

**APPROVED**  
BY THE RESOLUTION OF  
THE BOARD OF DIRECTORS  
JSC BATYS TRANSIT  
MINUTES NO. 24  
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**Policy for internal audit arrangement of JSC  
Batys Transit**

Almaty, 2009

## **1. General Provisions**

1.1 This Policy for internal audit arrangement of JSC Batys Transit (hereinafter referred to as the Policy) was developed based on Recommendations for internal audit arrangement in joint stock companies equity stakes of which are transferred to joint stock company “Kazakhstan Holding for State Assets Management “Samruk” approved by the Management Board of JSC “Holding Samruk” (Minutes No. 12 dated 29 November, 2006).

For the purposes of this Policy, all references to the Company shall be the references to JSC Batys Transit.

## **2. Standards of qualitative characteristics**

### **2.1. Independence and objectivity**

2.1.1 Independence of the Internal Audit Service (hereinafter referred to as the Service) in implementing its tasks and functions is provided by relevant institutional status, which stipulates the reporting of the Service to the Board of Directors of the Company. Direct supervision of the Service shall be made by the Board of Directors of the Company.

2.1.2 Service should be independent from impact of the third parties, except for the Board of Directors for proper implementation of its tasks and functions and provision of objective and impartial judgments.

2.1.3 Criterion of independence of the Service shall include the independence in preparation of annual audit plan, selection of methods and procedures of internal audit, scope of work to achieve assigned objectives and reflection of audit opinions.

2.1.4 Internal auditors must be impartial and unbiased to their work and avoid conflicts of interest.

2.1.5 In order to comply with principles of objectivity and impartiality in implementation of their functions, internal auditors should not be involved in any activities that may in future be subjected to internal audit and to audit the activities or functions implemented by them during the audit period.

### **2.2. Professional competence**

2.2.1 Internal auditors should possess the knowledge and skills required to implement their personal responsibilities.

2.2.2 Personnel of the Services shall possess the collective knowledge required to implement their personal responsibilities and shall improve the collective knowledge in the process of continuous professional development.

2.2.3 Internal auditors shall have operation approach as reasonable circumspect and competent internal auditors.

2.2.4 In the event that the Service’s personnel do not have sufficient knowledge and skills to perform an audit assignment or part of assignment, the Service shall be entitled in the prescribed manner to engage consultants or outsourcing for internal audit.

## 2.3. Quality control

2.3.1 Head of the Service must constantly monitor implementation of adopted procedures to ensure quality of work. Procedures should be developed to ensure quality of work and assurance that the Service is operating in accordance with the Policy for internal audit arrangement determined by the Company.

2.3.2 Head of the Service shall monitor the overall effectiveness of procedures to ensure quality of work. This process should include external evaluation and self-control.

2.3.3 External evaluation of quality of the Service's operation may be conducted by external auditor selected in the prescribed manner. Head of the Service must inform the Board of Directors of the Company the results of external evaluations.

2.3.4 Head of the Service shall monitor the overall effectiveness of procedures to ensure quality of work throughout the process of implementation of audit assignment to ensure regular and qualitative achievement of objectives of audit assignment.

Where required the Head of the Service shall act as a head of audit assignment in view of staff number of the Service's personnel.

2.3.5 The quality system of internal auditors' work shall be based on standard procedures and policies as well as professional opinion of the Head of the Service and head of audit assignment who is instructed to implement an audit assignment and to supervise the personnel involved in implementation of audit assignment of specific audit object and shall include:

- 1) compliance by internal auditors with standards of independence, integrity, objectivity, confidentiality and professional ethics;
- 2) compliance of procedures and practices of internal audit and prepared working documentation according to the results with the policy for internal audit arrangement adopted by the Company;
- 3) bringing to the attention of a head of audit assignment and the Head of the Service of basic results of internal audit that may affect the content of audit opinions;
- 4) taking required measures in respect of internal auditors in case of non-implementation or improper implementation of assigned duties.

2.3.6 The quality system of internal auditors' work also stimulates a receipt by the Head of the Service of required information for further planning of professional training of internal auditors for improvement of quality of work and for more efficient use of professional skills of internal auditors in planning and implementation of audit assignments.

Quality control of internal auditors' work shall be made by the Head of the Service pursuant to the quality control template (**in the form of Appendix 1**).

### **3. Ethical standards**

3.1 The ethics of conduct of internal auditors should be based on the following principles: integrity, objectivity, confidentiality and professional competence.

3.2 Integrity is a principle according to which internal auditors are obliged to carry out their work with due care and responsibly and, if required by professional standards of internal audit, to disclose relevant information.

3.3 Objectivity is a principle according to which internal auditors are required to demonstrate the highest level of professional objectivity in collection, evaluating and communicating of information related to audit object and in their opinions should not be influenced by their own interests and interest of other persons.

3.4 Confidentiality is a principle according to which internal auditors should not disclose information obtained in accordance with their powers, except for the cases when disclosure of such information is permitted by conditions of its presentation or is required by the legislation.

3.5 Professional competence is a principle according to which internal auditors must fully apply the knowledge, skills and experience required for provision of internal audit services, continually to improve their professional skills as well as quality of work.

### **4. Performance standards**

#### **4.1 Annual audit planning**

4.1.1 Head of the Service must effectively manage the Service's operation in order to maximize the usefulness of internal audit of the Company.

4.1.2 Annually, not later than 1 November the Service should initiate drafting of annual audit plan for the next year indicating the audit objects - business processes, procedures, activities or functions (units of the Company) subject to internal audit.

4.1.3 Preliminary procedure before drafting of the annual audit plan shall include compilation/updating of Audit Scope Chart (list) which is determined based on functions and operations of all Company's units, nature of risks of business processes, including support of projects by subsidiaries and where required by affiliates and jointly controlled entities of the Company. Also compilation/updating of the Audit Scope Chart should take into account the structure of the Company's assets including acquisition or disposition of equity stakes in subsidiaries, affiliates and jointly controlled entities of the Company.

4.1.4 On an annual basis or in other required cases the Audit Scope Chart should be updated.

4.1.5 Service if instructed by the Board of Directors of the Company may conduct audits of business processes not stipulated by the Audit Scope Chart based on the nature of risks of such business processes.

4.1.6 After determination of scopes subject to internal audit the internal auditors should evaluate importance of each scope in terms of tasks assigned to the Service and to identify those scopes that should be covered by the annual audit plan. Focus should be made on those business processes and activities of the Company that are associated with the highest risks and/or those business processes and activities which have the most unreliable internal control systems.

In this regard, the Audit Scope Chart compiled by internal auditors shall be the basis for drafting the annual audit plan. Service in its turn should conduct an independent evaluation of risks in order to identify new risks and/or potential reevaluation of existing risks. Service should examine the evaluation of key risks of the Company as well as assist in risk management through development of recommendations based on completed audit assignments and information provided.

4.1.7 Head of the Service shall ensure drafting of the annual audit plan (**in the form of Appendix 2**) in view of resources of the Service for drafting a plan including calculation of time required to conduct internal audit and time required to improve the skills of internal auditors and their annual employment holidays (**in the form of Appendix 3**). In addition it is necessary to take into account the time associated with participation of internal auditors in audit of the Company conducted by external auditor.

4.1.8 In order to determine required scope of the annual audit plan, the Service should take into account the following:

1) resources should be concentrated on those business processes and activities of the Company that have the highest risks;

2) changes in the corporate structure of the Company;

3) available information on specific activities of the Company, in particular in relation to quality of internal control systems and changes entered into the internal control system recently;

4) results of review of modified and planned for introduction and development of processes/projects;

5) offers of the management and structural units of the Company to conduct the audit;

6) degree in which the Service may use activities of others, such as external auditors, regulators and supervisory authorities, experts, appraisers.

4.1.9 When drafting the annual audit plan, the Service shall pay required attention to one of the important tasks related to assessment and issuance of recommendations aimed at improving the corporate governance process in order to achieve the following objectives:

1) introduction, compliance with and promotion of appropriate ethical standards and values within the Company;

2) effective provision of information related to risks and control by relevant units of the Company;

3) effective coordination of activity and exchange of information among the Board of Directors, executive unit of the Company, external and internal auditors.

4.1.10 Activities of the Company's risk management should be examined by the Service at least once every two years to confirm the justification of application of such evaluation's results as a basis for planning of the Service's activities.

4.2.11 The draft of the annual audit plan should be submitted for approval to the Board of Directors of the Company not later than December 1. Periods for implementation of the audit assignments should be established in order to minimize an impact on current operations of audit's object.

4.1.12 Head of the Service should periodically review the annual audit plan for determining the need of, in the prescribed manner, entering of changes and additions as a result of identification of new risks and/or revaluation of existing risks, as well as inclusion of new assignments of the Board of Directors of the Company requiring sufficient resources of the Service.

4.1.13 Approved by the Board of Directors the annual audit plan should be submitted by the Head of the Service to a head of executive body of the Company for information purposes.

## **4.2 Planning of individual audit assignment**

4.2.1 For effective internal audit the internal auditors shall develop and execute the planning process for each audit assignment. Head of audit assignment shall calculate the time required to implement an individual audit assignment (**in the form of Appendix 4**).

4.2.2 The planning process of audit assignment shall include the following stages:

- 1) determination of purposes of audit assignment;
- 2) pre-planning of audit assignment including development of audit programs and calculation of time for internal audit;
- 3) determination of resources to implement audit assignment;
- 4) preparation of memorandum of audit assignment planning;
- 5) preparation of audit assignment.

4.2.3 Head of audit assignment shall plan the audit assignment through engagement of internal auditors.

4.2.4 Planning process of audit assignment should commence as a rule within 15 business days prior to start of audit assignment in accordance with the annual audit plan.

4.2.5 Data related to planning of audit assignment shall be submitted to consideration of the Head of the Service within 5 business days prior to start of the audit assignment.

4.2.6 Responsibility for quality, completeness and timeliness of audit assignment planning and for submission of data to the Head of the Service shall be vested on a head of audit assignment.

4.2.7 Service based on audit assignment without planning procedures shall be entitled to implement an unscheduled audit assignment (with tight deadlines for implementation) or inventory of assets and liabilities.

## **Purposes of audit assignment**

4.2.8 Purposes should be determined for each audit assignment depending on type of audit conducted: operational or financial audit or audit of compliance with established requirements (compliance audit). Purposes of audit assignment shall constitute the basis of the planning process which affects the effectiveness of internal audit. Purposes should be clearly defined and understood for both internal auditors and recipients of audit reports.

4.2.9 Purpose of operational audit is to confirm the opinion of degree of confidence in effectiveness of management of audited entity (Company), including evaluation of reliability of operation of internal control system.

4.2.10 Purpose of financial audit is to confirm the opinion that accounting records of audited entity are accurate and timely and drafted reporting is reliable.

4.2.11 Purpose of compliance audit is to assess the compliance with legislative requirements, internal documents of the Company and adequacy of systems and procedures applied for ensuring the compliance with these requirements.

4.2.12 Purposes of audit assignment must be correlated with results of risk evaluation relating to audited entity (Company) and evaluation of corporate governance in the Company as a whole.

## **Pre-planning of audit assignment**

4.2.13 At the preliminary stage of planning of audit assignment the internal auditors shall make the following:

1) collection, analyzing of information and documents related to audited entity;

2) determination of purposes of audited entity's business as well as applied control facilities to monitor achievement of purposes;

3) study of organizational structure, business processes of audited entity indicating changes in its functions and structure for the period of previous audit (if any) and determination of key management systems and internal control of audited entity and preliminary evaluation with a purpose to identify strengths and weaknesses;

4) reading of reports related to used estimates (budget) of audited entity and the work done;

5) determination of problematic issues which became known during planning of audit assignment;

6) reading of activities carried out following the results of previous audit, inspections by regulatory and supervisory authorities (if any) with a purpose to assess the appropriate activities taken;

7) study of results of risk assessments related to audited entity and independent assessment of risk areas and adequacy of appropriate controls;

8) possibility of significant improvement of control and risk management systems of audited entity;

9) ensuring the effective process of audited entity management.

It is also required to pay attention to the following areas:

1) effective and efficient introduction of processes;

2) possibilities for continuous improvement;

3) possibility of processes;

4) efficient and effective application of statistical methods;

5) application of information technology;

6) analysis of data related to expenses for quality;

7) effective and efficient application of resources;

8) expectations and result of operation of processes and services;

9) adequacy and accuracy of business measurement;

10) improvement activities;

11) relationships with interested parties.

4.2.14 Under the supervision of the Head of the Service and head of audit assignment the internal auditors should develop and execute an audit program (**in the form of Appendix 5**) determining the nature, time limits and scope of planned audit procedures, required to achieve the purposes of audit assignment, based on result of risks evaluation. The audit program should be a set of instructions for internal auditor engaged in internal audit as well as facilities of control and verification of proper implementation of work and should ensure effectiveness of internal audit.

4.2.15 Audit programs should be correlated with calculation of time required to conduct internal audit, representing an approximate evaluation of resources, required for implementation of audit assignment. These resources generally shall include the time spent by internal auditors for preparation of all stages of audit process: planning, implementation of audit assignment, report preparation, consulting and finishing procedures.

4.2.16 Head of audit assignment must implement and/or ensure implementation of the following procedures when preparing the audit program:

1) determination of nature of audit evidences required to obtain the findings of the audit;

2) determination of procedures required to collect audit information;

3) identification of priority actions and procedures with a purpose to ensure initial implementation of the most important and significant actions and procedures.

4.2.17 Audit program may be updated where required and reviewed during implementation of audit assignment and application of new audit procedures is allowed since planning by internal auditor of its work shall be made continuously during implementation of audit assignment, in response to changing circumstances or unexpected results obtained during implementation of audit procedures. Reasons for significant changes in the audit program must be documented.

4.2.18 Audit Program composed by internal auditor should be approved by a head of audit assignment and approved by the Head of the Service.

## **Determination of resources for implementation of audit assignment**

4.2.19 Head of audit assignment should determine the resources required to achieve the purposes of audit assignment. Composition of audit team should be determined based on the nature and complexity of audit assignment, time constraints and availability of actual resources.

## **Preparation of memorandum for audit assignment planning**

4.2.20 Head of audit assignment following the results of pre-planning of audit assignment shall draw up the memorandum for audit assignment planning (**in the form of Appendix 6**), which includes general and brief description of nature of risks, testing procedures and results revealed significant errors, distortion, failure to comply with procedures and other risk factors, types of operations/procedures subject to internal audit, selection criteria, results of previous audit reports and audits by regulatory and supervisory authorities (indicating the status of implementation of recommendations).

Also, the memorandum for audit assignment planning must include results of calculation of time spent for internal audit (total number of man-hours), calculated based on audit programs i.e. periods for implementation of audit assignment.

4.2.21 Memorandum for audit assignment planning shall be submitted to the Head of the Service for approval.

4.2.22 Memorandum for audit assignment planning shall also include the following information:

- 1) name of audited entity with brief description of its business;
- 2) purposes and scope of audit assignment;
- 3) period of audit;
- 4) composition of audit team (with distribution of operations/procedures (questions) subject to internal audit among internal auditors including the head of audit assignment).

## **Drafting of audit assignment**

4.2.23 Audit assignment shall be drafted by the head of audit assignment (**in the form of Appendix 7**) based on the memorandum for audit assignment planning and shall be approved by the Head of the Service.

4.2.24 Audit assignment shall contain the following information:

- 1) name of audited entity;
- 2) purposes of audit assignment;
- 3) period of audit;
- 4) list of operations/procedures (questions) subject to internal audit;
- 5) period for implementation of audit assignment;
- 6) composition of audit team;

7) list of requested information and other data required by audit team and prepared by staff of audited entity before commencement of audit assignment.

4.2.25 Audit assignment shall be provided to audited entity prior to commencement of audit assignment for notification of its management of forthcoming audit and provision of sufficient time to prepare for internal audit.

Precautionary nature of internal audit means that each audit assignment is planned, and staff of audited entity is notified of time, business processes, procedures and criteria for audit assignment in order to ensure that internal auditors have required level of trust and to eliminate a possibility of deviation of staff of audited entity from provision and demonstration of all required data.

4.2.26 If possible it is required to avoid unexpected visits to audited entities except when an element of surprise is a material part of audit procedures.

### **4.3 Implementation of audit assignment**

4.3.1 Prior to implementation of internal audit the head of audit assignment shall arrange and conduct an evaluation meeting with management of audited entity. At the meeting, the head of audit assignment shall introduce the audited entity's management with audit assignment, audit team, shall provide information related to manner and timing of audit assignment, conditions of work of internal auditors and manner of interaction with audited entity for the period of internal audit.

4.3.2 Purpose of audit assignment implementation is to conduct audit procedures identified at the stage of planning of audit assignment in order to confirm audit opinions. However, internal auditors should pay attention to factors of audited entity's business that are not reflected in audit program. These factors may include events indicating a possibility of fraud and theft, which must be reported immediately to the attention of internal auditors, head of audit assignment and Head of the Service.

4.3.3 In order to improve the effectiveness of internal auditor the bar charts shall be prepared also known as process maps that help to determine which stages of process are redundant or inconsistent. They are convenient because:

- 1) make it possible to visualize the process when discussing and analyzing;
- 2) facilitate the understanding of process as a whole and in the part where the problems are encountered;
- 3) facilitate the understanding of linkages and coherence in the process;
- 4) help to diagnose the problems;
- 5) help to put forward ideas about root reasons of problems encountered;
- 6) it is a documented procedure.

4.3.4 Internal auditors should evaluate adequacy of measures taken by audited entity (units of the Company) to ensure the achievement of its purposes, within the framework of strategic purposes of the Company. In this case, the internal audit of compliance of certain business processes (activities) with requirements of quality management systems is more important than internal audit of compliance of activity of separate unit of the Company, as it includes the activity at junctions of various

units and officers of the Company, which participate in compliance with requirements to audited entity. In addition, it facilitates promotion of members of management systems (units and officers of the Company) to qualified interaction with each other.

4.3.5 It is especially important for internal auditors to get information related to organization of internal control in the Company. It is necessary to examine the following interrelated components which the system of internal controls is built on:

- 1) control environment;
- 2) evaluation of risk;
- 3) control activities;
- 4) collection and analyze of information and its transmission for its intended purpose;
- 5) monitoring and error correction.

Internal auditors should thoroughly review the specified above components and understand that the internal control system may be considered effective only when:

- 1) the documents stipulating the strategy and policy of the Company in the area of internal control are approved and reviewed periodically by units of the Company documents:

basic activities of the Company are determined;

basic inherent risks associated with basic activities are identified;

acceptable levels of risk are determined which may (should) be accept by the Company and its units to achieve its purposes;

basic methods of control and control structure ate determined that not allow to exceed the determined levels of risk and able to protect against errors and fraud;

- 2) approved strategy and policy shall be introduced by the management into practice based on evaluation of risks:

identification, evaluation and control of internal and external factors shall be implemented that could adversely affect achievement by the Company of purposes (identification, monitoring and risk control);

organizational structure and powers distribution were approved;

required processes and procedures are developed aimed at detecting, tracking of changes and risk control;

activities for monitoring of effectiveness of internal control system are expected and supervised;

Company established a control environment that expresses and illustrates the importance of internal control and ethical standards to the staff at all levels;

- 3) required infrastructure was created to ensure effective control:

control procedures are implemented at all levels of management;

periodic audit is implemented to ensure compliance of activities with determined policies and procedures;

including of control measures in daily operations is provided;

responsibilities distribution and no of conflicts of interest were provided in implementation by the staff of its duties;

adequacy, completeness and accuracy of external market data related to events that may affect the decision-making process was ensured;

adequacy, completeness and accuracy of financial and management reporting was ensured;

compliance of transactions with existing legislation was ensured;

4) safe and effective channels of informing were created:

staff is warned of existing policies and procedures related to duties and responsibilities;

addressing and speed of bringing of required information to relevant staff was provided;

compliance of level of information systems with all activities of the Company was ensured;

security of information systems was ensured with periodic inspection;

5) independent monitoring of effectiveness of internal control system is implemented:

daily monitoring of high-risk operations is implemented;

evaluation of influence on operations of the Company for each type of risk individually and a comprehensive evaluation of risk is implemented in view of existing methods and control measures;

effective and comprehensive internal audit of internal control system was ensured;

timely bringing of information related to internal control deficiencies to the appropriate level of management of the Company and its proper addressing was ensured;

bringing of information related to significant internal control deficiencies and evaluation of its effectiveness to the Board of Directors of the Company was ensured.

When determining the effectiveness and adequacy of internal control system first of all the actions (or inaction) of management of the Company should be taken into account aimed at inclusion of internal control into all business processes, timely evaluation of risks and effectiveness of control measures applied to mitigate their effects.

Internal auditors should verify the existence of regulated procedures in the Company which will not allow to launch new services (to carry out activities) without taking into account all inherent risks and inclusion of control measures into adequate risk processes. Identified by internal auditors detections may be a signal of a possible problem associated with lack or improper functioning of internal control system in the Company.

However, internal auditors should not only focus on identification and detection of inconsistencies. Their work should be focused on continuous improvement and adding of value of the Company which provides for any positive changes resulting in enhanced efficiency and effectiveness of the Company.

Internal auditors during the audit must pay attention and note the areas with progress and areas requiring improvements in order equally to cover both areas of compliance and areas of unconformity.

4.3.6 Internal auditors must verify the existence of regulated procedures in the Company to monitor the information flow (receipt and transmission of information) and provide information security.

It is necessary to study the developed action plans in case of emergencies with application of backup automated systems and/or devices, including restoration of critical for the Company's business systems supported by external provider of services, as well as the feasibility of such plans in case of unforeseen circumstances. It is necessary to review the regulation of protection against unauthorized access and disclosure of confidential information and using of confidential information for personal purposes.

4.3.7 All conclusions of identified facts by internal audit must be based on audit evidences that will be basis for internal audit results and given recommendations. So internal auditors should collect, analyze, interpret and document the information in order to confirm results of audit.

4.3.8 Audit evidence must be competent and sufficient. For this purpose the elements of evidences collected from various sources (internal and external) should be consistent, relevant, meaningful.

Competence of audit evidences means its reliability which may be obtained in accordance with proper audit procedures.

Sufficiency of audit evidence means its relevance and persuasiveness with which a knowledgeable, informed person could come to the same conclusion as internal auditor.

4.3.9 Internal auditors should discuss identified detections with persons engaged in appropriate procedures to determine the reasons of discrepancies. All identified detections and reasons of discrepancies should be documented by internal auditors in template documentation (**in the form of Appendix 8**) and should be immediately reported to head of audit assignment.

4.3.10 Executed template documentation of detections should be submitted to the management of audited entity, which must give its written comments if any and sign the documents within 2 business days. In case of refusal of a head of audited entity to sign the appropriate documentation it is necessary to get from him a documentation of his position.

4.3.11 Head of audit assignment should discuss all critical and significant detections with management of audited entity as they arise and maintain a list of all detections in the current audit file.

4.3.12 Recommendations provided in relation to insignificant detections may be given orally (after approval by head of audit assignment) and must be also recorded in relevant documentation.

4.3.13 When conducting internal audit the internal auditors should always remember the purposes of audit assignment performing only the scope of works that is necessary for adequate achievement of these purposes and to develop the skills of

time management through determination of priorities and time required for implementation of tasks.

4.3.14 Head of audit assignment must exercise control over internal audit through monitoring:

- 1) scope of actual works against the scheduled scope;
- 2) implementation of audit assignment in accordance with calculation of time spent for internal audit;
- 3) timely inspection of work performed which must be made to avoid any non-standard situations after completion of audit.

4.3.14 Internal audit of audited entities located in area other than location of the Company and if it is necessary to visit its location shall be made with preliminary execution of official travel in accordance with established internal documents of the Company.

4.3.16 Where required, the duration of audit assignment may be prolonged by the Head of the Service based on the memo from a head of audit assignment through entering of appropriate amendments to audit assignment.

Prolongation of internal audit of audited entities located in area other than location of the Company shall be made with the consent of the Chairman of the Board of Directors of the Company.

4.3.17 In order to discuss the nature of detection and determination of its rating for inclusion into the audit report, a head of audit assignment must organize and hold a meeting of audit team with management of audited entity.

4.3.18 Under direction of a head of audit assignment the audit team should review all detections and determine their ratings pursuant to the following scale:

1) critical detections - revealed inconsistencies represent immediate risk for performance of the Company, achievement of its purposes. Critical detections require immediate corrective or preventive actions and should be brought to the attention of the Board of Directors of the Company and should be carefully supervised;

2) important (significant) detections - found inconsistencies represent potential risks for the Company and reflect a weakening of internal control system. Significant detections also require corrective or preventive actions and should be brought to the attention of the Board of Directors of the Company and the management of the Company;

3) minor detections - found inconsistencies affect the operating business or control environment in the Company and are characterized as opportunities to improve internal control system. Minor detections also require adoption of adequate measures and should be brought to the attention of the management of audited entity.

4.3.19 Audit team should provide evaluation and appropriate recommendations aimed at improving the ways and methods to increase overall corporate governance and limit risks of corporate activity.

In the meantime, given that the basic objective of internal audit is to provide objective guarantees it is necessary to be extremely careful in the issue of increasing

relative share of consulting work in activities of the Service in order to avoid negative impact on subsequent objectivity of internal audit.

4.3.20 Internal auditors must inform a head of audit assignment and the Head of the Service on all issues and unusual situations that occur during implementation of audit assignment.

4.3.21 Based on working documentation of members of audit team, a head of audit assignment shall prepare a preliminary version of audit report.

## **4.4 Audit Report**

4.4.1 After drafting of audit report, a head of audit assignment or the Head of the Service shall arrange and conduct a meeting with the management of audited entity in order to discuss and reach mutual understanding of the content of draft audit report and issues not reflected in the report and in fact to provide the draft of audit report.

4.4.2 Internal auditors must be prepared for potential conflict situations if audit report contains serious comments. Internal auditors should be able to defend their points of view, be assertive and confident in their abilities and be able immediately to confirm facts and to detail results of audit.

4.4.3 Internal auditors should make appropriate adjustments based on discussions and provided facts and be fairly and objectively to the facts. For this purpose, internal auditors should not avoid changes that make audit reports more understandable and accurate and do not affect objectivity of audit report. In the event that there are substantial differences in opinions, internal auditors should reflect in audit report their own opinions, while also reflecting comments of responsible persons of audited entity.

4.4.4 Audit report should include purposes and scope of audit and audit opinion, reflecting the purposes of audit and results of work performed (**in the form of Appendix 9**). The report must also contain audit detections, appropriate recommendations and where required comments of the management of audited entity.

Audit report should contain summarized objective, constructive and complete information to enable recipients of the report a quick overview of results of internal audit.

Audit report must contain a general conclusion of adequacy and effectiveness of audited internal control systems and risk management.

Audit report must maintain diplomatic prudence given susceptibility of recipients of the report. Focus should be made on the need of improvement but not on criticism of the management and/or events in the past.

Audit report shall also contain evidences of excellent work of an entity in order to enable the management to recognize and award appropriate employees.

4.4.5 Internal auditors in drafting of audit report should be governed by the following basic requirements:

1) title page should contain name of audit assignment (audited entity), period of audit and should be dated by the date of completion of internal audit, since events and transactions that occurred from the end of internal audit prior to the date of signing the audit report shall not be covered by internal audit. In addition, title page of audit report should specify recipients;

2) audit report should include purposes of audit assignment and summary of audited entity;

3) audit report should include a detailed section of detections. Audit detections should include the following basic elements: criteria for evaluation, reasons and consequences.

Criteria for evaluation are the standards according to which the procedures (function) must be implemented subject to internal audit. Proper determination of criteria for evaluation establishes the legitimacy of results of internal audit. Examples of criteria for evaluation are the policies and regulations of the Company in relation to activities of audited entity.

Determination of reasons of identified detections and unsatisfactory condition is a required prerequisite in order to make recommendation in relation to remedy of situation really helpful. Reasons may be fairly obvious or they can be found by logical reasoning with a purpose to provide recommendations indicating special and practical ways to remedy unsatisfactory condition. However, no indication in audit report of reasons of problematic situation can mean failure of audit work undertaken. Internal auditors should avoid situations when reasons are not defined intentionally, in order to avoid direct confrontation with officials of audited entity.

Consequences represent risks associated with activities of audited entity. Consequences may be expressed in quantitative indexes. If actual consequence is impossible to determine then sometimes it is useful to determine potential (possible) or intangible risks in order to demonstrate the importance of identified problem;

4) Audit report should provide recommendations which the management of audited entity must introduce to remedy revealed facts. Recommendations in audit report should clearly demonstrate what to change or remedy. Link between recommendations of internal auditor and reasons that caused such unsatisfactory condition must be clearly and logically presented. If there is such link then there is a strong likelihood that proposed measures will be introduced and properly monitored. Each recommendation should be targeted and must conform to description of specific facts, which together represent audit detection. Recommendations should be sent to persons who have authorities to take required measures;

5) Audit report should also contain comments of the management of audited entity in relation to revealed facts and proposed by the management of audited entity remedy plan if any. If the remedy plan is included in response of the management of audited entity into preliminary audit report, then the report should contain evaluation of the plan by internal auditors. If the management of audited entity does not think that there is no need in remedy plan it is necessary to obtain documental justification from audited entity.

4.4.6 Based on evaluation of all detections and inconsistencies, the audit team led by head of audit assignment should determine preliminary nature of audit report related to internal control system in audited entity by assigning a rating of audit report pursuant to the following scale:

1) high (satisfactory) rating - the internal control system is functioning effectively and reliably. Identified minor detections do not affect the Company's business;

2) average rating (needs improvement) – the internal control system is functioning in admissible form that provides reasonable assurance of achievement of the Company's purposes. Identified minor detections require corrective or preventive actions;

3) unsatisfactory rating - internal control system is not functioning at adequate level. Identified significant and/or critical detections need immediate corrective or preventive actions and are subject to constant monitoring until adequate improvement of situation.

4.4.7 Within 2 business days from receipt of preliminary version of audit report the management of audited entity must prepare a remedy plan with respect to detected inconsistencies. If the remedy plan requires more time for preparation, the management of audited entity shall submit explanations for increase of period of submitting the plan and shall coordinate this with the Head of the Service.

4.4.8 Service must issue a final audit report within a period not longer than 5 business days from receipt of the remedy plan.

4.4.9 Head of audit assignment should introduce internal auditors who participated in implementation of audit assignment with audit report for completeness and objective indication of audit opinions. In case of differences of professional opinions of the Head of the Service and head of audit assignment and/or internal auditors on significant issues related to audit assignments, the appropriate document should be drawn up which together with audit report shall be submitted to the Board of Directors of the Company.

4.4.10 Audit report must be signed by a head of audit assignment, Head of the Service and Head of audited entity.

4.4.11 Audit report shall be submitted to the Board of Directors of the Company in the manner prescribed by the Board of Directors.

4.4.12 If a final audit report contains significant error detected later the Head of the Service should bring the corrected information to all recipients of audit report.

4.4.13 Reports drawn up by the Service and indicating the events of fraud and theft must be submitted to the Board of Directors of the Company immediately after drawing up (signing).

4.4.14 Head of the Service should provide analysis of information contained in audit report with respect to completeness and accuracy.

#### **4.5. Monitoring of implementation of issued recommendations**

4.5.1 Monitoring of implementation of issued recommendations shall be made by the Service on a quarterly basis with respect to all significant audit detections (**in**

**the form of Appendix 10**). The purpose of monitoring is to determine whether an audit comment is adequately allowed, i.e. whether steps are taken to ensure reduction (prevention) of identified risks.

4.5.2 Monitoring results of all internal audits are subject to review by the Head of the Service.

4.5.3 Management of audited entity is responsible for taking a decision with respect to appropriate action in response to audit results reflected in audit report or other documents published following the results of internal audit. Management of the Company may decide to take the risk associated with non-implementation of recommendations due to cost or other factors. In this case, the position of management of the Company with respect to admissibility of detected risks of the Company shall be documented in written and brought to the attention of the Board of Directors of the Company.

4.5.4 When monitoring the implementation of issued recommendations the Service should be based on available risk as well as on degree of difficulty and essentiality of terms of taking corrective actions.

4.5.5 Before the end of a quarter the Service should request information from responsible units/persons of the Company related to implementation of recommended measures including recommendations from external auditor.

Obtained responses should be evaluated by the Service and where required the Servicer should examine the conformity of responses to reality in order to determine whether the measures taken by audited entity (Company) meet the comments reflected in audit report or other related documents.

4.5.6 If the management of the Company (audited entity) has assumed the risk which is unacceptable for the Company or taken control measures are inadequate to the level of risk as well as non-implementation of recommendations, the Head of the Service shall undertake to inform the Board of Directors of the Company (**in the form of Appendix 11**). In addition, the Board of Directors of the Company should be informed of the decision of the management of the Company in all material respects to the audit, including the results of monitoring the execution issued recommendations.

4.5.7 Information related to results of monitoring of implementation of issued recommendations shall be used by internal auditors in planning of audit assignments as well as in other required cases, for example in preparation of opinions on drafts of internal documents of the Company.

4.5.8 All information related to results of monitoring of implementation of issued recommendations/activities including the recommendations shall be maintained by the Service on a separate audit file separately to recommendations issued by internal auditors and external auditors.

## **4.6. Working documentation**

4.6.1 Working documentation is the documents and data prepared by internal auditors or received or stored by them in connection with internal audit. Working

documentation may be submitted in the form of data on paper, electronically or in another form.

Working documentation shall be used:

- 1) for planning and conducting of internal audit;
- 2) for ongoing monitoring and examination of work performed by internal auditors;
- 3) for fixing audit evidences obtained in order to confirm audit opinions reflected in audit report.

4.6.2 Information to be included in working documentation should be sufficient, reasonable, substantial, useful and should provide a solid base for approval of identified detections and submission of recommendations.

4.6.3 Working documentation shall be drawn up when planning and implementation of each audit assignment and executed in the form of audit file (folder). When implementing similar audit assignment during several years, some audit files (folders) may be classified as permanent, updated on an on-going basis by additional information but are remained still significant in contrast to current audit files (folders) that contain information related mainly to current audit.

4.6.4 Working documentation should be prepared and systemized in such a way as to meet the circumstances of each audit assignment and needs of internal auditors in the course of its implementation. Volume of working documentation (folder) must be the volume that if there is a need to transfer the work to another internal auditor he could, based solely on this documentation, to understand the work performed and justification of opinions of former internal auditor.

4.6.5 Audit file (folder) of working documentation should include the following working papers:

- 1) general information related to audited entity;
- 2) information reflecting the planning process of audit assignment, including audit program and all amendments thereto and calculation of time required to conduct internal audits;
- 3) memorandum for audit assignment planning;
- 4) audit assignment;
- 5) list of audit detections;
- 6) drafts and final audit report;
- 7) where required copies of audited entity to confirm the findings of internal auditor;
- 8) remedy plan of the management of audited entity;
- 9) quality control template of internal auditors' work;
- 10) all correspondence related to implementation of audit assignment.

4.6.6 Working documentation shall be used by internal auditors in planning of future audit assignments, given that audit assignments may be repeated, expanded. Application of working documentation helps to:

- 1) reduce the time spent on understanding of nature of audited entity;
- 2) determine the risk;

3) improve the quality of time calculation for internal audits through exact identification of required time and manpower.

4.6.7 Head of the Service must ensure development of standard forms of working documentation, requirements for drawing up, storage and protection (through archival copies), access of external parties and their engagement in the policy related to the structure of internal audit adopted by the Company. Such standardization should facilitate the work of internal auditors and at the same time will allow reliable monitoring of their working results.

4.6.8 All working documentation (information) contained in computers of employees of the Service (Internal Audit) should be used by them jointly, and in case of internal auditor's dismissal, should be duly handed over to the Head of the Service.