

Borets International Limited

Internal Audit Department

**CHARTER  
OF INTERNAL AUDIT ACTIVITY**

**Version of 1 September 2016**

Borets International Limited

Internal Audit Department

## **Internal Audit Charter**

### **INTRODUCTION:**

Internal Auditing is an independent and objective assurance and consulting activity that is guided by a philosophy of adding value to improve the operations of Borets International Limited and its affiliated companies (hereafter referred to as the “Borets Group”). It assists the Borets Group in accomplishing its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of the Borets Group’s governance, risk management and internal control.

The Internal Audit Department is established by the Board of Directors and oversight of the Internal Audit Department activities is delegated to the Audit Committee of the Board of Directors.

### **PURPOSE OF THE CHARTER:**

The purpose of this document is to define the role and responsibilities of the Internal Audit Department and to set guidelines and standards for its operations. The Charter also records the reporting and oversight responsibilities for the Department and the standards of independence and objectivity expected of the Department in its operations. The Charter will be regularly updated and amended to reflect best practices in the profession and changes in circumstances of Borets Group.

### **MISSION:**

The mission of the Internal Audit Department is to enhance and protect organizational value by providing objective assurance, advice and insight.

### **RESPONSIBILITY:**

The responsibilities of the Internal Audit Department include the examination and evaluation of the adequacy and effectiveness of the Borets Group’s governance, risk management, and internal controls as well as the quality of performance in carrying out assigned responsibilities to achieve the Borets Group’s stated goals and objectives. This includes:

- Evaluating the reliability and integrity of information and the means used to identify, measure, classify and report such information
- Evaluating the systems established to ensure compliance with those policies, plans, procedures, laws, and regulations which could have a significant impact on the Borets Group

- Evaluating the means of safeguarding assets and, as appropriate, verifying the existence of such assets
- Evaluating the effectiveness and efficiency with which resources are employed
- Evaluating operations or programs to ascertain whether results are consistent with established objectives and goals and whether the operations or programs are being carried out as planned
- Monitoring and evaluating governance processes
- Monitoring and evaluating the effectiveness of the Borets Group's risk management processes
- Evaluating the quality of performance of external auditors and the degree of coordination with internal audit
- Upon request of the Audit Committee, performing consulting and advisory services related to governance, risk management and control as appropriate for the Borets Group
- Reporting periodically on the internal audit activity's purpose, authority, responsibility, and performance relative to its plan
- Reporting significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by the Audit Committee with the objective of evaluating risk exposures relating to achievement of Borets Group strategic objectives
- Evaluating specific activities, including suspected cases of fraud or corrupt behavior, at the request of the Audit Committee or management, as appropriate.

Accordingly, the activities of the Internal Audit Department are an important element for Borets Group to achieve its goals of good governance, transparency, and ethical operations

#### **INTERNAL AUDIT PLAN:**

Chief Audit Executive will submit to the Audit Committee an annual internal audit plan for review and approval.

The internal audit plan is part of a cycle, which starts with the external auditor of the Borets Group delivering their report on the Borets Group's previous year and highlighting key issues requiring management's attention. These issues will be considered by the Chief Audit Executive when preparing the plan.

The internal audit plan will include for every assignment:

- a project title and proposed detailed work plan;
- a list of risks already identified at the planning stage;
- project administration: location, expected timing and resources required.

The internal audit plan will also include monitoring and follow up on prior year open issues.

The internal audit plan will be supported with a budget and other resource requirements for the next 12 months. The Chief Audit Executive will communicate the impact of resource limitations and significant interim changes to the Audit Committee.

The internal audit plan will be developed based on a prioritization of the audits using a risk-based methodology, including input of the Audit Committee and senior management (when appropriate). The internal audit plan may also include surprise audits. Any significant deviation from the approved internal audit plan will be communicated to the Audit Committee through periodic activity reports.

#### **REPORTING AND MONITORING:**

A written audit report will be prepared by the internal auditors, signed and issued by the Chief Audit Executive or designee following the conclusion of each internal audit engagement and will be distributed as appropriate. A summary of the audit report will be communicated to the Audit Committee. The Audit Committee may also request the full report if deemed necessary.

The internal audit report may include management's response and corrective action taken or to be taken in regard to the specific findings and recommendations. Management's response, whether included in the original audit report or provided thereafter by management of the audited area should include a timetable for anticipated completion of the action to be taken and an explanation for any recommended corrective action that will not be implemented. The Management response should also clearly define responsibility for the corrective actions and name the Borets Group's employees or departments responsible for the actions.

The internal audit department will be responsible for appropriate follow-up on engagement findings and recommendations. The internal auditors will retain control over the resolution of all significant findings until they are cleared.

The Chief Audit Executive will periodically report to senior management and the Audit Committee on the internal audit activity's purpose, authority, and responsibility, as well as performance relative to its plan. Reporting will also include significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by the Audit Committee and senior management.

#### **QUALITY ASSURANCE AND IMPROVEMENT PROGRAM:**

The Internal Audit Department will continue to evolve and develop in response to new challenges, changes and expectations, with the goals of:

- achievement of a more comprehensive compliance with the *International Standards for the Professional Practice of Internal Auditing (Standards)*, the Institute of Internal Auditors' Practice Advisories, Practice Guides, and Position Papers;
- revisiting methodology, processes and practices to deliver "real-time" value to the Borets Group;
- refining risk identification and assessment capabilities to enhance risk-based auditing to align with the Borets Group's priorities and needs
- expanding audit coverage to include the full spectrum of major risks and activities.

The Internal Audit Department will develop detailed internal guidance and procedure manuals governing major areas of the internal audit activity. The Audit Committee will review the guidance and manuals and approve, as appropriate.

As part of the internal audit plan, the Chief Audit Executive will present to the Audit Committee a training and development program for each professional within the Internal Audit Department with the goal of ensuring the skills of individual professionals are maintained and updated in accordance with the needs of the Group and internationally recognized best practices for internal auditing. The program will be supported with a proposed budget. The Audit Committee will review and approve the program and the budget.

#### **PROFESSIONALISM:**

The internal audit activity will undertake, to a maximum extent feasible for Borets Group, to govern itself by adherence to The Institute of Internal Auditors' mandatory guidance including the Definition of Internal Auditing, the Code of Ethics, and the *International Standards for the Professional Practice of Internal Auditing (Standards)*. This mandatory guidance constitutes principles of the fundamental requirements for the professional practice of internal auditing and for evaluating the effectiveness of the internal audit activity's performance.

The Institute of Internal Auditors' Practice Advisories, Practice Guides, and Position Papers will also be considered for adherence, as applicable, to guide operations.

In addition, the internal audit activity will adhere to the Borets Group's relevant policies and procedures and the internal audit activity's corporate internal standards, manuals and guidance.

#### **AUTHORITY:**

The internal audit department, with strict accountability for confidentiality and safeguarding records and information, is authorized full, free, and unrestricted access to any and all of the Borets Group's records, physical properties, and personnel pertinent to carrying out any engagement.

All employees shall assist the internal audit department in fulfilling its roles and responsibilities including granting permissions, access or rights and adequate financing. The internal audit department will also have free and unrestricted access to the Chief Executive Officer, the Audit Committee and the Board of Directors.

#### **ORGANISATION:**

The Head of the Internal Audit Department is the Chief Audit Executive.

The Chief Audit Executive will report functionally to the Audit Committee and administratively (i.e. day to day operations) to the Chief Executive Officer.

As part of the functional reporting, the Chief Audit Executive prepares and submits to the Audit Committee for review and approval:

- The internal audit charter
- The risk based internal audit plan
- The internal audit budget and resource
- Reports about the internal activity's progress, findings, performance relative to its plan and other issues.

The Chief Audit Executive will communicate and interact directly with the Audit Committee, including in executive sessions and between the Audit Committee meetings, as appropriate. The Audit Committee will communicate with the Chief Audit Executive on the internal audit activity's performance relative to its plan.

Administrative reporting is the oversight by the Chief Executive Officer and the relationship within the Borets Group's management structure that facilitates the day-to-day operations of the internal audit activity, e.g.:

- Providing the budgetary resources approved by the Audit Committee and Board of Directors in the Internal Audit Plan; Human Resources department keeps records of hours worked by the internal auditors and control their appearance in the office
- Accounts Office accounts for operations of the Internal Audit Department as part of the overall accounting function of Borets Group.

The Audit Committee will approve all decisions regarding the performance evaluation, appointment, or removal of the Chief Audit Executive as well as the Chief Audit Executive's annual compensation and salary adjustment.

The Chief Audit Executive is responsible for development and issue of the internal audit activity's internal standards, manuals and guidance papers. The Audit Committee will review and approve the internal standards, manuals and guidance papers as part of its oversight role.

#### **INDEPENDENCE AND OBJECTIVITY:**

Independence is the freedom from conditions that threaten the ability of the internal audit activity to carry out internal audit responsibilities in an unbiased manner.

Organizational independence is effectively achieved through the Chief Audit Executive reporting functionally to the Audit Committee.

Objectivity is an unbiased mental attitude that allows internal auditors to perform engagements in particular where gathering, evaluating and communicating information about the activity or process being examined, in such a manner that they believe in their work product and that no quality compromises are made. Internal auditors achieve objectivity through not subordinating their judgment on audit matters to others.

The internal audit activity remains free from interference by any element in the Borets Group, including matters of audit selection, scope, procedures, frequency, timing, or report content to permit maintenance of a necessary independent and objective mental attitude.

Internal auditors have no direct operational responsibility or authority over any of the activities audited. Accordingly, they do not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair the internal auditor's independent judgement.

The internal auditors will exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. The internal auditors will make a balanced assessment of all the relevant circumstances and not be unduly influenced by their own interests or by others in forming judgements.

The Chief Audit Executive will confirm to the Audit Committee, at least annually, the organizational independence of the internal audit activity.

#### Internal Audit Activity Charter

Approved by the Audit Committee on 12 September 2016

Signed:



Chief Audit Executive



Chief Executive Officer



Chairman of Audit Committee and Board of Directors

## Revision History

Issued on	Revised on	Approved on	Approved by
26 October 2010	1 May 2016		
1 May 2016	1 September 2016	19 May 2016	Audit Committee
1 September 2016		12 September 2016	Audit Committee