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The American University in Cairo
School of Global Affairs and Public Policy

**IMPROVING THE EFFECTIVENESS
OF AUDIT COMMITTEE:
A COMPARATIVE ANALYSIS OF
AUDIT COMMITTEE CODES IN US,
UK AND EGYPT**

A thesis Submitted to
The Department of Public Policy and Administration
In partial fulfillment of the requirement for the degree of
Master of Arts in
Public Policy and Administration

With a Concentration in:
Public Administration

by: **Auday Sabri Tawfeek**
Bachelor of Accountancy

Under the supervision of
Dr. Jennifer Bremer

5/16/2010

The American University in Cairo

School of Global Affairs and Public Policy

Improving the Effectiveness of Audit Committee: A comparative Analysis of Audit
Committee Codes in US, UK and Egypt

A Thesis Submitted by

Auday Sabri Tawfeek Sarsam

To

the Department of Public Policy and Administration

May 2010

In

partial fulfillment of the requirements for the
degree of

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Dedications

الإهداء

TO MY MOTHER, FATHER,

إلى أمي وأبي

NIECE, SISTER, BROTHER IN

إلى أختي، ابنتها وزوجها

LAW AND FRIENDS.

إلى أصدقائي

Acknowledgements

I would like to thank my Advisor Professor Mohamed Hegazy; he has been there for me at every step of my thesis progress. Professor Hegazy continued guidance and encouragement made the completion of this research possible. Professor Hegazy was instrumental in shaping the directions of this thesis. My discussions with him led to several breakthroughs in this project. Under his Guidance, I have learned a great deal with respect to writing and other academic skills. In addition, my gratitude to Dr. Jennifer Bremer, the Chair of MPPA, for helping me in choosing this topic and for helping me. They have been tremendous mentors over the duration of my MA study, coaching me on every aspect of coursework, teaching and research.

I also want to thank all the people in Crowe Dr. A. M. Hegazy & Co. for all the time and help they gave me in order to finish this research. Thanks for the help that I got from the library employees especially the acquisitions and the document delivery department, because without their help I would not be able to obtain some of the most important references for this research.

Abstract

The audit committee performs a very important role in corporate governance. The main objective of this research is to enhance the audit committee effectiveness through, a comparison between codes and regulations of the Audit Committee in the U.K., U.S.A. and Egypt. Such comparison will highlight important issues related to Audit Committee activities and will result in modification to the existing Egyptian Code of Corporate Governance for Audit Committee. The importance of the research comes from the fact that the Audit Committee report became mandatory starting from 2009 for all listed companies in the EGX. The study conducted analyzed requirement in the British UK Code, The AICPA Audit Committee Toolkit: Public Companies and other research. Four hypotheses were developed and tested to assess the effect of Audit Committee characteristics including establishment and role, resources, skills and experience, Audit Committee relation with Board of Directors, financial reporting, internal control, whistle-blowing, internal audit function, external audit, annual audit cycle, and communication with shareholders on the effectiveness of the Audit Committee. For this reason, a survey was conducted to analyze the opinion of professionals like AC members, Accountants and Auditors, and the scholars in the education field for the improvement of Audit Committee in Egypt Code of Corporate Governance.

Once data were collected, they were analyzed with the statistical software SPSS for implication for Egypt Code of Corporate Governance for Audit Committee. The data subjected to statistical analysis and procedures, including descriptive statistics, frequencies, percentages, mean, correlations and coefficient of variation.

The overall analysis of the data gathered was strongly supportive of the 4 hypotheses. The researcher reached a conclusion, referring that, the regulatory initiative has a strong impact on the development of the Corporate Governance Code to be more comprehensive and detailed, on the road, to a proactive and more effective Audit Committee, which will empower the local investment environment and sustain higher rates of economic growth. The researcher recommends the deployment of the proposed provisions by the Egyptian Financial Supervisory Authority with continuous review of the Corporate Governance regulations every three years to catch up with the latest developments relative to the issue.

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Acronyms

Abbreviations	Terms
AC	Audit Committee
AGM	Annual General Meeting
AICPA	American Institute of Certified Public Accountants
BD	Board of Directors
CADAC	Computer-Assisted Data Collection
CAE	Chief Audit Executive
CASIC	Computer-Assisted Survey Information Collection
CFO	Chief Financial Officer
CG	Corporate Governance
CIPE	Center for International Private Enterprise
CMA	Capital Market Authority
COSO	Committee of Sponsoring Organizations
CV	Coefficient of Variation
EFSA	Egyptian Financial Supervisory Authority
EGX	The Egyptian Exchange
EIOD	Egyptian Institute of Directors
ERM	Enterprise Risk Management

Abbreviations	Terms
FRC	Financial Reporting Council
GAAP	Generally Accepted Accounting Principle
IAF	Internal Audit Function
IAS	International Accounting Standards
IFRS	International Financial Reporting Standards
IIA	Institute of Internal Auditors
PCAOB	Public Company Accounting Oversight Board
Q	Group of questions
q	Specific question
SEC	Security and Exchange Commission

Chapter 1: Introduction

1-1 Research Questions

The expansion in the business environment in Egypt coupled with the increase in the number of companies established raises the question; does the Egyptian Audit Committee (AC) Code need amendment, Although this code was adopted by the Capital Market Authority (CMA, now EFSA) fairly recently, in Sep. 22, 2008, it may be necessary to update the code to reflect the new mandatory AC report required of all listed companies starting from 2009. Egypt should arguably follow the path adopted in the US and UK of regularly updating its AC codes. Starting from 2004 US, regulatory bodies update the guidelines every year, while the UK prefers to do it whenever necessary, usually every two years. There is a need for development of Egypt AC code to consider all changes in the global economy and its effects on the Egyptian business environment. This may requires reform to the existing AC Code allowing more control over listed companies.

The current research study will propose new requirements for AC Code for Egyptian listed companies to help them do a better job in monitoring and controlling their day-to-day activities. The Egyptian government is working toward developing this sector and started by creating the Egyptian Institute of Directors (EIOD) in 2003 under the authority of the Ministry of Foreign Trade (this institute developed Egyptian Code of Corporate Governance for both the Private Sector and the Public Enterprise Sector in 2005 and 2006). In addition, the improvement to the AC code will promote the trust of the international investment community and, ultimately, foreign direct and portfolio investment, which in turn, will result in gaining more credibility and more encouragement of investments.

Finally, a more effective AC means more stability and resistance to economic shocks. The idea of having more investments in the economy to generate more jobs for the community is the main goal of the government and it is doing its best for attaining this end. A well built economic environment will be more mature to resist economic shocks than an infant one.

1-2 Research Objective

The main objective of this research is to enhance the effectiveness of the Egyptian AC Code in terms of reliability, clarity, comprehensiveness, and practicality. The original Egyptian AC code was written in 2007 before the AC report was made mandatory for companies registered in the Egyptian stock market. Several changes have taken place; such as the Global Economic crisis and the consequences of the collapse of the various stock markets around the world. Facing these dramatic events the regulatory agency of CMA tried to empower the Egyptian economy against such drastic outcomes by empowering Corporate Governance (CG) through the use of the AC toll to protect investments in the country. Although the AC practice in Egypt is still new, less than 3 years, but that does not mean that its code should be very brief and rigid. The AC Code should give some examples and be a guideline to the practitioners toward the easiest and best practice in the management of the listed companies and safeguarding their assets.

The main objectives of the research are:

1. Update the AC Code in Egypt. This should be of an ongoing process, based on best practice advice for updating the code with new regulations to be put in place.
2. Develop the code to be more detailed. The AC Egyptian code is not more than one page; although it gives a starting point to the directors, still it is not enough for the complexity, size and volume of work of the required modern business environment.
3. Empowering the local investment environment to grow to help unemployment in Egypt. Given the many financial problems facing developing countries, corporations need to have a rescue plan for the country's economy, and the AC code could be a vital element within such plan.
4. Sustain high rates of Economic Growth. CG, in general, benefits developing economies in realizing sustainable rates of growth while maintaining the overall high growth.
5. Help the ACs practitioners do a better Job. In the beginning of every discipline the practitioners will need to have as much help as they could get; they need to know where their jurisdiction starts and where it ends and how to do the job? Without providing a good guidance; high expectations should not be assumed to be realized, and the AC may not be able to set the company back on the right track.

1-3 Literature Review

1-3-1 Corporate Governance

The importance of CG issues gained increased recognition after the scandal of Enron in 2002, due to the failure and violation of the trust embedded in business management of some companies in the private and public sector. Many governments were surprised to see failures occurring in a well-organized corporation with the cooperation and knowledge of one of the best CPA firms in the world (i.e. Arthur Anderson). Due to this fact of dishonesty CG policy reforms were considered an important global policy issue driven by additional events like the Asian Financial Crises in 1997; and crises in Turkey and Argentina in 2001 and 2002. CG is seen as a safety net for most of the listed companies in the stock market during the era of continued financial crises.

It is not a good idea to entrust CG to rich families, few powerful bankers or a cadre of bureaucrats and also this does not protect minority shareholders. Shareholders should always be able to sue the directors and officers of the company that violates the rules (Morck & Steier, 2007, pp. 5-7). This represents a CG challenge for many governments because the newness of this concept to many is made worse by confusion between two concepts, Governance and Control. The objective was to separate Control and Ownership. This will involve two rights, liability and continuity, the limited liability is that for every stock the owner is responsible to the value of her/his shares and no more than that if the corporation becomes insolvent. The continuity principle means that the assets of the corporation should live longer than any of its stakeholders (Naciri, 2008, p. 1). Any company is not more than a set of settled rules, regulating monetary and physical outputs it generates. It will not be more than a relation between governing establishments, the setters or programs and schemes to run the corporations, and those who are under their authority. The Board of Directors (BD) is the representative of all the Shareholders and must make sure that management of the company serves the stockholders' best interests (Naciri, 2008, p. 3). Corporations aim to maximize the wealth of shareholders. On the other hand, CG is seen as an important tool for controlling companies, CG framework should ensure the strategic guidance of the company, the effective monitoring of management by the BD, and the BD's accountability to the shareholders and the public (McGee, 2009, p. 49).

Corporate Governance is the system by which companies are directed and controlled... Boards of directors are responsible for the governance of their companies. The shareholders' role in governance is to appoint the directors and the auditors and to satisfy themselves that an appropriate governance structure is in place. The responsibilities of the board include setting the company's strategic aims, providing the leadership to put them into effect, supervising the management of the business and reporting to shareholders on their stewardship. The board's

actions are subject to laws, regulations and the shareholders in general meeting. (Sullivan, 2009, p. 9)

The key stakeholders are shareholders, BD and the management. All of these are considered internal stakeholders, while on the other hand the company has external stakeholders like suppliers, banks (creditors), customers, etc. It is the responsibility of the BD to come up with CG administrative and policy procedures to ensure the protection of shareholders' rights and wealth. These procedures are usually put in a code or another document that has a synonymous name. This code will help the BD to add value to the company and of course to the interest of shareholders. Also it is the responsibility of the BD to make sure that everyone in the company is doing precisely her/his job. It is important to monitor the performance of the executive directors and branch managers especially in large companies that hire hundreds of employees, and at the same time, may spread over many countries around the world. So adding value will be through sound CG and this will help, on the long run, to create and shape the behavior and performance of the organization from top to bottom. CG will also affect the organization, not only from inside, but also on the outside with goodwill among the customers and business partners.

CG is simply a method by which corporations are controlled and this tool will empower the BD in managing their responsibilities. While the Shareholders responsibility is to hire external auditors and CEO to ensure that a good structure is in place; the BD has to make sure that strategies are set forth and provided to the leadership to put them into action. At the same time, doing the supervision of the management and reporting to the shareholders on their stewardship will help in fighting corruption (Sullivan, 2009, p. 9).

In the last 10 years, Egypt has seen important efforts to align corporate financial reporting requirements with the International Financial Reporting Standards (IFRS) including all International Accounting Standards (IAS). Additional improvements could be accomplished by updating the legislative framework that includes an appropriate regulatory framework for practicing auditing and internal control toward a better and sounder CG practice (IFC, 2002, p. i). Egypt has taken a serious effort to be involved in the issue on the global level by considering participation in the S&P/IFC index¹ and in the MSCI EMF index². This will help Egypt over time to have regional and global indicators to measure the development of the CG in the country.

1-3-2 Board of directors and Committees

Coming back to the vast responsibility of the BD, and due to that, the BD depends on a number of committees to carry out its tasks. Following is a list of the most customary committees;

¹ It intends to project the performance of the Stock Market movements especially in the emerging markets.

² It intends to project the measurement of equity-market performance in emerging markets.

1. Audit Committee (AC);
2. Committee of outside Directors;
3. Executive Committee;
4. Finance Committee;
5. HR and Compensation Committee;
6. Nominating and Governance Committee;
7. Remuneration Committee;
8. Investment Committee;
9. Risk Committee; and
10. Environmental Committee.

There could be other committees that reflect a specific industry or circumstances.

The BD manages its work through properly constructed committees that divide the duties related to the various activities of the company and give the chance to the directors to use their maximum know-how. The entire BD cannot deal with every aspect, so it delegates certain issues to the relevant committees and then the issue after careful study and analysis return back to the BD for briefing and recommendation. Each committee must have a chart of duties. Their meeting and reports will become part of the BD's minutes (Colley, Logan, & Stettinius, 2003, p. 44). The shareholders committee's (annual meeting of shareholders) major work is to exercise control over the BD's main concern and structure. This will guarantee that it will, most of the time, handle issues which are suitable from the BD members' interests (Monks & Minow, 2004, p. 186). Today we have guidelines for good CG that did not exist two decades ago and greater knowledge and willingness to engage in this good governance schema. The private sector should be a stakeholder in the process of building and supporting a reliable accountability and transparency structure that will prevent corruption and advocate sound CG. (Sullivan, 2009, pp. v-vi)

A good CG Company could be seen to have the following characteristics; “

- An absence of accounting problems.
- Employee stock option plans that are aligned with the best interests of shareholders;
- Executive compensation plans that do not divert value from shareholders;
- BD that are not dominated by shareholders who own large blocks of stock; and
- Ensuring that management is pursuing a sound overall business strategy”.

(Duffy, 2004, p. 45)

A good and sound CG performance will, in the near future, attract more investments due to the management enhanced and improved capacities, and may result in, reduction in the risk factor associated with financial and administrative elements. This is considered important in the developing countries because more investments means more services, innovation and more technology. If fully implemented by the country's

private sector, sound CG could serve the well-being of the country even with minimum intervention of the governments. It also means that the political administration would focus more on control rather than running the business, 'hitting two birds with one stone.'

1-3-3-1 Audit Committee

AC has a significant focus on the financial affairs of the company and helps to satisfy the demand for corporate accountability. AC is considered an important tool in the conduct of corporate business. If the AC would identify any financial mismanagement, like embezzlement, some people may end up in jail even if they were directors (Ward, 2000, p. 44). AC is the last safe haven for sound financial practice in each corporation. AC will help companies navigate the minefields of corporate corruption.

An Audit Committee is Defined by the Sarbanes-Oxley Act; 2002 as:

- (A) a committee (or equivalent body) established by and amongst the BD of an issuer for the purpose of overseeing the accounting and financial reporting processes of the issuer³ and audits of the financial statements of the issuer; and
- (B) If no such committee exists with respect to an issuer, the entire BD of the issuer.

Braiotta (2004) indicates that the AC play a critical role in today's CG by assisting the BD with the maintenance and development of the corporate accountability framework. The AC makes BD accountable for its stewardship accountability. Copnell (2005) adds that AC fulfils its fiduciary responsibility according to the AC mission, abilities of AC members and the tone set at the top of the governance structure. It is represented by the fiduciary feature that the AC has from the BD and Shareholders. Constructing an AC will involve BD in the financial process and eventually will help the BD to apply extensive and larger control over management.

The focus on improving CG should be a continuous improvement process. The corporations should implement procedures and policies that guarantee the effectiveness of each CG tool. The business should always concentrate on enhancing the internal control and financial disclosure for a better CG. (Carpenter, Fennema, Fretwell, & Hillison, 2004, p. 63). The quality of CG and the effectiveness of BD are critical elements to an organizational success (Duffy, 2004, p. 43). AC that operates successfully is a key feature in a strong CG culture and can bring major benefits to the organization (Copnell, 2005, p. 7).

The AC forms an important requirement of Egypt CG code. AC was formally required for all listed companies in Egypt beginning 2008 by CMA now the Egyptian Financial Supervisory Authority (EFSA) (CMA BD Decision No. (94) of 2008 issued on 22/9/2008; AC was mentioned in article 7). At the beginning of 2009 all listed companies on the Egyptian Exchange (EGX) have to submit the AC report starting from the first quarter of

³ The company that issues financial statement.

2009 (ending March 31) and the companies that did not submit the AC report by the two months deadline were required to pay a fine of LE 15,000.

1-3-3-2 Audit Committee Members, Roles, Responsibilities and financial Expertise Considerations.

AC team should not be less than 3 members and no more than 6, one of them at least should possess financial expertise and the others should be financially literate. All the members should have integrity, objectivity, confidence and informed judgment. The AC size depends on the field or/and the kind of industry.

The AC should ensure the achievements of the following:

“

1. Integrity of the company's financial statements.
2. Internal control over the financial reporting process
3. CPA firm's qualifications, independence, and performance
4. Performance of the internal audit function
5. Compliance with legal and regulatory requirements”. (AICPA, 2009, p. 7)

Among the roles and responsibilities of the AC, the following represent the major responsibilities:

1. Ensuring that the organization has antifraud programs and controls in place to help prevent, deter, and detect fraud. The AC improves internal control that acts as an effective monitoring device for enhancing disclosure quality with more reliable financial reporting.
2. Ensure that financial statements are reliable, transparent and understandable.
3. Ensure that the organization has implemented an effective ethics and compliance program, and guidelines for acceptable behavior, on which a climate of integrity is built and well established.
4. Establish procedures for the reporting of complaints.
5. Conducting AC Executive sessions with various members of the executive management and reviewing executive expenses.
6. Selecting, evaluating and replacing the CPA firm subject to BD and/or shareholders approval.
7. Reviewing in a timely manner all annual and interim financial statements.
8. Ensuring the compliance with all laws and regulations that have a significant impact on financial statements.

(Colley, Logan, & Stettinius, 2003, p. 51), (AICPA, 2008, pp. 56,59,67), (Braiotta, 2004, p. 45), (Dahawy & Samaha, 2009, p. 13).

All the above responsibilities and procedures should be written down in the AC Charter to make sure that the AC members are aware and committed to the job. AC should be accountable to all shareholders, which includes proper stewardship to the resources of the company. AC should have the independence necessary to safeguard the credibility of the organization, which includes the independence of the committee members. As a prerequisite to the effective performance of the AC, the BD should formulate a clear

definition of the AC's authority. A strong internal audit function begins with a strong AC. It should define the purpose of the charter: to help the BD fulfill its oversight responsibilities with a detailed description of the authority of AC (Harrington, 2004, p. 69).

1-4 Development of CG in Egypt: Past & Future

In the late 1990s, Egypt recognized the importance and need of gaining trust of the foreign direct investments, portfolio investors, and the international community generally. It started applying a well-tailored economic reform program, a part of which was privatization (Dahawy & Samaha, 2009, p. 5). The Egypt economy is now mixed market-based, in which the entire government disbursement is moderate. Government spending in recent years was 33.6% of GDP and policies have been adopted to encourage foreign investments. Limitations remain, however: procedures for allowing foreign investments requires approval by a ministry, most foreign ownership of land is prohibited, and there are no tax incentives for foreign investment. But Egypt has lowered all taxes to promote global capital investments. Property rights and contracts are protected, but the proposal associated with the purchase of real estate is complex. The judicial process is costly, lengthy, and subject to political pressures, Egypt's ranking is 115th out of 180 countries in Transparency International's 2008 Corruption Perceptions Index (eStandardsForum, 2009, p. 2). Egypt maintained the same ranking in 2009.

Moving steadily, since 2002, Egypt's government has promoted reforms that have had a major positive influence on transparency and fiscal policy. With the appointment of a new Prime Minister in 2004, the pace of such reforms has increased in most areas, although there has been some slow-down in initiatives, particularly in the economic sector (eStandardsForum, 2009, p. 4).

The enforcement and implementation of the CG rules remained weak, however. Legislative reforms are needed in order to bring the policy framework into better conformity with the Organization for Economic Co-operation and Development of CG Principles. Following the World Bank's recommendations, the Egyptian Code of CG was published in 2005 by EIOD (eStandardsForum, 2009, p. 5). CG helps in realizing sustainable and high rates of growth, enhances confidence in the local capital market, increases and deepens the ability of the market to mobilize saving, encourages growth of the private sector by supporting its competitive capabilities, helps to secure financing for projects, generates profits and creates job opportunities (Dahawy & Samaha, 2009, p. 3). Improvements are required in the areas of fiscal data timeliness and quality, and public confidence in the reliability of fiscal and budget data remains low. The IMF's 2008 Consultations report notes that Egypt's reform efforts are hindered by current global economic conditions, but the IMF urges that efforts continue, particularly citing the need to move forward (eStandardsForum, 2009, p. 4).

The prevalence of family-owned businesses and high ownership concentration in many emerging markets mean that public disclosure is less advanced because insiders are closely informed about the company's activities and financial position (Ghazali & Weetman, 2006, p. 28). Family-controlled organizations have no motivation to disclose information in the absence of obligatory requirements because the demand for public disclosure is relatively weak in comparison with companies that have diverse ownership (Chau & Gray, 2002, p. 250). Firms with a high representation of family members on BD are likely to be less diffused in terms of ownership. Incentives to disclose additional information are expected to be less, given the low degree of conflict of interests (Ghazali & Weetman, 2006, p. 233). There is a need for a proper design of CG features that can protect the rights of minority shareholders in developing economies (Ghazali & Weetman, 2006, p. 228). A key player in this construction is the non-executive director that is a BD member who is not involved in the management of the firm and does not have any direct or indirect interest in the firm (Ghazali & Weetman, 2006, p. 234). Outside directors who are less aligned to management may encourage or require companies to disclose more information to outside investors; there is a positive relation between proportion of independent directors and voluntary disclosure (Eng & Mak, 2003, p. 331).

Nonexecutive independent directors would help in more effective monitoring of the BD and limit managerial opportunism. A complementary relationship would mean a greater extent of disclosure by companies with a higher proportion of independent directors on the BD (Ghazali & Weetman, 2006, p. 233). Consequently, when an AC code is developed; this will empower the non-executive directors to do a better job in serving the purpose of all the shareholders.

Egypt does not have detailed regulations comparable to those in the US, such as, the Sarbanes-Oxley Act of 2002, which for example, prohibits auditing/accounting firms from simultaneously providing both consulting and auditing services to the same client. It also promotes some disclosure practices that are not common in the Middle East, such as whistle-blowing protection, takeovers provisions...etc. So procedures and measures related to these items are not commonly disclosed in the region. The voluntary disclosure of information in the local market is far from satisfactory at the current status quo, such that insufficient data is available in the firms' financial reports (Dahawy & Samaha, 2009, pp. 24,32,33).

“In emerging capital markets, where the level of information asymmetry appears to be greater than in developed markets, investors may be discouraged by perceptions of unfair trading. In many developing countries the accounting profession is not in a position to regulate accounting and financial reporting effectively. Consequently, it may not be sensible to depend on professional self-regulation and the regulation of accounting by an independent authoritative body, while the establishment of accounting principles and the supervision of their application throughout the economy should be given serious consideration in the public interests. However, governments may be subject to a failure of political will or may lack the resources to enforce standards; some argue that even where compliance with standards is legally required, companies may not comply if it is perceived that the consequences of not-compliance are not serious.”

The intervention of governments in developing countries through accounting and disclosure standards may be essential to ensure higher reliability of financial reports” (Samaha & Stapleton, 2008, pp. 44,61). This may lead to the enforcement of AC by EGX.

The enforcement and implementation of CG rules remains weak. The best practice report of Egypt 2009 recommended building institutional capacity to ensure efficient regulation of the market and strong enforcement of rules. This voluntary code is an addition to the corporate-related provisions stated under various laws (eStandardsForum, 2009, p. 5). With the enforcement of the AC regulation in early 2009 on all the listed companies in EGX; it is necessary to develop the code to be more helpful for the ACs the companies in the local capital stock market.

1-5 Research Methodology

In order to achieve the objective of this research, the study will be conducted in two stages;

1. A theoretical study for analyzing the components of both the American and the British AC codes to seek means of improvements of the Egyptian Code. The study will focus on the AC code for companies listed in the stock market. The American AC Toolkit has four categories, each for a different kind of organization in the economy, while the Egyptian has only one for both listed and unlisted companies. The special condition of Egypt, the legal and regulatory parameters, will be considered for the adaption of the code proposed modifications.
2. A field study will be undertaken using a questionnaire to analyze and survey a sample of the AC chairmen and members for large corporations in Egypt. The aim of the questionnaire is to assess the perception of the AC teams for the proposed modifications and changes on the Egyptian code in relation to AC. The survey will also try to find the best way to develop the code in a way that will be a ‘friendly use document’ for all the AC members in embarking their duties and to help in developing a useful tool for the next few years.

Like many other countries in the world, Egypt is promoting a reliable investing environment and Egypt’s AC Code will need to adopt the rapid changes in the CG literature and implement the evolving practice. This research is undertaken to consider the latest changes and updates in the UK CG code concentrating the AC part of that code with comparison with the AC toolkit in the US. The current research will propose modifications into the Egyptian AC Code to enhance its understandability, cohesiveness, completeness and its application in practice. The issues critical to the enhancement of the CG practice in Egypt and useful for the local environment will be proposed for adoption.

After examining the three codes and proposing modifications to bring the Egyptian AC code up to global standards, the research will assess opinions and critics of the professionals in the Egyptian market. A survey will be conducted among academics and practitioners to collect the practical opinions of the auditors in CPA firms and AC members in big listed companies about the recommended changes and improvements to the local AC code. After completing data gathering, analysis of the points made by the participants will shape a final set of recommendations to update the Egyptian AC code.

1-6 The structure of the Research

This research contains five chapters;

Chapter One; is an introductory chapter presenting the foundation of the thesis and the importance to the Corporate Governance, with the focus on the AC role in this matter.

Chapter Two; Literature Review of Audit Committee; the requirements of Corporate Governance Code in U.K, U.S.A and Egypt. This chapter will be a comprehensive review of the two codes, which would help to improve AC Code in Egypt.

Chapter Three; Proposed Improvement for AC requirements in Egypt. This chapter will help to fulfill the objectives of the current research by developing a potential list of modifications to the Egyptian Code to enhance understanding of the code by the practitioners.

Chapter Four; Data analysis and findings. This chapter will seek the opinions of a sample of the AC teams that have some experience and practice, in this locally new field, to see their perception about the proposed modifications and additions proposed to the code.

Chapter Five; Conclusions, limitations and recommendations.

Summary.

This chapter is an introductory chapter. In the problem statement, the researcher identified the main objectives and benefits related to the development of the AC Code. The researcher then presented the details about the issue by reviewing first development in CG and its importance in sustaining good growth rates, with much focus on the relation between CG and AC. A definition of AC and details about its roles and responsibilities were presented. The chapter also included a review of CG in Egypt, the methodology that will be followed to achieve the study objectives, and the structure of the research.

Chapter 2: literature Review of Audit Committee; the Requirements of Corporate Governance Code in U.K, U.S.A and Egypt.

2-1 Introduction

In this chapter, the researcher will examine the CG codes in the three countries, namely the USA, UK and Egypt. The research will focus on the requirements of the AC provisions. Shareholders depend on the BD and its AC to oversee company performance and take decisions that serve the best interests of the company and its shareholders. A CPA firm following best practices helps the BD and AC fulfill their CG responsibilities and serve the public interest (Glazer & Fabian, 1997, p. 96).

The tone of a company's control environment is set at the top, by the BD in general and the AC in particular. The responsibility of the BD often relies on the AC to question and notice any unusual business practices, aggressive accounting methods or violations of the company's code of business conduct (Bean Jr., 1999, p. 47). The right tone should be relevant to the firm's structure, size and stakeholders. It is the responsibility of the AC chairman to set the right tone at the top. The AC is created by the BD to play a vital role in the CG process, which aims to protect the shareholders interests. There should be some requirements that will help the AC to do the job and achieve excellent performance through the control over the company's operations.

This chapter begins with a description of how the UK AC Code is designed and what issues it discusses, then the US code and toolkit will be discussed in details. Finally, the Egyptian code will be analyzed with the aim to identify areas that are not in alignment with best practice as represented by the US and UK codes.

2-2 The characteristics of UK Audit Committee Code

The UK AC Code is composed of the 'Guidance on Audit Committees' published in October 2008 by the Financial Reporting Council (FRC). Earlier, in July 2003, the same guidance, was part of the CG Code, called then 'The Smith Guidance', then the name changed when updated in October 2005 to 'Guidance on Audit Committees (The Smith Guidance).'

The UK Code is one of the most comprehensive and detailed codes for an AC that could be found in a capital market. The AC part of the Code is comprehensive in presenting methods it follows in explaining every issue it goes through. In addition the FRC adds and updates its provisions every 2 years, which make it a living document that accommodate changes in business and political environment and all other economic changes. It responds to the major elements that take place in the normal cycle of business in the UK taking into consideration that the London Stock Exchange is one of the largest Capital Market in the world.

The guide is composed of five Parts with an appendix.

1. Introduction;
2. Establishment and role of the audit committee; membership, procedures and resources;
3. Relationship with the BD;
4. Role and responsibilities; and
5. Communication with shareholders.

The introduction identifies the objective of the code to assist the BD in making apt arrangements for the AC and helping the directors working in the AC. The BD should determine the AC particular characteristics concerning the risk profile, complexity and the size of the company. The AC members should act independently, not like other directors, to make sure that the interests of the shareholders are protected. The introduction also recommends procedures to be followed by members to solve the disagreements that may take place between the AC and BD. It also empowers the AC to be able to do a better job for the company. Moreover, the Code explains the relation among the AC and the management, external and internal auditors especially that all parties should have a free access to the AC with regard to information. It requires the management to take the lead and give information to the committee without necessarily being asked. The internal control is one of the main issues on which the AC should maintain oversight, review and assesses, because the AC will intervene if they find that

something is wrong. In addition, many other things are covered, like the scope and time of the AC activity, with the need for training for AC members.

The second part of the code clarifies the Establishment and role of the AC; membership, procedures and resources. It begins with *Establishment and role of AC*, given by the BD to the committee, to be able to do its job. To achieve this objective, the Code explains the audit process including monitoring and reviewing the financial statements and financial reporting; monitoring the internal auditors; AC's remuneration, independence and appointment of CPA firm; policies for non-audit services. Another issue is the membership and appointment of AC. the Code includes the following: AC should have 3 independent members (non-executives), the number of AC members and appointing a chairman, which focuses also on the AC members independence with emphasis on accounting literacy of at least one member; the determination of maximum time the member could serve in an AC. Another important issue is *meetings of AC*, which includes: how many meetings per year; who will attend the meetings of AC; time for and between the meetings of BD and AC; meeting with internal auditors and meeting the CPA firm at least annually; conducting formal meeting of the AC and maintain an ongoing contact with key people. *Resources* are also important concerning sufficiency; assistance; free access to information and acquiring independent advisors. *Remuneration* for AC is another vital issue. *Skills, experience and training* is an integral part of the skills of AC members which includes: financial qualification for the expert; orientation for new members and continuous training for all AC members.

The third part of the UK Code overviews the Relationship with the BD and includes the following: The extent of the AC authorities delegated by BD; AC responsibilities; self evaluation; and disagreement between BD & AC. The fourth part of the code includes the role and responsibilities of the following: the First section discusses the *financial reporting*, including: AC reviews of financial reporting and the financial statements; the AC have to check if accounting policies are appropriate and report that to the BD. In addition, the AC should review the information in the financial statements. *Internal controls and risk management systems* is the second section of this part, which includes: reviewing the internal financial controls and risk management; assessment and management of risk and assessing management effectiveness; and approving the annual report. The third part covers *Whistle-blowing* and gives a short explanation of it. The part of *the internal audit process* emphasizes on the issue of the need for an internal audit function or not. This is the main issue in most of the sections of this part and the evaluation of the company's need for such a function and what should be done if the company does not have an internal audit function. This part is not compatible with the Egyptian code because the EGX mandate an internal audit function on all the listed companies. The Code also explains the characteristics of internal audit regarding the size and complexity of the company; approving the appointment of Chief Audit Executive (CAE); and that the AC should review the work of internal auditor.

The fifth part is concerned with *the external audit process*. The AC Code described the nature of involvement of the AC with the CPA firm; the hiring and firing of CPA firm and

the selection process with the assessment of the CPA firm; reporting all these issues to the BD. The AC has the responsibility to approve the terms and remuneration of the CPA firm, also the AC has to assess its independence, including the provisions of non-audit services; verifying former CPA firm employees as an important resource to the company; check the compliance to ethical standards by the CPA firm; and prohibited non-audit services and reporting about them, although, this code did not go into non-audit services details. This section also includes annual audit cycle which explains planning; scope and appropriateness of the CPA firm; also the importance of joint review between the AC and the CPA firm to those controls, review of the audit representation letter and management letter; and evaluation of the audit process. Finally; Communication with shareholders explains reporting the AC responsibilities in the proxy statement with details to guide management in the application of such concept and the need for AC chairman to attend the Annual General Meeting (AGM).

The **APPENDIX** *revises guidance on use of firms from more than one network*. This issue is beyond the scope of this thesis so the research will not go into details on this issue.

2-3 The US Toolkit and Code

2-3-1 **The AICPA Audit Committee Toolkit; Public Companies.**

The toolkit is published by the AICPA and is revised on an annual basis starting from 2003, a matter which makes it an important document for the purposes of this research. The Toolkit includes the following chapters:

1. AC administration;
2. Key Responsibilities;
3. Performance Evaluation; and
4. Other Tools.

The 1st chapter discusses *AC member Roles and Responsibilities*, which describes: the minimum number of AC and the necessity of involving a financial expert, AC process and procedures with oversight on financial reporting process and the audit functions taking into account the limitation of the AC role. The *AC charter Matrix*, the 2nd part, shows the best practice which is useful to manage the agenda of AC members. It is also a very useful manual tool to be followed by AC when planning. The 3rd part of the chapter, the *AC financial expert decision tree* includes a flowchart that could help in evaluating the candidates for the Financial Expert position. The 4th part is a *Sample Request for proposal letter for CPA services*. The 5th part of the chapter reviews the AC role in *AICPA Peer Reviews and Public Company Accounting Oversight Board (PCAOB) Inspections of CPA Firms: An Overview* assessing the CPA performance to

help the AC members in understanding the oversight and obligations of CPA firms. This part deals with the *Guidelines for Hiring the CAE*, stressing the importance of the internal Auditor and the special care to be taken to hire the head of the function. This part sheds light on this issue by explaining the expertise, qualifications and experience for this position. The last part of the 1st chapter deals with *Engaging Independent Counsel and Other Advisers* which explains the different qualifications of each adviser for different tasks and provides a good guide for screening.

Chapter 2 titled Key responsibilities includes: *Internal Control: A Tool for the AC* which contains a through explanation about the basics of Internal Control and the key terms in internal control over financial reporting. This part also explains the roles and responsibilities of key executives and other personnel in the internal control. It also gives an idea of what internal control cannot do; for example, some focus was put on management override of controls and ways of fraud. This section concludes with the importance of overview of internal control to AC members, and highlights the role of the AC in establishing an appropriate control environment. The 2nd part of the chapter, *Fraud and the Responsibilities of the AC: An Overview*, emphasizes that AC should insure that the company has the right programs to identify and categorize potential fraud which mandates the AC to handle the prevention, deterrence, investigation and discovery or detection of fraud. This could be done by using the expertise of Forensic Accounting Consultants. The AC should play a leading role in preventing fraud and should help to provide all the necessary tools to fight fraud. The 3rd part deals with the *Procedures for Handling Complaints (Whistleblower Policy)* and includes a Tracking Report that help in establishing a process for reporting the complaints to ensure proper internal control procedures for handling employee complaints, director complaints, and other complaints. This part of the chapter also explained how to process and retain complaints with maximum period of five years. The chapter includes also *Issues Report from Management*, a tool for documenting any critical issue to discuss with the AC. The 5th part of this chapter is *Conducting an AC Executive Session: Guidelines and Questions*, which offers guidance for meeting different key executives or management teams on a one-on-one basis. It contains a definition of what is an executive session and an identification of the executives as the following: Chief Financial Officer (CFO), CEO, CAE, Chief Information Officer (CIO) and General Counsel. This tool also includes CPA firms; a part on discussions to expect from the Independent Auditor which helps to establish better communication between the AC and the CPA firm. It also includes: the element of independence for the CPA firm against the issuer, and the Auditor's Responsibility under the Standards of the PCAOB mandates for listed CPA firms with PCAOB. All practices and audit adjustments that take place should be reported to the AC by the CPA firm. Auditor's Judgments about the Quality of Entity's Accounting Principles, and Other Information Contained in Annual Report to Shareholders, disagreements with management and significant difficulties encountered

in performing the audit by CPA firm, consultation with other accountants, major issues discussed with management prior to retention and illegal acts like fraud that place responsibilities on the CPA firm to make sure that AC has adequate information about. The last part of this chapter, *SOX Section 404: Responding to the Identification of a Material Weakness- A Checklist for the AC*, discusses the case of adverse audit reports.

Chapter 3 of the Audit Tool analyzes criteria for Performance Evaluation. It includes *Evaluating the Internal Audit Team: Guidelines and Questions* those which will help the AC in evaluating the internal audit function of the company. It focuses on the AC Relationship with the Internal Audit Team who is the ears and eyes for the AC function. This part sheds light on Internal Auditing Standards and Quality Assessment through standards established by the Institute of Internal Auditors (IIA). The second part of the chapter is about *Evaluating the Independent Auditor: Questions to Consider* and presents some measurement tools to assess how much independent is the AC toward the CPA firm. The last part of chapter 3 addresses *Conducting an AC Self-Evaluation: Guidelines and Questions*. This should be done on annual basis to measure the effectiveness of the AC work done.

Chapter 4: Other Tools, describes Enterprise Risk Management: A Primer on the Committee of Sponsoring Organizations (COSO) Framework and puts much attention on the SOX Section 404 requirements' and mandates. Enterprise Risk Management (ERM) systems always focus on the prevention of losses of companies' assets which could be the result of situations when the company is not effectively handling risk well, this part gives an overview to the BD on ERM; while the next part, Enterprise Risk Management: A Tool for Strategic Oversight, provides questions to evaluate the ERM process and the search for any weaknesses. The next part of the chapter deals with Common Security and Exchange Commission (SEC) Filings. It provides AC members with an overview of SEC forms and terms necessary for reporting requirements. The fourth part of this chapter, titled *SEC Final Rule on AC Financial Experts*, provides a detailed definition of the expert and includes a number of expert characteristics, such as:

1. Title which argues that it is not the matter of the term itself but the features that the expert possesses;
2. Need to report the names and number of AC members;
3. Need to disclose independence of AC financial expert(s),
4. Definition of AC financial expert provides the attributes of them;
5. Safe harbor from liability for AC financial experts; explains the aims to distinguish between experts and non experts for the purpose of disclosure;
6. Determination of a person's status as an AC financial expert proposes that BD is the right body to make this determination;
7. Location of AC financial expert disclosure in the proxy statement; and

8. Change in Item Number which is relevant only to the use of US listed companies.

The last part of the US toolkit is the *Resources of ACs*, which provides members of the AC with tools to improve the skills including websites, data, information and ways to develop AC members' skills.

2-3-2 **The Final NYSE Corporate Governance Rules.**

This code was developed by the New York Stock Exchange and was approved by SEC on Nov. 4, 2003. This research will concentrate only on the part of the code that deals with AC. This code, unlike the British code, is not very comprehensive. The AC part is only four pages. It consists of the followings main provisions: *Listed companies must have an AC that satisfies the requirements of Rule 10A-3 under the Exchange Act* aimed to ensure the independence of directors and to strengthen CG practices of listed companies. *The AC must have a minimum of three members* and considers the financial literacy of the members and take into consideration the number of companies that an AC member could serve in at the same time. *In addition to any requirement of Rule 10A-3(b) (1), all AC members must satisfy the requirements for independence set out in Section 303A.02.* This part of the code deals with the transition period to comply with the requirement of the AC members and also set up AC members appointment, independence and compensation. *The AC must have a written charter* that addresses the AC's purpose which include the AC report, financial statements integrity, compliance with regulations, the CPA firm auditors qualifications and the evaluation of internal auditors; preparing the AC report; and AC responsibilities. Another part of this code is the annual evaluation of AC and the peer review of CPA firms. This part also emphasizes the rotation of the CPA firm lead auditor. The part titled *discussion between AC and management* for the annual and interim financial statements discusses the company's policy of income press releases explaining the information concerning types of disclosure and that this issue should not be done in advance. Another part of the US Code discusses the policies of risk management with the management of the company concerning policies and guidelines that govern the issue of risk that could be handled in some company through other mechanisms other than the AC. The next part addresses the need to *Meet separately, periodically, with management, with internal auditors (or other personnel responsible for the internal audit function) and with CPA firm* clarifies that the AC must meet all and each in a separate session. The next part, *Review with the independent auditor any audit problems or difficulties and management's response*, asks that the AC regularly review difficulties encountered by the CPA firm, e.g. the scope of work or the access to information; and discusses the tasks, staffing and budget of internal audit team. Another part of this Code is to *Set clear hiring policies for employees or former employees of the CPA firm* because they could be a valuable addition to the company's management. The part titled *Report regularly to the BD* indicates that the AC must review: accounting principles, significant changes to accounting procedures, special audit steps, any analysis prepared by management, outcomes if different GAAP¹ methods were used and the style of presenting the information. The last part in this Code

¹ Generally Accepted Accounting Principles.

emphasize the role of AC for listed company as *Each listed companies must have an internal audit function* to provide AC and management with ongoing evaluation of internal control, which indicated the necessity for the existence internal audit function.

2-4 The Egyptian Code

The country started to develop a CG code only in 2005; the following are the two CG codes that are now available in Arabic and English:

- a) "Guide to Corporate Governance Principles in Egypt" by Dr. Zeyad Bahaa El Din and Mr. Maged Shawqi, 2005, published by the Center for International Private Enterprise (CIPE).
- b) "مشروع القواعد التنفيذية لحوكمة الشركات المقيدة ببورصتي القاهرة والأسكندرية" , by the Capital Market Authority, Nov. 2006.

Both codes are not more than 14 pages for each, as a result; the AC section in both is not more than a page. The most important elements discussed in the codes in relation to AC are: The AC should be comprised from non-executive BD members but with a minimum of three, with an option of hiring members from outside of the company. There should be at least one member as a financial expert. The General Assembly should issue, upon a recommendation from the BD, a manual for hiring AC members and determine their duration, responsibilities and remuneration. The management should provide AC with all available resources and help to conduct its responsibilities including appointment of external advisors and counsels.

The AC functions as stated in the Egyptian Code are as follows:

- a) Assess the effectiveness of controller and her/his staff;
- b) Review the accounting policies and make comments and recommendations to BD;
- c) Be aware of all the advancements in the accounting field and report what could be of useful importance to the BD;
- d) Examine the internal control framework and write down a recommendation report with the necessary amendments to guarantee its ongoing effectiveness;
- e) Discuss and review internal audit function plans and efficiency;
- f) Review the internal control report and follow up the correcting actions of the joint comments;
- g) Recommend the appointment, dismissal and remuneration of the CPA firm to the BD; taking into account auditor's independence, qualifications and performance; putting in place assuring measurements to the ongoing independence of CPA firm;

- h) Approve CPA firm's other non-audit services engagement and remuneration;
- i) Review the audit plan for the CPA firm and make comments;
- j) Review the financial statements draft before sending financial statements to the BD for approval and for the CPA firm to audit;
- k) Assess CPA firm remarks on the financial statements and discuss it with it and follow up the actions taken concerning the comments and qualifications; and
- l) Work on resolving all disagreement between management and CPA firm.

The AC should have periodic meeting at least every three months with a specific agenda. It should prepare a periodic report, every three months, about the AC performance to the BD.

In sum, one may notice that the content of the CG Code in relation to the AC did not include many of the responsibilities and elements which are associated with AC function. For example, the Egyptian AC did not include remuneration, non-audit services, Whistle-Blowing, etc.

Summary

This chapter discussed the AC Codes in three countries. The introduction part tried to illustrate this idea by discussing the UK and US Codes and regulations in details and then analyzed the AC Code in Egypt. The chapter then explained in details the UK AC Code and discussed the AC Toolkit and Code in the USA. All the above analysis formed the preliminary detailed analysis needed to identify those provisions that can be added to Egypt AC Code for the improvement of AC role.

Chapter 3: Proposed Improvement for AC Requirements in Egypt.

3-1 Introduction

The aim of proposing development in Egypt AC Code is to help the listed companies in the EGX to better understand the role of ACs and the benefits that listed companies may receive from having an effective AC. The Egyptian Code for CG lacks many provisions that are considered necessary and important for the overall improvement of CG practice in Egypt's business environment.

The objective of this study is to recommend updating of the Egyptian Code to ensure effective cooperation among the members of the AC and with other BD members and the management of the company. Moreover, this guidance will improve the attitude and working relations with the independent auditor¹. This will give a clearer idea for the role of all parties involved with the work of the AC; to be aware of the road map when dealing with the AC, which information required from the management to the AC.

Today, ACs are being asked to assume responsibilities well beyond their traditional duties (Copnell, 2005, p. vii). This requires an accurate system for handling day-to-day monitoring. The AC's job is to provide oversight, review and assesses many of the elements constituting a company and controlling systems. The AC has to intervene when there is something of serious concern in the financial reporting process or management control system, and thus there should be enough resources to carry out the work of the AC. There should be suitable payment for AC members because the committee is giving valuable time to do the job (FRC, 2008, p. 4).

This research analyzes and assesses the content of the combined code in the UK and make a comparison with that applied in Egypt. The British AC Code emphasizes the establishment of the committee and how the members are appointed. The Code

¹ External Auditor, Independent Auditor or CPA firm refer to the same thing for the purpose of this research.

identifies the role of the AC and explains the responsibilities and different tasks the AC should undertake including membership, appointment, independence and duration of AC members. The meetings of the AC focused on the time and frequency of meetings and who should attend them; where resources include the kind of assistance and information the AC could have, and remuneration of the members. In addition, the AC members should have the skills, experience and training required to fulfill their job effectively. The code also concentrates on the Relationship with BD concerning the volume of tasks and responsibilities taken by AC, their evaluation and the disagreement between AC & BD. The AC should carry out its responsibility according to best practice, which included financial reporting, internal controls and risk management systems, whistle-blowing, the internal audit process and the external audit process. The last part of the code dealt with the communication with shareholders by providing information about the tasks of AC, names of members, qualification and the way AC discharged its responsibilities.

On the other hand, the US toolkit emphasized the AC Members Roles and Responsibilities, which explain the different tasks of AC work such as the oversight of financial reporting and audit function. The toolkit included an important part on engaging independent counsel and other advisers dealing with getting extra help from outside advisers to AC. The US toolkit also discusses the internal control needed to assist the AC to enhance the effective use of internal control and ways to maintain risk of fraud. Procedures for Handling Complaints (Whistleblower Policy) and Tracking Report focused on how the AC should review and handle complaints received by the company; Conducting an AC Executive Session: Guidelines and Questions, is a section in the toolkit, explained one of the core responsibilities of the AC and what should be done and who should attend its meetings; with the evaluation of the Internal Audit Team. Guidelines and Questions helped in the evaluation of the effectiveness of internal control; and the evaluation of the Independent Auditor, which provided guidelines for assessing the performance of CPA firm; Conducting an AC Self-Evaluation.

Listed companies under the US Code must have an AC as it is a mandatory requirement by the NYSE. Moreover, the AC must have a minimum of three members, which includes also the required qualifications of those members like the financial literacy. In addition, the AC must have a written charter, which identifies the responsibilities of AC and preparing the proxy statement. The code discusses how the company's quarterly financial statements and annually audited financial statements are discussed with both the management and the CPA firm. The code also allow the review of other issues with the CPA firm, any audit difficulties or problems and management's response; besides, setting clear hiring policies for former employees or current employees of CPA firm; additionally, reporting regularly to BD. Finally, Each listed company must have an internal audit function.

3-2 Similarities and differences between AC Codes in US, UK and Egypt.

Below is a comparative showing similarities and differences between the UK (AC Code), USA (AC Code and Toolkit) and the Egyptian AC Code:

Subject	UK	USA	Egypt
1. Establishment & role			
Establishment	Very detailed	Brief ²	Brief
Appointment	Very detailed	Brief	Brief
Meetings of AC	Very detailed	Very detailed	Brief
2. Resources			
AC Resources	Detailed	Detailed	N/A
Adviser/Counsel	Brief	Very detailed	Brief
Remuneration	Very detailed	N/A	N/A
3. Skills & Experience			
AC Financial Expert	Brief	Very detailed	Brief
Experience & Training	Very detailed	Very detailed	N/A
4. AC relation with BD	Very detailed	Detailed	N/A
5. Financial Reporting	Very detailed	Very detailed	Detailed
6. Internal Control(fraud)			
Internal Control	Very detailed	Very detailed	Brief
Fraud	N/A	Very detailed	N/A
7. Whistle-Blowing	Brief	Very detailed	N/A
8. Internal Audit Function			
Internal Audit Process	Detailed	Detailed	Detailed
Evaluating	Detailed	Very detailed	Brief
9. External Audit			
Appointment	Very detailed	Detailed	Brief
Independence	Very detailed	Detailed	Detailed
Non-Audit services	Very detailed	Brief	Detailed
10. Annual Audit Cycle	Very detailed	Very detailed	Brief
11. Communication with Shareholders	Very detailed	Brief	N/A

² Brief means that the subject was mentioned only without any justification, Very Detailed and Detailed refer to the length of and comprehensiveness of each subject in the illustrated references.

3-3-1 Establishment & Role of AC.

In relation to the establishment of AC, the UK AC Code described in details the responsibility of the BD in appointing the AC members who should be independent and non-executive members. In case when a company has a Nomination Committee, the recommendation to the BD will be through that committee. The AC chair has also to play a role in choosing the AC members. The UK AC Code indicated that the BD chair could not be an AC member (Copnell, 2005, pp. 51,131). On the other hand, the US toolkit included that the AC members will also be members in the BD (AICPA, 2008, p. 8). As to Egypt the AC Code described the responsibility of BD to establish the AC without any other details as follows; “The General Assembly constitutes a committee of non-executive BD members called the AC” (Capital Market Authority, 2006, p. 8). In order to enhance the Egyptian AC Code the researcher proposes the following addition:

*Independent non-executive members of the AC shall be **appointed** by BD on the recommendation of the Nomination Committee in consultation with AC Chairman. The BD should appoint the AC Chairman. The BD chairman should not be a member of the AC; each AC member shall be a BD member.*

In relation to the appointment of the AC, the UK AC Code limited the term of AC members to only 3 years, with a possibility of extension for another two terms (FRC, 2003, p. 48). The US Code also restricted the number of the ACs by three committees that each member can serve in at the same time. Such restriction will help to enhance the member’s independence (NYSE, 2003, p. 10). The US toolkit did not include any details other than the three members’ condition. Moreover, each member was advised to show transparency in relation to the existence of any situation of conflict of interest with her/his membership of the AC (HM Treasury, 2007, p. 12). Deloitte’s handbook included another detail about the quorum of AC; consisting of three members (Deloitte, 2008, p. 75). The Egyptian AC Code did not include such details for the appointment of AC by stating; “The AC comprises not less than three non-executive members. One member should be a financial and accounting expert. In case of an insufficient number of non-executives, one or more members may be appointed from outside the company.” (Egyptian Institute of Directors, 2005, p. 12). To enhance the Egyptian AC Code for better and more effective guidance, the researcher proposes the following addition:

*Every AC member **appointment** should be only for a period of 3 years and extendable by no more than another two periods. Three AC members constitute a quorum. If any AC member serves in more than 3 listed companies at the same time and none of these companies limit the number of AC on which its AC members serve, in every case the BD should decide that this situation will not impair the ability of such AC member in serving the company’s AC effectively, such decision should be disclosed in the organization’s AC section of the annual report. Each member of AC should be responsible to announce pro-actively any potential conflict of interest identified on the AC’s agenda or from changes in the member’s personal circumstances. The AC Chair should determine an*

appropriate procedure with the member. If the AC Chair has a conflict of interest, the BD should ask another AC member to lead in determining the appropriate procedure.

The last part of the establishment and role concerns the meetings, which are key for effective use of the AC work. The UK AC Code stated that only AC members should attend the meetings while others could attend when invited for all or part of the meeting. In addition, AC should meet CPA firm and internal auditors separately at least once a year for issues concerning the AC responsibility (FRC, 2003, p. 48), (FRC, 2005, p. 6). The US toolkit encouraged programming the meetings depending on the AC charter and audit plans for internal and external auditors. The AC minutes should be circulated before the next meeting. The toolkit also emphasized that AC members should be reachable when needed (AICPA, 2008, p. 9), (AICPA, 2007, p. 3). The ICSA Guide included many details, such as the AC ability to call any employee for questioning, that minutes should be circulated to internal and external auditors, that the meeting agenda should be sent to participants five days earlier, and that some other necessary documents should be attached to the minutes after reviewed by full BD (Copnell, 2005, pp. 16,57). Deloitte's handbook stated that the CFO and CPA firm would be attending most of the meetings; sufficient time should be allowed between AC and BD meetings to allow carrying out necessary actions identified by ACs (Deloitte, 2008, pp. 59,118). The AC handbook included one important detail, that executive managers could attend the whole or only part of the meetings (HM Treasury, 2007, p. 11). Another research stated that the documentation of meetings should be in minutes, which is considered very important, that AC members must grasp everything without relying on the minutes and that meetings should be programmed ahead including topics and nature in the charter (Morrow & Pastor, 2007, pp. 46,51). Some researchers discussed that meetings should be more than 30 minutes and to push for more concentration (Carpenter, Fennema, Fretwell, & Hillison, 2004, p. 62). Another researcher included that the AC should meet the CPA firm at least quarterly and when necessary (Hnatt, 2001, p. 50). Two researchers argued that the AC should discuss the earnings and financial statements each term and at the year-end with management and the CPA firm (Sweeney & Vallario, 2002, p. 54). The Egyptian AC Code did not include most of the details above concerning the meetings of the AC and only discussed the following; "The committee should meet periodically, at least once every three months, with a specified agenda" (Egyptian Institute of Directors, 2005, p. 12). In order to develop CG practice in Egypt the following provisions are proposed for the Egyptian AC Code:

Only the AC's chairman and members are allowed to attend the meeting of AC. The AC may call any employee to a meeting for questioning as and when necessary. It is expected, however, that the chief executives, the CPA firm and the CFO³ would be invited to attend most AC (executive) meetings as they will be a significant source of information for many of the topics covered.

³ CFO: Chief Financial Officer.

There should be sufficient time between AC meetings and BD meetings to allow actions arising from the AC meeting to be carried out and reported to the BD as appropriate. The agenda should be set in advance for the AC meetings based upon the AC charter, key financial reporting dates and the planned work of the internal and external auditors. The agenda, the time and date of every meeting should be sent to the participants no later than five working days before every meeting.

The AC meeting discussions should be documented in AC meeting minutes. When any meeting is over; every member should have a common understanding of the key issues discussed without referring to the notes and minutes. Formal minutes should be prepared, circulated to internal and external auditors as appropriate, approved by the AC and then reviewed by the full BD. Important documents related to the meeting should be attached to the minutes, including the agenda. Minutes should be circulated no later than before the next meeting.

The AC should meet the internal auditor and the CPA firm, each separately, at least once annually without any involvement from the BD's side, to discuss matters from the field or the audit. The AC should also meet with the CPA firm at least quarterly; the auditor should be given to understand that s/he could meet the AC if any critical issue should arise between programmed meetings. There should be no more short (30 minutes) meetings. All the details of the meetings should be programmed as far ahead as possible in the charter including number, topics, and nature of meetings.

The AC should discuss, at the end of every term and every year, the earnings guidance, earnings releases for the term and for the annual financial statements. Discussing quarterly and annual financial reports with the management and CPA firm will give the AC a chance to review the policy of disclosure, the business operations and income. The AC should do this every quarter before submitting its report and the interim/yearend financial statements to the EGX.

3-3-2 Resources.

With regard to the AC Resources part, the UK AC Code contained two issues under this category. The first issue is the availability of money for the AC to manage its responsibilities. The second issue concerns the free access to all the resources in the company, such as all the data-bases and archives for information, including different kinds of reports, drafts, minutes and flow-charts with the possibility to use the company secretary (FRC, 2003, p. 49), (FRC, 2008, p. 7), (FRC, 2005, p. 7). At the same time, the US toolkit included the same issues with more concentration on internet resources and other published resources (of which the toolkit itself is an important part) (AICPA, 2009, p. 28). One researcher emphasized the importance of providing extra money for emergency because AC work may need more meetings for certain areas or problem solving situations (Savich, 2006, p. 73). Another researcher concentrated on the management responsibility of providing the information without even being asked from the AC side, as this was seen as leading to full access of all the company's data, as timing is an important factor in this matter (Bean Jr., 1999, pp. 48,49). The Egyptian AC Code did not include any statement about the AC Resources; therefore, the researcher proposes the following provisions to enhance the CG practice in the country:

The AC should be supplied with adequate resources to undertake its duties. Many companies give information to aid the AC in carrying out its responsibilities. Companies should recognize that their ACs may necessitate extra funding because of additional meetings or more consultants to answer questions about alternative financial treatments. Organizations should budget accordingly when they establish an AC.

The AC should have the right to use services of the corporate secretariat on all AC matters including: helping the chairman in planning the AC's work, drafting of materials about its activities for the annual report, maintenance of minutes, drawing up meeting agendas, gathering and sharing of information and provision of any needed practical support. Ready access to all books, records and employees of the corporation must be assured.

The corporate secretary ensures that the AC gets information in a timely basis to allow proper and full consideration to the issues. It is management's responsibility to keep the AC informed of routine and sensitive or controversial information, at the same time, this information should be available to AC in a timely manner.

As to the Adviser/Counsel part, the US toolkit included the qualifications of the formal expert and noted that s/he should not have a conflict of interest with the company, and should have enough resources to do the job, the competence and experience to do the necessary service, and the personal characteristics crucial to the job. As the Adviser/Counsel's engagement is representing the AC itself, so the management should be fully cooperative with him in relation to data requested and reports information (AICPA, 2008, p. 35). The UK AC Code only stated the possibility of engaging independent advisers. A researcher indicated that there should be sufficient funding for the hiring of experts even without the need for BD approval, and that the law encouraged the use of independent advisors (Bean Jr., 1999, p. 48). The Egyptian Code was much briefer about the issue, stating that, "The company should make facilities available to help the audit committee perform its function including the hiring of external experts whenever required" (Egyptian Institute of Directors, 2005). In order to enhance the Egyptian AC Code the researcher proposes the following provisions:

ACs must have the authority to hire independent counsel and other advisers as it believes necessary to carry out its duties. The AC should decide upon service provider(s) that: (1) maintains objectivity and integrity; (2) have a reputation for reliability, among other considerations; (3) have the resources and expertise necessary to do the work; and (4) are free of conflicts of interest with respect to the members of AC and the company. AC should make sure that management understands that the Adviser/Counsel is working on behalf of the AC and the AC expects management to be fully forthcoming and cooperative.

Funding should be available to the AC in retaining an outside legal counsel without approval from BD and the retaining of an external accounting firm if a 2nd opinion is called for. AC should engage more in having CPAs advise on audit and accounting matters.

For the remuneration part, the UK AC Code determined the payment for the AC members based on their responsibilities compared to BD members', expertise also

plays an important part; there should be a special consideration for the work of AC chair because of extra effects and time allocated to the work of AC (FRC, 2008, p. 7). The US toolkit did not discuss this issue. The Egyptian AC Manual stated that the fee should be adequate and should not be extremely high, but it still should attract good directors (EIOD, 2007, p. 12). A researcher specified some conditions on AC members, such as dedicating time and working hard (Scarpati, 2003, p. 34); in order to have higher compensations than other BD members, payment could be in cash or by stock options (Sweeney & Vallario, 2002, p. 53). In the case of the Egyptian AC Code, this issue was not part of the Code, and in order to enhance it, the researcher will propose the following provision:

*The level of **remuneration** rewarded to the members of AC should take into account the extra responsibilities of membership and the level of fees paid to other members of BD. Importance should be given to the skills AC members are bring to endure the difficult duties they take on. Serving on the AC requires a significant time commitment, including organizing for meetings as well as attending them. Remuneration should be sufficient to recognize the time the AC takes and the responsibilities accepted in order to attract responsible and good directors; the salary should not be excessive such that a dispute may be perceived. Therefore the AC members could get more remuneration than other BD members. AC members might get their salaries in cash or corporation stock, options or other consideration ordinarily offered to directors. The responsibilities of the AC chairman and time challenges will generally be heavier than the other members of AC and this should be reflected in her/his remuneration.*

3-3-3 Skills & Experience.

With regard to the AC Financial Expert, the UK AC Code was vague about this issue as it stated, “The BD should satisfy itself that at least one member of the AC has recent and relevant financial experience” (FRC, 2008, p. 6). Therefore, the Code did not specify that there should be an AC financial expert as such. On the other hand, the US toolkit clearly identified specific qualifications and experiences that this expert should hold, such as being aware of the size, complexity and industry of the company. The toolkit also affirmed that even if the expert had worked in accounting/auditing jobs as a manager, this does not qualify her/him to be an AC financial expert; the BD should consider the highest professional and personal qualifications when choosing a nominee. The toolkit also confirmed that her/his name should be disclosed in the annual report (AICPA, 2009, pp. 143,147,148,150). The Egyptian AC Code was very brief about the expert, “One member should be a financial and accounting expert” (Egyptian Institute of Directors, 2005, p. 12). Based on all the above discussions, the researcher finds it appropriate to propose the following provisions to enhance and develop the Egyptian AC Code:

The AC Financial Expert should possess professional experience that will be relevant to the operations of the AC, such as:

- *thorough understanding of AC’s oversight function;*
- *expertise in financial matters as well as having a through grasp of financial statements;*

- *the capacity to ask the right questions to decide whether the corporation's financial statements are accurate and complete;*
- *the size of the organization with which the individual has experience;*
- *the scope of that corporation's operations; and*
- *the complexity of its accounting and financial statements.*

Previous experience in accounting jobs by itself does not validate the BD to hire a given applicant as an AC Financial Expert; the BD must guarantee that it names an AC Financial Expert who embodies the highest values of professional and personal integrity. Companies must include the Financial Expert disclosure in their AC section of the annual report.

When the company reaches the maximum number of AC members; then it could hire Financial Experts as advisors to the AC. where they should be financially qualified and have experience of working in the concerned country.

With regard to experience and training, the UK AC Code stated that training will be offered to all AC members periodically and continually including on the company's regulations. Training could take several forms such as courses or seminars, with more focus on new members (FRC, 2005, p. 8). On the other hand, the US toolkit also included the financial literacy of the AC members and that they should have continuing education. The US Code also emphasized the financial literacy of all members (NYSE, 2003, p. 10). At the same time, the ICSA Guide emphasized the experience in financial reporting in accounting records (Copnell, 2005, p. 9). McCarthy expressed that Sarbanes-Oxley encouraged finding gaps in member's education and offering the necessary training to address them (McCarthy E. , 2004, p. 44). Zacharias also constrained the hiring of members that do not have financial literacy as they must become literate in a reasonable time (Zacharias, 2000, p. 55). The AC handbook stated that the BD and AC should agree on the qualifications required for an AC member and those qualifications had to be re-examined annually (HM Treasury, 2007, p. 13). The Egyptian AC Code stated; "Gather all the international developments in accounting and auditing and notify the BD, including what AC believes is important for the company" (Capital Market Authority, 2006, p. 9). In order to formulate a more detailed CG Code to develop the AC practice in Egypt, the researcher proposes the following provision:

Training should be offered to all members of the AC on a timely and ongoing basis and should include an understanding of related company bylaws and recent developments in financial reporting. The training may take many forms including seminars and internal company talks, formal conferences and courses, and briefings by external advisers. There should be more focus on training new AC members. Every member of the AC must be financially literate; specifically, AC members must have expertise, or access to expertise, that goes beyond mere familiarity with financial statement. Potential gaps in AC members' business and technical knowledge should be identified and offers training made as needed. Corporations, with a stated market capitalization, must have AC members financially literate or who will become financially literate within a reasonable time after their appointment. The AC should identify, and agree with the BD on the skills required; the required set of skills should be periodically reviewed.

3-3-4 AC relation with BD.

The UK AC Code described this issue comprehensively with many details. The BD should examine the AC annually. The disagreement between the AC and the BD should be given sufficient time to be resolved but otherwise should be disclosed in the annual report (FRC, 2008, p. 8), (FRC, 2003, p. 51). The US toolkit was also detailed about this issue and called for the BD to approve the charter and for the AC chair to be responsible for evaluating the members' performance annually and consider replacement if necessary. The toolkit also addressed the AC annual review of executive managers' comments about the AC performance. The toolkit explained that the charter should be modified when new changes take place and called for the AC to recommend needed changes to the BD, such as changes in the law or/and practice (AICPA, 2007, pp. 3,8). The US Code determined that the AC charter should contain some basic elements for effective AC functions such as AC responsibilities, periodical evaluation and purpose (NYSE, 2003, pp. 10-11). A writer demonstrated that the direct reporting relationship from the AC to the BD will help the AC to fulfil its stewardship duty toward the stakeholders (Braiotta, 2004, pp. 70,94). The ICSA Guide included the AC chair reporting responsibility to BD after each meeting, and also required that the AC charter should be available on the organization's website (Copnell, 2005, pp. 56,147). The AC handbook referred to the responsibility of the BD to assign the AC's duties, and stated that this will require an annual review of AC's effectiveness (HM Treasury, 2007, p. 10). The Egyptian AC manual included the scope of AC work in the charter briefly (EIOD, 2007, p. 11). A researcher explained that every AC member should have a scheme to follow, such as the charter (Bean Jr., 1999, p. 48), which should also be developed with the help of CPAs by suggesting input concerning the accounting and financial issues in their company (Kroll, 2005, p. 68). The Egyptian AC Code did not include any arguments for this issue so the researcher proposes the following provisions to develop the Egyptian Code:

The fiduciary role of AC is set forth by the AC charter matrix after being approved by the BD. The AC should report directly to the BD, the AC chairman should report formally to the BD on its proceedings after each meeting on all issues within its responsibilities and duties. The AC is an integral part of the corporate framework in helping to fulfill the BD's stewardship responsibility to its outside stakeholders. Setting the right tone at the top⁴ will also require considering the size of the company, the industry and competitive environment.

The AC should get formal Terms of Reference set by the BD. These should be reviewed annually by the BD and in turn should require the AC to annually review its own effectiveness and recommend any needed changes to the BD. This will include reviewing its strengths and weaknesses and setting a foundation for future enhancement. The CFO, CEO, CAE and CPA firm must make comments on the performance of the AC. The BD should review AC's effectiveness annually.

When there is a disagreement between the AC and BD, enough time should be made available for debate of the issue with a view to resolve the discrepancy. When any such

⁴ Control environment or tone at the top of the organization, meaning the integrity, ethical values, and competence of the entity's people, management's philosophy and operating style, the way management assigns authority and responsibility, organizes and develops its people, and the attention and direction provided by the board of directors. It is the foundation for all other components of internal control, providing discipline and structure. (AICPA, 2009, p. 47)

disagreements cannot be resolved, AC should have the right to report the issue to the shareholders as part of the report on its activities in their section of the annual report.

The AC must have a written charter that includes:

- *the purpose;*
- *the requirement to prepare a statement in the annual report;*
- *provision for annual performance evaluation of the AC; and*
- *the duties and responsibilities of AC.*

Every AC member needs a reference manual to perform her/his job well. CPAs should contribute in developing their company's AC charter by presenting input on internal oversight and controls of the financial reporting and accounting processes. The Charter depicts the scope of AC tasks and how it fulfills these tasks. The charter must be posted on the corporation website. The AC charter should be reviewed annually (unless changes are needed during the current year) recommending any proposed changes to the BD taking into consideration new best practices, last year's experience, appropriateness and new laws or regulations.

3-3-5 Financial Reporting.

In relation to this subject, the UK AC Code explained this issue very deeply, and included that it is management's not AC's responsibility to prepare the financial statements. The UK AC Code encouraged the AC to address the BD when there are any mistakes or misstatements in the financial reporting, which is considered one of the major responsibilities of the AC (FRC, 2005, p. 9). A writer emphasized on what the UK Code explained and added that the AC and BD should affirm the integrity or quality of the financial statements and that management is to abide by the regulations (Braiotta, 2004, p. 28). ICSA Guide argued for the preapproval of information attached to the financial statement, by AC records before the BD approval, such as CG statements and cash-flow statements (Copnell, 2005, p. 20). The Egyptian AC Code included detail that the AC should "Review the company's accounting policies and give opinions and recommendations" (Egyptian Institute of Directors, 2005, p. 12), "Examine the drafted financial statements before submission to the BD for approval and sent to the CPA firm for review" (Capital Market Authority, 2006, p. 8). Reflecting this discussion, the proposed provisions of the Egyptian AC Code will be the following:

The AC should examine with the full BD any issues that concern the quality or integrity of the corporation's financial statements and the organization's compliance with legal or regulatory constraints. If AC is not satisfied with any aspect of the proposed financial reporting, by the management, it shall report it to the BD.

The AC should review related information presented with the financial statements, including corporate governance statements, and the financial and operating review relating to risk management and to the audit. Similarly, where BD approval is required for other statements containing financial information, whenever practicable, the AC should review such statements first.

3-3-6 Internal Control

With regard to internal Control, the UK AC Code included that the AC should receive reports from management on effectiveness of internal control after the latter have been

examined by auditors. In addition, the AC should approve the internal control statements attached to the annual report concerning risk management (FRC, 2008, p. 10), (FRC, 2003, p. 52). The US toolkit provided more details about this subject indicating that it is the management's responsibility to maintain the system, while the AC has to make sure that it is operating accurately. While doing so, the AC is representing the BD and stakeholders; the AC main responsibility in this issue is to prevent management override of internal controls. The AC may depend on executive managers and the CPA firm in this issue. The AC needs to create a portfolio for risks faced by the company and identify strategies to minimize their affects on the company. The AC should periodically make sure that the company's code of conduct is adequate (AICPA, 2008, pp. 44,45), (AICPA, 2009, p. 11), (AICPA, 2007, pp. 13,18). Some researchers stated that the annual report should contain reports about internal control and its effectiveness (Coustan, Leinicke, Rexroad, & Ostrosky, 2004, p. 43). Another researcher stated that the AC should examine legal issues and regulations concerning risk and financial reporting (Klein, 2006, p. 6). As to the Egyptian AC Code, it stated that the AC should "Examine the internal control structure and prepare a report including opinion and recommendations; and discuss all the amendments in control structure to ensure its ongoing effectiveness" (Capital Market Authority, 2006, p. 8). In fact, the Egyptian AC Code did not include many details so the researcher will propose the following provisions to enhance the Egyptian practice:

The company's management is fully responsible for internal control. The AC needs to be confident that the controls are in place and operating successfully. The AC should receive reports from management on the efficiency of the systems they have built and the conclusions of any testing done by external and internal auditors. The AC represents the BD and other stakeholders in quaranteeing that the company has an adequate system of internal controls. The AC should review and approve the statements in the annual report in relation to internal control and the management of risk except to the extent that this is expressly dealt with by the BD or risk committee.

Each issuer's annual report should include an internal control report that shall report on the effectiveness of the internal control structure and procedures for financial reporting. The AC should examine government regulations and legal issues as they relate to the company's financial statements and assess the risk profile of the internal controls and company's activities themselves. The AC shall support preparation of the Statement on Internal Control in the annual report.

One of the particular issues of concern to the AC is the responsibility to deter or prevent a management override of internal controls. Questions about management override and about uncovering an override should be addressed to the CPA firm, CEO, CAE and CFO. The AC should create a portfolio documenting the company's material risks with updates. It should review annually the organization's code of conduct to guarantee that it is reliable and up-to-date.

In relation to fraud, the UK AC Code and the Egyptian AC Code did not include any terms concerning this subject. Only the US toolkit addressed this issue in detail: it stated that; in the instance of the fraud, the issue should be reported by the CPA firm to the AC giving the BD one business day to contact the government agency about the issue. At the same time, the CPA firm must report this to the government agency by the end of

the next day (AICPA, 2008, p. 93). Due to the importance of this issue, the researcher proposes the following provisions to be added to the Egyptian Code:

Fraud involving senior management, and any fraud, whether caused by senior management or other employees that causes a material misstatement must be reported to the AC by the CPA firm. The BD has one business day to notify the EFSA⁵ within that one business day, the CPA firm is required to send to the EFSA, by the end of the next business day, a copy of the report or documentation of any oral report.

3-3-7 Whistle-Blowing.

This issue was discussed in the UK AC Code in less detail than the US toolkit, stating only that complaints from staff should be handled of and if necessary investigation should follow serious cases, so it was not part of the proposed terms. On the other hand, the US toolkit explained in details the process of whistle blowing. It stated that the listed companies are required to provide a system to handle complaints by stakeholders regarding violations. If the person complaining was not satisfied with the treatment of her/his complaint, s/he should forward it to an AC member. The names and addresses of AC members for this reason should be available on the company's website or/and contacts for the hotline if the company has one, in any case. The confidentiality of the complainer should be protected. It is the authority of the AC to determine the appropriate corrective action according to its terms of reference, or to recommend a course of actions to the full BD. The AC could engage an independent adviser/counsel to help in the investigation (AICPA, 2008, pp. 59-61). Savich emphasized the availability of written procedures that any stakeholder could follow to file a complaint and receive appropriate treatment (Savich, 2006, p. 73). As to the Egyptian AC Code, it did not contain any provision to deal with this situation, so the researcher proposes the following process to manage the issue of complaining to help the ACs to become able to manage such matters professionally:

AC of listed companies are required by the whistle-blower provision to review any complaints received by the company, whether generated internally or externally, regarding internal accounting controls or auditing matters. Company employees/directors should forward to a member of the AC any complaint received by them that has not been resolved to the satisfaction of the person who raised the complaint.

If an employee was unsuccessful in resolving a concern through normal channels, the employee should contact a member of the AC (the names and phone numbers of AC members should be listed on the Company's internet), or call the hotline if such exists. The confidentiality of the employee should be guaranteed. Any employee, supplier or customer who detects misrepresentation and/or fraud within a company should be able to follow the procedures the AC has established for the receipt, treatment and retention of complaints.

An investigation by the AC determines whether a corrective action is appropriate. To the extent of the AC's need, it may engage outside advisors to assist in the investigation. The AC will, to the extent it has identified a need for corrective action, implement such action or recommend a course of actions to the full BD.

⁵ Egyptian Financial Supervisory Authority.

3-3-8 Internal Audit Function (IAF)

With regard to the Internal Audit Process, the UK AC Code was very detailed about this subject but it included evaluating the need for such a function, which is not applicable in Egypt due to the requirement of all listed companies to have an IAF. The supervisory authority's regulations state that, "The company should maintain a tight internal control system established by the BD members and directors" (Capital Market Authority, 2006, p. 13). The same function was also required in the Sarbanes-Oxley act. The responsibility of AC to hire the CAE was mentioned in the Egyptian Code but in the part dealing with the IAF as follows: "The audit department's head is appointed, reappointed, financial terms arranged and dismissed by the CEO; subject [to] the approval of the AC" (Egyptian Institute of Directors, 2005, p. 10). The UK Code noted that executive managers will have a better assurance about the internal control and risk if the IAF is adequately resourced in a way that it fulfills its mandates and equipped to perform in line with formal internal audit standards (FRC, 2008, p. 10), (FRC, 2003, pp. 52-53). The US toolkit noted that the AC should have a strong relationship with the IAF as its eyes and ears to be able to maintain oversight of its activities; likewise, the CAE should also have a direct and positive contact with the AC. In the time of economic crises and cost cutting, the IAF should not be part of this, in fact it should be asked to do extra work especially in these times. AC should create an agenda or approve the CAE's agenda for next year (AICPA, 2005, pp. 105,106), (AICPA, 2007, p. 20). Two researchers emphasized the AC's responsibility to review the IAF budget and plan to match them against the CPA firm's objectives (Read & Raghunandan, 2001, p. 60). Another study asserted that IAF team performance should be parallel to the performance of the rest of employees in the company to develop their experience (Rittenberg & Anderson, 2006, p. 54). The Egyptian AC Code included only some details in this part stating that the AC should, "Review the reports submitted by the internal auditor and any corrective measures taken" (Egyptian Institute of Directors, 2005, p. 12). Therefore, the researcher proposes the following provisions that the Egyptian Code missed to enhance implementation of CG practice:

The internal audit function should have a direct reporting relationship with the AC and the AC should provide oversight of its activity. The AC and the internal audit team should maintain a strong positive relationship. The CAE should have a solid line reporting relationship to the AC. The AC should create an agenda for the coming year or approve and review the CAE's agenda.

The BD and senior management may desire objective assurance and advice on control and risk. An adequately resourced internal audit function may provide such assurance and advice.

The AC should review the internal audit function, including the internal audit budget and proposed audit plans for the coming year and how such plans reflect the CPA firm's objectives. The AC should guarantee that the function has resources and access to

information to fulfill its mandate, and is equipped to perform in line with appropriate professional standards for internal auditors. In times of cutting costs, the internal audit function should not be the victim of a company downsizing; in fact, it should be doing extra monitoring at precisely this time.

In relation to the evaluating of the IAF, the UK AC Code stated that: the AC should make sure that the IAF is well resourced. The AC should guarantee that IAF team has direct access to the BD's and AC's chairs and is accountable to the AC (FRC, 2008, p. 11). The US toolkit was more detailed about the evaluation and included establishing an improvement and quality assurance program, which provides continued evaluation for the IAF team, which should be done minimally every 5 years. The toolkit also added that the AC and executive managers should meet once every year to evaluate the performance of the CAE (AICPA, 2007, p. 10). A researcher noted the need for the quality assurance program for the IAF to be done by an independent reviewing team from outside the organization (Protiviti, 2009, p. 31). Another researcher asserted that the HR also has some role in the evaluation of the IAF in parallel with the overall organizational strategy (Rittenberg & Anderson, 2006, p. 54). The Egyptian AC Code did mention the evaluation of the IAF briefly, stating: the AC should "Review and discuss the internal audit department plan and its efficiency" (Egyptian Institute of Directors, 2005, p. 12). Due to that the researcher proposes the following provisions:

The AC should ensure that the internal auditor team has direct access to the BD's chairman and to the AC and is accountable to the AC.

Companies should establish an Improvement and Quality Assurance Program that includes both periodic and ongoing internal QAs and undergoes an external QA a minimum of once every 5 years, by a qualified independent reviewer or review team from out-side the organization. Internal audit's behavior should be parallel with the organization's overall HR strategies to enhance the employees' experiences. AC should meet annually with executive managers and the CPA firm to discuss the performance of CAE.

3-3-9 External Audit

With regard to the appointment of the CPA firm, the UK AC Code was extremely detailed about this issue. Overseeing the relation between management and the CPA firm is the AC's responsibility. CPA firm resignation should be scrutinized by the AC. The AC should describe in the annual report the hiring, firing, and reappointment of the CPA firm. The description should also include audit fee rates in the market and any kind of limitations to the choice of audit firm. The AC should update the audit contract at the start of every audit according to the scope; if the AC is not satisfied then further amendment must be made to the contract (FRC, 2003, p. 53),(FRC, 2005, pp. 12,13),(FRC, 2008, pp. 12,13). The US toolkit was less detailed about this issue; assigning the AC to establish the fees for the CPA firm, comparing audit fees with non-audit services fees. The ICSA Guide mentioned that the AC must guarantee that the CPA firm is responsible to the AC, BD and shareholders. If the BD did not accept the AC's recommendation, the AC should describe this in the annual report with the reason for different viewpoints between the BD and AC (Copnell, 2005, pp. 39,40). A researcher discussed the need for the client in the CPA engagement letter to be the AC

and not the management anymore (Bean Jr., 1999, p. 52). Another researcher noted that the CPA firm staff should have a more direct working relationship with the AC (McCarthy E. , 2004, p. 43). Braiotta's book added that that AC should discuss the contract with the executive CPA firm partner (Braiotta, 2004, p. 224). The Egyptian AC Code stated some terms in this issue: "The BD should nominate an external auditor with a good reputation and experience on the recommendation of the AC. The external auditor should be able to handle the tasks according to the company size, nature and customers" and the external auditor "is appointed and his annual remuneration is determined by the GA" (Egyptian Institute of Directors, 2005, p. 11). In order to develop the Egyptian AC Code the researcher suggests the following provisions:

The AC is responsible for overseeing the organization's relations with the CPA firm. The CPA firm's engagement letter should state that the client is the AC, making it clear that the CPA firm is not obliged to management. As a result, the CPA firm's partners and staff must work more closely with the AC. The AC should ensure that the CPA firm is accountable to the AC and through them to the BD and eventually the company's shareholders.

If the CPA firm resigned, the AC should investigate the matters giving rise to such resignation and consider whether any action is necessary. The AC should consider the need to include the risk of the departure of their CPA firm from the market in their risk evaluation and planning.

The AC section of the annual report should describe to shareholders how the recommendation has been made to the BD on the appointment, reappointment or removal of the CPA firm. This should include supporting information on tendering rate, the tenure of the current CPA firm, and any contractual obligations that acted to limit the AC's choice of CPA firm. If the BD does not accept the AC's recommendation, this should be disclosed by the AC in the annual report with the reasons for the different stance by the BD.

The AC should review and discuss the engagement letter with the executive partner, concerning the updated new letter issued at the start of each audit and the scope of the external audit; if the AC is not satisfied with its adequacy then the AC should arrange for additional work to be done.

In relation to Independence, the UK AC Code provided for the AC to examine and compare the fees paid by CPA firm to its staff with its income and related requirements. The AC and BD should agree on a policy for employment of former CPA firm's employees who previously audited the company (FRC, 2005, p. 14), (FRC, 2008, pp. 13-14). The US toolkit noted that the AC should answer many questions about its relation with the CPA firm with comments from executive managers (AICPA, 2008, p. 111). The US AC Code included more details about the issue, including that the AC periodically should have a report from the CPA firm about internal quality control or peer review; also that the AC should review every 5 years governmental or professional inquiries concerning the CPA firm. The AC should be aware of any irregularities and how the CPA firm dealt with them. All these steps permit the AC to evaluate the independence of the external auditor. The AC should present its conclusions about the independence of the CPA firm to the full BD (NYSE, 2003, p. 11). SEC encouraged direct discussion between the CPA firm and the AC about independence rather than doing it only on paper (Journal of Accountancy, 1999, p. 102). A researcher stated that

the AC should make sure that the lead and other partners of the CPA firm took their mandatory rotation after 5 years of engagement and were subject to five years time-out (Purcell III & Lifson, 2003, p. 35), the same rule applying for non-audit services (Pashkoff & Miller, 2002, p. 36). The Egyptian AC Manual included the need to evaluate the CPA firm's efficiency, competence and quality of the audit to make sure that the audit fee is adequate to the size, nature and industry of the company to guarantee that the audit is not compromised (EIOD, 2007, p. 7). The Egyptian AC Code did include some provisions concerning the independence as follows: AC should "Assess the qualifications, performance and independence of the external auditor and give suggest recommendations in relation to the auditor's appointment and remuneration. The external auditor is independent from the company and the BD. He should not be a shareholder or an expert BD member. The external auditor must be independent and hold neutral opinions. The auditor's work is immunized against interference from the BD. Decisions to retain an auditor and/or to fix the auditor's remuneration are not for the BD to take" (Egyptian Institute of Directors, 2005, pp. 11,12). Due to the lack of comprehensiveness of the Egyptian AC Code for the independence issue, the researcher proposes the following provisions:

The AC evaluation should take into consideration the CPA firm's competence, the efficiency and quality of the audit, and whether the audit fee is proper in relation to the size, risk, complexity and control profile of the organization to ensure that the organization's audit is not compromised. AC should monitor the level of fees that the CPA firm pays in proportion to the overall fee income of the firm for officers and partners, and other related regulatory requirements.

The discussion about independence between the CPA firm and the AC should be required; rather than encouraged by the CPA firm's written communication; therefore, the AC should answer a several questions about its relationship with the CPA firm, and should ask executives in the company for their comments as well.

Annually, the AC should review and obtain a report by the CPA firm describing: the firm's internal quality-control procedures; any relating material issues raised, or peer review, of the firm, or investigation or inquiry by governmental or professional authorities, within a period of five years, respecting one or more independent audits carried out by the firm, and any steps taken to deal with any such issues; and (to assess the CPA firm's independence) all relationships between the CPA firm and the company.

The AC makes sure that the mandatory rotation takes place by the CPA firm to the lead and other partners after five years on the engagement and then subjects them to a five-year "time-out". The same thing also applies for non-audit service CPA firm's rotation. The AC should present its conclusions with respect to the CPA firm to the full BD.

The AC should agree with the BD's policy for the employment of former employees of the CPA firm regarding employees who were part of the audit team and moved directly to the organization. Monitor the number of former employees of the CPA firm currently employed in senior positions in the company and whether this causes an impairment, of the CPA firm's objectivity and independence, in respect of the audit.

With regard to the non-audit service, the UK AC Code included a requirement that the AC come up with a policy for non-audit services including; each contract should be decided on a case-by-case basis, the AC should approve all services, the CPA firm should be excluded from any services where mutual interest could develop between the

CPA firm and the company, and the external auditor cannot perform non-audit services, advocate, make management decisions or develop close personal relationships with staff of the company that it is auditing (FRC, 2003, pp. 55-56), (FRC, 2008, p. 15). The US toolkit was brief about this issue, mentioning that the AC should pre-approve any non-audit services, while Savich presented a comprehensive description. S/he advocated that any non-audit service exceeding 5% of audit fees should be approved by the AC, and that there are certain services that the AC should approve individually such as tax valuations, employee stock plans, etc. CPA firms should be prohibited from providing certain non-audit services to audit clients: bookkeeping, designing financial systems, HR, legal services, etc. (Savich, 2006, p. 73), (Pashkoff & Miller, 2002, p. 34). Sarbanes-Oxley restricted non-audit services exceeding 5% of total audit fees (US Congress, 2002, p. 28). Deloitte's handbook stated that any non-audit services should not damage the objectivity or independence of CPA firm (Deloitte, 2008, p. 121). Similarly, another researcher affirmed that any services should be disclosed in the annual report (Braiotta, 2004, p. 22). The Egyptian AC Code includes some provisions concerning the issue but not as comprehensive nor as clearly understandable, as follows; the AC should "Approve the engagement of the external auditor to provide non-audit services, and appropriate remuneration. The external auditor may not be contracted for additional company work without the prior approval of the audit committee. Extra duties should not interfere with the original assignment. The remuneration for extra work should match the tasks performed and not be exaggerated to a level that threatens the auditor's independence. In all cases, these costs are approved at the GA meeting that follows" (Egyptian Institute of Directors, 2005, pp. 11,12). The researcher proposes more details about this part in the following provisions:

The AC should ensure that the provision of non-audit services does not impair the CPA firm's independence or objectivity, and any such services should be disclosed in the AC section of the annual report. Non-audit services provided should not be more than 5% of the total amount paid to the CPA firm, but if the total of non-audit services exceeds 5% of total revenues paid by the company to the CPA firm, such services require explicit AC approval including the following:

- *Transfer pricing studies;*
- *Cost segregation studies;*
- *Tax-only valuations;*
- *Comments on candidates for senior executive positions;*
- *Tax:*
 - *Compliance;*
 - *Planning;*
 - *Advisory; and*
 - *But not representation in court case.*
- *Lending tax staff for special projects;*
- *Compensation packages;*
- *Employee stock ownership plans; and*
- *Requests for rulings.*

Some other services require BD approval no regardless of cost.

The AC should set and apply a formal policy for types of non-audit work:

- *for which a case-by-case decision is necessary;*

- *for which the CPA firm can be engaged without referral to the AC and policy subject to a fee limits;*
 - *from which the CPA firm is excluded, with regards to the ethical guidance, to prevent the possibility that:*
 - *a mutuality of interest is created;*
 - *the CPA firm audits its own firm's work;*
 - *the CPA firm is put in the role of advocate for the company;*
 - *the CPA firm makes management decisions for the company; or*
 - *the CPA firm develops close personal relationships with the company's personnel.*
- All registered CPA firms should be prohibited from providing audit clients of stock market listed companies, contemporaneously with the audit, certain non-audit services:*
- *Bookkeeping or other services related to the accounting records or financial statements of the audit client;*
 - *The designing and implementation of the financial information systems;*
 - *Valuation or appraisal services;*
 - *Contribution-in-kind reports or fairness opinions;*
 - *Actuarial services;*
 - *The outsourcing of internal audit services;*
 - *Management functions;*
 - *Human Resources functions;*
 - *Investment banking services or broker/dealer, investment adviser;*
 - *Legal services; and*
 - *Expert services unrelated to the audit.*

3-3-10 Annual Audit Cycle (AAC).

In relation to this subject, the UK AC Code included detailed terms. The AC should make sure that CPA firm's plan including materiality and resources are consistent with the scope of the audit and with regard to the qualifications of the audit team. The AC and CPA firm should review the findings of the latest audit including major issues (resolved and unresolved), levels of errors with explanations from management especially for unadjusted errors, and review bookkeeping and adjustments. The AC should review the CPA firm's representation letters before management clearance, giving more focus to nonstandard issues. At the end, the AC assesses the AAC process by: reviewing whether the CPA firm meet its audit plan and any changes to address risk, review the CPA firm's management letter to evaluate if it was based on the company's business and whether recommendations were considered or not, and take feedback about the audit from executive managers (FRC, 2005, pp. 15,16), (FRC, 2003, pp. 56-57), (FRC, 2008, p. 16). The US toolkit also included details such as: the need for coordination between the CPA firm audit plan and IAF team audit plan to ensure fulfillment, reduce redundancy, and for effective use of resources; the need for the AC to review CPA firm recommendations and the company's response to those (AICPA, 2007, p. 13), (AICPA, 2008, p. 4). The US Code stated that the AC should discuss disagreement between the CPA firm and management (NYSE, 2003, p. 12), and the ICSA Guide concluded that the AC should provide solutions to any financial reporting disagreement between them (Copnell, 2005, p. 146). Arthur Levitt stated that the AC should get CPA firm opinion of the quality not just the acceptability of accounting

principles used in the company (Journal of Accountancy, 2000, pp. 16,17). Another reserchers added that the AC must meet with management and the CPA firm to review quarterly and annual financial statement for disclosure. The management must confirm in its letter that uncorrected misstatements are immaterial (Sweeney & Vallario, 2002, p. 54). The Egyptian AC Code included the following: the AC should “Review the external auditor’s plan and make suggestions; review the external auditor’s comments on the financial statements” (Egyptian Institute of Directors, 2005, p. 12). Due to the briefness of the Egyptian AC terms concerning this part; the researcher proposes the following provisions:

The AC should consider whether the CPA firm’s overall work plan, including materiality and resources are consistent with the scope of the audit enqagement, regarding also seniority, experience and expertise of the audit team. Review with the CPA firm, CFO and CAE, the audit plan and scope of the IAF team and the CPA firm. Coordinate for audit efforts to assure the reduction of redundant efforts, completeness of coverage, and the effective use of audit resources.

There should be guidance for communication between the CPA firms and the ACs necessitating that the CPA firm get from the ACs their opinion of the quality, not just the acceptability, of the accounting principles used in the organization’s financial reports.

The AC must meet with management and the CPA firm to review audited quarterly and annual financial statements, including the organization’s disclosures, under management’s discussion and analysis of financial condition and operations.

The AC should review, with the CPA firm, the findings of their work including:

- *discuss major issues that arose during the audit, those resolved and any issues left unresolved;*
- *review the levels of errors, obtaining explanations from management and, where necessary the CPA firm, as to why some errors might remain unadjusted, and*
- *review audit judgments and book keeping.*

The AC should review the CPA firm representation letters before signature by management and give particular consideration to representation that relates to nonstandard issues to confirm completeness and appropriateness.

AC should review the management letters including the recommendations of the CPA firm and management’s responses to those recommendations. The management should confirm, in the enqagement letter, that any uncorrected misstatements are immaterial to the financial statement.

At the end of the annual audit cycle, the AC should assess the effectiveness of the audit process including:

- *review whether the CPA firm has met its audit plan and recognized the reasons for any changes, including changes in audit risks and the work undertaken by the CPA firm to address those risks;*
- *monitor and review the content of the CPA firm’s management letter to assess whether it is based on a good understanding of the organization’s business and establish whether recommendations have been taken in consideration and why; and*
- *obtain feedback about the performance of the audit from key executives involved.*

The AC should regularly discuss with the CPA firm any difficulties or problems faced during the audit cycle and any major disagreements with management. The AC should

ensure solution of disagreements between the CPA firm and management regarding financial reporting.

3-3-11 Communication with Shareholders

with regard to the last issue in this chapter, the UK AC Code provides that the AC's terms of reference as delegated by the BD should be disclosed in the annual report including a summary of its role, the number of members, and its performance report (FRC, 2008, p. 17), (FRC, 2003, p. 57). The US toolkit mentioned that the annual report should include names and qualifications of the members and the financial expert if such existed. (AICPA, 2008, p. 144). Zacharias argued that the AC should attach the charter to the annual report every three years (Zacharias, 2000, p. 55), Arthur Levitt added that the SEC (in Egypt the EFSA) should have jurisdiction over disclosure to the public especially the AC's responsibilities, and the annual report should include discussions on the financial statement between management and CPA firm (Journal of Accountancy, 2000, p. 15). Another writer added that the AC should disclose in the proxy statement if it satisfied the responsibilities stated in the AC's charter (Braiotta, 2004, p. 16). Deloitte's handbook provides that the AC chair will attend the AGM to answer any question concerning the AC's work (Deloitte, 2008, p. 79). In addition to these practices, the researcher recommends that the annual report should include unresolved disagreements between the AC and BD, appointing of the CPA firm, non-audit services and certain matters with external auditor (developed by researcher). The Egyptian AC Code did not include any terms concerning the part of communication with shareholders rather than including that AC should report its work results every three months. Due to this; the researcher suggests the following provisions to be added to the Egyptian AC Code to enhance the CG practice and develop AC effectiveness and performance of financial and internal control:

The AC should disclose in its section of the annual report for its annual meeting whether the AC satisfied its responsibilities during the prior year in fulfilling the charter. The corporation should attach the charter to the AC section of the annual report triennially. The EFSA should have jurisdiction over reporting of information to the public especially how the AC handled its responsibilities.

The terms of reference of the AC including its role and authority as delegated to it by the BD should be made available. The AC section of the annual report should include:

- *the number of AC meetings;*
- *a summary of the role of the AC;*
- *Names and qualifications of AC members, also disclosing whether there are one or more Financial Experts and giving the necessary explanation in the event that there are none;*
- *The AC's report must include discussion and reviewing of the audited financial statements with management and CPA firm; and*
- *a report on the way the AC has executed its responsibilities.*

The Chairman of AC will be available at the Annual General Meeting to answer any question about the work of the AC.

The AC section of the annual report should include other matters concerning any disagreement between the AC and BD, the issue of appointing the CPA firm, provision of non-audit services and other pertinent matters regarding relations the CPA firm.

Summary

In this chapter, the researcher proposed the provisions that are necessary for the Egyptian AC listed companies. The introduction emphasized the urgent need for such provisions together with their expected benefits. The comparison of similarities and differences among different AC characteristics of U.S., U.K. AC Codes leading to a GAP in Egypt AC Code which requires addition to such a code. The remainder of the chapter was dedicated to a detailed review of the differing provisions in each area and the proposal of new or revised points:

Establishment & Role;
Resources;
Skills & Experience;
AC relation with BD;
Financial Reporting;
Internal Control;
Whistle-Blowing;
IAF;
External Audit;
AAC; and
Communication with Shareholders.

To be included to strengthen the existing Egyptian AC Code and remedy gaps in its coverage.

Chapter 4: Data Analysis and Findings.

This chapter will discuss the results of the research study to determine the reliability of the proposed provisions needed for making the Code of Corporate Governance, Audit Committee section more practical and comprehensive.

4-1 Hypotheses

4-1-1 Hypothesis One.

The first hypothesis relates to the establishment, resources and skills of the AC. The following elements should be evaluated to determine their importance for AC effectiveness.

Allocating financial resources to the AC. Because of the huge responsibility that the AC undertakes, the BD should take into consideration the scope of work when allocating resources.. This factor includes the following issues: supplying the AC with adequate resources to undertake its duties; hiring independent counsel and other advisers to help the AC as necessary; and providing salary to AC members that takes into account the extra responsibilities, skills, duties and time produced by AC members. Therefore, AC members could get more salary compared with other BD members.

Hiring skilled members of AC. In relation to designating skilled members for the AC, the AC members should have financial expertise with professional qualification. AC members' training should be on a timely and ongoing basis and related to company bylaws with a focus on new AC members; and companies must have AC members who are financially literate or will become financially literate within a reasonable time after their appointment.

AC's Role and Establishment. AC members should be appointed by the BD on the recommendation of the Nomination Committee in consultation with AC Chairman. If any AC member serves in more than 3 listed companies, the BD should determine whether this situation will impair the ability of such AC member. Each member of AC should be responsible for announcing any potential conflict of interest in advance; there should be

sufficient time between AC meetings and BD meetings to allow actions to be carried out; and AC meeting discussions should be documented and circulated to internal and external auditors as appropriate.

Based upon the above modifications to the CG Code for the AC, the researcher proposes the following hypothesis:

H₁: There is a relationship between having sufficient funds, competent and skilled members of AC and transparency in the AC role and the effectiveness of the AC function.

The hypothesis used the second, third and first groups of questions in the survey, as discussed below. (Appendix A includes a copy of the survey in Arabic and English.)

4-1-2 **Hypothesis Two.**

Hypothesis two relates to the financial reporting, internal control, whistle-blowing and IAF.

Internal Control. One of the main responsibilities of the AC is trying to guard the company from fraud. Such responsibility includes the need to be confident that the controls are in place and operating successfully. In addition, the AC should approve the statements in the annual report in relation to internal control and the management of risk. The AC should assess the company's risk profile and support the preparation of a statement on internal control in the annual report. The AC should deter management override of internal controls and review annually the organization's code of conduct; fraud must be reported to the AC by the CPA firm. The BD has one business day to notify the EFSA of suspected fraud, while the CPA firm is required to report to the EFSA by the end of the next business day.

As to the **Financial Reporting elements**, first, the AC should review related information to financial statements due to a number of reasons. The BD's approval is required and if AC is not satisfied with any aspect of the proposed financial reporting, AC shall report it to the BD.

Whistle-Blowing policy is a new tool to handle complaints for Egyptian companies, which includes the following: AC is required by Whistle-Blowing to review any complaints received whether generated internally or externally, regarding internal controls and financial statements. Whistle-Blowing requires that anyone who wants to complain s/he should find the contact information of AC members on company's website or call the hotline. Confidentiality of the employee and protection against any retribution should be guaranteed. The complainer should be able to follow the procedures the AC has established; and when performing an investigation the AC will determine the corrective action or recommend a course of actions to the full BD.

The *Internal Audit function* is one of the important departments in any company, which the AC supervises directly, and that makes it one of the most important tools for the AC to detect and fight fraud. The internal audit function should have a direct reporting relationship to the AC, which helps to create an agenda for the coming year or to approve the CAE's agenda. Moreover, an adequately resourced internal audit function may provide the BD with an objective assurance of the internal control. AC should review IAF budget and plans and assess how such plans reflect CPA firm's objectives. The AC should guarantee that the Internal Audit Function has resources and access to information and is fully equipped. Companies should perform an internal Improvement and Quality Assurance Program once every 5 years for the IAF. AC should meet annually with executive managers and CPA firm to discuss the performance of the CAE; and the AC ensures that internal auditor team has direct access to the BD's chairman and is accountable to the AC. Based up on the discussion above, the role of the AC in relation to internal control, financial reporting, Whistle-Blowing and internal audit function, the researcher proposes the following hypothesis:

H₂: There is a relationship between the degree of supervision of the company's internal control system, financial reporting, Whistle-Blowing and internal audit function and the effectiveness of AC function.

The hypothesis here was tested using the fifth, sixth, seventh and eighth groups of questions in the survey.

4-1-3 Hypothesis Three.

The hypothesis relates to the relationship between the AC and BD, and to the communication with shareholders.

The *relation between AC and BD* is critically important in order for the AC to do a better job. AC chairman should report formally to the BD on its proceedings after each meeting. The AC is an integral part of the corporate framework in helping to fulfill the BD's stewardship responsibility to its stakeholders. AC gets formal Terms of Reference from the BD, which should be reviewed annually by the BD; disagreement between the AC and BD should be allocated enough time to be resolved, if not; AC should report the issue to the shareholders. The AC must have a written charter that includes: annual performance evaluation, the purpose, etc. and the charter must be posted on the company's website.

Communication with Shareholders. AC is obligated toward this group to disclose the work done by the committee during the previous fiscal year in the annual report. AC should disclose in the annual report whether members of AC are satisfied with their responsibilities in fulfilling the charter, which should be attached to the annual report

every 3 years. The EFSA should have jurisdiction over reporting of information to the public; the terms of reference of the AC should be made available in the annual report and should include the number of AC meetings, summary of AC role, etc... The chairman of AC should be available at the Annual General Meeting to answer any question about AC. The annual report should include other matters concerning any disagreement between the AC and BD, the issue of appointing the CPA firm, provision of non-audit services and certain matters regarding the CPA firm.

Taking into consideration the needed improvement between the AC and BD as well as improving communication with owners, the researcher proposes the following hypothesis:

H₃: *There is a relationship between the level of communication between the AC and both the BD and shareholders and the effectiveness of AC function.*

The hypothesis here was formulated using the fourth and eleventh groups of questions in the survey.

4-1-4 Hypothesis Four.

This hypothesis relates to the external audit and annual audit cycle.

External Audit. AC is responsible for overseeing the organization's relations with the CPA firm and the engagement letter should state that the client is the AC, so the CPA firm is accountable to the AC. If the CPA firm resigns, the AC should investigate and should consider the need to include the risk of the departure of their CPA firm in their risk evaluation. The AC should report to shareholders on the appointment, reappointment or removal of the CPA firm. If the BD does not accept AC's recommendation, this should be disclosed in the annual report; AC should review the engagement letter with the executive partner at the start of each audit; AC evaluation should take into consideration the CPA firm's qualifications and whether the audit fee is proper to the size, risk, complexity and control profile of the company. Moreover, annually the AC should review the CPA firm's internal quality control, peer review, governmental inquiries and any steps taken to deal with such issues. AC should ensure follow up of the mandatory rotation taking place within the CPA firm with regard to the lead and other partners after five years and then apply a five-year time-out. The same rotation process also applies for non-audit services. The AC should agree with the BD on a policy for the employment of former employees of the CPA firm who were part of the audit team regarding direct moves from the CPA firm to the organization. In addition, AC should state in the annual report that the provision of any non-audit services did not harm the CPA firm's independence and verify that it was not more than 5% of the total amount paid to the CPA firm and that AC approval was obtained. Furthermore, CPA

firms should be prohibited from providing certain non-audit services at the same time that they are performing audits, such as actuarial services, HR, etc...

Annual Audit Cycle. The AC should consider whether the CPA firm's overall work plan is consistent with the scope of the audit engagement; review it with the CPA firm, CFO and CAE, AC should review the audit plan and scope with the IAF team to assure the reduction of unnecessary efforts. There should be guidance necessitating that CPA firm gets from ACs their opinion of the quality, not just the acceptability, of the accounting principles used in the company. Moreover, AC must meet with management and the CPA firm to review the audited quarterly and annual financial statements. AC should review the CPA firm representation letters before signature by management, and also review management letters including the recommendations of CPA firm and management's responses to those recommendations. At the end of the annual audit cycle, the AC assesses the effectiveness of the audit process, it should review whether CPA firm has met its audit plan and obtain feedback about the performance of the audit from key executives involved; and AC should discuss with the CPA firm any difficulties faced during the audit cycle and any major disagreements with management and ensure solution of disagreements regarding financial reporting. An accurate Annual Audit means that the AC function was effective in monitoring and reviewing the company's system and processes.

Taking into consideration the improvements proposed to the external audit and annual audit cycle, the researcher proposes the following hypothesis:

H₄: There is a relationship between the appropriate selection of the external auditor and the continued assessment of her/his duties and the effectiveness of the AC in monitoring the company's operations.

The hypothesis here was formulated using the ninth and tenth groups of questions in the survey.

4-2 Data Collection

4-2-1 Introduction

The research hypotheses will be examined using a survey presented to professionals involved in the auditing profession including AC members, auditors and accounting professors. Most of the auditors surveyed were from three leading accounting firms in Egypt: Crowe, Dr. A. M. Hegazy & Co. and Ernst & Young, while the professors were from the Accounting Department at the American University in Cairo. The major concern in developing the sample was that all the participants should have background and some experience concerning the local auditing and business environment in Egypt. In this way, the researcher was able to solicit the opinions of different categories of participants to get a non-biased opinion, rather than narrowing participants to only the AC members. The sample was purposive rather than random, as it was not possible to obtain a comprehensive list of accountants with corporate audit experience. In addition, it was necessary to select firms with which the researcher and his advisors had a relationship in order to obtain their cooperation.

4-2-2 Characteristics

The survey used Likert scales, which are used widely for assessing strength of agreement or disagreement. Likert scales contain statements expressing favorable or unfavorable opinion or attitude toward the purpose of interest (Cooper & Schindler, 2008, p. 308). The sample's participants are asked, for example, if they agree or disagree with each statement; expressing each answer using a scale, often from one to five, to reflect the degree of acceptance or rejection. The data produced by this scale are considered Ordinal.

The researcher assessed the opinion of the participants concerning the provisions he proposed, and whether they will contribute to good CG in Egypt. The researcher formed two kinds of questions for the survey:

- A Central questions: these ask for an opinion on a crucial concept or phenomenon related to the research and linked to the specific sub-questions; these were used to narrow down hypotheses to be established on certain variables (Creswell, 2009, p. 129).

- B Sub-questions: these questions relate to a central idea or question, developing it in more detail to explore important issues relative to the central question.

The Survey was distributed using two means:

1. Paper and pencil questionnaires, (surveys), the traditional method.
2. Internet survey through a website tool, called “Free Online Surveys.” This method called computer-assisted data collection (CADAC) or computer-assisted survey information collection (CASIC). This approach provides more anonymity than the previous one (Cooper & Schindler, 2008, p. 224).

This research is a mixed method of research questions and hypotheses study that concentrate not only on the quantitative method, but also, on the qualitative. A combination of the two offers the best assessment of the research hypotheses and questions.

The purpose of the questionnaire is to measure the opinion of the respondents to the proposed provisions of a revised Egyptian corporate governance code with respect to the audit function. For more details, please see Appendix A and Figure 1.

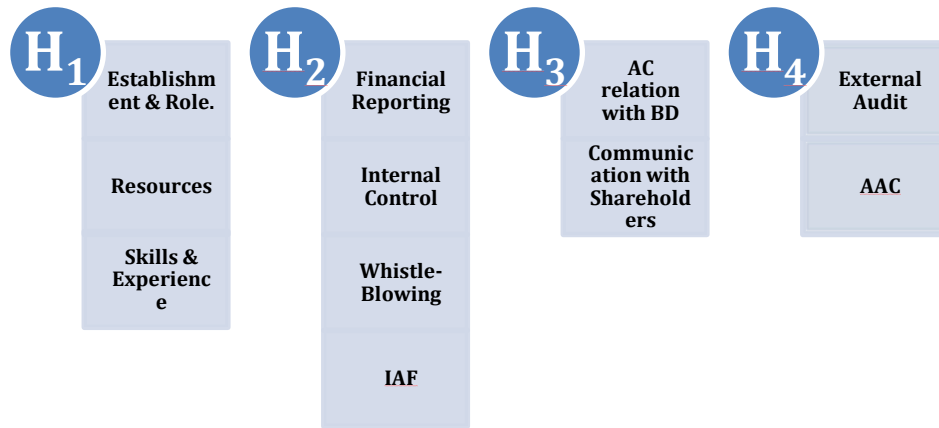


Figure 1

4-2-3 The Survey Participants

The bars shown below summarize the answers of the 54 participants who fully answered all the questions. Each bar below represents the answers for a specific question. The figure below shows the frequency distribution for the 53 code provisions proposed by the researcher, as below in Figure 2.

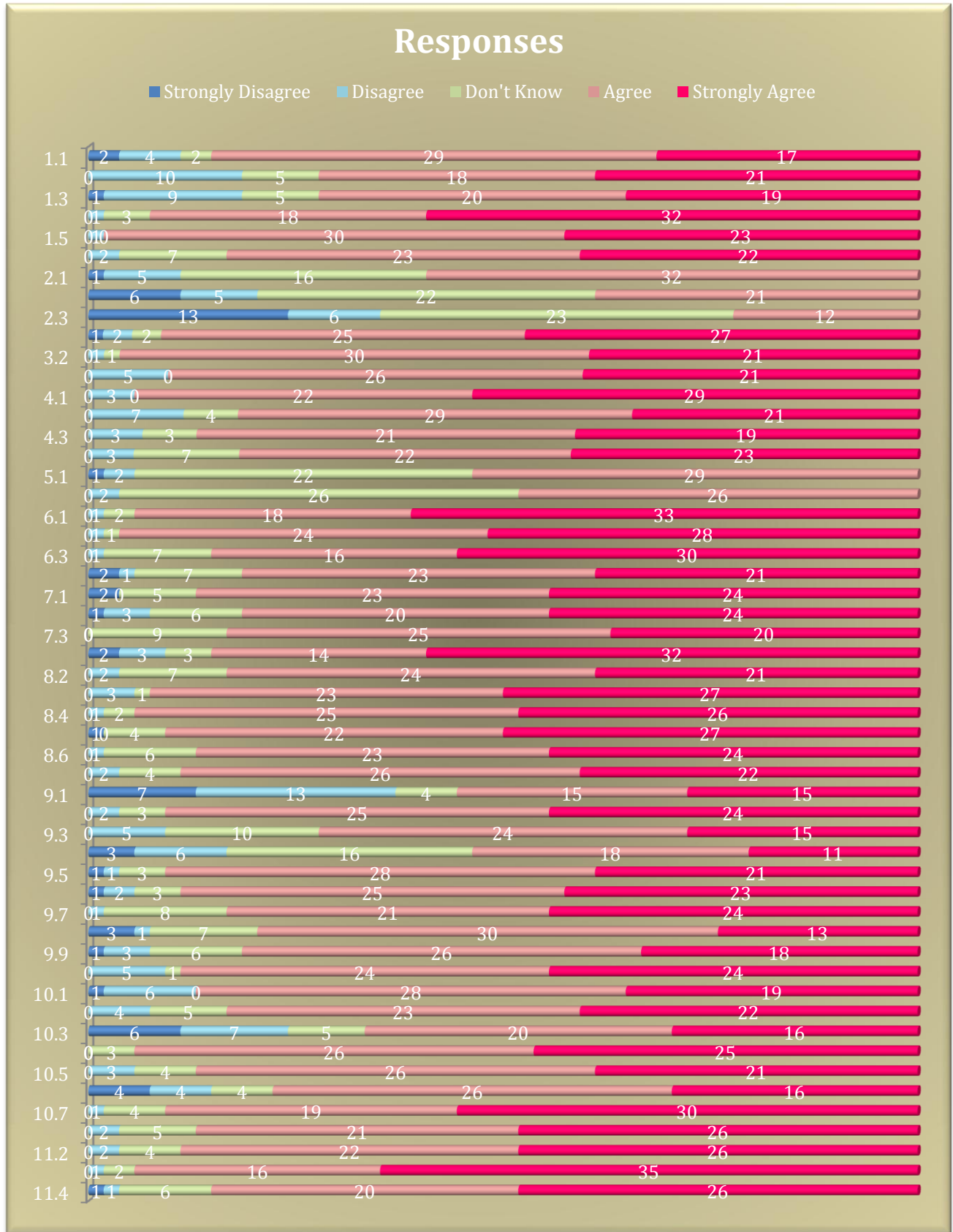


Figure 2

4-2-4 Test and Data

Responses to the survey were recorded, exported in a spreadsheet, and transferred to SPSS, a statistical software package, for in depth analysis. The researcher used two types of data analysis, descriptive analysis and statistical analysis.

4-2-4-1 Descriptive Analysis

The researcher used a central tendency measurement, generally the mean, to assess the average degree of responses by the participants to each question. In order to compare the spread of data between variables (questions), the coefficient of variation (CV) was used as it generates values that can be easily compared. The independence from units of measurement provided by the coefficient of variation allows measures to be compared to each other in ways that other measures, such as standard deviations, make more difficult. The smaller the coefficient of variation the smaller the relative spread of the data (Hegazy & Hegazy, 2010, p. 41). The researcher analyzed that information and gave possible explanations and interpretations when evident.

4-2-4-2 Statistical Analysis

The researcher also used the SPSS to generate Spearman's correlations and to create a correlation matrix, in order to investigate and analyze the relations between the question groups for each hypothesis. With Cronbach's alpha tool the researcher tested the reliability and the validity for the proposed provisions. The reliability test measures the internal consistency of an assessment by comparing the answers to related questions. This measurement indicates the extent to which reliability is without bias (free of error) and offers consistent measurements of variables, while the validity test measures the strength of our proposition, inferences or conclusions. This measurement will provide the expected score of variables in the same domain even if the domain is diverse. These tools were used to identify possible explanations for the responses.

4-3 Descriptive Analysis Results

Testing Hypothesis “1”

H₁ included three groups of questions; their descriptive information is depicted in the following table.

Table 1 Descriptive Statistics for H₁

Q #	Description	Mean	CV	Q #	Description	Mean	CV
q1.1	Appointment	4.02	24.9%	q2.1	Adequate resources	4.46	16.7%
q1.2	Duration	3.93	28.4%	q2.2	Counsel	4.07	23.8%
q1.3	Serve in 3 Co.s	3.87	29.3%	q2.3	Salary	3.63	29.9%
q1.4	Conflict of Interests	4.50	15.4%	Q2 Resources		4.05	15.9%
q1.5	Time of meeting	4.39	13.6%	q3.1	AC Expert	4.43	15.6%
q1.6	Circulation	4.20	19.3%	q3.2	Training	4.31	14.8%
Q1 Establishment		4.15	13.6%	q3.3	Literacy	4.13	23.5%
				Q3 Skills		4.29	14.4%

The table above includes the mean and coefficient of variation for each construct developed to test the first hypothesis. The mean reflects that the responses for all three of the main variables tested -- Establishment, Resources and Skills – were concentrated in the agree area as shown in the table below.

Table 2 Answers Interpretation table

Range	Interpretation
1 - 1.79	Strongly Disagree
1.8 - 2.59	Disagreed
2.6 - 3.39	Neutral
3.4 - 4.19	Agree
4.2 - 5	Strongly Agree

Table 2 shows the study scale for the sample, means categorized according to the Likert scale used in the survey. It shows the highest and lowest parameters, dictated by the researcher in the questionnaire (survey).

The mean results for group question 1 (Q1) “Establishment and Role” ranged between 4.5 to 3.87, that denotes that all the population of the sample answered as [Agree and Strongly Agree] on the majority of question, find the interpretation in table 2; because 3.87 was the lowest mean in the Q1, which scored more than 3.4 the lower range of the [Agree] option. Similar results were found in Q2 “Resources” but the lowest (worst) mean was for question (q2.3) “Salary level for AC members could be higher than the BD members”, Q3 scored the highest mean of all the question groups for H₁ with a total of 4.2. At the same time, all the questions in Q3 “Skills and Experience” scored more than 4.

The CV score for the Variable Q1 total was the lowest, compared with the rest two Variables of H1, indicating greater agreement on this variable. In this measure, the score is better when the percentage is smaller and the responses more widely spread as the CV rises. A threshold of 50% was set as the maximum acceptable CV. As shown in table 1, none of the questions in the H1 groups reached the 50% threshold, and that indicates that the participants were highly clustered in their answers. The highest (worst) score was also for q2.3 “AC members could get more salary than BD members”. The five questions within Q1 are ranked according to the tightness of the response in Figure 3.

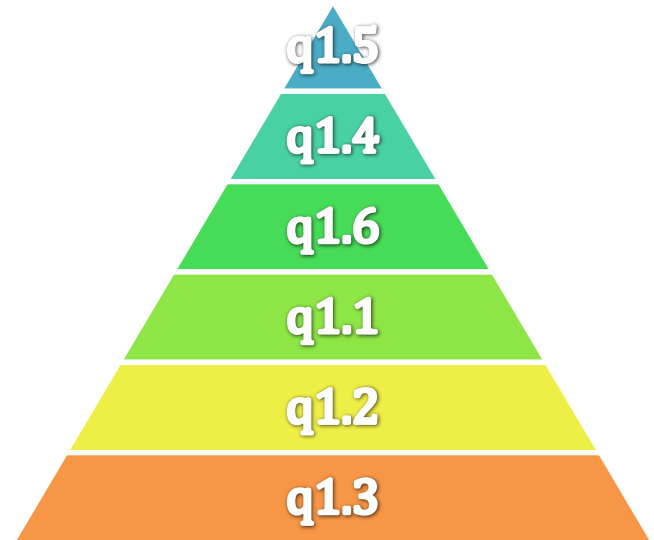


Figure 3 Ranking of questions in group 1 according to CV score

From the above two measurements, the researcher concludes that all nine provisions were supported by the participants. In addition, participants' answers were most concentrated for Variables Q1, Q2 and Q3.

Testing Hypothesis “2”

H2 included four groups of questions. The results are summarized in the following table.

Table 3 Descriptive Statistics for H₂

Q #	Description	Mean	CV	Q #	Description	Mean	CV
q5.1	Related Info.	4.46	14.9%	q8.1	Direct relation	4.31	24.6%
q5.2	Report to BD	4.44	12.9%	q8.2	Resourced	4.19	19.2%
Q5	Financial Rep.	4.45	11.6%	q8.3	Budget & plan	4.37	17.9%
q6.1	AC approval	4.54	14.7%	q8.4	Info	4.41	15.0%
q6.2	Examine cont	4.46	14.2%	q8.5	Not victim	4.37	17.9%
q6.3	Override	4.39	17.9%	q8.6	Quality assurance	4.30	17.3%
q6.4	Fraud	4.11	23.5%	q8.7	Access to BD	4.26	17.8%
Q6	Internal control	4.37	12.6%	Q8	IAF	4.31	13.3%
q7.1	Complaints	4.24	21.5%				
q7.2	Info.	4.17	23.2%				
q7.3	Action	4.20	16.9%				
Q7	Whistle-Blow	4.20	17.5%				

As shown in table 3, most of the mean scores for the questions for H₂ are above 4.2 mean score, which indicates a [Strongly Agree] answer by most of the participants on

these groups, according to the scale in table 2. Only q6.4 “Fraud reporting to EFSA”, q7.2 “complainers should find AC members information”, and q8.2 “resourced IAF could provide the BD with objective assurance”, fall below the 4.2 threshold, which places them in the Agree area. No question scored a mean with a neutral or below.

The CV scores for all of the questions of H2 were below 25%, indicating a high degree of agreement among the respondents. Such results signify the acceptance by most of the participants in H2. The scores for H2 are highly clustered on Strongly Agree with the proposed provisions. The total CV of Q5 “Financial Reporting” is the lowest among the questions for H2 and all the other Variables, while q5.2 “if the AC is not satisfied with management’s financial reporting, it shall report it to the BD” gives the lowest (best) CV score out of all the 53 questions. This implies that the respondents were most unified about Q5, while the total CV of Q7 “Whistle-Blowing” has the highest score among all the variables, which indicates that this procedure has the widest variation among the respondents, perhaps due to the nonexistence of such procedures in Egypt. Still, all the groups have a low CV, which implies that the participants agreed collectively about most of the provisions proposed in H2 for inclusion in for Egypt Code of CG for AC.

Testing Hypothesis “3”

H₃ included two groups of questions; their descriptive information are depicted in the following table.

Table 4 Descriptive Statistics For H₃

Q #	Description	Mean	CV	Q #	Description	Mean	CV
q4.1	Report to BD	4.43	17.3%	q11.1	Report responsibility	4.31	18.5%
q4.2	Terms of ref.	4.06	24.6%	q11.2	Annual report	4.33	17.9%
q4.3	Disagre AC&BD	4.19	18.6%	q11.3	AC chairman	4.57	14.5%
q4.4	Charter	4.19	20.8%	q11.4	Other matters	4.28	20.5%
Q4	AC & BD	4.21	14.2%	Q11	Com. shareholders	4.37	13.5%

As shown in Ttable 4, the means for all all the answers fall within the range defined as is approximately [Strongly Agree] according to table 2 above Questions , considering that q4.3, “disagreement between the AC and BD,” and q4.4, “AC must have a written Charter,” are close to the \cong 4.2 cutoff, however only one question, q4.2, “AC get formal terms of reference by the BD,” is in the [Agree] category. While for, Q11, “communication with shareholders,” answers show a high degree of questions are unanimity around [Strongly Agree]. In general, the sample population approved all the proposed provisions of CG for H3. The total mean for Q11 is higher than for in Q4, “AC

relation with BD". Reflecting the small differences between the degrees of preference between the two groups.

One out of four questions in Q11, "communication with shareholders," surpassed the 20% CV score and two questions in Q4, "AC relation with BD". That reflects the general high level of concurrence in the responses. Q11.3, "AC chairman should attend AGM" was the lowest (best) CV score in the two variables and q4.4, "AC must have a written charter," was the highest (worst) CV score. The total Q11 CV score is slightly better than Q4.

Testing Hypothesis "4"

H₄ included two groups of questions; their descriptive information is depicted in the following table.

Table 5 Descriptive Statistics for H₄

Q #	Description	Mean	CV	Q #	Description	Mean	CV
q9.1	Observe CPA	3.33	43.2%	q10.1	CPA plan	4.07	24.2%
q9.2	CPA resign	4.31	17.3%	q10.2	Unnecessary effort	4.17	21.2%
q9.3	CPA appoint	3.91	23.5%	q10.3	CPA opinion	3.61	37.0%
q9.4	Engage. Letter	3.52	31.6%	q10.4	Review audit	4.41	13.6%
q9.5	AC evaluation	4.24	18.9%	q10.5	Represent letters	4.20	19.3%
q9.6	CPA perform.	4.24	20.5%	q10.6	End of audit	3.85	30.0%
q9.7	Rotation	4.26	18.3%	q10.7	Difficulties	4.44	16.2%
q9.8	Former CPAs	3.91	25.0%	Q10	Audit cycle	4.10	14.4%
q9.9	Non-audit	4.06	22.7%				
q9.10	Prohibit N-A	4.24	21.0%				
Q9	External Aud	4.0	12.3%				

As shown in table 5 above, the mean score in Q9 "External Audit" was as follows:

- Five questions in the Strongly Agree category;
- Four questions in the Agree category; and
- One question (q9.1) "engagement letter should state that CPA is accountable to the AC" in the Don't Know category (equivalent to a neutral opinion).

The only Variable to have such a wide distribution in responses and the only variable to have a neutral category question was Q9 "External Audit." However, it is the only one out of ten that did not reach the cutoff for Agree shown in Table 2, and, indeed, was the only question out of 53 that did not reach at least the "Agree" level of support! The participants did not reject the proposed provisions but only demonstrated neutrality or perhaps had not made up their mind about this provision. Q10, "Annual Audit Cycle,"

received support similar to the other groups, with approximately 60% in the Agree category and 40% in the Strongly Agree category. Therefore, Q9 and Q10 received an approval from the participants on most of the questions, although one received neither support nor rejection.

As could be seen in Table 5, group Q9 included the highest (worst) CV score for a single question among all 11 groups, with q9.1 “the engagement letter with the CPA firm should state that the client is the AC,” having the highest CV score out of all 53 questions, indicating the least agreement. q10.6 “at the end of the annual audit cycle, the AC assesses the effectiveness of the audit process” has also one of the highest CV scores. With all this in mind, the two groups retain low CV total scores, with 4 questions having more than 30% CV score representing 3 out of the 17 H4 questions. That denotes that participants were somewhat less united about their responses concerning H4 questions.

Finally, none of the CV scores reached the threshold 50%, which indicates that all the participants were consistent in their answers among all of the provisions and in different groups. 52 out of 53 provisions were assessed as Strongly Agree or Agree, by the majority of the participants and only one provision was in the neutral category, which implies the acceptance of 98% of the provisions by the sample population.

4-4 Statistical Analysis Results

Testing Hypothesis “1”

Table 6 Correlation Coefficient H₁

Spearman	Q1	Q2	Q3
Q1 Establishment & Role Sig	1.000 -	0.218 0.113	0.377** 0.005
Q2 Resources Sig	0.218 0.113	1.000 -	0.087 0.533
Q3 Skills & Experience Sig	0.377** 0.005	0.087 0.533	1.000 -

Sig= Significance.

As shown in the matrix above, there is no correlation between the first group of questions Q1 “Role and Establishment” and the second group of questions Q2 “Resources.” The degree of significance does not meet the 0.05 threshold. Variables shown with two stars in the SPSS output meet this threshold. The same thing could be said about the correlation between Q2 and Q3 “Skills and Experience”, $0.533 > 0.05$, so

there is no statistically significant relation between them. On the other hand, there is a relation between Q1 and Q3. In this case, the CV analysis did not support the H1.

Table 7 Cronbach's Alpha test for H₁

Question Groups	Reliability	Validity
Q1 Establishment and Role	0.674	0.821
Q2 Resources	0.424	0.651
Q3 Skills & Experience	0.701	0.838

The rule of thumb for the Cronbach's Alpha is 0.70 or higher of reliability for a substantial sample (Experiment-Resources.com, 2010). However, in social science realm it should be more than 0.60. It is evident from the results shown in Table 7 that only variable Q2 did not pass the threshold. The variable Q2 "Resources" has the lowest reliability score between H1 variables and all the other variables. It is obvious from the table above, those variables, Q1 "Establishment" and Q3 "skills" reliability scores passed the threshold.

The rule of thumb for the Cronbach's Alpha is 0.83 or higher for a positive assessment of the validity of the data, for a substantial sample. However, in social science realm it should be around 0.80 for more moderate considerations. For the validity test, two out of three passed the Cronbach's Alpha's threshold, and only Q2 variable did not pass. This supports a conclusion that Q1 and Q3 have strong support from the accounting professionals in the sample, lending support to H1, but they do not generally agree on the need for resources to support the AC. The reasons for this lack of support deserve further exploration and analysis. Overall, however, the first hypothesis is supported.

Testing Hypothesis "2"

Table 8 Correlation Coefficient H₂

Spearman	Q5	Q6	Q7	Q8
Q5 Financial Reporting Sig	1.000 -	0.515** .000	0.579** 0.000	0.478** 0.000
Q6 Internal Control Sig	0.515** 000	1.000 -	0.558** .000	0.664** 0.000
Q7 Whistle-Blowing Sig	0.579** 0.000	0.558** .000	1.000 -	0.662** 0.000
Q8 Internal Audit Function Sig	0.478** 0.000	0.664** .000	0.662** 0.000	1.000 -

As seen from above matrix, Q5, “Financial Reporting”, Q6, “Internal Control”, Q7, “Whistle-Blowing,” and Q8, “IAF,” all have strong relationships linking them together. Therefore, the researcher believes that H2 is supported.

Table 9 Cronbach's Alpha test for H₂

Question Groups	Reliability	Validity
Q5 Financial Reporting	0.558	0.747
Q6 Internal Control	0.681	0.825
Q7 Whistle-Blowing	0.798	0.894
Q8 Internal Audit Function	0.835	0.914

It is clear from table 9 above, that 3 out of 4 variables passed the reliability test, while Q5 variable failed the test because it did not reach the threshold.

At the same time, 3 out of 4 variables passed the validity test, Q5 “Financial Reporting” also did not pass. The financial reporting provisions were not as strongly supported as the other elements, but overall the hypothesis was supported.

Testing Hypothesis “3”

Table 10 Correlation Coefficient H₃

Spearman	Q4	Q11
Q4 AC relation with BD Sig	1.000 -	0.655** 0.000
Q11 Communication with Shareholders Sig	0.655** 0.000	1.000 -

As seen in Table 10, there is a relationship between Q4, “AC relation with BD” and Q11, “Communication with shareholders”. The relationship points to the integral role of the BD and shareholders in the entity’s internal control. This hypothesis is supported.

Table 11 Cronbach's Alpha test for H₃

Question Groups	Reliability	Validity
Q4 AC relation with BD	0.649	0.806
Q11 Communication with Shareholders	0.748	0.865

As seen in table 11 above, two variables passed the reliability test, although one of them only at the moderate level (Q4). This supports a conclusion that these measures are likely to be valid and reliable as measures of the opinion of accounting professionals on these issues.

Both Q4 and Q11 passed the validity test. This indicates that H₃ is also supported.

Testing Hypothesis "4"

Table 12 Correlation Coefficient H₄

Spearman	Q9	Q10
Q9 External Audit	1.000	0.431**
Sig	-	0.000
Q10 Annual Audit Cycle	0.431**	1.000
Sig	0.000	-

As shown in Table 12, there is a significant degree of correlation between Q9 "External Audit" and Q10 "Annual Audit Cycle". The researcher believes that this relation confirms the deep involvement of CPA firm in the annual audit cycle. The findings support H₄.

Table 13 Cronbach's Alpha test for H₄

Question Groups	Reliability	Validity
Q9 External Audit	0.681	0.826
Q10 Annual Audit Cycle	0.728	0.853

As seen in table 13 above, Q9, "External Audit," and Q10, "Annual Audit Cycle," both pass the Cronbach's Alpha of reliability and validity tests. Therefore, the findings for both of the variables strongly support H₄.

SUMMARY

In this part of the thesis, the researcher explored the study's four hypotheses in detail using a survey of accounting professionals. A questionnaire made up of 53 questions using a Likert scale assessed the support of the sample members for each of the hypotheses. The survey was distributed among auditors in two CPA firms and professors of accounting, both manually and electronically. The SPSS software package was used to analyze the data. The results were demonstrated in two parts: descriptive analysis and statistical analysis. In both of the two parts, the four hypothesis results were reviewed and analyzed. All the hypotheses were supported by the descriptive analysis, while H₁ was the only hypothesis that was not fully supported in the statistical analysis

Chapter 5: Conclusions, Limitations and Recommendations.

Conclusions

The results from Chapter 4 support the acceptance of all four hypotheses. However, the Coefficient of Variation element of the statistical analysis did not support all components of H1. On the other hand, the statistical analysis, in general, supported all four hypotheses.

The survey findings demonstrate that many knowledgeable participants in corporate governance in Egypt favor updating the current CG Code in Egypt in relation to the AC provisions. Nearly all of the provisions proposed were accepted by 98% of those surveyed. Only one provision received enough disagreements to lower the mean rating below the threshold for “agree.” this indicates the appropriateness of most of the proposed provisions to the CG Code of Egypt.

AC Charter gives the AC members a roadmap of what they should do, so adoption of the proposed measures will help everyone in the committee do a better job according to the best practice. The Charter is an important document that provides details about the day-to-day activity of AC and provides a plan that will help in measuring AC performance. The charter will also help in setting and evaluating the powers and duties of the AC, which is the responsibility of the entire BD.

The new provisions will provide audit practitioners with guidance on good practice in doing their jobs. If these provisions are adopted by the EFSA, they will develop CG practice and commitment in Egypt and will place the local CG Code on a higher level relative to international standards. The new provisions will help the AC and consequently the BD to monitor the performance of executive directors and branch managers especially in large companies that hire hundreds of employees.

Moreover, these provisions will help in building better-governed listed companies. Effective CG has the potential to increase shareholder value. Many foreign and international capital investors will be willing to pay a premium for entities with better

internal controls and clearer financial disclosure. The new provisions will help in developing the quality of disclosure by mandating the CPA firm to express an opinion on the quality of accounting principles used by the company, which is vital to enhance the disclosure for shareholders and in particular for foreign investors who demand more sound and transparent CG practice. By encouraging investment, these practices will support the survival and growth of the company. A more effective AC has the potential to attract more investments due to the management's enhanced and improved capacities, and may result in reduction in the risk factors associated with financial and control elements.

Furthermore, the proposed modification to the AC Code will offer a more efficient and smooth audit process to the company and the CPA firm. The new provisions will help the AC members to have greater and more complete control over managing the scope of the audit. ACs will need to work to achieve such control, even if it would come into conflict with management's goals.

Also, the new provisions will help the AC to be more active in searching for immediate remedies to control weaknesses. AC members will be in a position to carry out discussions with the external auditor to identify remedies for control weaknesses. Having a more reliable AC will result in a better internal audit function, a function that is underutilized by many companies in relying totally on the CPA firm. Looking to the internal audit function as more vital to the entity's success will lead to the appropriation of more budget to the internal audit function in line with the company's risk profile, especially in time of economic crises. These provisions will push the BD to be more involved in the process of hiring internal audit employees with better qualifications and this will boost the internal audit function to be a better department in managing the reporting and financial responsibilities effectively.

The disclosure of the appointment of the CPA firm in the annual report, the evaluation of the CPA firm for its capability to do the job considering the complexity and size of the company, setting the level of payment to different officers in the CPA firm, and studying the quality control of the CPA firm will help the AC to have an inside look on the auditor and build a better picture of its status. All these provisions will help in making sure that the independence of the CPA firm is valid.

Providing new provisions about non-audit services will clear away a lot of the vagueness surrounding non-audit services for many AC members in the Egyptian companies. It will also provide a further detailed description of these services, which will help the AC in understanding the kind of services regarded as non-audit services. These provisions will be a significant technical addition to the local AC Code in making it more user friendly, which will motivate the AC members to practice and push for more CG effectiveness.

Adding new provisions concerning the earnings is important due to the urgent need for such a provision in Egypt because of the problem facing EGX-listed firms, especially in that interim reports from the AC are due one month earlier than the financial reports.

It is important to disclose in the annual report the AC's work to all the stakeholders. Other important issues include the disagreement between the BD and AC, which should be revealed especially if the disagreement was not solved until the time of the AGM. These issues will help the AC to be a more transparent committee and will result in more effective CG practice.

Limitations

Due to the nature of the probability sample, the results cannot be generalized.

The respondents were only 54, which is a relatively small sample size for a population that would include all experienced auditors in the large CPA firms and accounting faculty at the 20 public and 29 private universities. Given the high degree of agreement within the sample, this may not be a limiting factor.

The proposed provisions are taken from codes established for corporations in developed economies, which may raise some issues with respect to differences in the regulatory or corporate frameworks between capital markets in the UK and USA compared with Egypt.

The researcher made his analysis of the content of US and UK Codes, which was subjective and may have ignored issues of importance to AC tools. The assessment of the researcher to the contents of US, UK and Egypt Codes as being Very Detailed, Briefed or only Detailed is highly subjective and the research of such analysis may differ if another researcher makes it.

In the statistical analysis, of the study, Q2 "Resources" did not pass the Cronbach's Alpha test for either the reliability or validity test. The same variable did not have a significant level of correlation as a variable in H1 as measured by its correlation with the other two variables, Q1, "Establishment and Role," and Q3, "Skills and Experience." Q5, "Financial Reporting," did not pass the reliability and Validity tests, but did support H2.

Recommendations

A more effective AC means more stability and resistance to economic shocks. The idea of having more investments in the economy to generate more jobs for the community is the main goal of the Egyptian government. With the current Global Economic Crisis, an

effective AC will boost the local economy against future drastic outcomes by empowering CG.

A more effective AC could aid Egypt's economy by empowering the local investing environment and sustaining high rates of economic growth. Moreover, it will add value to the company not only from inside, but also on the outside among the customers and business partners, based on more transparent disclosure and better internal control.

It will give the company the legal framework to hire an accounting advisor/counsel from outside the company; the new provisions will refine and legitimize the practice.

Assessing CPA firm independence using government or professional authority resources is vital for a country like Egypt to avoid future scandals. Independence is a vital issue in the CG exercise, which will be an important technical addition to the Egyptian Code to make it more professionally useable for the ACs.

One of the major responsibilities of the committee is to uncover fraud; the company needs effective arrangements and antifraud tools to fight corruption and wrongdoing. This sheds light on the most important responsibilities of the AC, that is, the prevention of fraud. At the same time, the internal audit function may not be sufficient, which puts more responsibilities on the AC members. This may require hiring more competent and experienced internal audit staff, and providing for more funds and systems to improve performance of the internal audit. One of the major tools to detect fraud is through building a system (Whistle Blowing) that handles the reporting of misconduct in the company.

For a sound CG practice the AC should practice oversight of the internal audit function and build a direct positive relation with it; this will positively affect the internal control. Having a powerful AC will help in building a more reliable and active internal audit department. IAF is a vital CG tool. The increase in discussions about the company's internal controls between executive managers and AC members will have a positive impact on the financial reporting and on fighting fraud.

Egypt does not have detailed regulations that prohibit auditing/accounting firms from simultaneously auditing and providing accounting services for the same company, so adopting the new provisions will increase the transparency of CPA firms in Egypt.

There will be a need to review the AC Code in Egypt every 3-5 years against the literature and practice to add or delete provisions as needed. CG regulations must be evaluated continuously in order to ensure that they do not fall back and allow fraudulent practices to take place.

The Egyptian CG society should adopt, as much as possible, those provisions to improve the BD's performance of their duties in overseeing management and reporting any misconduct directly to shareholders.

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الشرح				
أعرض بشدة	لا إوافق	لا أعرف	أوافق بشدة	أوافق بشدة

1. التأسيس و دور اللجنة في الرقابة

هل تعتقد أن إضافة البنود التالية سوف يساعد على أن تكون لجنة المراجعة أكثر إستقراراً في تنفيذ أعمالها؟

1	1	قيام مجلس الإدارة بتعيين أعضاء اللجنة بناءً على توصية من لجنة الترشيحات وبالتشاور مع رئيس لجنة المراجعة.			
1	2	أن يتم تعيين أعضاء لجنة المراجعة لمدة لا تزيد عن 3 سنوات قابلة للتجديد لفترتين فقط.			
1	3	إذا كان أي عضو في لجنة المراجعة يتولى نفس المنصب في أكثر من 3 شركات، فهل قام مجلس الإدارة بدراسة وتقييم إن هذه الحالة لن تضعف قدرة لجنة المراجعة في الرقابة؟.			
1	4	على كل عضو من لجنة المراجعة أن يبادر للإبلاغ عن أي تضارب محتمل في المصالح.			
1	5	ضرورة أن يكون هناك وقت كاف بين إجتماعات لجنة المراجعة واجتماعات مجلس الإدارة للسماح بوقت كاف لتنفيذ القرارات.			
1	6	يجب أن يتم توثيق أعمال إجتماعات لجنة المراجعة ومن ثم تعميمها على مراقب الحسابات والمراجع الداخلي حسب الضرورة.			

2. الموارد

هل تعتقد أن إضافة البنود التالية سوف يوفر تمويل كافٍ للجنة المراجعة لأداء مهامها بصورة أكثر فعالية؟

1	1	أن يتم إمداد لجنة المراجعة بالموارد الكافية للاضطلاع بواجباتها.			
2	2	الاستعانة بمستشارين من خارج الشركة لمساعدة لجنة المراجعة عند الضرورة.			
2	3	إن مستوى المكافآت والبدلات الممنوحة للجنة المراجعة يجب أن يأخذ بعين الإعتبار المسؤوليات، المهارات والمهام الإضافية المرتبطة بأنشطة اللجنة. وعليه فمن الممكن أن يحصل عضو لجنة المراجعة على راتب أعلى من عضو مجلس الإدارة.			

3. المهارات والخبرة

هل تعتقد أن إضافة البنود التالية سوف يحسن أداء اللجنة؟

3	1	يجب أن يكون خبير لجنة المراجعة المالي حاصل على تأهيل مهني بالإضافة إلى الخبرة المحاسبية ليتم إختياره من قبل مجلس الإدارة.			
3	2	يجب أن يكون تدريب أعضاء لجنة المراجعة في وقت مناسب وبشكل مستمر وذو صلة باللوائح الداخلية للشركة مع التركيز على الأعضاء الجدد.			

3 3 يجب أن تضم الشركة أعضاء لجنة مراجعة لديهم من الخبرة المحاسبية او سيصبحون كذلك في غضون فترة زمنية معقولة بعد تعيينهم.

4. علاقة لجنة المراجعة بمجلس الإدارة

هل تعتقد أن إضافة البنود التالية سوف يساعد المجلس واللجنة على العمل بكفاءة وتعاون أكثر مع بعضهم البعض؟

4 1 على رئيس لجنة المراجعة أن يرفع تقريراً رسمياً إلى مجلس الإدارة عن كافة محاضر الاجتماعات وبعد كل جلسة آخذين في الاعتبار أن لجنة المراجعة هي جزء مكمل لهيكل الشركة في مساعدة مجلس الإدارة بشكل كامل للوفاء بمسؤوليات وكالته عن كل أصحاب المصلحة.

4 2 لجنة المراجعة تحصل على كافة إختصاصاتها رسمياً من مجلس الإدارة والذي يجب أن يعيد النظر فيها سنوياً.

4 3 يجب أن يخصص وقت كافٍ لحل أية خلافات بين لجنة المراجعة ومجلس الإدارة، وإلا فعلى لجنة المراجعة أن تبلغ المساهمين بذلك.

4 4 يجب أن يكون للجنة ميثاق مكتوب يشمل التالي: تقييم الأداء السنوي، الهدف... الخ. والميثاق يجب أن يكون متوفراً على موقع الشركة على الانترنت لإطلاع المساهمين والأطراف الخارجية الأخرى .

5. التقارير المالية

هل تعتقد أن إضافة البنود التالية سوف يحسن من الإفصاح في الشركة؟

5 1 ينبغي أن تستعرض اللجنة المعلومات ذات الصلة بالقوائم المالية أولاً قبل موافقة المجلس عليها.

5 2 إذا كانت لجنة المراجعة غير راضية عن أي جانب من جوانب التقارير المالية المقترحة من جانب الإدارة ، فإن عليها أن تقدم تقريراً إلى مجلس الإدارة لاتخاذ القرار المناسب في هذا الشأن.

6. الرقابة الداخلية

هل تعتقد أن إضافة البنود التالية سوف يساعد اللجنة في مكافحة الغش والتلاعب بالقوائم المالية على نحو أكثر فعالية؟

6 1 يجب أن تتأكد اللجنة من أن الضوابط الخاصة بنظم الرقابة الداخلية موجودة وتعمل بنجاح ، كما ينبغي أن توافق اللجنة على البيانات الواردة في التقرير السنوي بالنسبة للرقابة الداخلية وإدارة المخاطر.

				6 2 ينبغي أن تدرس لجنة المراجعة الأنظمة الرقابية بالشركة، ومسائل تتعلق بالقوائم المالية، تقييم المخاطر ودعم إعداد تقارير عن الرقابة الداخلية للشركة في التقرير السنوي.
				6 3 على لجنة المراجعة أن تردع الإدارة عن تجاوز ضوابط الرقابة الداخلية إضافة للقيام بالمراجعة السنوية لقواعد السلوك في الشركة.
				6 4 يجب أن يتم إبلاغ لجنة المراجعة عن الغش من قبل مراقب الحسابات. وعلى مجلس الإدارة في خلال يوم عمل واحد فقط إبلاغ الهيئة العامة للرقابة المالية بذلك بينما يتوجب على مراقب الحسابات فور علمه أن يبلغ الهيئة العامة للرقابة المالية بحلول نهاية يوم العمل التالي.

7. الإبلاغ المباشر عن الغش والتلاعب

هل تعتقد أن إضافة البنود التالية سوف يساعد اللجنة على التعامل مع الشكاوى على نحو أكثر فعالية؟

				7 1 لجنة المراجعة ملزمة من خلال السماح للعاملين بالإبلاغ بصورة مباشرة عن الغش والتلاعب بمراجعة أي شكوى سواء كانت مقدمة من داخل أو خارج الشركة متعلقة بنظم الرقابة الداخلية والقوائم المالية للشركة.
				7 2 يجب على كل شخص يرغب بالإبلاغ عن شكوى أن يكون قادراً على التعرف على المعلومات الخاصة بأعضاء لجنة المراجعة في موقع الشركة على الانترنت أو الاتصال بالخط الساخن مع مراعاة أن تكون سرية المشتكي مضمونة وسهولة إتباع التعليمات الموضوعية من قبل لجنة المراجعة.
				7 3 عندما تقوم لجنة المراجعة بإجراء التحقيق سوف تحدد الإجراءات التصحيحية أو التوصية باتباع مسار عمل معين لكامل أعضاء مجلس الإدارة.

8. دور المراجعة الداخلي

هل تعتقد أن إضافة البنود التالية سوف يساعد اللجنة في الرقابة الفعالة على المراجعين الداخليين؟

				8 1 المراجع الداخلي ينبغي أن يكون له علاقة مباشرة مع رئيس وأعضاء لجنة المراجعة من خلال تقديم التقارير إلى لجنة المراجعة مما سيساعد على وضع جدول أعمال للسنة القادمة أو الموافقة على جدول أعمال رئيس قسم المراجعة.
				8 2 عند توفير موارد كافية سيستطيع المراجع الداخلي توفير ضمانات موضوعية عن كفاءة الرقابة الداخلية بالشركة.
				8 3 ينبغي على لجنة المراجعة مراجعة خطط و ميزانية المراجعة الداخلية وكيفية أن تعكس تلك الخطط أهداف الرقابة المالية بالشركة ومتطلبات مراقب الحسابات.
				8 4 لجنة المراجعة ينبغي أن تضمن توافر الموارد وإمكانية الوصول إلى المعلومات للمراجعة الداخلية وإن القسم مجهز تجهيزاً

				كاملاً.
				5 8 المراجعة الداخلية يجب أن لا تكون الضحية في أوقات ترشيد التكلفة إنما يجب أن تضطلع بمهام رقابية إضافية في مثل هكذا ظروف.
				6 8 يجب على الشركة أن تقوم بتفعيل برنامج ضمان الجودة والتطوير لقسم المراجعة الداخلية على الأقل كل 5 سنوات وعلى لجنة المراجعة أن تجتمع سنوياً مع المديرين التنفيذيين ومراقب الحسابات لمناقشة أداء رئيس قسم المراجعة الداخلية.
				7 8 تضمن لجنة المراجعة أن لفريق المراجعة الداخلية إتصال مباشر مع رئيس مجلس الإدارة غير التنفيذي وان الفريق مسنول مباشرة أمام لجنة المراجعة.
9. مراقب الحسابات				
هل تعتقد أن إضافة البنود التالية سوف يساعد اللجنة في الإستعانة بمراقبي حسابات أفضل وأحسن تأهيلاً؟				
				1 9 اللجنة هي المسؤولة عن الإشراف على علاقة الشركة مع مراقب الحسابات الخارجي والعقد ينبغي أن يؤكد على إن العميل هو لجنة المراجعة لذلك فمراقب الحسابات مسنول أمام لجنة المراجعة.
				2 9 إذا إستقال مراقب الحسابات فعلى لجنة المراجعة أن تحقق في الموضوع أخذاً بعين الاعتبار الحاجة إلى تضمين مخاطر ترك مراقب الحسابات للعمل في عملية تقييمه للمخاطر الخاصة بنشاط الشركة.
				3 9 ينبغي على لجنة المراجعة أن تقدم تقريراً إلى المساهمين بشأن التعيين وإعادة التعيين أو الاستغناء عن مراقب الحسابات الخارجي. أما إذا كان المجلس لا يقبل توصية لجنة المراجعة، فينبغي الكشف عن أسباب ذلك في التقرير السنوي.
				4 9 يجب أن تقوم لجنة المراجعة بمراجعة العقد مع الشريك التنفيذي لمراقب الحسابات عند بداية كل تدقيق دوري.
				5 9 عند قيام لجنة المراجعة بالتقييم ينبغي عليها أن تأخذ بعين الاعتبار مؤهلات مراقب الحسابات وعملاً إذا كانت أتعاب المراجعة الخارجية تتلاءم مع الحجم، المخاطر، التعقيد ومواصفات الرقابة في الشركة.
				6 9 يجب على لجنة المراجعة أن تراجع سنوياً جودة الرقابة الداخلية، تقييم مراقب الحسابات، الإستفسارات الحكومية أو أية خطوات إتخذت للتعامل مع تلك الأمور والخاصة بمراقب حساباتها.
				7 9 تتأكد لجنة المراجعة من أن التناوب الإلزامي لمدير وشركاء مكتب مراقب الحسابات قد تم فعلاً بعد مرور 5 سنوات ومن ثم إخضاعهم لمهلة 5 سنوات. نفس الشيء ينطبق على الخدمات بخلاف أعمال المراجعة.
				8 9 ينبغي على لجنة المراجعة أن تتوافق مع سياسة مجلس الإدارة في تعيين الموظفين السابقين لمراقب الحسابات والذين كانوا في فريق المراجعة وانتقلوا مباشرة إلى الشركة.
				9 9 يجب أن تؤكد لجنة المراجعة في التقرير السنوي أن بند الخدمات بخلاف أعمال المراجعة لا يمس إستقلالية مراقب الحسابات ويجب أن لا يتجاوز 5% من إجمالي المبلغ المدفوع لمراقب الحسابات بشرط موافقة لجنة المراجعة.

10 9 مراقب الحسابات ينبغي أن يمتنع عن تقديم خدمات معينة غير المراجعة في نفس الوقت مع عملية المراجعة، مثل التأمين والموارد البشرية... الخ.

10. الدورة السنوية لمراجعة الحسابات

هل تعتقد أن إضافة البنود التالية سوف يساعد اللجنة على القيام بعملية مراجعة أكثر كفاءة؟

1-10	يجب على لجنة المراجعة أن تأخذ بعين الاعتبار فيما إذا كانت خطة عمل مراقب الحسابات تتسق مع نطاق مهام مراجعة الحسابات.
2-10	مراجعة خطة ونطاق المراجعة الخارجية مع كل من مراقب الحسابات، المدير المالي ومدير المراجعة الداخلي لضمان تخفيض الجهود غير الضرورية.
3-10	يجب أن يكون هناك دليل يلزم مراقب الحسابات بالحصول على رأي لجنة المراجعة حول نوعية وليس فقط سلامة المبادئ المحاسبية المستخدمة في الشركة.
4-10	على لجنة المراجعة أن تجتمع مع الإدارة ومراقب الحسابات لإستعراض القوائم المالية التي تم مراجعتها سواء كانت فصلية ام سنوية.
5-10	يجب على لجنة المراجعة مراجعة خطاب مراقب الحسابات قبل المصادقة عليه من قبل الإدارة، وكذلك مراجعة خطاب الإدارة متضمناً توصيات مراقب الحسابات ورد الإدارة على تلك التوصيات.
6-10	في نهاية الدورة السنوية لمراجعة الحسابات تقوم لجنة المراجعة بتقييم فعالية عملية المراجعة، يجب أن تستعرض فيما إذا كان مراقب الحسابات قد أوفى بخطة المراجعة، يتم الحصول على ملاحظات المديرين التنفيذيين ذوي العلاقة حول فاعلية عملية المراجعة.
7-10	لجنة المراجعة يجب أن تناقش مع مراقب الحسابات أية صعوبات واجهته خلال عملية المراجعة وأي خلافات جوهرية مع الإدارة لضمان حل الخلافات بشأن القوائم المالية.

11. العلاقة بالمساهمين

هل تعتقد أن إضافة البنود التالية سوف يساعد اللجنة على تحقيق أهداف المجلس الذي تعاقدها معها للوفاء بها؟

1-11	ينبغي أن توضح لجنة المراجعة في تقريرها السنوي إذا كانت قد أوفت بالتزاماتها في تنفيذ الميثاق والذي يجب ان يرفق مع التقرير السنوي كل 3 سنوات. يجب أن تكون للهيئة العامة للرقابة المالية الصلاحية الكاملة بخصوص الإفصاح عن هذه المعلومات للعامة.
2-11	يجب أن تكون إختصاصات لجنة المراجعة متاحة في تقريرها السنوي وتتضمن: عدد الإجتماعات، ملخص لدور اللجنة،

					...الخ.
					3-11 رئيس اللجنة يجب أن يحضر الاجتماع السنوي للجمعية العامة للمساهمين للرد على أي أسئلة حول أعمال وأنشطة لجنة المراجعة.
					4-11 تقرير اللجنة السنوي ينبغي أن يشمل مسائل أخرى أيضاً كتلك المتعلقة بخلاف اللجنة مع مجلس الإدارة (إن وجد) تعيين مراقب الحسابات، توفير خدمات غير أعمال المراجعة وبعض المسائل الأخرى المرتبطة بعلاقة اللجنة مع مراقب الحسابات.

Description	Strongly Agree	Agree	Don't Know	Disagree	Strongly Disagree
1. Establishment & Role					
Do you think adding the following provisions will help in building a more sustainable AC ¹ ?					
1-1 AC members appointed by BD ² on the recommendation of the Nomination Committee in consultation with AC Chairman					
1-2 AC member appointment should be for 3 years and extendable by no more than another two periods					
1-3 If any AC member serves in more than 3 listed companies the BD should decide that this situation will not impair the ability of such AC					
1-4 Each member of AC should be responsible to announce any potential conflict of interest in advance					
1-5 There should be sufficient time between AC meetings and BD meetings to allow actions to be carried out					
1-6 AC Meeting discussions should be documented and circulated to internal and external auditors as appropriate					

2. Resources

Do you think adding the following provisions will provide sufficient fund to the AC to perform its duties?

2-1 The AC should be supplied with adequate resources to undertake its duties					
2-2 Hiring independent counsel and other advisers to help the AC as necessary					
2-3 level of Salary rewarded to AC members should take into account the extra responsibilities, skills, duties and time brought in. Therefore, AC members could get more Salary than BD members could					

3. Skills & Experience

Do you think adding the following provisions will improve the performance of committee?

3-1 AC Financial Expert should have a professional qualification not only an accounting experience to be hired by BD					
3-2 AC members training should be on a timely and ongoing basis and related to					

¹ Audit Committee

² Board of Directors

company bylaws with focus on new AC members					
3-3 Companies must have AC members financially literate or will become financially literate within a reasonable time after their appointment					

4. Audit Committee Relation with Board of Directors

Do you think adding the following provisions will help the board and the committee to work more efficiently with each other's?

4-1 AC chairman should report formally to the BD on its proceedings after each meeting. The AC is an integral part of the corporate framework in helping to fulfill the BD's stewardship responsibility to its outside stakeholders					
4-2 AC get formal Terms of Reference by the BD which should be reviewed annually by BD					
4-3 Disagreement between AC and BD should have enough time to be solved, if not; AC should report the issue to the shareholders					
4-4 The AC must have a written charter that includes: annual performance evaluation, the purpose, Etc. and the charter must be posted on the company's website					

5. Financial Reporting

Do you think adding the following provisions will improve the disclosure of the company?

5-1 AC should review related information to financial statements first because BD's approval is required					
5-2 If AC is not satisfied with any aspect of the proposed financial reporting, by the management, it shall report it to BD					

6. Internal Control

Do you think adding the following provisions will help the committee to fight fraud more effectively?

6-1 The AC needs to be confident that the controls are in place and operating successfully, also AC should approve the statements in the annual report in relation to internal control and the management of risk					
6-2 AC should examine company's control systems, issues relate to the company's financial statements, assess risk profile and support preparation of statement on internal control in the annual report					
6-3 AC should deter management override of internal controls and review annually the organization's code of conduct					

6-4 Fraud must be reported to the AC by the CPA firm. The BD has one business day to notify the EFSA ³ , while the CPA firm is required to report to the EFSA by the end of the next business day					
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7. Whistle-Blowing

Do you think adding the following provisions will help the committee to handle complaints more effectively?

7-1 AC is required by Whistle-Blowing to review any complaints received whether generated internally or externally, regarding internal controls and financial statements					
7-2 If anyone wants to complain s/he should find the contact information of AC members on company's website or call the hotline. Confidentiality of the employee should be guaranteed. The complainer should be able to follow the procedures the AC has established					
7-3 When performing an investigation the AC will determine the corrective action or recommend a course of actions to the full BD					

8. Internal Audit Function

Do you think adding the following provisions will help the committee to effectively monitor the internal auditors?

8-1 The internal audit function should have a direct reporting relationship to the AC which helps creating an agenda for the coming year or approve CAE's ⁴ agenda					
8-2 Adequately resourced internal audit function may provide the BD with an objective assurance on the internal control					
8-3 AC should review IAF ⁵ budget and plans and how such plans reflect CPA firm's objectives					
8-4 The AC should guarantee that the IAF has resources and access to information and is fully equipped					
8-5 In times of cutting costs, the IAF should not be the victim; in fact, it should be doing extra monitoring					
8-6 Companies should perform an internal Improvement and Quality Assurance Program minimally once every 5 years for IAF. AC should meet annually with executive managers and CPA firm to discuss the performance of CAE					

³ Egyptian Financial Supervisory Authority.

⁴ Chief Audit Executive

⁵ Internal Audit Function

8-7 The AC ensures that internal auditor team has direct access to the BD's chairman and accountable to the AC					
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9. External Audit

Do you think adding the following provisions would help Audit Committees to hire better and more qualified Auditors?

9-1 AC is responsible for overseeing organization's relations with the CPA firm and engagement letter should state that the client is the AC, so the CPA firm is accountable to the AC					
9-2 If the CPA firm resigned, the AC should investigate and should consider the need to include the risk of the departure of their CPA firm in their risk evaluation					
9-3 The AC should report to shareholders on the appointment, reappointment or removal of the CPA firm. If the BD does not accept AC's recommendation, this should be disclosed in the annual report					
9-4 AC should review the engagement letter with the executive partner at the start of each audit					
9-5 AC evaluation should take into consideration the CPA firm's qualifications and whether the audit fee is proper to the size, risk, complexity and control profile of the company					
9-6 Annually AC reviews CPA firm's internal quality control, peer review, governmental inquires or any step taken to deal with such issues					
9-7 AC makes sure of the mandatory rotation took place by the CPA firm to the lead and other partners after five years and then subject them to a five-year time-out. The same thing also applies for non-audit service					
9-8 The AC should agree with the BD's policy for the employment of former employees of the CPA firm who were part of the audit team and moved directly to the organization					
9-9 AC should state in the annual report that the provision of non-audit services does not harm the CPA firm's independence and should not be more than 5% of total amount paid to the CPA firm only if AC approves it					
9-10 CPA firms should be prohibited from providing certain non-audit services at the same time with the audit, like actuarial services, HR, etc...					

10. Annual Audit Cycle

Do you think adding the following provisions would help Audit Committees in delivering more efficient audit process?

10-1 The AC should consider whether the CPA firm's overall work plan is consistent with the scope of the audit engagement					
10-2 Review with the CPA firm, CFO ⁶ and CAE, the audit plan and scope of the IAF team to assure the reduction of unnecessary efforts					
10-3 There should be a guidance necessitating that CPA firm gets from ACs their opinion of the quality, not just the acceptability, of the accounting principles used in the company					
10-4 AC must meet with management and the CPA firm to review audited quarterly and annual financial statements					
10-5 AC should review the CPA firm representation letters before signature by management, also review management letters including the recommendations of CPA firm and management's responses to those recommendations					
10-6 At the end of the annual audit cycle, the AC assesses the effectiveness of the audit process, it should review whether CPA firm has met its audit plan and obtain feedback about the performance of the audit from key executives involved					
10-7 AC should discuss with the CPA firm any difficulties faced during the audit cycle and any major disagreements with management and ensure solution of disagreements regarding financial reporting					

11. Communication with Shareholders

Do you think adding the following provisions would help the committee to achieve the objectives that the board hire them to fulfill?

11-1 The AC should disclose in the annual report whether satisfied its responsibilities in fulfilling the charter which should be attached to the annual report every 3 years. The EFSA should have jurisdiction over reporting of information to the public					
11-2 The terms of reference of the AC should be made available in the annual report and should include; number of AC meetings, summary of AC role, etc...					
11-3 Chairman of AC will be available at the Annual General Meeting to answer any question about AC					
11-4 The annual report should include other matters concerning the disagreement between AC & BD, the issue of appointing the CPA firm, provision of non-audit services and certain matters with CPA firm					

⁶ Chief Financial Officer