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This General Instruction states the procedure for:

- Communicating audit observations and recommendations
- Obtaining responses from audited organizations
- Preparing and distributing audit reports
- Following-up on the implementation of audit recommendations

The major areas of discussion are:

1. COMMUNICATING INTERNAL AUDIT OBSERVATIONS AND RECOMMENDATIONS

1.1. Internal audit observations and recommendations will be communicated to the client using Field Memoranda. Once an audit observation has been validated by the auditor, a Field Memorandum addressed to the Client Management Head will be issued for response. Field Memorandum will be the basis for the audit report.

1.2. Client Management's written responses will be obtained for each Field Memorandum issued.

1.3. A Management Response is to include the following items (as applicable):

1.3.1. All actions taken or planned to be taken.

1.3.2. Alternative actions.

1.3.3. Specific reasons for non-concurrence with the recommendation(s).

1.4. All responses should be provided in writing and signed by the Client Management Head on the Field Memorandum.

1.5. Responses to the Field Memorandum must be received by Internal Auditing within seven (7) business days from the date a Field Memorandum was issued. If the response is not received within seven business days, all audit observations and recommendations included in the Field Memorandum will be deemed to be accepted by management, as reported. At the discretion of IA management, late response to a field memorandum may or may not be included in the audit report.

1.6. If the observation requires a response from an organization other than the client; a separate Field Memorandum will be issued to the concerned organization management. At the discretion of Internal Auditing management, the audit observation may be included in the audit report, clearly identifying the responsible organization, or it may be handled as a separate report, as deemed appropriate.

1.7. In the case of a disagreement by the client with the audit observation and/or recommendation and/or management response is deemed inappropriate or unsatisfactory, at the discretion of the Audit Manager, an **Auditor's Note** (see attached Appendix) will be inserted on the audit report cover page. In addition, the rationale behind the disagreement will be described in the body of the audit report. At the discretion of Internal Auditing management, audit report with Auditor's Note will be reported to the client's Corporate Management and the Board Audit Committee (BAC).

1.8. The Executive Head, with concurrence from the client's Business/Service Line Head, may waive the implementation of an audit recommendation.

1.9. At the discretion of Internal Auditing management, the BAC will be informed of any audit recommendation waived, and the Business/Service Line Head may be asked by the BAC to provide an explanation and/or additional details.

2. REPEAT RECOMMENDATIONS

2.1. A repeat recommendation is a previous audit recommendation that was reported by the client as implemented to the Accounting Policies & Systems Department (AP&SD) of the Controller's Organization, however, a subsequent internal audit or review determined that it was not implemented.

2.2. The BAC and Corporate Management expect audit recommendations to be promptly implemented and regard repeat recommendations as an unacceptable practice. Repeat recommendations will be reported to the BAC at the discretion of IA management.

2.3. In the case of a repeat audit recommendation, a statement clearly identifying the issue as a repeat item, will be included in the audit Field Memorandum and report (see attached Appendix). An audit report with a repeat recommendation will be reported to the client

Business/Service Line Head.

3. AUDIT REPORT PREPARATION AND APPROVAL

3.1. All audit reports will be reviewed and approved by Internal Auditing management prior to being issued to the client for review and comment. Such comment is required within five (5) business days from the date the draft report is presented to the client.

3.2. At the expiry of the time period set forth in section 3.1, the audit report will be signed by the Audit Manager and issued to the client management. Audit reports which include Auditor's Note and/or a repeat audit recommendation will be signed by the Associate General Auditor.

3.3. Normally, audit reports will be addressed to the client's immediate supervisor, but no lower than a Department Head. As deemed appropriate, reports will be copied to other members of management, including Corporate Management.

3.4. If the audit report includes a repeat audit observation and/or Auditor's Notes, the report will be addressed to the client's Corporate Management.

4. CLOSING MEETING

4.1. At the completion of the audit field work, the In-charge Auditor or Audit Manager will discuss the need for a closing meeting with the client management. The closing meeting should be held within five (5) business days from the date the draft report is presented to the client.

4.2. The purpose of the closing meeting is to summarize and update the client management on the audit observations, recommendations, planned Management actions, and get client's feedback on the engagement.

5. HIGH SPOT REVIEWS

5.1. A High Spot Review (HSR) is an audit with narrower scope, such as an audit of selected internal controls, conducted based on management request or concern, or a follow-up on audit recommendations. The HSRs do not substitute for regularly scheduled audits.

5.2. The HSR report will be handled in accordance with Paragraph 3.0. Similar to the regular audits, AP&SD will follow-up and monitor the implementation of all HSR recommendations. Follow-up in these cases will be in accordance with Paragraph 9.

6. SPECIAL AUDITS

6.1. Special audits are primarily forensic audits of accounting records and controls, and any other irregular business matters designed to go beyond the normal scope of the regularly scheduled audits. Special audits are conducted on an "ad hoc" basis.

6.2. Special audits are coordinated at the direction of the General Auditor usually at the Executive Management level. Depending on the circumstances, special audit observations may not be coordinated at the Department level. Field memorandum is not usually issued in the process of special audits. Refer to GI 289.100 for more details.

7. AUDIT SCOPE LIMITATION

7.1. Saudi Aramco Internal Auditing Charter, as approved by the Board of Directors, sets forth the authority, scope and responsibilities of the internal auditing function. In carrying out internal audit activities and responsibilities, members of the Internal Auditing Organization shall have full, free and unrestricted access to all records, property, personnel, operations and functions within the Company. All systems, processes, operations, functions and activities within the Company are subject to Internal Auditing's review and evaluation.

7.2. Audit Scope Limitation is a restriction on the scope of the auditor’s work imposed by the client that prevents the auditor from conducting the required audit procedures. The types of scope limitation are classified as follows:

7.2.1. Full Scope limitation – A limitation imposed by the client that prevents the auditor from conducting the audit.

7.2.2. Partial Scope Limitation – A limitation imposed by the client that restricts the audit scope and prevents the performance of required audit procedures, necessary to ensure that key internal controls exist and are operating effectively and efficiently.

7.3. In the case of full scope limitation – The General Auditor may issue a summary letter to the client Business/Service Line Head with a copy to the President & CEO identifying the scope limitation imposed by the client, due to which an audit can no longer be performed. A full scope limitation will be reported to the BAC as a “Failed Audit”.

7.4. In the case of partial scope limitation – IA management may decide to continue with the audit. The cover page of the audit report will include the scope limitation note as outlined in the attached Appendix, and the nature and extent of the scope limitation will be clearly described in the body of the audit report. At the discretion of Internal Auditing management, the BAC will be informed of audit scope limitations, and a detailed explanation may be requested from the client’s Business/Service Line Head.

8. SUMMARY REPORTS TO BAC

8.1. Once a year, or as requested, the General Auditor reports to the BAC a summary of common audit issues and themes and audit observations and recommendations which the General Auditor determines are of interest to the Committee.

9. FOLLOW-UP ON MANAGEMENT RESPONSES TO INTERNAL AUDIT OBSERVATIONS AND RECOMMENDATIONS

9.1. The Controller's Organization is responsible for administering an audit follow-up system to monitor the proper implementation of audit recommendations. This responsibility, implemented via AP&SD, includes reviewing of the progress reports of the client for implementing audit recommendations and the preparation of a formal response thereto, after having:

9.1.1. Reviewed the action plan of the client Management Head and the reasons cited for any exceptions noted therein;

9.1.2. Reviewed with Internal Auditing the adequacy of action taken by Management to implement audit recommendations, if the action to be taken is not clear to AP&SD or requested by Internal Auditing;

9.1.3. Reviewed progress on open items and justifications for items proposed as "closed";

9.1.4. Resolved with the client Management Head outstanding issues or exceptions; and

9.1.5. Resolved situations with the client Management Head where concurrence to "close" an item has not been given.

9.2. The client Management Head is responsible for implementing the audit recommendations or obtaining the approval of client's Executive Management and concurrence of the Business/Service Line Head to waive the implementation of an audit recommendation which is not agreed. Until each audit recommendation is closed in such a manner, it will be considered an open item and must be reported on as outlined in 9.3.

9.3. Thirty (30) days after the issuance of an audit report, the client Management Head is required to report to AP&SD the action plan to implement the audit recommendations. Follow-up reports should be submitted every sixty (60) days after the initial action plan report until each audit recommendation has been closed, unless the item is classified as a long term recommendation. The client Management Head is to confirm in writing to AP&SD that the audit recommendation has been fully implemented or, in case of disagreement, has obtained the written approval and concurrence of the appropriate members of Executive and Corporate Management to waive such audit recommendation. The initial report and any subsequent

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progress reports should provide the following as appropriate:

9.3.1. The action to be taken on each accepted recommendation. If action has already been taken and Management considers an item corrected or implemented, the action should be described and the items proposed as "closed". As Management is responsible for implementing audit recommendations, AP&SD will concur proposed “closed” recommendations based on progress reports provided, thus, client Management is expected to truthfully report the adequate implementation of audit recommendations.

9.3.2. A letter from the client’s Executive Management waiving the implementation of a recommendation after issuance of the report. With the concurrence of the client’s Business/Service Line Head, the item should be proposed as "closed". Similar to the Auditor’s Notes procedures, at the discretion of IA management, the BAC will be advised by the General Auditor of any audit recommendation waived and the BAC or Internal Auditing may request the waiving Business/Service Line Head to explain reasons for the waiver.

9.3.3. An action plan schedule of target completion dates for implementing each recommendation. Such items will continue to be reported every sixty (60) days until they are closed.

9.3.4. A recommendation may be classified as a long term recommendation, as determined by client Management and concurred by Internal Auditing, if the implementation date is more than one (1) year after the audit report date. The recommendation is then classified as long term by AP&SD, and as such, the regular follow-up reporting procedures do not apply. AP&SD will notify the client Management of the long term classification of the recommendation and request to prepare progress report every six (6) months to determine the status of the recommendation until the item is closed. If the item is not closed by the end of the identified phase completion date established for the item, AP&SD will re-classify the item for reporting every sixty (60) days and will notify the client Management of their responsibilities to report their action plan every sixty (60) days until the item is closed.

9.4. Audit recommendations that become unreasonably delinquent in their implementation, will be brought by the Controller to the attention of the client's Business/Service Line Head.

9.5. Quarterly, AP&SD will prepare a report to the Controller with a copy to the General Auditor indicating the status of audit recommendations. A cover letter signed by the Controller is attached to each organizational section of the report and sent to the concerned Business/Service Line Head.

9.6. On an annual basis, AP&SD prepares a review of the status of audit recommendations and follow-up for the BAC. The presentation indicates the number of audit recommendations that remain open, identifies those that are over one year old and reports the number of repeat recommendations.

9.7. Joint Venture audit observations are not required to be followed up by AP&SD, unless requested by Internal Auditing management.

10. FOLLOW-UP ON MANAGEMENT RESPONSES TO EXTERNAL AUDIT REPORTS

10.1. The Company's independent auditors conduct annual examinations of the financial statements of the Company and its subsidiaries. In addition to an opinion on the financial statements, the independent auditors issue their report to Controller covering observations and recommendations for improvements in internal controls.

10.2. The independent auditors' observations and recommendations will be communicated by the following means:

10.2.1. Draft management letter / internal control points will be prepared during the course of the audit to communicate preliminary observations and recommendations. They will be addressed to the client Management responsible for the activity covered by the observation; communication with the various organizations will be coordinated through Financial Accounting Department (FAD). A response to each internal control point should be made within seven (7) business days and returned to the independent auditors through FAD.

10.2.2. At the conclusion of the audit, the independent auditors will prepare a final management letter / internal control report which incorporates the clients' responses to each internal control point, and issue it to the Controller. The Controller's will send a copy of the final internal control report to the General Auditor.

10.3. For recommendations pertaining to Saudi Aramco:

10.3.1. AP&SD will review the observations and recommendations made in the independent auditors' report and communicate with the concerned Saudi Aramco organizations to follow up for action plan on the implementation of recommendations.

10.3.2. The recommendation implementation follow-up responsibilities within the Company will be administered per Paragraph 8. However, external audit recommendations are independently reported to the Controller on a quarterly basis, and are not included in the monthly MIS, quarterly report or BAC exhibit. External audit recommendations may be waived via endorsement of the client Executive Management with the concurrence of the Controller.

10.5. For recommendations pertaining to Saudi Aramco's subsidiaries:

10.5.1. They will be followed-up by the respective subsidiary Controller.

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10.5.2. Subsidiaries should report the status of their open recommendations to AP&SD on a quarterly basis (similar to the reports AP&SD provides to the Controller). Copies of the quarterly status reports on external audits are to be obtained and maintained on file in AP&SD.

10.5.3. The waiver of any external audit recommendation should be approved by the President of the respective subsidiary.

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APPENDIX

AUDITOR'S NOTE FORMAT

<u>This Audit Report Contains an Auditor's Note</u>

An Auditor's Note is issued when Management disagrees with an Audit recommendation and/or Management's response is deemed inappropriate or unsatisfactory. In accordance with GI 289.000, it is the client Management Head's responsibility to obtain the approval of the Executive Head and concurrence of the Business/Service Line Head, to waive the implementation of an audit recommendation which is not agreed. At the discretion of Internal Auditing management, the Board Audit Committee (BAC) will be informed of waived audit recommendations, and a detailed explanation may be requested from the client's Business/Service Line Head.

REPEAT AUDIT RECOMMENDATION NOTE FORMAT

<u>This Audit Report Contains a Repeat Audit Recommendation</u>

A Repeat Audit Recommendation is a previous audit recommendation that was reported by the client as implemented to the Accounting Policies & Systems Department (AP&SD) of the Controller's Organization, however, a subsequent internal audit or a review determined that it was not adequately implemented. In accordance with GI 289.000, at the discretion of Internal Auditing management, the Board Audit Committee (BAC) will be informed of repeat audit recommendations, and a detailed explanation may be requested from the client's Business/Service Line Head.

SCOPE LIMITATION NOTE FORMAT

<u>This Audit Report Contains a Scope Limitation</u>

A Scope limitation occurs when a restriction on the scope of the auditor's work has been imposed by the client that prevents the auditor from conducting certain audit procedures. In accordance with GI 289.000, at the discretion of Internal Auditing management, the Board Audit Committee (BAC) will be informed of audit scope limitations, and a detailed explanation may be requested from the client's Business/Service Line Head.

Approved By

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Mohammed O. Subaie
General Auditor