



## INTERNAL AUDIT CHARTER

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Version 1.0

Mushrif Trading and Contracting Company

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**1 Mission Statement**

The Mission of the Internal Audit Function is to assist members of BOD and management in the effective discharge of their duties and responsibilities. To this end, the Internal Audit Function will provide independent assurance to the BOD/Audit Committee that all significant and material Corporate Governance matters and business risks are being appropriately controlled through furnishing them with analyses and recommendations, counsel and information.

**2 Vision Statement**

The vision of the Internal Audit Function is to achieve its mission by focusing audit efforts on the risks the company is currently facing and by providing management timely information regarding the adequacy and effectiveness of the company's system of internal control and quality of financial and operational performance.

**3 Objectives**

The objectives of the Internal Audit Function are:

- To provide advice to the CEO and BOD on all aspects of governance across the Company, and independent assurance on the compliance with the Company Governance Guidelines.
- To provide independent assurance to the Audit Committee and BOD by performing and issuing internal audit reports covering on the adequacy and appropriations to control and manage its business risks.
- To provide independent assurance to the Audit Committee and BOD by performing and issuing internal audit reports on the compliance with the authorities, policies and procedures.
- To provide assistance to managers and executive management in carrying out their internal control responsibilities including matters of risks, policies, procedures and compliance.
- To reduce any unnecessary risk exposure across the business by assuring control mechanisms are appropriate for levels of risk.
- To provide advice to benchmark the effectiveness and efficiency of control processes;
- To share effective and efficient risk management and control processes within the company.

These objectives reflect the Institute of Internal Auditors definition of an Internal Audit Function; to provide "independent, objective assurance and consulting services designed to add value and improve the Company operations. It will help the Company in accomplishing its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance process."

#### 4 **Scope of Work**

The followings points outline the scope of work for the Internal Audit Function and are taken from the publication "Standards for the Professional Practice of Internal Auditing" by The Institute of Internal Auditors:

- *"The scope of Internal Auditing should encompass the examination of and evaluation of the adequacy and effectiveness of the company's system of internal control and the quality of performance in carrying out assigned responsibilities."*
- *"Internal auditors should review the reliability and integrity of financial and operating information and the means used to identify, measure, classify and report such information";*
- *"Internal auditors should review the systems established to ensure compliance with those policies, plans, procedures, laws and regulations which could have a significant impact on operations and reports; and determine whether the organization is in compliance";*
- *"Internal auditors should review the means of safeguarding assets and, as appropriate, verify the existence of such assets";*
- *"Internal auditors should appraise the economy and efficiency with which resources are employed";*
- *"Internal auditors should review 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"*

Thus the scope of the work of the Internal Audit Function shall include all programs, activities and functions administered by the Company. The Internal Audit Function shall determine whether the Company network of risk management, control and governance processes, as designed and represented by management, are adequate and functioning in a manner to ensure:

- Risks are appropriately identified, quantified and their impact assessed;
- Appropriate policies and procedures have been developed to manage the identified risks and quality and continuous improvement are fostered in the Company control process;
- Company's systems of internal financial/ non-financial and operating controls including those related to safeguard the assets of the company are adequate and effective;
- Adequate controls are incorporated into information technology systems and processes;
- Operations and programs results are consistent with established objectives and goals and if the operations or programs are being carried out as planned;
- Functions efficiently and effectively carry out their planning, organizing, directing, and controlling activities in accordance with management instructions, policies and procedures, standards, and applicable laws and regulations and in a manner consistent with company's objectives;

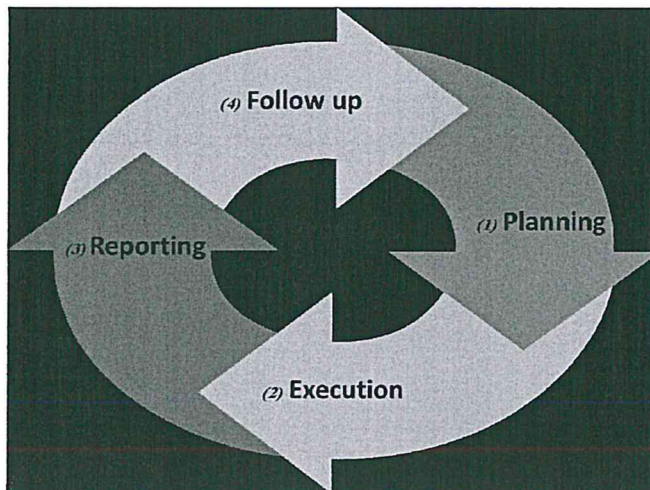


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- Significant financial, managerial, and operating information is accurate, reliable, and timely;
- Resources are acquired economically, used efficiently and protected adequately;
- Significant legislative or regulatory issues impacting the Company are recognized and addressed appropriately.

Opportunities for improving operations, management control system and the Company image may be identified during audit assignments. They will be communicated to the appropriate level of management.

The Internal Audit Cycle should go into the following phases:



- 1- Planning: Developing proposed audit plans for review and approval by Audit Committee. The plan will prioritize the processes to be audited based on the risks associated with each process. The planning processes will rely on the results of the risk management function identification and assessment of risks.
- 2- Execution: The execution phase includes developing and execution the audit work program for each process as per the plan. The purpose of this phase is to review the areas mentioned above in this section
- 3- Reporting: In this phase, the IA will report the results of the audit execution phase for both management and Audit committee.
- 4- Follow up: Following up on previous audit findings and reporting to the Audit Committee on any changes.

### **5 Authority**

For the purpose of its work, the Internal Audit Function has unrestricted access at any time to all the records, personnel, property and operations. The Internal Audit Function has responsibility for the safekeeping and confidentiality of all information provided.

The Head of Internal Audit reports functionally to the Audit Committee.

The Head of Internal Audit is required to report to the Audit Committee, copied to the CEO any matters that they identify during their work that involve either Fraud, or significant breaches of laws and regulations.

The Audit Committee reviews the authority, scope of work and resources of the Internal Audit Function on a regular basis to confirm these remain appropriate. Changes to the Internal Audit Charter are to be approved by the Audit Committee.

In order to be well informed on the strategic and business initiatives undertaken by the Company, the Head of Internal Audit should be informed of all the major decisions taken by the Executive Management and BOD, through circulars /memos.

The Head of Internal Audit and staff of the Internal Audit Function are not authorized to:

- Perform any operational duties within the Company;
- Initiate or approve accounting transactions external to the Internal Audit Function;
- Direct the activities of any employee not employed by the Internal Audit Function, except to the extent such employees have been appropriately assigned to auditing teams or to otherwise assist internal auditor.

## **6 Reporting**

- The Internal Audit Function reports functionally to the Audit Committee and administratively to the CEO.
- Administrative Reporting is the reporting relationship within Mushrif that facilitates the day-to-day operations
- Functional Reporting is the ultimate source of independence and authority. Relationship with Audit committee is explained in section 8.
- All Audit reports should be submitted to Audit committee. In addition, executive summary of all Internal Audit Reports will be presented to the BOD at year-end.
- The Internal Audit Plan developed by the Internal Audit Function will be approved by the Audit Committee and a summary shall be presented to the BOD. The audit universe for the Company shall be identified and completely covered once every three years or as determined by the approved risk assessment and the internal audit plan.
- Additionally, the Internal Audit Function interfaces on a regular basis with the management.

## **7 Audit Committee Responsibilities**

- The Audit Committee oversees the Company's external financial reporting responsibilities, the Internal Audit function, as well as assisting in the coordination of audits financial statements by independent external auditors.
- The Audit Committee's primary objectives are to:
  - ensure quality financial reporting;



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- ensure internal controls are adequate;
  - understand and assess financial reporting and related underlying risks and issues, business and financial controls and regulatory issues; and
  - perform an oversight role relative to the activities of internal and external auditors.
- The Audit Committee interacts with the Internal Audit Function to:
- understand and review the Internal Audit Policies and Procedures manual including the internal audit charter;
  - understand and approve the Internal Audit Plan, ensuring that all significant risk areas are adequately addressed;
  - Review and approve the internal audit function budget and resource requirements.
  - provide direction with regard to ad-hoc requirements throughout the year;
  - review Internal Audit reports, especially findings and recommendations;
  - provide direction to executive management in respect of Internal Audit findings and recommendations and their subsequent implementation;
  - ensure there is an open line of communication for the Internal Audit Function with the external auditors;
  - ensure special assignment audits are in accordance with the original Internal Audit Plan and if not, that necessary resources are made available;
  - ensure that the role of the Internal Audit Function is clearly defined and communicated across the Company entities;
  - promote awareness of the internal audit function across the Company entities.
- Internal Audit reports including findings and recommendations are communicated to the Audit Committee in a standardized format to facilitate review and understanding. Formal written reports are submitted to coincide with periodic meetings of the Audit Committee on a quarterly basis. These written reports are also circulated to the CEO for notification purposes.

### **8 Relationship with the Audit Committee**

- The Audit Committee is responsible for overseeing the Head of Internal Audit and the operations of the Internal Audit Function and receives progress reports on a periodic basis following completion of audits. The Audit Committee is also responsible for providing input into and approving the Internal Audit Plan including generic and particular work plans.
- All internal audit reports drafted by the Head of Internal Audit should be initially discussed with executive management whereby their management comments are attained in writing and included in the report. Consequently, the report is issued in its final format and addressed to the Audit Committee. A final copy of the report is also sent to the CEO for information purposes and for indicating the close of the audit.

Following the close of any audit, and at predetermined times, the Internal Audit Function will have unrestricted access to the Audit Committee to discuss issues of importance in finally issued internal audit reports. The Audit Committee with executive management, represented by the CEO, are responsible for providing directives to functional executive management to ensure that internal audit recommendations are successfully implemented.

- The Head of Internal Audit may on occasions be asked by the Audit Committee/ Board of Directors to conduct a specific audit assignment. The sources of such requests should be formally documented in a Special Assignment Request internal memorandum, raised either by management, executive management or the CEO to be addressed to the Audit Committee. On a quarterly basis, the Head of Internal Audit receives all Special Assignment Request memorandums from the Audit Committee. The Head of Internal Audit prepares his recommendation/s specifying required action that is raised to the Audit Committee. If the Special Assignment Request requires a fundamental change to the Internal Audit Plan, or requires additional resources, the Head of Internal Audit must seek receiving such additional resources prior to any initiation of work. If such resources cannot be made available to the Internal Audit Function, then such requests will not be addressed.
- The Head of Internal Audit and the Internal Audit Function personnel report administratively to the CEO only for salary and leave processing and other administrative related tasks within the parameters set by the Audit Committee.
- The Audit Committee will be responsible for the Head of Internal Audit's appointment, dismissal, remuneration and performance appraisals.

#### **9 Relationship with Management**

- The Internal Audit Function should operate with the objective of adding value to the Company's operations. Much of its value is created through the implementation of recommendations at a functional or operational level. Accordingly, it is critical that strong communication channels and relationships be established with the management throughout the Company.
- Internal Audit should work with the management to:
  - determine expectations, needs, and wants from management;
  - advise of forthcoming scheduled audits and personnel and records requirements;
  - prepare detailed work programs for individual audits;
  - investigate compliance and potential improvements relating to policies, processes, procedures, controls, reporting, information technology systems and controls, and other audited requirements;
  - resolve any discrepancies in functional operations and reporting against the Company policies and preset standards;
  - respond to Internal Audit findings and recommendations;



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- Provide input into special review projects where Internal Audit expertise has been requested without risking independence of the internal audit function.
- The Head of Internal Audit should discuss all report findings with the related manager prior to issuing the final report to the Audit Committee. This will ensure any factual errors in the report are corrected. It will also allow the function to comment on the findings and recommendations and either concurs and propose action to resolve the issue, or disagree and provide justification for their standpoint. In case of agreement on the findings and recommendations but the inability or unwillingness to implement such recommendations, Internal Audit Function's responsibility is restricted to attain a declaration from management to the effect that financial and operational risks from non-implementation of such recommendations is borne by management.
- Special attention should be given in those instances where functions do not comply with policies and procedures on repeat occasions or do not implement internal audit recommendations. This may mean that either the policies or procedures are inappropriate or that there is a continuing control weakness. In both instances, the Company management should be informed of the continued non-compliance and requested to resolve the situation.
- Internal Audit may make recommendations for changes to existing policies, processes, and procedures. These recommendations are to be discussed with the management. Changes are then authorized and effected as outlined in the relevant policy and procedure manuals functions and entities, or the official directives of the Company. In no situation is the Internal Audit Function responsible for drafting and/or implementing such changes to policies, procedures, or directives as this is the inherent responsibility of executive and the management .

### **10 Relationship with the External Auditor**

- The Internal Audit Function is responsible for ensuring duplication of audit activities is minimized by obtaining input from the External Auditor or other consulting and auditing reviews when developing the Internal Audit Plan.
- The Internal Audit Function will keep the external auditors informed of the key findings of the Internal Audit investigations and contents of Internal Audit reports whenever the Function is requested for such information.
- The Finance Department is responsible for coordinating external audits; it is not the responsibility of the Internal Audit Function.

### **11 Relationship with Key Stakeholders**

- The Internal Audit Function has a number of key Stakeholders for whom it is providing a service. These key Stakeholders include:
  - Audit Committee;
  - CEO;
  - Executive Management;

- Management (core operations and support operations management);
- It is imperative that the Internal Audit Function, specifically the Head of Internal Audit, develops strong relationships with their key Stakeholders. When the audit function aligns itself with the key success and risk factors identified by these Stakeholders, it will be placed in a strong position to provide value and improve business processes. Once viewed as a valued business partner, communication channels will have been established and recommendations are more likely to be implemented smoothly. These communication channels will also help ensure that any conflicts that arise are dealt with swiftly, decisively, and comprehensively.
- Each "customer" has varying levels of expectations, needs and wants. The Internal Audit Function will assess requirements, manage expectations, and develop an effective and efficient program of auditing based on their assessment of the customer's needs.
- The Internal Audit Function will develop a communication strategy to ensure its findings and recommendations are adequately discussed with its Stakeholders and disseminated, thus resulting in timely action for their implementation.
- Internal Auditor shall continually strive to be objective in performing their responsibilities.

#### 11.1 **Accountability**

The Head of Internal Audit, in the discharge of his duties shall be accountable to the Company BOD to:

- Prepare an annual audit plan that is based on an assessment of the risks and challenges facing the Company, and that considers the effectiveness processes to manage the identified risks;
- Execute the annual audit plan approved by the BOD, and for each area reviewed, issue an internal audit report detailing the significant issues related to the processes reviewed for controlling the activities, including potential improvements to those processes and to issues;
- Periodically provide information on the status and results of the Annual Audit Plan and the sufficiency of resources;
- Report on the status of the implementation of agreed actions in internal audit reports by performing follow up and by issuing follow-up reports, on a quarterly basis, highlighting significant outstanding issues previously reported;
- Coordinate with and provide oversight of other control and monitoring functions;

#### 12 **Responsibility**

The Internal Audit Function has responsibility to:

- Develop a flexible risk-based Annual Audit Plan, covering the whole system of internal controls, through discussion with executive management and taking into account the Company risks, major projects, significant areas of change and specific



management requests, and submit that plan for review and approval by the Audit Committee.

- Ensure that audit staff discharges their duties in accordance with the standards and code of ethics published by the IIA.
- If, in the opinion of the Internal Audit, changes are required to the approved annual audit plan to address changes in risks/ new risks, a summary of such changes together with the justification shall be channeled through the Head of Internal Audit for approval and then presented to the Audit Committee.
- Maintain a professional audit staff with sufficient knowledge, skills, experience, and professional certifications or outsource the needed skills and capabilities to meet the requirements of IA Charter;
- Issue a formal report at the end of each assignment after full discussion with the management of the area audited, together with agreed management action plans and an executive summary. The report will be issued to the Audit Committee and copied to the CEO;
- Follow up audit findings to ensure weaknesses identified in internal controls have been effectively addressed.
- Issue periodic follow up reports to the Audit Committee and CEO summarizing the action taken in respect of reported matters. An Executive Summary of all such reports should be presented to the BOD at year-end;
- Seek feedback from the auditees at the end of each major assignment to facilitate continuous quality improvement;
- Assist in the investigation of significant suspected fraudulent activities within the Company as requested by the BOD and report to them the result;
- Liaise and coordinate with other third parties to prevent duplication of work and determine the extent of reliance on their work.
- Educate and assist auditees to identify business risks and mitigate them through a system of effective internal controls.
- Perform any special audit assignments and provide assistance to other functions/ organizations within or outside the Company as requested by the BOD.

The Internal Audit Function is a review and support activity, which does not relieve management of its responsibility for identifying, evaluating and managing risk. The Internal Audit Function may make recommendations for the improvement of internal controls, however, it is management's decision and responsibility to implement these recommendations or other actions it deems to be more cost effective and appropriate. The Internal Audit Function will, however, continue to report risks that have been identified and that, in its opinion, are not satisfactorily addressed.

The Internal Audit Function will determine whether there is a need for specialized expertise to assist it in the performance of its duties.

### **13 Independence and Objectivity**



Internal Auditors shall maintain their independence in substance and appearance at all times from auditee management. Internal Auditors shall not assume any responsibilities or perform any duties within the Company that are outside the Internal Audit Function.

If a situation arises whereby members of the Internal Audit Function believe their independence or objectivity is impacted, or may be seen to be impacted, the Head of Internal Audit should be advised immediately, the audit work rescheduled, and any other appropriate action taken in coordination with the Audit Committee.

#### **14 Professional Standards**

Internal Audit personnel govern their internal audit work by adherence to the Institute of Internal Auditors' Standards for the Professional Practice of Internal Auditing. These standards are summarized in the following, as published by the Institute of Internal Auditors:

100 **INDEPENDENCE** – INTERNAL AUDITORS SHOULD BE INDEPENDENT OF THE ACTIVITIES THEY AUDIT.

110 *Organizational Status* – The organizational status of the internal auditing department should be sufficient to permit the accomplishment of its audit responsibilities."

120 *Objectivity* – Internal auditors should be objective in performing audits.

200 **PROFESSIONAL PROFICIENCY** – INTERNAL AUDITS SHOULD BE PERFORMED WITH PROFICIENCY AND DUE PROFESSIONAL CARE.

##### **The Internal Auditing Department**

210 *Staffing* – The director of internal auditing should ensure that the technical proficiency and educational background of internal auditors are appropriate for the audits to be performed.

220 *Knowledge, Skills, and Disciplines* – The internal auditing department should possess or should obtain the knowledge, skills, and disciplines needed to carry out its audit responsibilities.

230 *Supervision* – The director of internal auditing should ensure that internal audits are properly supervised.

##### **The Internal Auditor**

240 *Compliance with Standards of Conduct* – Internal auditors should comply with professional standards of conduct.

250 *Knowledge, Skills, and Disciplines* – Internal auditors should possess the knowledge, skills, and disciplines essential to the performance of internal audits.

260 *Human Relations and Communications* – Internal auditors should be skilled in dealing with people and in communicating effectively.

270 *Continuing Education* – Internal auditors should maintain their technical

*competence through continuing education.*

280 *Due Professional Care – Internal auditors should exercise due professional care in performing internal audits.*

300 **SCOPE OF WORK – THE SCOPE OF INTERNAL AUDITING SHOULD ENCOMPASS THE EXAMINATION AND EVALUATION OF THE ADEQUACY AND EFFECTIVENESS OF THE ORGANIZATION'S SYSTEM OF INTERNAL CONTROL AND THE QUALITY OF PERFORMANCE IN CARRYING OUT ASSIGNED RESPONSIBILITIES.**

310 *Reliability and Integrity of Information – Internal auditors should review the reliability and integrity of financial and operating information and the means used to identify, measure, classify, and report such information.*

320 *Compliance with Policies, Plans, Procedures, Laws, Regulations, and Contracts – Internal auditors should review the systems established to ensure compliance with those policies, plans, procedures, laws, regulations, and contracts which could have a significant impact on operations and reports, and should determine whether the organization is in compliance.*

330 *Safeguarding of Assets – Internal auditors should review the means of safeguarding assets and, as appropriate, verify the existence of such assets.*

340 *Economical and Efficient Use of Resources – Internal auditors should appraise the economy and efficiency with which resources are employed.*

350 *Accomplishment of Established Objectives and Goals for Operations or Programs – Internal auditors should review 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.*

400 **PERFORMANCE OF AUDIT WORK – AUDIT WORK SHOULD INCLUDE PLANNING THE AUDIT, EXAMINING AND EVALUATING INFORMATION, COMMUNICATING RESULTS, AND FOLLOWING UP.**

410 *Planning the Audit – Internal auditors should plan each audit.*

420 *Examining and Evaluating Information – Internal auditors should collect, analyze, interpret, and document information to support audit results.*

430 *Communicating Results – Internal auditors should report the results of their audit work.*

440 *Following Up – Internal auditors should follow up to ascertain that appropriate action is taken on reported audit findings.*

500 **MANAGEMENT OF THE INTERNAL AUDITING DEPARTMENT – THE DIRECTOR OF INTERNAL AUDITING SHOULD PROPERLY MANAGE THE INTERNAL AUDITING DEPARTMENT.**

510 *Purpose, Authority, and Responsibility – The director of internal auditing should have a statement of purpose, authority, and responsibility for the internal auditing department.*

520 *Planning – The director of internal auditing should establish plans to carry out the*

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*responsibilities of the internal auditing department.*

- 530 Policies and Procedures – The director of internal auditing should provide written policies and procedures to guide the audit staff.*
- 540 Personnel Management and Development – The director of internal auditing should establish a program for selecting and developing the human resources of the internal auditing department.*
- 550 External Auditors – The director of internal auditing should coordinate internal and external audit efforts.*
- 560 Quality Assurance – The director of internal auditing should establish and maintain a quality assurance program to evaluate the operations of the internal auditing department.*