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## **Risk-Based Supervisory Framework**

**For the Egyptian Insurance Supervisory Authority**

**Inventory of Questions for the On-site Inspection of AIG Insurance Company of Egypt**

**Board of Directors, Senior Management and Internal Audit Oversight Functions**

June 16, 2007

This publication was produced for review by the United States Agency for International Development. It was prepared by Ron Bergeron

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**Board of Directors, Senior Management and Internal Audit Oversight Functions**

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## **Inventory of Questions for On-Site Inspection - AIG Insurance Company of Egypt**

### **Board Oversight Function – Chairman of the Board (Interviewee)**

#### **Role**

1. How do you see the role of the Board of Directors? (here we are trying to assess whether the Chairman has any idea about the role of the Board, in particular we are looking for the following:
  - Reviewing and approving organizational structure and controls,
  - Ensuring that management is qualified and competent,
  - Reviewing and approving business objectives, strategies and plans,
  - Reviewing and approving policies for major activities,
  - Providing for an independent assessment of, and reporting on the effectiveness of, organizational and procedural controls,
  - Monitoring performance against business objectives, strategies and plans,
  - 1. Reviewing and approving sound corporate governance policies, and
  - Obtaining reasonable assurance on a regular basis that the company is in control.)

#### **Composition**

2. How often do you discuss the adequacy of policies and practices to regularly determine Board size, range of directors' qualifications, knowledge, skills, and experience, and level of commitment required to fulfill Board responsibilities? When did you last time discuss these? Would these discussions be reflected in the minutes of the Board? Get a copy of the minutes of the last two board meetings.
3. Tell us about your policies and practices to recommend the selection, approval, renewal, and succession of directors.
4. What about unaffiliated representation on the Board? If you do have independent directors, what kind of qualifications are you seeking the most? Are you getting any significant inputs from these directors?

#### **Committees**

5. How often does the Board review the mandate, structure and composition of Board committees (to ensure that they provide sufficient oversight)? What was this done the last time?
6. Is an unaffiliated representation on Board committees an issue for your Board? Why or why not?

7. Tell us about the extent to which Board committee mandates promote independent and comprehensive oversight, with timely and regular reporting to the full Board. Give us an example of a recent occurrence.

### **Practices**

8. Tell us about the extent of your policies and practices to orient new directors, and periodically update existing directors, on their responsibilities and on the company's businesses and related risks. Give us a recent example of this happening.
9. Could you elaborate on your Board's adequacy of policies and practices to set Board agendas and priorities, arrange and conduct meetings, and record its deliberations and decisions. What about the extent to which these practices promote transparency in Board accountabilities?
10. Tell us about the adequacy of policies and practices to ensure that the directors are provided with timely, relevant, accurate and complete information (including access to independent advice) to enable them:
  - To determine that responsibilities delegated to Board committees and Senior Management are being discharged effectively, and
  - To enable directors to make informed and sound decisions.
11. What about the extent to which the directors' compensation program promotes prudent decision-making with due regard to the objectives of the company.
12. With respect to the oversight functions on which it relies (e.g., Internal Audit), the extent to which the Board:
  - Approves the appointment of the function heads,
  - Ensures that they have adequate authority, independence and resources to carry out their mandates,
  - Provides appointees with unrestricted access to the Board and/or its committees, and
  - Requires periodic independent reviews of the functions.

### **Self-Assessment**

13. Tell us about the extent of the adequacy of policies and practices to regularly assess the effectiveness of the Board, its committees, and individual directors (including the Chair) in carrying out their responsibilities.
14. What about the appropriateness of policies and practices to communicate Board achievements against its responsibilities to stakeholders.

### **Significant Activity – Strategic Planning**

Provide an assessment of the corporate oversight over the activity by the Board. How effective is the Board in overseeing the planning, directing and controlling the company's strategic directions and future outlook?

#### **Planning**

15. Tell us about the extent of the Board's involvement in the Strategic Planning of the Company. What does the Board do in this process?
16. Tell us about the extent of discussions by the Board regarding the strategic directions and future outlook of the company? Give us a recent example where this occurred.

#### **Relationship with Senior Management**

17. Please tell us about the quality of the working relationship between the Board and Senior Management with regards to the strategic directions and future outlook of the Company? Give us a recent example where this occurred.

#### **Control – Monitoring**

18. How well does the Board control the implementation of the strategic plan, objectives and initiatives of the company? Give us a recent example where this occurred. Get a copy of control procedures if available.
19. How does the Board monitor progress of the work plan? What sort of information does the Board receive on a regular basis in its monitoring of the implementation of the SP? Are these adequate? Why or why not.
20. Have thought being given to a situation where the underlying or basic assumptions upon which the plan is founded on does not materialize (here we are looking for indications of scenario or stress testing)?
21. Could you explain how the Board measures success in the area of strategic planning and execution?
22. Are you satisfied with the skills, experience and competency of senior management to successfully implement the company's strategic plan? Why or why not?

## **AIG Insurance Company of Egypt**

### **Senior Management (SM) Oversight Function – Vice Chairman**

#### **Delegation of Authority**

1. On delegation of authority from yourself down to the rest of the senior management team and staff, can you discuss this delegation of authority process? How often do you review the appropriateness of this delegation?
2. With respect to the oversight functions on which it relies e.g., Internal Audit, tell us about the extent to which Senior Management:
  - Approves the appointment of the function heads;
  - Ensures that they have adequate authority, independence and resources to carry out their mandates;
  - Provides appointees with unrestricted access to Senior Management and/or its committees; and
  - Requires periodic independent reviews of the functions

#### **Mandates for Senior Management position**

3. Discuss the mandates given to the SM positions. Discuss the extent to which they clearly define lines of responsibilities. Also discuss the extent to which these mandates are communicated across the institution.

#### **Organization Structure**

4. Please discuss the policy and practice on the review of senior management structure? How regular do you need to review the organization structure? In your view, how adequate is the current policy and practices to regularly review the SM organization structure?

#### **Committees**

5. What Senior Management Committees have you put in place? (Do these committees cover the significant activities and related risks; eg. strategic planning, corporate governance, investment, asset & Liability management?)
6. Are the mandates of these committees clearly defined and clearly communicated across the institution? (Probe: How is this communicated?)

## **Practices**

7. Tell about your practices related to establishing business objectives, strategies and plans, and to monitor the company's performance against them.
8. Tell us about how you are managing your risks (identify, assess, monitor, mitigate and report – make sure compliance risk is identified among the others)?
9. Please give us an idea about your compensation programs (looking for a practice that promote prudent risk taking that are aligned with the long-term strategic objectives for the company).
10. What about corporate governance and business conduct, how do you deal with these?

## **Controls**

11. With regards to the organizational and procedures and control environment, can you discuss the sort of policies and practices that you have in place to ensure regular review of these environments?
12. What do you consider to be the main weaknesses in AIG's operations? What actions need to be taken to address your concerns? Are any of these in the process of being fixed?

## **Expertise (Skills/Experience, Selection process)**

13. Can you tell us about your policies and practices for determining the sort of skills and experience required for senior management?
14. Can you explain to us the process of selection, appointment and succession of senior management?
15. Does the company have development programs for its SM?

## **Board Oversight**

16. What about reporting to the Board – tell us about this process (here we are looking for full, open and timely disclosure to the Board; we also look for indications of the extent of the discussion at the Board level about significant issues). Please provide us with a copy of the last two reports to the Board.

## **Significant Activity – Strategic Planning**

Provide an assessment of the corporate oversight over the activity by senior management

How effective is senior management in planning, directing and controlling the company strategic directions and future outlook?

### **Planning and Implementation**

17. Tell us about the extent of the Senior Management's involvement in the Strategic Planning of the Company. What does Senior Management do in this process?
18. Is the Plan driven top down or bottom up? Please explain.
19. Tell us about the extent of discussions by senior management regarding the strategic directions and future outlook of the company? Give us a recent example where this occurred.
20. Your business plan states that you plan to double premiums over the next five years. How will you manage this growth and the risk attached to it? How will you finance this level of growth?
21. Have you considered the external environment while developing your plans and objectives? Explain.
22. Tell us about your target markets. How are you planning to reach them? What distribution channels are you going to use?
23. Tell us about your business partners.

### **Relationship with the Board**

24. Please tell us about the relationship between the Board and Senior Management with regards to the strategic directions and future outlook of the Company? Give us a recent example where this occurred.

### **Controls and Monitoring**

25. How well does senior management control the implementation of the strategic plan, objectives and initiatives of the company? Give us a recent example where this occurred. Get a copy of control procedures if available.

26. How does Senior Management monitor progress of the work plan? What sort of information does the senior management receive on a regular basis in its monitoring of the implementation of the SP? Are these adequate? Why or why not.
27. Have thoughts been given to a situation where the underlying or basic assumptions upon which the plan is founded on does not materialize (here we are looking for indications of scenario or stress testing)?
28. How do you measure success in the area of strategic planning and execution?
29. Tell us about the knowledge and awareness level of the senior management group regarding strategic directions and future outlook in the institution's businesses and products? How do you know that for sure?
30. What sort of skills and experience is required to successfully implement your plan? Do you have these skills and experience?

## **Inventory of Questions for On-Site Inspection - AIG Insurance Company of Egypt**

### **Internal Audit Oversight Function – Manager (Interviewee)**

#### **Mandate**

1. Tell us about the appropriateness of the audit methodologies and practices to execute the audit mandate.
2. Tell us about the structure of the internal audit function. Who do you report to? How frequent is the reporting? Give a recent example. Get a copy of the last two reports going to the Board.

#### **Resources**

3. Tell us about the internal audit staff qualification, experience and knowledge, including yours; their professional development plan and performance bonus structure.
4. Have you had any difficulties in undertaking an internal audit for a particular activity because of lack of expertise or knowledge? If yes, give us an example. If no, explain.
5. Did you consider hiring of expertise outside the company? If yes, why? Tell us about your experience.
6. Do you consider your budget to be adequate to meet your audit plan objectives? Explain.
7. Tell us about your ability to attract and retain qualified personnel.

#### **Planning and Execution of Audit Plan**

8. Tell us about your process to develop your audit plan. Who approves it? How long is the cycle? Were you ever pressured to change your audit plan? Explain.
9. What factors do you consider in your audit plan? (Here we are looking for a risk-based approach to selecting the areas for review.)
10. How involved are the audit committee members in the planning process?
11. Over the last year, were you able to complete your audit plan? Explain how successful you have been. Or, explain why you did not accomplish your plan.
12. What were some of the major findings noted during your last internal audit?

13. Do you feel you are getting genuine support from your Board Audit Committee in terms of meeting your mandate? Approve your budget, resources, etc. Explain.
14. Have you ever been pressured by senior management or board members to change a recommendation in one of your audit report? If yes, what did you do? Explain.
15. Have your recommendations ever been challenged? If yes, how did the issues got resolved? Explain.
16. Are your recommendations followed through by senior management and department managers? Explain.
17. How often do you have to remind senior management and line managers to get back to you on their plan to resolve issues or weaknesses identified during the audit process?
18. Do you get free and timely access to personnel and documentation needed to meet your objectives? Explain.

### **Quality Assurance**

19. Tell us about you quality assurance process.
20. Who conducts this review?
21. How do you make sure you staff are following generally accepted internal audit standards?
22. Tell us about your process to report on quality assurance issues. Who do you report to?

### **Senior Management & Board Oversight**

23. Tell us about the quality of your working relationship with the Board audit committee and your senior management? Good or bad give us examples. If good, how can that it be improved further? If bad, what do you think can resolve the situation?
24. Who approves the function head, mandate, resources and work plan? Tell us about this process.
25. Tell us about the adequacy of policies and practices with respect to reporting to the Board committee.
26. Tell us about the adequacy of policies and practices to perform regular independent reviews of the internal audit function.

27. Do you ever consult with the external auditors with respect to your mandate and plans? Why or Why not? Explain.

### **Significant Activity – Strategic Planning**

28. Tell us about the extent of the Internal Audit Functions involvement in the Strategic Planning of the company. What does the Internal Audit do in this process? (The role of the internal audit manager in this process should be a passive one.)
28. Does the internal audit actively engage in the discussions, concerns and recommendations regarding the strategic directions and future outlook of the company? (The internal audit manager should not, under any circumstances, provide specific recommendations. Otherwise, the internal audit manager could find himself/herself, at a later date, in a conflict of interest situation.)
29. What other roles does internal audit have in these processes of the company? (e.g. reliability of management information, consistency effectiveness, etc.)

### **Significant Activity - Reinsurance**

30. Does the internal audit function have an effective role for independently evaluating the reinsurance program? Explain the role taken over the last year; e.g. testing of compliance with terms and conditions, reliability of management information, findings, etc.
31. Does the internal audit mandate and resources provide for an objective assessment of the integrity of the reinsurance management process? Explain.
32. Do you think you have the collective knowledge on your team to properly assess the reinsurance programs and meet your objectives?
33. How does internal audit ensure that reinsurance activities are in compliance with?
- management policies and procedures,
  - laws and regulations,
  - that transactions are duly authorized and accurately and completely recorded,
  - management has established effective controls, and
  - management information reports are adequate and accurate?

34. Are there appropriate and timely follow-ups on findings from your department?

**Significant Activity – Auto Collision**

35. Does the internal audit function have an effective role for independently evaluating the policy liability valuation, management and control processes of the Auto Collision line of business? Explain.

36. What other roles does the Internal Audit have in the policy liability valuation process of the Auto Collision line of business?

37. How does internal audit ensure key areas of that line of business are examined on a regular basis?

38. Are there appropriate and timely follow-ups on key findings with the appropriate level of management? Explain.

39. Does internal audit have adequate and appropriate resources to examine policy liability valuation for this line of business? Explain.

40. To what extent does the external auditors and valuation actuary rely on internal audit's expertise and work? Explain.

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