ISSUER INTERNAL CONTROL REQUIREMENTS
-A SURVEY-

OICV-IOSCO

TECHNICAL COMMITTEE
AND
EMERGING MARKETS COMMITTEE
OF THE
INTERNATIONAL ORGANIZATION OF SECURITIES COMMISSIONS

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INTRODUCTION

In February 2005 the IOSCO Technical Committee (TC) issued a report entitled *Strengthening the Capital Markets Against Financial Fraud* (Financial Fraud Report). This report explored the issues and factors relating to fraudulent activity in the global capital markets and identified numerous actions that IOSCO would carry out to address issues and concerns, including a study on issuer internal control requirements.

Following issuance of the Financial Fraud Report, the IOSCO Technical Committee, in cooperation with the IOSCO Emerging Markets Committee (EMC), decided to carry out a fact-finding study. The Technical Committee Standing Committee on Multinational Disclosure and Accounting (TCSC-1) was mandated by TC to develop a survey questionnaire on internal control requirements that was designed to gather information on current internal control requirements and approaches in IOSCO members and also on proposals for changes in internal control requirements that are under consideration. The questionnaire was circulated to the IOSCO membership in January 2006.

A total of 43 questionnaire responses were received through July 2006. Thirteen questionnaire responses were obtained from Technical Committee members, 29 from Emerging Markets Committee members, and another member represented on TCSC-1. While the Survey was principally a "point-in-time" survey, a number of additions and amendments to the first survey responses were made by some members later in 2006 and have been incorporated into this report to provide the most current information available.

The present Survey Report summarizes the results of the survey questionnaire responses and presents related observations for consideration. The Survey Report was approved and authorized for public release by the IOSCO Technical Committee and by the EMC during their respective November 2006 and September 2006 meetings.

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I. Executive Summary

The following sections contain observations regarding the survey results, which are presented in detail in the Report's Appendices.

a. Presence or Absence of Issuer Internal Control Requirements

The Survey results reveal a picture of considerable variation in practices and a pattern of continuing reexamination and enhancement of regimes.

Thirty-eight IOSCO members in both developed and emerging markets have some form of specific requirements regarding issuer internal controls that are embodied in laws, regulations, listing requirements and/or corporate governance codes that are referred to in laws or regulations. The jurisdictions of five IOSCO members do not have any such requirements. In a number of jurisdictions, requirements have been established for certain financial institutions but do not exist for securities issuers.

The tables below present the sources of internal control requirements in members' jurisdictions (members were asked to check all that would apply), and the general matters addressed in such sources.

Does your jurisdiction have laws, regulations, listing requirements and/or corporate governance codes that are referred to in laws, regulations, or listing requirements that explicitly require issuers (i.e. management and/or those charged with governance of publicly listed companies) to have systems of internal control?

25	Laws
19	Regulations
17	Listing requirements
24	Corporate governance codes that are referred to in laws, regulations or listing requirements

Which of the following are addressed explicitly by laws, regulations, listing requirements, and/or corporate governance codes that are referred to in laws, regulation, or listing requirements in your jurisdiction?

34	Issuer management's responsibilities for financial statements
27	Issuer management's responsibilities to have internal controls over financial reporting
27	Issuer management's responsibilities for reporting on internal controls
34	Responsibilities of those charged with governance (e.g. supervisory board, board of directors, and/or audit committees) for financial statements
31	Responsibilities of those charged with governance for internal controls over financial reporting
26	Responsibilities of those charged with governance for reporting on internal controls

19	Responsibilities of auditors for making specific evaluations of internal controls, beyond the consideration of internal controls that is part of a financial statement audit under national or international auditing standards (e.g., as contemplated in ISA 315 and other ISAS)
13	Requirements for auditors to make public reports on an issuer's internal controls in addition to reporting on the audit of the financial statements
30	Requirements for auditors to make reports to management or those charged with governance regarding weaknesses in internal controls discovered in the course of a financial audit or otherwise
8	Other responsibilities for internal controls (please describe)

b. Internal Control Definitions

There are numerous definitions of internal controls used in the laws, regulations, codes and other requirements of IOSCO members' jurisdictions that have some form of specific requirements. Sometimes multiple definitions appear in different contexts in a single jurisdiction. Some jurisdictions that have laws, requirements, or codes regarding internal controls do not have any published definition of the term at all.

When definitions are used, some are very broad, covering the overall scope of a business enterprise, its goals and objectives, risk management, and other topics as well as controls over financial reporting. Other definitions are narrow, focusing on specific areas such as internal controls over the preparation of financial statements, disclosure controls, controls over the keeping of books and records and/or access to assets, and similar topics. The various definitions of internal controls that were reported by survey respondents are contained in Appendix C.

c. Current Models and Approaches to Requirements

The surveyed jurisdictions approach the subject of issuer internal control requirements in distinctly different ways. Some jurisdictions utilize an approach that is general and highly principles-oriented, and provide further flexibility by emphasizing the use of judgment and incorporating a "comply or explain" model rather than fixed requirements. Some jurisdictions make use of voluntary codes and best practices which are referred to in regulatory requirements that encourage compliance with such codes and practices. Other jurisdictions utilize approaches that set forth general principles and guidance, accompanied by specific fixed requirements. Of those jurisdictions having fixed requirements, the number of such requirements and the degree to which such requirements are detailed and prescriptive vary considerably.

In some jurisdictions, the requirements and expectations for issuer internal controls are presented as responsibilities of directors of a company, i.e., those persons serving on boards charged with governance and who are directly responsible to shareholders under the governance model in use. In other jurisdictions, management of the issuer company is responsible for addressing internal control requirements and expectations, with those charged with governance sharing some responsibility but operating primarily in a general oversight role. Some jurisdictions have specific requirements for both management and directors.

Among the many types of models or frameworks that were described or alluded to in survey responses were the following:

- A “basic books and records base model”, i.e., basic legal requirements to keep books and records, proper accounts, prepare financial statements or an annual statement of accounts, and other wording suggesting minimum statutory requirements and expectations for a company.

- A “corporate governance code model”, in which legislation, regulation and/or listing requirements related to public companies make reference to a body of knowledge identified as a corporate governance code that was not itself directly embodied in the legislation, regulation, or listing requirements involved, and encourage or require compliance by issuer companies.

- A “voluntary code or best practice model”, in which issuers are encouraged to consider or use a body of knowledge relating to internal controls in some direct or indirect way.

- A “comply or explain model”, which refers to recommendations or codes or other requirements but permits an issuer to opt out of such recommendations, codes or requirements if it believes that these are not appropriate to its situation, and explain the reason for non-compliance.

- A “specific requirements model”, in which an issuer is required to comply with specific rules and/or take prescribed actions under law or regulation.

The table below lists the frequencies that specified matters were stated to be covered in laws, regulations, listing requirements, and/or corporate governance codes referred to in such listing requirements (respondents were asked to check all that apply).

29	Controls over books of accounts
24	Controls over access to assets
31	Controls over the preparation of annual financial statements
25	Controls over the preparation of non-financial statement disclosures such as management or operating reviews, descriptions of business, and other data
29	Controls over interim (i.e., quarterly or semiannual) financial reporting
28	Controls over continuous disclosure and/or material event reporting
28	Controls regarding compliance with laws and/or regulations

d. Issuer Reporting on Internal Controls

Jurisdictions vary as to whether management and/or directors must make some type of report to the public on responsibility for internal controls. More than half (27) of the surveyed jurisdictions require some type of a public report. The form and content of these reports vary. Of these, 17 jurisdictions require the report to include a statement regarding the effectiveness of the company's internal controls, while others do not. Jurisdictions also vary as to the degree of auditor involvement that is required with such internal control reports.

Highlighted below are some of the key Survey questions and responses regarding internal control reporting.

Must the management and/or directors of issuer companies make some type of report to the public regarding responsibilities for internal control?

- 27 jurisdictions answered yes, 12 no, and 4 did not respond.

If such internal control reports must be made, must statements be made regarding compliance with certain requirements or a body of knowledge such as law, regulation, listing requirements, or a corporate governance code?

- 14 must affirm compliance, 9 must comply or explain

Is a public internal control report required to contain some type of statement by management or directors regarding the effectiveness of internal controls?

- 17 require some type of statement regarding effectiveness

Of the 27 jurisdictions requiring public reports on internal controls reports by management or directors, 7 require such internal control reports to be audited, while 19 do not, and one respondent did not indicate whether the report needs to be audited. What is meant by having the internal control report "audited" may vary among jurisdictions.

e. Auditor Involvement with Internal Controls

In nearly all the surveyed jurisdictions some degree of auditor involvement with internal controls occurs through the use of auditor professional standards. Auditing standards typically require the auditor to consider internal controls as part of planning and conducting a financial statement audit. Auditing professional standards also may require the auditor to review other information that is supplied with financial statements to ensure that such information is not inconsistent with audit findings. Professional requirements such as these may be viewed as indirect or secondary involvement, in that they do not require an audit of internal controls; however, weaknesses in internal controls may also be discovered in such indirect ways during the course of a financial statement audit.

Thirty-four members responded that auditors are required to report control failures, weaknesses, or material weaknesses in internal controls to a company's management and/or those charged with governance of the company and four responded that they are not.

II. Changes Underway

Many of the members responding to the survey stated that they are currently considering changes in their current internal control requirements. Some surveyed jurisdictions that established enhancements to their internal control regulations and requirements in recent years are in the process of examining the initial implementation experiences with those changes. If all of the proposals that are indicated above and in various earlier survey responses as being "under consideration" are adopted, then 42 of the 43 surveyed jurisdictions would have some form of specific requirements relating to internal control, and 19 jurisdictions would be incorporating new requirements (4) or enhancements (15) to current regimes.

In this regard, four of the five IOSCO members that do not presently have internal control requirements in their jurisdictions reported that they are considering proposals that would introduce new requirements. Fifteen of the members that do already have internal control requirements in their jurisdictions reported that they are also considering specific proposals that would either introduce additional requirements or significantly change existing requirements, while 22 responded that they have no such considerations underway.

The changes described in the survey responses range from broad-based packages of reforms to changes that address one or more individual aspects of issuer internal controls. IOSCO members recently reported the following specific post-survey changes that are underway:

Canada – The surveyed Canadian IOSCO members responded in the Survey that it was considering changes that would be similar to the U.S. SEC rules arising from the requirements of the Sarbanes Oxley Act. In March 2006, a number of changes to previous proposals were announced, which would (i) eliminate any proposed requirement for issuers to obtain from their external auditor an opinion relating to the effectiveness of internal controls over financial reporting; and (ii) extend to all reporting issuers, not only those listed on the Toronto Stock Exchange, a requirement for the CEO and CFO to evaluate the effectiveness of internal controls over financial reporting and to cause the issuer to report in management's discussion and analysis the results of that evaluation and the process followed in carrying out the evaluation.

Colombia - In December 2005, the former Superintendencia de Valores (Superintendence of Securities, today Superintendencia Financiera) and the Colombian Stock Exchange (CSE) began working with the main representative associations of the country who are, one way or another, related to the capital market, in order to draw up a single Code for Better Corporate Governance Practices. The code, expected to be finished at the end of 2006, is based on the "comply or explain" principle. At the same time, although the adoption of the code is voluntary, it is the first step to an "auto regulated" scheme of corporate governance practice control. The code is divided in four chapters: each one contains specific recommendations on the topic to be evaluated at the end of the year, in order to review actions or the reasons for acting otherwise. The chapters are: General Shareholders Assembly, Board of Directors, Disclosure of

Financial and non Financial Information, and Controversy Resolutions. Numerous specific recommendations are under study relating to corporate governance and financial reporting.

India - The Securities and Exchange Board of India has made some minor amendments to information provided by issuers under the terms of listing agreements, and is contemplating strengthening the criteria for determining the independence of directors in listing agreements.

Japan - In 2006, Japan incorporated requirements for management's assessment of internal control over financial reporting and an independent auditor's audit on such assessment into legislation entitled the "Financial Instruments and Exchange Law." The new requirements become effective from the year beginning April 2008 for listed companies.

United States - During the first half of 2006, a number of developments relating to the subject of internal controls have occurred. On May 17, 2006 the Commission announced a series of actions it intends to take to improve the implementation of the Section 404 internal control requirements of the Sarbanes-Oxley Act of 2002. The actions the Commission intends to take include issuing SEC guidance for companies and working with the Public Company Accounting Oversight Board (PCAOB) on revisions of its internal control auditing standard. On September 14, 2006, the Commission issued a final rule extending the Section 404 compliance dates for foreign private issuers. A foreign private issuer that is an accelerated filer, but not a large accelerated filer, and that files its annual report on Form 20-F or Form 40-F, will begin to comply with the requirement to provide the auditor's attestation report on internal control over financial reporting in annual report filed for its fiscal year ending on or after July 15, 2007.

III. Cost Benefit Issues

Requirements regarding issuer internal controls are relatively new in some jurisdictions and changing in others. The Survey did not attempt to gather information on member views regarding costs and benefits of various approaches. However, the following commentary is provided as an aid to IOSCO members who may wish to explore cost/benefit issues.

When changes to regulation and customary practice are being considered, questions arise as to the cost of additional requirements and what benefit is received for the expenditure of that cost. Some IOSCO members' jurisdictions have specific obligations to consider costs and benefits in developing and proposing regulatory changes. Members have also seen such issues arise after specific changes have been implemented.

Measuring the costs and benefits of internal control requirements is not a straightforward task. Some initial steps include the need to (1) establish or consider a definition of "internal control" that is to be used, (2) identify the scope of what is to be addressed in potential standards or regulations, and (3) define what is proposed to be changed and the likely "incremental work" that would need to be done, and by whom, to implement proposed changes. Consideration should be given to potential cost effects on all parties whose current actions and practices would be affected and modified, including both issuers and auditors. Ideally, some consideration should also be given to the potential "costs" of not enhancing regulation, e.g., potentially increased risks of financial reporting failure and the attendant repercussions that could follow. It is often difficult to quantify such risks.

On the “benefits” side, quantification is even more difficult. How does one put a price on an absence or reduced likelihood of a major financial failure? How does one measure the economic impact of increased investor confidence? With such broad considerations as these, it is often difficult to separate the effect of a specific regulatory or corporate practice change from other market effects and developments.

Each approach or model for addressing issues relating to issuer internal controls will have its own set of identifiable costs and benefits, plus many broader potential costs and benefits that may be difficult to quantify, especially in the proposal stage. Also, regulator considerations of costs and benefits may include consideration of alternative ways of achieving desired goals, such as the possibility of market incentives to achieve the same end, and incentives/disincentives created by regulation.

IV. Looking to the future

While the wide variations in legal frameworks and different models for and approach to internal control requirements in the jurisdictions of IOSCO members may offer limited opportunities for global convergence in the near term, it is interesting to note that so many responding IOSCO members in both developed and emerging markets address internal controls in national requirements.

Further study by members of the academic profession and others, of the nature and market effects of various forms of issuer internal control requirements, may be useful in illuminating issues and providing input for consideration in policymaking. Since the subject of internal control has generated much interest among regulators, issuers and auditors, including auditor professional organizations, and there are proposals for change underway in several member jurisdictions, empirical information on market effects and information from ongoing implementation experiences could be relevant and helpful to regulators considering changes.

Over time, the market effects of various approaches and types of enhancements to issuer internal control requirements may become apparent. Meanwhile, regulatory cooperation and support in the form of information exchanges will help to promote global improvement efforts, thereby providing a benefit to market confidence and contributing to strengthening the capital markets against financial fraud.

As regulators continue to explore opportunities for improvement in the infrastructure of internal controls over financial reporting, it is possible that IOSCO might in the future identify a number of areas for further study and/or other potential IOSCO actions that would contribute to improvement in the financial reporting environment.

Appendix A

IOSCO SURVEY ON INTERNAL CONTROL REQUIREMENTS FOR ISSUERS
Survey Respondent Demographics

The following 43 members have responded to the survey.

Algeria, COSOB	EMC
Argentina, CNV	EMC
Australia, ASIC	TC
Belgium, CBFA	OTH
Bosnia and Herzegovina, Securities Commission	EMC
Brazil, CMV	EMC
China, CRSC	EMC
Colombia, Financial Superintendence	EMC
Costa Rica, GEVAL	EMC
Ecuador, Superintendence of Companies	EMC
El Salvador, Superval	EMC
France, AMF	TC
Germany, BAFIN	TC
Hong Kong, SFC	TC
India, SEBI	EMC
Indonesia, BAPEPAM	EMC
Italy, CONSOB	TC
Japan, FSA	TC
Korea, FSS	EMC
Lithuania, Securities Commission	EMC
Former Yugoslav Republic of Macedonia, Securities and Exchange Commission	EMC
Malaysia, Securities Commission	EMC
Malta, FSA	EMC
Mauritius, FSC	EMC
Mexico, CNBV	TC
Morocco, CDVM	EMC
Netherlands, AFM	TC
Nigeria, SEC	EMC
Oman (Sultanate of), CMA	EMC
Ontario (OSC)/Quebec (AMF)	TC
Pakistan, SECP	EMC
Panama, National Securities Commission	EMC
Peru, CONASEV	EMC

Poland, Securities and Exchange Commission	EMC
South Africa, Financial Services Board	EMC
Spain, CNMV	TC
Switzerland, SWX SWISS EXCHANGE	TC
Chinese Taipei, Financial Supervisory Commission	EMC
Thailand, SEC	EMC
Tunisia, CMF	EMC
Turkey, CMB	EMC
United Kingdom, FSA	TC
United States, SEC	TC
Total TC	13
Total EMC	29
Total Other	1
Total	43

<u>Appendix B</u>

IOSCO SURVEY ON INTERNAL CONTROL REQUIREMENTS FOR ISSUERS
Survey Questionnaire Total Responses

<u>Part A. Legal and conceptual framework for internal control requirements</u>

1. **Does your jurisdiction have laws, regulations, listing requirements and/or corporate governance codes that are referred to in laws, regulations, or listing requirements that explicitly require issuers (i.e. management and/or those charged with governance of publicly listed companies) to have systems of internal control? (Check all that apply)**

   38 Yes

   25 Laws

   19 Regulations

   17 Listing requirements

   24 Corporate governance codes that are referred to in laws, regulations or listing requirements

   5 No

2. **If answer to question 1 is No, is your jurisdiction presently considering proposals regarding internal controls that would introduce new requirements?**

   4 Yes

   1 No

3. **If answer to question 1 is Yes, is your jurisdiction also presently considering proposals regarding internal controls that would either introduce additional requirements and/or significantly change existing requirements?**

   15 Yes

   22 No **(Please continue to question 4)**

4. **Which of the following are addressed explicitly by laws, regulations, listing requirements, and/or corporate governance codes that are referred to in laws, regulation, or listing requirements in your jurisdiction:**

34	**Issuer management's responsibilities for financial statements**
27	**Issuer management's responsibilities to have internal controls over financial reporting**
27	**Issuer management's responsibilities for reporting on internal controls**
34	**Responsibilities of those charged with governance (e.g. supervisory board, board of directors, and/or audit committees, etc.) for financial statements**
31	**Responsibilities of those charged with governance for internal controls over financial reporting**
26	**Responsibilities of those charged with governance for reporting on internal controls**
19	**Responsibilities of auditors for making specific evaluations of internal controls, beyond the consideration of internal controls that is part of a financial statement audit under national or international auditing standards (e.g., as contemplated in ISA 315 and other ISAS)**
13	**Requirements for auditors to make public reports on an issuer's internal controls in addition to reporting on the audit of the financial statements**
30	**Requirements for auditors to make reports to management or those charged with governance regarding weaknesses in internal controls discovered in the course of a financial audit or otherwise**
8	**Other responsibilities for internal controls (please describe)**

5. **Please indicate the matters that are covered by internal control laws, regulations, listing requirements, and/or corporate governance codes that are**

referred to in laws, regulations, or listing requirements in your jurisdiction. (Please check all that apply.)

29	**Controls over books of accounts**
24	**Controls over access to assets**
31	**Controls over the preparation of annual financial statements**
25	**Controls over the preparation of non-financial statement disclosures such as management or operating reviews, descriptions of business, and other data**
29	**Controls over interim (i.e., quarterly or semiannual) financial reporting**
28	**Controls over continuous disclosure and/or material event reporting**
28	**Controls regarding compliance with laws and/or regulations**

6. | | |
|---|---|
| **Definition(s) of "internal controls"** | **21** |
| **No definition** | **17** |

7. **Are internal control requirements in your jurisdiction applicable in the same way for all public listed companies regardless of size or other criteria?**

28	**Yes**
10	**No**

If no, please check all that apply below:

0	**May vary due to size of Company**
2	**May vary according to judgment of management and/or those charged with governance as to the applicability of the requirements in the circumstances of the company**

3 Issuers must comply or explain why not

9 Other differences may occur (please explain)

<u>Part B. Reporting on internal controls</u>

8. Do laws, regulations, listing requirements, or corporate governance codes that are referred to in laws, regulations, or listing requirements in your jurisdiction require issuers to make public reports regarding their responsibilities for developing and maintaining internal controls?

27 Yes

12 No (If No, go to question 12)

9. Who must make such public internal control reports? (please check all that apply)

14 The issuer company's management

14 Those charged with governance of the issuer, e.g., boards of directors, supervisory boards and/or audit committees.

5 Other (Please specify)

10. Please indicate that is required to be included in such issuer public reports on internal controls. (Please check all that apply)

13 Responsibilities for internal controls

14 Affirm compliance with laws, regulations, listing requirements, and/or a corporate governance code that is referred to in laws, regulations, or listing requirements.

9 Comply or explain with above

17 Statement regarding effectiveness of internal controls, i.e., regarding whether controls are or are not believed to be effective**

**** If an issuer public statement regarding effectiveness of internal controls is required, does this statement cover**

8 Controls as of a certain date

12 Controls over a particular time period

11. Are public internal control reports made by issuers required to be audited in your jurisdiction?

7 Yes

19 No

12. Does your jurisdiction require issuers or auditors to consider one or more identified framework(s) or a specified body of knowledge regarding internal controls when developing, evaluating and/or reporting on issuer internal controls?

20 Yes

19 No

13. In your jurisdiction, do laws, regulations, listing requirements, codes and/or professional standards require auditors to report control failures or weaknesses or material weaknesses in internal controls to a company's management and/or those charged with governance of the company? If yes, please describe and indicate the source (s) of the requirement.

34 Yes
4 No

Appendix C

IOSCO SURVEY ON INTERNAL CONTROL REQUIREMENTS FOR ISSUERS
Survey Questionnaire Internal Control Definition Responses

#	Member	Affiliation	If one or more specific definition(s) of "internal controls" appear in your jurisdiction's laws, regulations, and/or corporate governance codes, please provide the definition (s) and indicate the title of the document(s) in which each definition(s) may be found.
1	Algeria	EMC	None
2	Australia	TC	None
3	Belgium	Other	None
4	Bosnia and Herzegovina	EMC	None
5	Brazil	EMC	"**Internal controls** encompass the organization plan and integrated methods and proceedings adopted by an entity aiming at the protection of its assets, promotion of reliability, and opportune accounting entries and financial statements, as well as operational efficiency."
6	Canada	TC	**"Disclosure controls and procedures"** means controls and other procedures of an issuer that are designed to provide reasonable assurance that information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted by it under provincial and territorial securities legislation is recorded, processed, summarized and reported within the time periods specified in the provincial and territorial securities legislation and include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in its annual filings, interim filings or other reports filed or submitted under provincial and territorial securities legislation is accumulated and communicated to the issuer's management, including its chief executive officers and chief financial officers (or persons who perform similar functions to a chief executive officer or a chief financial officer), as appropriate to allow timely decisions regarding required disclosure; **"Internal control over financial reporting"** means a process designed by, or under the supervision of, the issuer's chief executive officers and chief financial officers, or persons performing similar functions, and effected by the issuer's board of directors, management and other

#	Member	Affiliation	If one or more specific definition(s) of "internal controls" appear in your jurisdiction's laws, regulations, and/or corporate governance codes, please provide the definition (s) and indicate the title of the document(s) in which each definition(s) may be found.
			personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer's GAAP and includes those policies and procedures that: (a) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the issuer, (b) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with the issuer's GAAP, and that receipts and expenditures of the issuer are being made only in accordance with authorizations of management and directors of the issuer, and (c) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the issuer's assets that could have a material effect on the annual financial statements or interim financial statements;
7	China	EMC	The **internal control** is the policies and procedures established and implemented by the entity being audited to ensure the effectiveness of the business, to protect the safety and integrity of assets, to prevent, discover and correct mistakes or frauds, and to guarantee the truthfulness, legality and integrity of accounting documents. The internal control includes control environments, accounting systems and control procedures.
8	Colombia	EMC	**Internal control** is defined as the mechanisms designated to oversight the administrative and operational development of the issuer, taking into account the risk of the business and to evaluate, in an integral way, all the areas of the issuer. At the same time, internal control covers all the mechanisms designated to ensure that the preparation, presentation and disclosure of the financial information follows what it is established by law. (Ley del Mercado) Internal control covers diverse areas such as: 1. Procedures and criterions regarding the election, function, composition, responsibilities and independence of the Shareholders Assembly and the Board of Directors

#	Member	Affiliation	If one or more specific definition(s) of “internal controls” appear in your jurisdiction’s laws, regulations, and/or corporate governance codes, please provide the definition (s) and indicate the title of the document(s) in which each definition(s) may be found.
			2. Mechanisms designated to disclose the general systems or policies regarding remuneration and incentives 3. Procedure and criterions regarding the election of different agents related to the issuer such as suppliers, managers, executives, auditors, etc. 4. Criterions about the transparency of the information disclosed to the shareholders, the investors and all the other agents in the market 5. Internal rules on ethic, penalties and conflicts of interest 6. Rights and obligations of the Shareholders and other investors 7. Disclosure procedures regarding financial statements and personal and professional qualifications of those charged with governance
9	Costa Rica	EMC	None
10	Ecuador	EMC	None
11	El Salvador	EMC	None
12	France	TC	French law does not define **"internal controls**" but such a definition may be found in specific publications of industry bodies such as those of issuers associations on the subject, in the Charter of the French Institute of Internal Auditors and in auditing standards. A definition will be found in the future guidelines to be published before the end of the first semester of 2006
13	Germany	TC	According to IDW PS 260, **Internal control systems** are principles, processes and measures (regulations) established by the management of the company, which are directed at the organizational implementation of decisions from the management. - for the securitization of the effectiveness and economic efficiency of the operations (the safeguard of the assets and the protection and uncovering of suffering property losses are covered), - for the truth and fairness of the internal and external reporting - For the compliance of the companies applicable laws and regulations. Circular 18/2005, AT 1 (on the basis of § 25a Banking Act)

#	Member	Affiliation	If one or more specific definition(s) of "internal controls" appear in your jurisdiction's laws, regulations, and/or corporate governance codes, please provide the definition (s) and indicate the title of the document(s) in which each definition(s) may be found.
			The internal control system consists of • Rules for the operational and organizational structure • Processes for the Identification, evaluation, controlling, supervision as well as communication of risks (Risk guidance - and controlling processes).
14	Hong Kong	TC	None
15	India	EMC	None
16	Indonesia	EMC	None
17	Italy	TC	The definition is contained in the corporate governance code: p. 8.P.1. The **internal control system** is made of rules, procedures and organization's system ensuring the correct and proper management of the company in accordance with the predefined targets, through an adequate process of identification, measuring and management and monitoring of risk. p. 8.P.2. **An efficient internal control system** facilitates the preservation of company's assets, the efficiency of companies' transactions, the reliability of the financial information and the compliance with laws and regulations.
18	Japan	TC	None. However, under the "Model Standard for Managements' Assessments and Independent Auditors' Audit on Internal Control over Financial Reporting", approved in December 2005, the following definition is provided: "Internal Control" is broadly defined as a process, built into operating activities, and fulfilled by all the people at every level of an organization, in order to provide reasonable assurance regarding the achievement of objectives..(several categories of objectives listed).
19	Korea	EMC	The Act on External Audit of Corporation § 2.2 (Internal Accounting Control Systems)
20	Lithuania	EMC	None
21			
22	Former Yugoslav Republic of Macedonia	EMC	None
23	Malaysia	EMC	None
24	Malta	EMC	None
25	Mauritius	EMC	The Report on Corporate Governance for Mauritius (Chapter 2 – Internal Control) defines **Internal Control** as

#	Member	Affiliation	If one or more specific definition(s) of "internal controls" appear in your jurisdiction's laws, regulations, and/or corporate governance codes, please provide the definition (s) and indicate the title of the document(s) in which each definition(s) may be found.
			a process designed to provide reasonable assurance regarding the achievement of organizational objectives with respect to: • Effectiveness and efficiency of operations • Safeguarding of the assets and data of the organization • Reliability of financial and other reporting • Prevention of fraud and irregularities • Acceptance and management of risk • Conformity with the codes of practice and ethics adopted by the organization • Compliance with applicable laws and regulations • Supporting business sustainability under normal as well as adverse operating conditions. **Internal Control** is one of the mechanisms which are used to reduce risk to an acceptable level. Internal control should be operated by the organization's board, its management and staff and should be embedded in the daily activities of the company.
26	Mexico	EMC	The Secondary Regulation named "Disposiciones de carácter general aplicables a las emisoras de valores y a otros participantes del mercado de valores" defines **Internal Control** as: "The system that grants a reasonable security that the transactions are made and registered in accordance to the procedures established by the administration, as well as with the general guidelines, criteria and applicable accounting principles"
27	Morocco	EMC	According to the Moroccan auditing standards Manual, the **internal control** "consisted of the whole of measurements of control, accountant or other, that the direction defines, applies and supervises, under its responsibility, in order to ensure the protection of the inheritance of the company and the reliability of the accounting records and of the financial statements which result from this" According to provisions' of article 2 of the circular n°6 related to **the internal control** of the credit institutions (listed and non listed), "the internal system of audit consists of a whole of devices designed and implemented, by the competent authorities, in order to ensure permanently :

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			- the checking of the operations and the internal procedures, - measurement, the control and the monitoring of the risks, - the reliability of the conditions of the collection, of treatment, diffusion and conservation of the accounting and financial data, - the efficiency of the channels of internal circulation of documents and information as well as their diffusion to third parties "
28	Netherlands	TC	The Dutch Corporate Governance Code describes the following instruments of the internal risk management and control system the company should employ: - risk analyses of the operational and financial objectives of the company - a code of conduct which should in any event be published on the company's website - guides for the layout of the financial reports and the procedures to be followed in drawing up the reports - a system of monitoring and reporting
29	Nigeria	EMC	None
30	Oman	EMC	None
31	Pakistan	EMC	None
32	Panama	EMC	The Regulation No. 2-2000, CNV resolved that all persons subject to disclosing periodic financial information (issuers and intermediaries) do so according to the International Accounting Standards promoted by the International Committee of Accounting Standards or use US generally accepted accounting principles (US GAAP), as well as the International Auditing Standards have a definition of internal control. Agreement No. 7-2002, set a mandatory declaration on the part of the President, Treasurer and/or CFO of the company, regarding the reasonability of the financial statements that they file before the CNV.
33	Peru	EMC	None
34	Poland	EMC	None
35	South Africa	EMC	1. The Code of Conduct, inter alia, defines "**internal controls**". In terms of the definitions, the term "internal controls" is defined as: "means those internal controls established in order to provide reasonable assurance of –

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			(a) the safeguarding of assets against unauthorised use or disposition; and (b) the maintenance of proper accounting records and the reliability of financial information used within the business or publication;" 2. The definition of "internal control" in auditing standard ISA 315.
36	Spain	TC	The internal control includes the organization plan and the methods and procedures that are necessary to make sure that the company assets are properly protected, that the accounting records are reliable and that the activity of the company is efficiently performed and the directives established by the management are accomplished
37	Switzerland	TC	None
38	Thailand	EMC	According to the SET's best practices guidelines for Audit Committee: **Internal Control** means the process, organization plan, work system and procedures available in the organization which have been designed by the Board of Directors and management of the organization with the main objective to bring about reasonable confidence in: - The creditability and perfection of information. - The compliance with policies, plans, procedures, laws and regulations. - The supervision, safeguard and care of property of the company. - The use of resources economically and effectively to meet the objectives and the goal of the operations or the established plan. In addition, an internal control consists of 5 related components which are encompassing the way of business conduct of the management and integrated into a single management process. These components include control environment, risk assessment, control activities, information and communication and monitoring. (Such information can be reached at http://www.set.or.th/en/rules/corporate/files/ror.25_00.pdf)
39	Chinese Taipei	EMC	According to the Article 3 of Regulations Governing Establishment of **Internal Control Systems** by Public

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			Companies, the internal control systems of a public company are management processes designed by its managers, passed by its board of directors, and implemented by the board of directors, managers, and other employees for purpose of promoting sound operations of the company, so as to reasonably ensure that the following objectives are achieved: a) Effectiveness and efficiency of operations; b) Reliability of financial reporting; and c) Compliance with applicable laws and regulations.
40	Tunisia	EMC	Definition of internal control : The system of **internal control** has four objectives: - To promote efficiency and effectiveness ; - To protect assets; - To guarantee the reliability of the financial reporting; - To guarantee compliance with and regulatory requirements. The internal control is defined, globally, as being a process implemented by the management, the hierarchy, and the staff of a company and intended to guarantee a reasonable carrying out of the above mentioned objectives.
41	Turkey	EMC	Communiqué Serial:X, No:22, defines internal control as a process, designed and effected by an entity's management, those charged with governance and other personnel, to provide reasonable assurance regarding the: - achievement of objectives of the entity, - effectiveness and efficiency of operations and activities, - compliance with applicable laws and regulations. Section 27, Article 3 of the Communiqué describes the scope and the objectives of the internal auditing. According to the article: The scope and objectives of internal auditing vary widely and depend on the size and structure of the entity and the requirements of its management. Ordinarily, internal auditing activities include one or more

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			of the following: • Monitoring of internal control. The establishment of adequate internal control is a responsibility of management which demands proper attention on a continuous basis. Internal auditing is ordinarily assigned specific responsibility by management for reviewing controls, monitoring their operation and recommending improvements thereto. • Examination of financial and operating information. This may include review of the means used to identify, measure, classify and report such information and specific inquiry into individual items including detailed testing of transactions, balances and procedures. • Review of the economy, efficiency and effectiveness of operations including non-financial controls of an entity. • Review of compliance with laws, regulations and other external requirements and with management policies and directives and other internal requirements.
42	UK	TC	The Turnbull guidance (see web reference which follows) defines **internal controls** as: ' the system which encompasses the policies, processes, task, behaviours and other aspects of a company that, taken together: • Facilitate its effective and efficient operation by enabling it to respond appropriately to significant business, operational, financial, compliance and other risks to achieving the company's objectives. This includes the safeguarding of assets from inappropriate use of from loss and fraud and ensuring that liabilities are identified and managed; • Help ensure the quality of internal and external reporting. This requires the maintenance of proper records and processes that generate a flow of timely, relevant and reliable information from within and outside the organisation; • Help ensure compliance with applicable laws and regulations, and also with internal policies with respect to the conduct of business.

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			http://www.frc.org.uk/documents/pagemanager/frc/Revised%20Turnbull%20Guidance%20October%202005.pdf
43	USA	TC	Exchange Act Rules 13a-15 and 15d-15: • The term disclosure controls and procedures means controls and other procedures of an issuer that are designed to ensure that information required to be disclosed by the issuer in the reports that it files or submits under the Act (15 U.S.C. 78a et seq.) is recorded, processed, summarized and reported, within the time periods specified in the Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Act is accumulated and communicated to the issuer's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. • The term internal control over financial reporting is defined as a process designed by, or under the supervision of, the issuer's principal executive and principal financial officers, or persons performing similar functions, and effected by the issuer's board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that: (1) Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the issuer; (2) Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the issuer are being made only in accordance with authorizations of management and directors of the issuer; and

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			(3) Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the issuer's assets that could have a material effect on the financial statements. See also Investment Company Act Rule 30a-3(c) and (d).