal control deficiencies in a timely manner to parties responsible for taking corrective action(s), including senior management and the board of directors.

5. Control Environment[27]

5.1. The Company's internal control system should include a commitment to integrity, ethical values and behavioral standards[28] that are communicated to all employees. This forms the basis of the control environment, which is the foundation for all other components of internal control, providing discipline and structure. Management should ensure all personnel across the organization understand the Company's objectives, which should be set in alignment with the risk appetite and personnel should be cognizant of their shared responsibilities to help achieve those objectives.

[26] Ongoing evaluations, built into business processes at different levels of the entity, provide timely information. Separate evaluations, conducted periodically, will vary in scope and frequency depending on assessment of risks, effectiveness of ongoing evaluations and other management considerations.

[27] The control environment should be driven by the board of directors and senior management who set the tone of the Company at the top by demonstrating through their actions and behavior, influencing the control consciousness of the employees.

[28] The core of sound integrity, ethical values and behavioral standards form the "tone at the top" and they are defined and upheld by the board of directors and senior management. The values are reflected in management's philosophy and operating style, which shapes the corporate culture. The internal control system also emphasizes competencies and authority.

5.2. Expectations of integrity, ethical values and behavioral standards are defined in the Company's Code of Conduct/Ethics, subject to periodic evaluation. Deviations from the Code of Conduct are identified, and corrective actions undertaken by management under the oversight of the board and Audit Committee.

5.3. The control environment is integrated with the structure, business processes and systems of the Company.

5.4. Senior management of the Company should establish an organizational structure that forms the basis for planning, performance, control and monitoring of its activities. The organizational structure should define the key areas of responsibility and reporting lines. The structure and accountability should be designed with consideration of the Company's size and activities. Individual responsibilities for internal controls are defined under the framework of "three lines model", with first line being frontline managers and employees on their day-to-day activities, the second line is provided by business-enabling functions[29] that offer guidance and support and the third line is Internal Audit delivering independent assurance.

5.5. Senior management should establish job descriptions, into which the internal control responsibilities of each position are incorporated. The chief executive officer should direct the establishment of formal human resources management policies and procedures to formalize human resources activities – including hiring, orientation, performance evaluation, promotion and compensation – which are essential to ensure required competencies. Human resources practices should emphasize integrity, ethical behavior and competencies. Relevant training, certification and continuing education will further help define competency. The board should ensure that a documented succession plan is in place and it is the board's responsibility to evaluate the respective competencies of senior management, that in turn, is required to evaluate competency across the organization. The board and management should demonstrate commitment and ability to develop and retain employees with competencies.

5.6. The board of directors and senior management should define the authority, for example the distribution of power and responsibilities to ensure delegation of decision-making and to foster a sense of initiative to develop solutions to issues and settlement of problems, while establishing boundaries of their powers.

6. Risk Assessment

6.1. The Company should engage in periodic risk assessments in accordance with its risk governance and risk management system, and such assessments should be based upon the goal of achieving Company objectives. Management should explicitly articulate entity-wide objectives and disseminate them across the organization, and develop an overall strategic plan to achieve the objectives. This strategic plan should be cascaded down and developed into plans at an appropriate level of detail for each management level. In setting objectives, all levels of management should be sufficiently involved in providing feedback and determining priorities.

6.2. The Company should identify and assess internal and external risks.

6.3. The Company's risk assessment should involve appropriate levels of management and employ appropriate methodology to estimate the significance of risks identified and the decision-making mechanism on risk treatments. Fraud risk should also be incorporated into the scope of risk assessment.

6.4. Management should constantly scan the environment for changes that could significantly affect internal controls. Such changes may originate from the external environment, such as regulatory, economic, environmental, political and social ones, with potential impacts on internal control considered. In the event of new or changing business/product lines, major projects, and/or new acquisitions or dispositions, their risks and impacts on internal control should be assessed. Changes in management and leadership should be considered in the risk assessment.

[29] For example, risk management, legal and compliance finance, information technology and human resources management.

7. Control Activities

7.1. Control activities should be incorporated into policies and procedures developed by management for integration into the Company's business processes and day-to-day activities. Management should ensure policies and procedures are formalized to the extent possible and are adequate for the size and complexity of the Company's business. Individual responsibilities for control activities are defined and reflected in respective job descriptions. Management should establish control activities at all levels of the organization, all functions, at various stages of business processes and over the information technology environment based on the risks identified. Management should ensure that control activities are performed by competent personnel in a timely manner. Control activities should not only cover internal business processes, but also business-enabling functions (such as information technology) and outsourced services.

7.2. The Company should deploy a mix of controls – preventive and detective, manual and automated – based on the physical circumstances and operating environment of the Company. Deviations and exceptions should be investigated and followed up in a timely manner by appropriate personnel. Management should periodically review to ensure optimal functioning and adequacy of internal controls.

7.3. Duties to perform asset custody, accounting transactions, accounting record-keeping, authorization of transactions and information technology should be carried out by different persons/units/departments. Any management override related to a specific tolerance level should be flagged to the board of directors. If segregation of duties cannot be delineated, alternative control activities are in place for implementation.

7.4. Transactions and activities should be authorized according to the approved delegated financial authority and authorization matrix. A verification system should be in place to facilitate comparisons and matching to ensure completeness, accuracy and validity of transactions. When discrepancies are found, corrective follow-up actions are triggered and documented.

7.5. Accurate and complete records should be maintained in accordance with the prevailing rules and regulations.

7.6. Physical controls and security should be in place to safeguard physical/digital assets and records from unauthorized access, damage and theft. Physical assets should be secured and periodically counted against records. Controls over standing data should be established. For digital assets and records, general computer controls should be established to control access and ensure data integrity through periodic back-ups. Adequate information security management should be in place to prevent internal and external threats from telecommunication networks, the internet and the intranet. Acquisition, development and management of technology should be managed by an established structure and policy through a committee or technology working group at management level. Such a management-level committee should report to a board-level technology committee subject to the scale and size of the business and technology investment.

7.7. Independent periodic checks by Internal Audit or other third parties on the performance of policies, procedures and transactions should be established.

7.8 Senior management should establish:

7.8.1. goals and objectives, powers and responsibilities of the Company's divisions and employees at all levels of management to ensure synergies;

7.8.2. company-wide and employee key performance indicators;

7.8.3. activity efficiency criteria and evaluations for Company units and employees;

7.8.4. control over implementation of Company financial and business plans;

7.8.5. periodic comparisons of current operational data with budget;

7.8.6. periodic comparisons of data provided by various operating units of the Company;

7.8.7. periodic examinations of the accuracy of accounting entries;

7.8.8. periodic checking of accuracy and timeliness of document flows;

7.8.9. periodic evaluations of efficiency of certain specific (material) transactions;

7.8.10. periodic checking of management approvals of underlying primary documents;

7.8.11. periodic and unscheduled inspections and inventories of assets and liabilities;

7.8.12. physically limiting access to Company assets, underlying primary documents, accounting registers and electronic accounting files;

7.8.13. authorization for use of information; and

7.8.14. regular evaluations of internal control system adequacy.

8. Information and Communication

8.1. Pertinent information should be identified, captured and communicated in a form and timeframe that enables employees to carry out their responsibilities.

8.2. The Company should ensure the availability of complete and accurate information on events and conditions that may affect the Company's decision-making. Management should ensure that information is provided at the right level of detail for each level of management. Controls are developed and implemented to identify information that supports the control environment, risk assessment and monitoring components of the internal control system. As part of the information technology strategic plan, management should also set aside resources for enhancing/developing the existing/new information systems linked to strategic initiatives.

8.3. The Company's information systems should encompass internally generated data and external events, activities and conditions necessary to facilitate informed business decision-making and external reporting.

8.4. The Company should establish efficient communication channels to ensure the board, senior management and all other personnel involved in internal control functions understand their control responsibilities and the inter-relationship between one another's activities. Information necessary for management to carry out its internal control responsibilities should be made available on a regular basis. Information should be made available in a timely manner to enable effective monitoring of events, activities and initiation of follow-up actions on changes and control issues. Management is responsible for ensuring information is accessible, accurate, current, protected, retained, sufficient, valid and verifiable.

8.5. Adequate information channels should be established to enable all personnel to understand and execute their control responsibilities. Management should ensure information is adequately and effectively communicated to all personnel, through various platforms, to set expectations and acceptable/unacceptable behavior. A mechanism for employees to communicate significant information upstream should be established, including a whistle-blower policy and/or ethics hotline established by the board and senior management. There should be open communication channels between the board and management to fulfill their respective internal control objectives.

8.6. Externally, the Company should put in place adequate communication channels to communicate with customers, suppliers, regulators, shareholders and other stakeholders. The board should adopt an information disclosure by-law to ensure clarity and compliance with respect to external parties. Mechanisms should be in place to enable communication of relevant feedback from external parties to the board regarding internal control performance and issues. The Board should direct management to establish communication channels to provide timely and quality information to regulators, financial analysts and other relevant external parties, and to receive information related to internal controls from customers and vendors. Management should develop a Stakeholder Engagement Policy[30], with a dedicated

[30] Please refer to IFC's *Stakeholder Engagement: A Good Practice Handbook for Companies Doing Business in Emerging Markets*: https://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/sustainability-at-ifc/publications/publications_handbook_stakeholderengagement__wci__1319577185063

focus on stakeholder groups that are "external" to the core operation of the business, such as affected communities, local government authorities, non-governmental and other civil society organizations, local institutions and other interested or affected parties. Ensure timely and appropriate follow-up actions are carried out in response to communication from these external parties.

9. Monitoring Activities

9.1. Management should periodically monitor the performance of the internal control system by establishing a process that assesses the quality of its performance over time. Each of the five components of internal control should be evaluated through ongoing monitoring activities, separate evaluations or a combination of the two.

9.2. From time-to-time, the internal control system should be updated/ strengthened to ensure its efficient operation.

9.3. Internal control deficiencies should be communicated in a timely manner, with significant matters reported to senior management and the board.

9.4. The monitoring process of internal controls should include an evaluation of actions or inactions by the Company's board of directors, management and employees in introducing internal controls in all business processes, timely risk assessments and efficiency of control measures.

9.5. The board should form its own view on the effectiveness of the control environment after due and careful enquiry based on information and assurances provided by the Internal Audit Department, Audit Committee, management and external parties, such as external auditors.

9.6. The framework for the monitoring process should ultimately be approved by the board of directors (approve goals, limits and regularity of reports submitted by management, Internal Audit Department and Audit Committee within the year, as well as any public disclosure on the adequacy of the internal control system in the Company annual report).

9.7. When reviewing the above-mentioned reports /information, the board of directors should:

9.7.1. focus on the significant risks and assess how they were identified, evaluated and managed;

9.7.2. assess the effectiveness of the related system of internal control in managing significant risks, especially any reported internal control failures or weaknesses;

9.7.3. consider whether necessary actions are being taken promptly to remedy any significant failings or weaknesses; and

9.7.4. consider whether the findings indicate a need for more extensive monitoring and/or changes in the existing controls.

9.8. Management should be responsible to the board of directors for continuous monitoring of the internal control system and for providing assurances to the Board of Directors that monitoring is carried out.

9.9. The Audit Committee should oversee and evaluate the effectiveness and efficiency of the Company's internal control system based on reports developed by the Internal Audit Department. The Audit Committee should report and make recommendations to the board of directors on major deficiencies and issues found in the internal control system.

9.10. The Internal Audit Department should be independent of operations in the Company's organizational structure. Internal audit staff should possess the competency and experience requisite for the size and complexity of the Company's business and operations.

9.11. Internal audit reports should provide the board of directors with a balanced assessment of the significant risks and effectiveness of the internal control system in managing those risks. Any significant control failures or weaknesses identified should be discussed in the reports, including potential or actual impacts on the Company and remedial action(s).

9.12. The Audit Committee should ensure that external auditors, as part of the annual audit, review the adequacy of the Company's internal control system and report any deficiencies in Management Letters. The board and management should review the Management Letters and initiate appropriate action(s). Corrective action(s) should be documented and undertaken in a timely manner.

9.13. The board of directors should undertake an annual self-assessment. Regarding the internal control system, self-assessments should consider:

9.13.1. changes since the last annual assessment in the nature and extent of significant risks, and the Company's ability to respond to changes in its business and the external environment;

9.13.2. scope and quality of management's ongoing monitoring of risks and the internal control system and, where applicable, the work of the Internal Audit Department and other providers of assurance;

9.13.3. extent and frequency of communication of monitoring results to the board to enable it to build a cumulative assessment of the state of control in the Company and the effectiveness with which risks are managed; and

9.13.4. incidences of significant control failures or weaknesses identified at any time during the period and the extent to which they have resulted in unforeseen outcomes or contingencies that had, could or may have a material impact on the Company's financial performance or condition.

9.14. The board could order separate evaluations, the scope and frequency of which would depend on the assessment of risks and the effectiveness of ongoing monitoring activities. Separate evaluations could be conducted by the Board, management and/or other relevant personnel.

9.15. As soon as the board of directors becomes aware, at any time, of a significant failure or weakness in the internal control system, it should determine how it arose and re-assess the effectiveness of management's ongoing processes for designing, operating and monitoring the system of internal control.

10. Roles and Responsibilities

10.1. The internal control system involves every member of the organization and is effected by personnel within the Company, including the board of directors, management, business-enabling functions, operations and internal auditors. As such, internal control responsibilities should be included in each job description, as required.

10.2. The Company should define the roles and responsibilities for internal control in terms of three lines model as follows:

10.2.1. management and business owners in charge of day-to-day operations are part of the first line as they are responsible for maintaining effective internal control which is integrated into their daily activities;

10.2.2. business-enabling functions, such as risk management, legal and compliance, are part of the second line as they provide expert advice on internal control requirements and facilitating the proper functioning of the internal control system to help management make informed decisions; and

10.2.3. internal auditors are the third line and they conduct independent assessments of internal control effectiveness and recommend corrective action(s) or enhancements on deficiencies found.

10.3. The board should take a leadership role in establishing the control environment, including:

10.3.1. defining the expected levels of integrity and ethical values and internal control responsibilities within the Company;

10.3.2. ensuring the Company's organizational structure is conducive to internal control;

10.3.3. defining the delegated authority and distribution of responsibility; and

10.3.4. defining the human resources policy that emphasizes integrity, ethical behavior and competencies.

10.4. The board must set the risk appetite, against which the risk assessment is carried out and controls set by management.

10.5. The board is responsible for monitoring the proper functioning of the internal control system and the performance of management in performing its internal control responsibilities.

10.6. The Audit Committee is responsible to the board for providing oversight on:

10.6.1. putting in place a robust internal control framework;

10.6.2. monitoring the performance of the internal control system;

10.6.3. accurate, timely and relevant reporting;

10.6.4. safeguarding assets and stakeholder interests;

10.6.5. upholding positive ethics and integrity amongst the directors, management and other employees;

10.6.6. assuring compliance with law and regulations; and

10.6.7. ensuring regular dialogue with external auditors who, as part of the external audit remit, are responsible for advising the Company on the effectiveness of its internal control system.

10.7. The Risk Management Committee contributes to the establishment of the control and risk management frameworks. It is responsible for:

10.7.1. assisting the board to oversee, monitor and review the effectiveness of the Company's risk management framework and other matters in relation to governance of the full spectrum of risks (including environmental and social risks) applicable to the Company;

10.7.2. adhering to international standards for best practices in corporate governance and risk management, and specific standards applicable to the Company;

10.7.3. overseeing and monitoring senior management's performance in implementing the Company's risk management policy and related procedures and practices based on the risk management framework. Reviewing and challenging management on assumptions and risk implications of business strategies;

10.7.4. reviewing and recommending for board approval risk appetite and risk management strategies; and

10.7.5. working closely with the AC to ensure that proper internal controls are set in place by management in addressing risks applicable to the Company.

10.8. The Chief Executive Officer (CEO) is responsible for all activities related to internal control and assigning tasks that effect controls and roles to different members of the organization. The CEO is ultimately accountable to the board of directors for proper implementation of the internal control system and ensuring its effectiveness. As the bridge between board and management, the CEO should work closely with the board to set the tone at the top, which shapes control environment factors and other components of internal control. The CEO's roles and responsibilities in internal control encompass:

10.8.1. directing and delegating the design, implementation and assessment of internal control system to management at different levels;

10.8.2. defining performance indicators and other metrics that measure the effectiveness of the internal control system;

10.8.3. encouraging management and other employees to proactively identify existing and potential threats to the internal control system;

10.8.4. providing leadership and direction to senior management by shaping the values, principles and major policies that drive the Company's internal control system;

10.8.5. ensuring compliance with local legal and regulatory requirements; and

10.8.6. regularly reviewing internal control system performance with the management team, risk managers, compliance officers, internal and external auditors.

10.9. Various business-enabling functions support operating functions in effecting internal controls through their specialized expertise, such as risk management, compliance, legal, information technology, finance, human resources and quality management as well as provide guidance on the development and execution of internal control related to their areas of specialty. All should keep management informed of changes in requirements and emergent risks as the business and operating environment changes.

10.10. Risk and control personnel should provide guidance and support to frontline management on developing internal controls in business processes and systems based on risks identified. Additionally, they should report significant risks and major issues regarding the quality of risk management to the Board and senior management.

10.11. The Management Risk Committee is responsible for formulating the overall risk appetite in line with the board-approved parameters and presenting the same to the board Risk Committee for review and endorsement to the full board.

10.12. The Company's risk function is responsible for providing guidance to each department during the risk appetite development phase and collating obtained inputs for presentation to the Management Risk Committee. The risk function should also be responsible for ensuring that limits and escalation triggers are adhered to in coordination with department risk leads and in initiating escalation reporting in case of a breach.

10.13. Under the direction of the chief financial officer, finance personnel have a major responsibility for reporting of Company financial statements. They are also expected to uphold standards of the Company's ethical conduct and influence the design, implementation and monitoring of the Company's reporting system.

10.14. The Internal Audit Department (IAD) provides independent assurance and advisory services over internal control.

10.15. With respect to internal control, the IAD is responsible for evaluating the effectiveness and adequacy of controls to address risks inherent to Company operations and systems, to ensure:

10.15.1 reliability and integrity of financial and operational reporting;

10.15.2 effectiveness and efficiency of operations; and

10.15.3 compliance with laws and regulations.

10.16. The scope of internal audit should include checking compliance, evaluating the effectiveness and efficiency of internal controls, and promoting continuous improvements in risk management and control frameworks.

10.17. The Chief Internal Auditor (CIA) should adjust the annual audit plan to cater for internal control changes that occur during the year as well as changes in international best practices, such as COSO or Basel (for banks).

10.18. Considering the importance of the internal audit, the Audit Committee should ensure that an external assessment of the Internal Audit Department is undertaken at least once every five years by a qualified, independent assessor or assessment team from outside the organization.

APPROVED

By decision of the Board of Directors
of the _____Company «_____»

Board of Directors Minutes
No. _____
of _____ 202_

Signature of the Chairman of the Board
_____

dated this __ day of _____, 20__
[The Company's Seal]

Internal Control System By-Law
of the Company

«_____»

6. Major Internal Control Key Performance Indicators (KPIs)

The major internal control KPIs presented below aim to help board, management and other stakeholders in monitoring the achievement of the internal control objectives in meeting the organizational goals.

The Indicators are based on IFC's Corporate Governance Methodology and Environmental and Social Performance Standards particularly on the governance of E&S – two globally recognized ESG risk assessment and management standards. The Indicators are organized by the five integrated components from the COSO Framework.

No	Internal Control KPI	Yes/ No	Topic Addressed	Sources	Frequency of Measurement
A. Control Environment					
1	The company has a Code of Ethics/ Conduct that addresses ethical values and standards, and updates the Code regularly		Internal Control (IC) Framework (*commitment to integrity and ethical value*)	Company website, Internal Control By-laws, Corporate Governance Manual (e.g. Conflict of Interest, Insider trading, Gender Policy etc.)	Annually
2	The company monitors, evaluates and enforces adherence to the Code of Ethics/Conduct		Compliance (*commitment to integrity and ethical value*)	Code of Ethics/Conduct trainings, Compliance reports, Internal Audit reports, third-party reports (if applicable)	Quarterly
3	The board of directors exercises oversight of the development and performance of internal control		Board Oversight (*The Board demonstrates independence from management and exercises oversight*)	Board Charter, Board Committees Charters, Board/ Committee Agendas, Board/ Committee Reports/Papers	Quarterly, Annually
4	Executive management establishes structures, reporting lines, authorities and responsibilities		Organizational Structure (Clear reporting lines and segregation of duties)	Organizational Chart, Delegation of Authorities Matrix, Job Descriptions	Semi-annually
5	The company's HR practices are designed and executed to attract and retain competent individuals		Talent Management, Career Planning Succession Planning, Compensation Schemes, Training and Development Programs	HR Policies and practices	Semi-annually
6	The company's performance and reward system are established to hold personnel accountable for their responsibilities		Performance Management, Risk-adjusted Compensation	HR Policies and practices, Code of Ethics/Conduct	Semi-annually

No	Internal Control KPI	Yes/ No	Topic Addressed	Sources	Frequency of Measurement
B. Risk Assessment					
7	The company sets strategic objectives with taking into account the related risks		Strategic Planning, Annual Risk Assessment	Company Strategy, Company Annual Risk Assessment results, Company's Risk Universe, Risk Appetite Statement (RAS)	Annually
8	The Company identifies risks affecting to the achievement of its objectives across the entity and analyzes risks and take necessary actions		Risk Management	Enterprise Risk Management (ERM) Policy, RAS, Environmental and Social Management System, Results of the Risk Management function's periodic reviews, Stakeholder Engagement Policy, Materiality Matrix, Company's Grievance Mechanisms	Quarterly
9	The potential for various types of fraud in assessing risks is taken into consideration		Fraud Prevention	ERM Policy, Code of Ethics/Conduct, Anti-Fraud Policy, Fraud Department (if any), Training/Awareness events related to fraud prevention	Annually
10	Changes in internal and external factors that may impact internal control system are monitored on an on-going basis and necessary actions are taken		Business Environment	Strategic Updates / Changes in Company's strategy, Organizational Changes, Results of the Risk Management function's periodic reviews, Industry Reports, Potential regulatory changes	Semi-annually
C. Control Activities					
11	Control activities that mitigate risks are defined and implemented		Risk Mitigation, Control Procedures	Internal Control By-law, Operation-level Policies	Quarterly
12	Control activities using technology (as appropriate) are established		Automated Controls	Internal Control By-law, IT Policy, Information Security Policy, Enterprise Resource Planning (ERP) Automation Features, IT Audit results	Quarterly

No	Internal Control KPI	Yes/ No	Topic Addressed	Sources	Frequency of Measurement
13	Control activities are deployed through the establishment of policies and procedures		Development of Internal Control Policies and Procedures	Internal Control By-law, Operational Policies, Centralized Policies & Procedures Unit (if available)	Annually
14	Responsibility and accountability for following policies and procedures are defined and executed		Compliance, Implementation of the IC Policies and Procedures	Audit/Risk Management/Compliance Reports, External reports (e.g. regulatory reports, management letters etc.)	Quarterly
D. Information & Communication					
15	Requirements to type and quality of information that supports internal control are defined		Information Quality	Internal Control By-laws, Information Policy	Annually
16	Information that is generated and used for internal control captures internal and external sources		Information Scope	Internal Control By-laws, Information Policy	Annually
17	Internal control information is communicated internally to responsible personnel		Internal Communication	Information Policy, Management/ Business Units Reports	Quarterly
18	Internal control information is communicated to the BoD/Audit/ Risk Committee		Board Communication	Board Charter, Committee Charter, Reports to Board/Board Committees	Quarterly
19	Internal control information is communicated to appropriate external parties		Disclosure	Disclosure Policy, ESG Report, Company Website	Annually
E. Monitoring Activities					
20	Separate evaluation of effectiveness of internal control is performed		IC Effectiveness	Audit Reports, Internal Control By-laws	Annually

No	Internal Control KPI	Yes/ No	Topic Addressed	Sources	Frequency of Measurement
21	Procedures for ongoing evaluation of effectiveness of internal control are established and performed		IC Effectiveness	Risk Management / Compliance Reports, Business Units Reports	Semi-annually
22	Evaluation of effectiveness of internal control is performed by competent personnel		IC Evaluation Quality	Audit Reports, HR Competency and Skills Assessment Results	Annually
23	Accountability and responsibility of personnel performing evaluation of internal control allow for objectivity and independence of judgment		IC Evaluation Independence	Organizational Reporting-lines, ToRs	Annually
24	Results of the evaluation of internal control are communicated to responsible parties for corrective actions		Compliance	Audit/Compliance Reports, Business Units Reports	Quarterly
25	The company monitors the execution of corrective actions		Compliance	Audit/Compliance Reports, Business Units Reports, Audit/Compliance Follow-Up Process, Executive Reports, Board Reports	Semi-annually

Part 3

CASE STUDIES

The purpose of this section is to help demonstrate the business case for good internal control systems. It shares the experiences of IFC clients that have made internal control improvements over the past few years, summarizing the changes they made and the impacts they reported. Overall, these companies reported highly positive impacts as a result of their internal control changes.

Case #	Company Name	Country	Industry/Sector	Related Key COSO Component
1	Saratoga Investama Sedaya	Indonesia	Financial Services	A. Control Environment *Management establishes, with board oversight, structures, reporting lines, and appropriate authorities and responsibilities in pursuit of the organization's objectives.*
2	Butec Holding	Lebanon	Construction	B. Risk Assessment *The organization identifies risks affecting the achievement of its objectives across the entity and analyzes risks as a basis for determining how they should be managed.*
3	Sharrcem Titan	Kosovo	Manufacturing	C. Control Activities *The organization selects and develops control activities that will mitigate risks affecting the achievement of its objectives to acceptable levels.*
4	Bank Audi	Lebanon	Financial Services	D. Information and Communication *The organization obtains, generates, and uses relevant, quality information to support the functioning of IC.*
5	KMF (KazMicroFinance)	Kazakhstan	Financial Services	E. Monitoring Activities *The organization selects, develops, and performs ongoing and/or separate evaluations to ascertain whether the components of internal control are present and functioning.*

1. Control Environment

Saratoga Investama Sedaya

Saratoga is a leading active investment company headquartered in Jakarta, Indonesia. Established in 1997, Saratoga takes an active role in managing its investee companies with a blended focus on promising early and growth stage companies, special situation opportunities, as well as blue chip sector leaders. Investments are targeted on sectors that support Indonesian economic development, including natural resources, infrastructure, and consumer products and services.

Saratoga was listed on the IDX in 2013 and it currently has a market capitalization of US$ 704 million (2019 Annual Report) (ticker code: SRTG). The Company formally launched its CG Code and Code of Conduct in June 2014. Saratoga is dedicated to exercising the principles of good corporate governance across all of its operating units and believes that this will enhance performance, increase investor trust, improve communications, and protect the interests of all stakeholders.

Objectives and Challenges

Saratoga's founders desired to be recognized as a market leader in the implementation of good CG, but they realized that the Company first needed a proper governance framework. Since going public in 2013, Saratoga's primary focus was to ensure compliance with local listing requirements. The founders acknowledged that changes were needed not only to meet Indonesian capital market regulations, but to optimize the Company's current performance and further prepare the organization for continued growth. To drive more efficient decision-making structures and address other challenges that impeded progress, the roles and responsibilities of the Board of Commissioners ("BoC") and Board of Directors ("BoD")[31] needed to be documented and formalized. Additionally, Saratoga's Internal Audit and Risk Management capacity required strengthening and policies were needed to manage conflicts of interest, insider trading, and RPTs needed to be developed and enforced. Leadership was committed to ensuring that its governance practices were in line with market expectations.

Strengthening the Control Environment to Support Sustainable Growth

In October 2013, IFC conducted a CG Assessment to help Saratoga improve its governance structure and practices following its recent listing on the IDX. The CG framework was evaluated for gaps between actual practices and requirements for listed companies in Indonesia.

The Company made great strides in improving its CG practices through activities such as finalizing the BoC and BoD Charters, amending the Nomination and Remuneration Committee Charter and the Audit Committee Charter, and updating the Investment Committee Charter to comply with new Otoritas Jasa Keuangan[32] (OJK) regulations. Saratoga established Internal Audit and Risk Management units shortly after its public listing. A robust Investor Relations (IR) Unit was set up in 2013 to provide public access to the Company's information via an IR section on the website. A Code of Conduct, which included related party transaction and whistleblower policies, was adopted in 2014. The IPO was a key catalyst that motivated Saratoga to revamp its CG policies and build a CG Code on par with international standards and regional best practices. Please see below for the summary of key changes in the Control Environment:

Risk Management: Established a Risk Management Unit (RMU), integrated into the CG assurance alongside the Internal Audit and Compliance units. RMU's role is to identify, assess, manage, and monitor risks with the BoD and business unit heads. Risk culture is more closely embedded within Saratoga. BoD was active in implementation of risk management while Audit Committee oversaw the RMU and escalated issues to the BoC.

Internal Audit: Formalized the role of the Internal Audit Unit in the Internal Audit Charter. The Internal Audit Unit expanded to include a Head and Senior Officer. Cooperated with internal audit throughout investee companies and formulated an annual work plan which was approved by the BoD and Audit Committee. Auditors received structured and continuous training.

Compliance: The Audit Committee was responsible for compliance with applicable internal and external

regulations. Established an official mechanism for whistleblowers to report misconduct as defined in the CG Code and Code of Conduct of the Company.

[31] In Indonesia the BoC assumes the role of a classic board of directors while the BoD assumes the role of executive management.

[32] The Financial Services Authority of Indonesia, which is the Indonesian government agency that regulates and supervises the financial services sector.

Impact

Saratoga reported the following impacts four years after embarking on the changes:

Risk Management: Risk management has improved significantly following the establishment of the Risk Management Unit. The Unit, under the supervision of the Audit Committee, regularly identifies and reviews key risks to the business and appoints a key risk champion for each respective department, thereby building an overall strong risk awareness and risk culture.

Internal Audit: Saratoga's Internal Audit Unit plays a significant role in identifying and conducting high risk audits and pressure points within its portfolio companies, thereby ensuring the effectiveness of internal controls and the control environment as well as conducting advisory functions related to business processes throughout the Group.

Access to Capital: CG policies implemented by Saratoga have had a strong impact on its ability to access capital, providing a one percent saving in the cost of capital annually, improving its credit score, and providing opportunities to diversify its funding sources.

Corporate Governance Catalyst: Saratoga has replicated the Company's CG structures and policies in its investee companies, moving from a CG Champion to a CG Catalyst. Strong and transparent governance structures both within Saratoga and its portfolio companies have yielded consistent profits and maximized shareholder value.

Organizational Efficiency: The adoption of various CG policies has improved Saratoga's organizational efficiency and contributed to effective decision making. The Company reported improved clarity in roles and responsibilities, which allowed the Company to adopt a lean and efficient structure unburdened by many layers of bureaucracy.

Reputation: The implementation of corporate governance changes has built greater trust, confidence, and positive perception that inspired market confidence. Saratoga is consistently perceived as a reliable and responsible business with solid corporate governance structure and practices by investors and other stakeholders.

2. Risk Assessment

Butec Holding

Butec Holding, founded in 1963 in Lebanon, has expertise in civil engineering design, installation of specialized plants and equipment, public works, and building construction. In its projects, Butec partners with international contractors, such as Vinci, Suez-Degremont, Siemens, and others, where Butec provides general contracting services within the contract structure.

Butec is in the first generation of leadership but approaching the second. Its founder, Dr. Younes, serves as the Chairman/General Manager (GM), while his son, Ziad Younes, serves as a Deputy GM.

Butec possesses a very strong corporate culture, primarily stemming from the values and principles espoused by its chairman and other long-serving executives. Looking forward, Butec is positioning itself as the preferred local partner for international engineering and contracting companies by teaming up with them on large projects around the region.

Objectives and Challenges

Despite its success and promising outlook, the company recognized that it faced many significant governance challenges as it prepared for the future. The company had mostly outgrown its structures and needed to strengthen its control procedures. The company knew that it had to make crucial changes to support its fast-expanding business and attract new investments.

Butec partnered with IFC to assess and improve its governance and internal control practices. The primary internal control changes that Butec pursued were to improve the risk management function. It required a more integrated and holistic system to substitute its existing reactive approach to risk assessment and management.

Improving Risk Assessment

The improvement of risk management practice required Butec to undertake the following:

Relating Risks to Objectives

- Butec decided on formalizing the risks assessment practice and linking it directly to its strategic business objectives.
- Formal risk assessment was introduced throughout the entire organization and embedded into Butec's construction projects.

Assessing Risks Across Various Objectives

Butec established risk assessment and management procedures across multiple business objectives including operational, reporting and compliance objectives. For instance:

- Recognizing the importance of continuous excellent management to the success of business, Butec developed a succession plan to provide a needed support and guidance to a second generation of founders.
- Butec hired a well-qualified CFO who made several upgrades to the financial management function and controls over reporting objectives.
- Agreed on upgrading HR management procedures to comply with rules.

Impact

Enhanced risks assessment practice led to creation of a better system for defining and evaluating risks to Butec's business objectives. Some of the impactful results reported by Butec include:

- Significant improvement of risk management throughout the entire organization with formal procedures for risk prevention and mitigation.
- Improved organizational efficiency due to a much sharper focus on backlog and reduction of rework. Many internal administrative processes were also automated and streamlined.
- The company's clients, business partners (e.g., joint venture partners), and suppliers have reportedly noticed the changes and are responding with increased confidence in Butec as a long-lasting partner.

3. Control Activities

Sharrcem Titan (Laboratory for Business Activity)

Sharrcem Titan is a leading raw materials and cement producer in Kosovo. Founded in 1936 as a state-owned company, Sharrcem was acquired by the Titan Group in 2010 after the company was privatized. As part of the Titan Group, Sharrcem shares the overall company commitment to corporate social responsibility, built on the notion that successful businesses have an obligation to contribute to the sustainability of local communities in which they operate.

In 2012, Sharrcem decided to pull together several of its community-oriented ac¬tivities under a single umbrella, called the Laboratory for Business Activities—LAB.

Set up as a nonprofit community development foundation, LAB became an official entity in February 2014. LAB provides vocational training, equipment, and seed capital for small agribusinesses in the region. The goal is to create jobs and foster economic development in a struggling community that has few educational or employment opportunities and where access to grant funding or other financial assistance is limited.

Objectives and Challenges

From the outset, Sharrcem's leaders realized that strong governance policies and a robust internal control system were essential starting points for a trust-based community-oriented organization that would have credibility and legitimacy. As they started up LAB, Sharrcem's leaders requested IFC's assistance in identifying key governance challenges and in proposing solutions to address the challenges. IFC conducted its analysis in the spring of 2013.

One of the major challenges the company faced was a lack of trust among key stakeholders. There was considerable distrust and skepticism about the role of private business in the wellbeing of local community due to the historical legacy of past socialist regime. A lack of transparency may have contributed to these negative impressions. To overcome the skepticism, Sharrcem needed to convey a sense of openness as well as long-term commitment, engagement and collaboration with local stakeholders, both public and private about the

activities and motivations of the new foundation. The lack of trust was the core risk that could become a stepping stone in successful operation of LAB.

Developing Control Activities

To mitigate and manage its major risk to the achievement of its business objectives, the company selected, developed and implemented several control activities.

Board Composition

Capable and effective board was crucial for building trust and achieving business development objectives of LAB. With multiple stakeholders and multiple interests involved the foundation needed an optimal board structure and procedures to ensure representation from all parties to mitigate the risk that the community would not support the program. To mitigate these set of risks, LAB decided on certain control activities and undertook the following:

- Set up a two-board structure comprising of a council of stakeholders and a board of directors. A regular meeting schedule was also developed for both.
- Appointed eleven-member council of stakeholders representing community members, state and local government officials, and international donor representatives to serve as principal decision-making body.
- Improved board compensation.

Disclosure and Transparency

Transparency and robust disclosure were equally important for local and the international donor community. LAB identified key influencers in local community and:

- Established regular lines of communication with these community leaders, including one-on-one meetings;
- Organized public forums and round table discussions;
- Developed pattern of engagement with all stakeholders including international donors, government officials, and representatives of relevant financial institutions;
- Set measurable objectives, targets and performance indicators to monitor and evaluate progress annually through public disclosures according to international standards; and
- Conducted impact assessments both in the launching and in the completion of 5-year business plan.

Impact

Selecting and introducing control activities allowed Sharrcem to mitigate core risks that were threatening a successful achievement of LAB's business objectives. Among some of the impact results reported by Sharrcem are:

- Improved community relations thanks to the company's strengthened relationship with the local community.
- Reduced reputational risks through positive interactions with the communities through LAB. The focus on transparency, engagement, and representation helped to build trust within multiple stakeholders.
- Enhanced brand. Sharrcem has achieved national and international recognition as a leader in corporate social responsibility—the company received the European Award for Corporate Social Responsibility in 2013.
- Attracted new private investments in the region and more opportunities for business and employment creation for local stakeholders.
- New practices to develop and implement social investments and create sustainable value at local level.

4. Information and Communication

Bank Audi

The history of Bank Audi dates back more than 175 years. With operations in Lebanon, the Middle East, North Africa, and Europe, the bank offers a full range of products and services for commercial, corporate, investment, private, and retail, banking. Bank Audi has been listed on the Beirut Stock Exchange and the London Stock Exchange (represented by global depository receipts) since 1997.

Before the 2019-2020 economic crisis and political turmoil in Lebanon, Bank Audi was considered the vanguard of best practice among Lebanese banks and had strong performance. Even during the global financial crisis, the bank's net profits rose. In 2008, profits increased by about 19 percent with total assets showing an 18 percent increase and total deposits rose by 21 percent. In 2012 and 2013, amidst the regional turmoil, assets grew by 9 percent and 16 percent respectively. Bank Audi's compounded average annual growth rate during that time was strong: 13 percent growth in both the asset base and deposits, with 8 percent increase in profits.

While strengthening its activities beyond traditional commercial banking, Bank Audi undertook a significant local and regional expansion. It is the largest Lebanese bank and ranks among the top 20 Arab banking institutions in terms of deposits.

Objectives and Challenges

Despite its continuous success, Bank Audi realized that changes were needed to keep up with international best practices. Bank Audi partnered with IFC to assess and improve its corporate governance system. The core emphasis was put on strengthening its internal control system. Among other aspects, Bank Audi recognized the importance of developing a comprehensive communication system. Information and communication channels when set to function correctly would support the Bank Audi's internal control system. More importantly, the bank understood that better internal control will bring added value. They understood that value creation would come from better-informed decision making and effective communication.

Improving Communication

Demonstrating foresight and a proactive stance, Bank Audi's management decided to spearhead a number of changes to upgrade and enhance its current communication and information system.

Generating Quality Information

To lay the foundation for generating relevant, objective and quality information, the company introduced several structural changes and new positions.

- A newly established executive committee chaired by the CEO helped to improve the coordination and flow of information regarding the bank's planning, monitoring, and management activities.
- A newly created group CFO position allowed not only to centralized major financial management functions, but also generate and share finance, accounting, strategic planning, and investor relations information in a structured manner.
- A newly set-up management level disclosure committee was charged with coordinating external disclosure and communication of the bank's many positive governance and management practices.

External Information

- The bank's annual report was enhanced with more in-depth, non-financial information about the bank including corporate governance, vision and strategy, values, and risks.
- The bank's website was upgraded to feature more content on governance, investor relations and current developments to have a better communication with external parties.

Internal Information

- A more integrated Management Information System (MIS) was developed. The new MIS has improved reporting capabilities to support the functioning of internal controls. The system can generate in-depth financial and non-financial analytical reports for the board, management and personnel.

Impact

Bank Audi's efforts toward strengthening internal controls yielded great rewards. Improved communication and information channels played an important role in creating value and achieving business objectives. Some of the impact results include:

- The bank achieved improved transparency and oversight, coordination and clarity of roles through the structural changes it made in key control functions and thanks to improved information generation and sharing.

- Organizational efficiency has been enhanced with more informed decision-making at board and management levels. Improved information sharing and communication across the bank have resulted in better functioning of the bank.
- Before the recent crisis Bank Audi enjoyed strong reputation in the Lebanese and UK markets. The market reacted favorably to the bank's demonstrated commitment to international best practices, transparency and enhanced communication with third parties.

5. Monitoring Activities

KMF (KazMicroFinance)

LLC Microfinance Organization KMF was established in 2006 as the for-profit subsidiary of Kazakhstan Loan Fund, a microlending initiative created in 1997 by ACDI/VOCA. This private United States-based nonprofit fosters development and economic opportunity in Kazakhstan. In 2009 microcredit organization "KazMicroFinance" completed the transition to a shorter logo - "KMF" both in external and internal design. Today, KMF is a fully independent and self-sustaining company, providing a range of micro-financial services to entrepreneurs including the rural areas. The company's individualized approach, flexibility on credit assessments, and nationwide footprint across city centers and rural communities alike have enabled access to finance for more than 220,000 Kazakhstanis, including many women entrepreneurs.

Since its inception, the company has disbursed more than 2 660 000 loans, with an aggregate value of over $2.4 billion. A highly regarded microfinance leader in Central Asia and beyond, KMF has become one of Kazakhstan's largest microfinance institutions, contributing to improved working conditions, business expansion, women's economic empowerment, and agricultural development throughout the country.

Objectives and Challenges

As the company grew and demand for its services increased, KMF's management became aware that its governance and internal control system was not keeping pace with its growth. Ultimately, the management team realized that bringing the company's internal control into line with best international practices would enhance strategic decision making and support long-term growth. KMF's internal controls were insufficient. The internal audit department's work program was set by the management team, leading to difficulty in retaining the department's independence. In addition, the company did not have qualified staff who could handle the risk management function, leaving the company exposed to some significant risks—a serious problem given the challenges associated with the microfinance industry.

KMF partnered with IFC to assess and improve its governance and internal control practices. The assessment was followed by the multiple changes introduced to strengthen the existing controls and develop missing components. The company's management understood that the IFC assessment would serve as the first separate evaluation of KMF's internal control system. However, KMF was to introduce routine monitoring procedures to evaluate on a regular basis whether the components of internal control are present and functioning.

Monitoring Activities

To introduce new practices for monitoring the completeness and efficiency of internal control system, KMF focused on selecting and training personnel and developing reporting tools.

Preparing Personnel

To ensure that monitoring activities will be performed by knowledgeable personnel, KMF took the following steps:

- Authorized internal auditors to conduct regular evaluation of internal controls.
- Strengthened independence of internal audit, which now reports to the board audit committee.
- In partnership with IFC, trained its internal auditors on internal control best practices.

Selecting Monitoring Activities

- KMF selected a separate annual evaluation conducted by internal auditors as a monitoring activity. Annual evaluation of internal controls was incorporated into the internal audit annual plan.
- A template report on the annual internal control evaluation was designed to help the internal audit team to capture and communicate internal control deficiencies, practices and required improvements.

Impact

Strengthened internal control system benefited KMF in multiple ways. Some of the reported results include:

- Improved profitability. Better risk management increased client retention and reduced non-performing loans.
- Enhanced brand and competitive differentiation. KMF's governance changes have been recognized by prestigious groups such as the Smart Campaign for Client Protection and MIX Market, an MFI ratings agency, which awarded the company Four Diamonds, the agency's second-highest score.
- Better access to capital. KMF has become an organization with international participation by attracting investment from well-known financial institutions, taking the company to the next level of its institutional development.

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