

Content

Title : Regulations Governing the Implementation of Internal Control and Audit Systems by Bills Houses **Ch**

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2.

3.

4. Abolished on March 29, 2010

Content : Article 1

These Regulations are adopted pursuant to Article 43 of the Act Governing Bills Finance Business (the "Act").

Article 2

A bills finance company shall establish internal control and internal audit systems and ensure their effective operation.

Article 3

The internal control system of a bills finance company shall at least cover the following main areas:

1. Management of management: The board of directors shall have responsibility for approving and periodically reviewing overall business strategies and significant policies of the company; senior management shall have responsibility for implementing business strategies and policies approved by the board of directors, for developing processes that identify, measure, monitor, and control risks run by the company, for setting appropriate internal control policies, and for monitoring their effective operation.

2. Risk recognition and assessment: ability to identify and assess material risks that could adversely affect the achievement of any of the company's goals.

3. Control activities: Internal control processes shall be defined at every business level, and there shall be appropriate segregation of duties.

4. Information and communication: Financial, operational and compliance data shall be reliable, timely, and accessible, and effective channels of communication shall be established.

5. Monitoring activities and correcting deficiencies: Monitoring activities shall be carried out on an effective and ongoing basis. Identified internal control deficiencies shall be reported in a timely manner to the appropriate management level, and material internal control deficiencies shall be reported to senior management and the board of directors, and be addressed promptly.

Article 4

The internal control system of a bills finance company shall cover its internal functions and such procedures and rules as necessary for all business activities and shall include the following rules and regulations:

1. Organizational chart or management rules and bylaws, including a clear organizational system, department functions, and rules governing hierarchical delegation of responsibilities.
2. Operational manuals, which shall contain processes and guidelines for operations with respect to business, accounting, general affairs, information and personnel affairs.

The bills finance company shall periodically review the appropriateness of and make necessary revision to the rules and regulations described in the preceding paragraph, and designate internal audit and information personnel to participate in the process.

Article 5

The internal audit system of a bills finance company means a system in which the audit unit of the bills finance company performs audits on the business and management units and periodically evaluates the implementation of internal controls by such units.

Article 6

A bills finance company shall map out the organization, staffing, and functions for internal audits and prepare internal audit manuals that shall include at least the following content:

1. Organization and staffing of the audit unit.
2. Rules and procedural flows for all aspects of the internal control system and rules for evaluating the effectiveness of its operation.
3. Audit items, times, procedures, the authorizing provisions of laws and regulations, and working papers and relevant worksheets.
4. Methods for improvement measures to be taken by audited units in response to audit opinions.

Article 7

The audit unit of a bills finance company shall be established reporting directly to the board of directors and carrying out audit work independently; the audit unit shall submit a report to the board of directors and the supervisors on a regular basis.

When a material deficiency or malpractice arises within a business or management unit of the bills finance company, the audit unit shall have the power to suggest penalties and shall make a full disclosure of the responsible negligent personnel in an internal audit report.

Article 8

A bills finance company shall have an auditor general to oversee audit affairs, who shall hold a position equivalent in rank to that of an assistant general manager, and may not concurrently serve in another position that might conflict with or otherwise impede audit work. The auditor general, who is required to meet the qualification requirements set out in the Regulations Governing the Responsible Persons and Associated Persons of Bills Houses, shall be employed directly by the board of directors, and may be dismissed from office or transferred to another office effective only with the consent of a two-third majority of all the directors and upon submission to and approval by the competent authority.

Article 9

The appointment, dismissal, promotion, reward/discipline, rotation, and performance review of any personnel in the audit unit of a bills finance company shall become effective only after being reported by the auditor

general to the chairperson for ratification. Nevertheless, where such a matter involves the personnel of other units, the auditor general shall consult with the general manager before reporting to the chairperson.

Article 10

When any of the following events applies to the auditor general of a bills finance company, the competent authority may, having regard to the seriousness of the event, order the company to release the auditor general from duty:

1. Have engaged in improper extension of credit, been involved in a serious breach of the principles for extending credit, or engaged in improper money transfers with a client.
2. Have committed an act in breach of official duties, with the intent to secure an unlawful benefit to oneself or for another or a benefit to the disadvantage of the bills finance company, causing damage to the company or to any third party.
3. Have divulged, delivered, or made known to any person irrelevant to the discharge of official duties the whole or a part of a financial examination report, without the approval of the competent authority.
4. Have failed to report a material malpractice within the bills finance company to the competent authority.
5. Have failed to disclose in an internal audit report a material deficiency coming to his or her attention that arises from the financial or business operations of the bills finance company.
6. Have produced an audit report containing any misrepresentation.
7. Have failed to perform an audit or provide information in response to a requirement or instruction of the competent authority.
8. Have committed an act otherwise prejudicial to the bills finance company.

Article 11

A bills finance company shall have a legal compliance officer, the office of which shall be assumed by a person equivalent in rank to an assistant general manager, and who shall be charged with appointing and supervising those in business and management units having duties equivalent to those of a deputy manager and, by reference to the compliance program and self-assessment items adopted by the company, examining the legal compliance status of the company's personnel in carrying out their duties.

The bills finance company shall, in accordance with its legal compliance program, design self-assessment working papers for relevant compliance matters, and conduct self-assessment based on those working papers at a frequency of no less than every six months.

Article 12

The legal compliance program of a bills finance company shall at least include the following:

1. Compliance procedures for consultation, coordination, communication, and implementation with respect to compliance with laws and regulations.
2. The content of the Act, the Money Laundering Control Act, the Computer-Processed Personal Data Protection Act, and applicable financial laws and regulations, as well as required compliance matters.
3. Collection and conveyance of information about compliance training courses and financial laws and regulations, and updating of operational and

management rules and regulations.

Article 13

A bills finance company shall develop a self-audit program for its business, financial custody, and information units and charge a deputy manager or a person at or above a certain rank with the duty of overseeing the conduct of self-audits.

The bills finance company shall develop a self-audit training program and administer audit training to persons charged with the duty of performing self-audits.

Article 14

A unit as described in paragraph 1 of the preceding article shall conduct routine self-audits at least semi-annually, and special self-audits at least monthly. However, it is not required to conduct a special self-audit in a month in which it has conducted a routine self-audit or legal compliance assessment, or the audit unit has conducted a routine audit.

The supervisor of a unit described in paragraph 1 of the preceding article shall designate a person not originally in charge of a given matter to conduct a self-audit of that matter, and it shall be kept confidential before the self-audit.

Article 15

The general manager of a bills finance company shall see to it that all units review the operation of the internal control system and evaluate the soundness of their operations, and, at the end of each business year, with respect to the bills finance company's compliance with laws and regulations and the soundness of its operations, submit to the competent authority for recordation a statement on the operation of the internal control system, jointly signed by the auditor general and the company's compliance officer, together with the audit report under Article 26 hereof and the reports and statements required by Article 35 of the Act.

Article 16

The audit unit of a bills finance company shall conduct one routine audit and one special audit on the company's business, financial custody, and information units at least once annually, and one special audit on other management units at least once annually.

Article 17

A bills finance company shall disclose at least the following information in its internal audit report for a routine audit as conducted under the preceding article:

1. Audit scope, financial status, operational performance, asset quality, legal compliance, activity controls with respect to all business operations, and the status and assessed results of the implementation of internal management, information management, and self-audits.
2. Status of improvement measures taken by a business unit in response to the examination opinions given or deficiencies identified by the financial examination authority, the audit unit, or persons performing self-audits, and taken to treat outstanding matters requiring stronger improvement efforts as specified in the statement on the implementation of the internal control system.

The internal audit report in the preceding paragraph and the relevant

working papers shall be preserved for not less than five years.

Article 18

The audit unit of a bills finance company shall follow up on improvements with respect to matters requiring improvement efforts as ordered by the competent authority, to examination opinions brought up by the financial examination authority, the certified public accountant, or the audit unit, and to matters specified in the statement on the operation of the internal control system as requiring stronger improvement efforts, and submit a written report on such matters to the board of directors and the supervisors.

The follow-up of improvements referred to in the preceding paragraph shall be listed as a factor in evaluating the performance of the business and management units.

Article 19

The financial examination authority shall review the audit work of a bills finance company on a regular basis.

Article 20

A bills finance company shall staff auditors, among whom there shall be computer auditors, in a number consistent with the number of business units and the size of business volume.

An auditor of a bills finance company shall meet any one of the following qualification requirements:

1. Have not less than two years of experience in financial examination.
2. Have graduated from a junior college, college, or university or passed a senior civil service examination or an examination equivalent to a senior civil service examination, and also have not less than two years of experience in financial business.
3. Have not less than five years of experience in financial business.
4. Have worked as a professional, such as an auditor in an accounting firm, or a programmer or system analyst in a computer company, for not less than two years and also have received not less than three months of training in financial business and administration.

An auditor shall be free of any record of a demerit or more severe penalty in the past three years. This restriction shall not apply, however, where the demerit record was the result of a joint and several disciplinary action arising from a violation or offense by others, and where the demerit has been offset by other merits.

An auditor serving as lead auditor shall have not less than three years of experience in auditing or financial examination, or have not less than one year of experience in auditing plus not less than five years of experience in financial examination.

Article 21

An auditor serving in the audit unit of a bills finance company shall attend the following training held by the Taiwan Academy of Banking and Finance:

1. All auditors shall attend one or more sessions in the field of auditor training, computer audit training, or training in bills finance auditing, and obtain a certificate of completion for such training.
2. The lead auditor shall attend one or more sessions in lead auditor training.

3. An audit officer or assistant audit officer shall attend one or more sessions in audit officer training.

Auditors shall each year attend a minimum two course sessions or 30 hours of bills finance training held by a professional training institute recognized by the Taiwan Academy of Banking and Finance or a bills finance industry association. The same, however, does not apply to audit officers and assistant audit officers.

Article 22

A manager serving in a business unit of a bills finance company, shall, in addition to meeting the requirements of the Regulations Governing the Responsible Persons and Associated Persons of Bills Houses, have attended a training session provided by the Taiwan Academy of Banking and Finance in the field of auditor training, computer audit training, or training in bills finance auditing and have obtained a certificate of completion, or have no less than one year of experience, as described in Article 13, in having the duty of overseeing the conduct of self-audits or in conducting internal audits. The same, however, does not apply to a business unit manager having served in that position prior to the enforcement of these Regulations.

Positions at the junior manager level or higher in a bills finance company's business unit shall be assigned in priority to persons with work experience in auditing; if a person to be assigned to such a position has no audit experience or has never attended any training as described in paragraph one of the preceding article, he or she shall, within one year after being assigned to that position, attend any such training and obtain a certificate of completion.

Article 23

A bills finance company shall prepare and submit to the competent authority for recordation at the end of every year a name list of its auditors with their qualifications and experience and their training records.

Article 24

The competent authority may order a bills finance company to adjust the duties of the auditor general or any auditors if such a person has failed to meet the qualification requirements set out herein or committed an act in violation of law or in breach of job duties.

Article 25

An auditor or compliance officer of a bills finance company shall directly submit a report to the competent authority if any of his or her recommendations regarding a deficiency arising from the internal control system or regarding a violation of regulation is not accepted by management.

Article 26

When engaging a certified public accountant to audit and certify its annual financial statements, a bills finance company shall in such engagement instruct the certified public accountant to audit the internal control system and to provide opinions on the accuracy of the statements, reports, and other information submitted by the bills finance company to the competent authority, the status of implementation of the internal control system and the compliance program, and the adequacy of the policies for setting aside allowance for bad debts, and accordingly to issue an audit

report, which shall at least include the scope, basis, procedures with respect to the audit and the audit results. The audit fees of the certified public accountant shall be borne by the bills finance company.

Article 27

Where necessary, the competent authority may order a bills finance company or the engaged certified public accountant to provide explanatory information with respect to matters within the scope of the preceding article, or order the bills finance company to change the certified public accountant, or appoint a certified public accountant for or on behalf of the bills finance company to perform an audit for the company. The certified public accountant engaged shall provide complete and accurate information in response to inquiries of the competent authority.

Article 28

A certified public accountant performing an audit as described in Article 26 shall report to the competent authority promptly if one of the following circumstances applies:

1. During the course of an audit by the certified public accountant, the bills finance company refuses to provide the required financial statements, supporting vouchers, account books, or meeting minutes, or otherwise refuses to respond to an inquiry.
2. It is impossible to continue audit work for a reason beyond his or her control.
3. There is any material misstatement or omission of information in the accounting or other records of the bills finance company.
4. The bills finance company does not have sufficient assets to settle all liabilities or has seen a significant deterioration in its financial condition.
5. There is evidence indicating the existence of a transaction that is likely to bring about a significant decrease in the net worth of the bills finance company.

The certified public accountant shall first submit a summary report to the competent authority on the results of any audit with respect to circumstances described in subparagraphs 3 to 5.

Article 29

Except as otherwise stated in laws and regulations, these Regulations shall also apply to any financial institution that concurrently operates bills finance services.

Article 30

These Regulations shall be enforced from the date of issuance.