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|  | **Approved****by Decision of UMP JSC Executive Board of Directors** **No. 5 dd. 20.03.2019** |

**REGULATIONS**

**FOR INTERNAL AUDIT OFFICE**

**UMP JSC**

**Developed by**

**\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_M. Satanov**

**Chief – Internal Audit Office**

**UMP JSC**

**14.02.2019**

**Chapter 1. Terms and Definitions**

1. The following terms and definitions are used in these Regulations:

• **Internal audit** is "an activity to provide independent and objective guarantees and consultations aimed at improving the Company's activities. Internal audit helps the Company to achieve its goals using systematic and consistent approach to assessing and improving effectiveness of risk management, control and corporate management processes" according to IPPF;

• **International Professional Practices Framework (IPPF)** is a conceptual basis of internal audit, generally accepted systematized regulatory and methodological documents developed by the International Institute of Internal Auditors (IIA). The components of IPPF are: - Main principles of professional internal audit practice, Code of Ethics, Standards and Definition of internal audit;

• **Company** - UMP JSC – Ulba Metallurgical Plant JSC;

• **IAO** - Internal Audit Office;

• **Board of Directors** - Executive Board of Directors of the Company;

• **ICS** - Internal control system;

* AC – Company Audit Committee (if any);

•**Audit area** is a pool of audited items (ARE without any affiliate, processes/departments/projects/separate areas of the Company);

• **ARE** - Affiliated and related entities of the Company;

• **Group** - Company and ARE;

•**Group Organizations** - for the purposes of these Regulations, these are entities included in the AAP;

• **AAP** - Annual audit plan;

• **Warranty Plan** is a document that defines areas of responsibility of the units of the second line of defense of ICS and other interested parties with respect to assessment of particular risks of the Group organizations.

**Chapter 2. General Provisions**

2. These Regulations have been developed in accordance with:

• The Law of the Republic of Kazakhstan on Joint Stock Companies;

• Company Charter;

• Regulations for the Executive Board of Directors;

• IPPF;

• Code of Ethics of the International Institute of Internal Auditors.

3. Regulations for Internal Audit Office is a document to define purposes, functions and responsibilities of the IAO.

**Chapter 3. IAO Organization Form**

4. In order to ensure independence IAO is functionally accountable to the Executive Board of Directors of the Company and administratively accountable to the Executive Board of the Company.

5. Functional accountability of the Board of Directors means that the Board of Directors:

• approves Regulations for IAO, Code of Ethics of IAO Employees, methodological documents (policies, procedures) of IAO;

• approves Annual Strategic Plan for IAO activity;

• reviews regular reports of the internal audit results and makes decisions on them;

• makes decision on the necessary engagement of external providers of Internal Audit Offices in certain areas;

• determines and approves term of powers and the number of members of IAO;

• approves job description of the head of IAO;

• approves the appointment of the head and employees of IAO as well as early termination of their powers;

• approves key performance indicators of IAO and its head;

• approves the amount and terms of remuneration and bonuses paid to IAO head and employees;

• approves limits of main articles of the budget (cost estimate) of IAO.

6. Administrative accountability means that the Executive Board of the Company:

• allocates the required resources within the approved IAO budget;

• receives reports on IAO activities, audit reports as and when needed;

• provides support in cooperation with ARE, Company's departments.

**7.** Job descriptions of IAO staff shall be approved by IAO head and job description of IAO head shall be approved by Executive BD Chairman.

**Chapter 4. IAO Functions**

8. The main mission of IAO is to maintain and enhance value of the Group Organizations by providing objective internal warranties (inspections) based on risk-oriented approach, providing recommendations and sharing knowledge.

9. IAO evaluates and promotes improvement of corporate management, risk management and internal control processes in Group Organizations using systematic, consistent and risk-oriented approach.

10. IAO shall provide for the assessment and make appropriate recommendations for improving the following corporate management processes in Group Organizations:

• Making strategic and operational decisions;

• Supervising risk management and internal control system;

• Promotion of ethical norms and values within the Company;

• Ensuring effective management of the Company's activities and responsible attitude to work;

• Communication of relevant information on risks and control within the Company;

11. IAO shall evaluate design, practical implementation and effectiveness of the ethics-related goals, programs and activities of the Group Organizations.

12. IAO shall assess the compliance of the information technology management system with the strategy and objectives of the Group Organizations.

13. IAO shall assess the effectiveness of the Group's risk management processes. Determination of risk management processes effectiveness is based on judgment of IAO employees formed based on evaluation of the following categories:

• Goals of the Company are consistent with its mission;

• Significant risks are identified and assessed;

• Such risk response measures are chosen that allow keeping risks within the risk-appetite of the Company;

• Information related to risks is collected in a timely manner and communicated within the Company, which enables personnel and management to perform their duties.

14. In order to make such a resolution, IAO may take the results of a comprehensive audit of the Group Organizations as a basis or conduct special assessment of the risk management processes effectiveness of a particular Group entity.

15. IAO should assist Group Organizations in maintaining reliable system of internal control, assessing its effectiveness and performance and contributing to its continuous improvement. Internal audit should assess adequacy and efficiency of risk management in corporate management area, operating activities of a particular Group organization and its information systems, insofar as:

• Achievement of the Company’s strategic goals;

• Reliability and integrity of information on financial and economic activities;

• Efficiency and effectiveness of activities and programs;

• Soundness of assets;

• Compliance with requirements of laws, Regulations, policies, procedures and contractual obligations.

16. IAO can carry out consulting assignments in the following areas (subject to sufficient resources):

• Participation in documentation of the internal control system;

• Comparative analysis of the activities of organizations within the Group;

• Comparative analysis of certain areas of the Company's activities with leading practices;

• Participation in assessment of the adequacy of controls in the acquired new software of the Company;

• and other requests of the Board subject to inclusion them in the audit plan approved by the Board.

17. Audit area is developed by the head of IAO with participation of IAO employees.

18. IAO performs other unscheduled tasks and participates in other unscheduled projects on behalf of the Board or the Executive Board of the Company subject to the preliminary assessment by IAO head of the availability of resources, required knowledge, and absence of negative factors affecting independence and objectivity of IAO employees when performing required tasks or participating in projects.

**Chapter 5. IAO Rights**

19. IAO employees shall have the rights to:

• get free access to any premises, personnel, assets, documents, accounting records, software and to request any information on the activity of the Group Organization;

• receive originals and copies of documents;

• carry out monitoring of the performance by the Group organizations and Company units of actions (correcting actions), carried out by results of the audits conducted;

• leave to the Group organizations and Company units for business trips.

20. IAO employees should abstain from direct participation in the risk management and measurement that is the responsibility of the Group organization management.

21. IAO should be free from the interference by the third parties into the process of the internal audit scoping, work and reporting representation about results. Head of IAO should provide the Executive Board of Directors with the information in case of any interference and discuss possible consequences.

22. IAO can offer to the Group organization management the recommendation about optimization/improvement of their activity.

23. IAO can offer to the Executive Board of Directors recommendations about optimization/improvement of the internal audit activities.

24. Head of IAO can initiate the engagement of external providers of internal/external experts not engaged into internal audit units for support or help to work in the areas where internal audit does not have sufficient degree of professionalism provided for the independence and objectivity observance.

25. Should the head of IAO be liable to perform duties and/or functions out of his scope of internal audit, he can refuse, if the performance of such functions/duties can make negative impact on the independence or objectivity.

26. Head of IAO can be present and take part in the sessions of the Executive Board of Directors, concerning issues of audit, financial reporting, corporate management, risk management and the internal control supervision for which is the responsibility of the Executive Board of Directors.

27. In order to provide for full coverage and minimizing duplicate functions the head of IAO can communicate and co-ordinate activity with other internal divisions of the Company of the second line of protection )for example: risk-management department, internal control and corporate management department, legal department, security director service, etc.) and other parties rendering services in granting of guarantees and consultations (external financial auditors, IAO/ARE revision committees, if available). Head of IAO together with Company divisions can make Warranty Plan.

28. IAO can carry out of the task on granting guarantees in those areas where consulting tasks were provided before provided that the character of the consulting task will not affect objectivity and with manpower for task performance maintenance personal objectivity shall be provided.

**Chapter 6. IAO Responsibilities**

29. IAO employees should observe the IAO Code of Conduct (Appendix 1), requirements of these Regulations and other internal documents regulating the activity of internal audit, and also the laws currently in effect in the Republic of Kazakhstan.

30. IAO employees should abstain from carrying out an estimation of those areas for which they bore responsibility before. It is considered that objectivity is exposed to negative influence if IAO employee gives guarantees in that area for which he was responsible for within the previous year.

31. IAO employees should be impartial and open-minded in their work and avoid the conflict of interests of any kind.

32. IAO employees should possess knowledge, skills and other competences necessary for the performance of their official duties. To fulfill tasks IAO faces, IAO employees should collectively possess necessary knowledge, skills and other competences or to get them.

33. IAO employees should be diligent and apply the skills and abilities as expected from the sane and competent internal auditor.

34. Head of IAO approves duty Regulations of IAO employees.

35. Head of IAO should make up a risk-focused plan defining priorities of internal audit according to the purposes of the Company, on the basis of the risk factors estimation.

36. Head of IAO annually submits for the approval by the Executive Board of Directors plans (annual and strategic plan if necessary) of the internal audit as well as limits for main articles of the budget (cost estimate) of IAO. Head of IAO should inform the Executive Board of Directors about all and any restrictions which interfere with the plan performance.

37. Head of IAO shall report on a quarterly basis to the Executive Board of Directors (within the terms established by the Executive Board of Directors) on the audit plan progress. The report should also contain information on essential risks and control issues, including risks of fraud, corporate management issues and other data necessary for the Board and the Executive Board of Directors.

38. Head of IAO submits annual IAO reports: the report on the internal audit activity efficiency, achievement of key indicators of IAO activity, results of the internal auditors activity estimation and the offer on motivation.

39. Head of IAO should provide for the effective use of the personnel and resources for the performance of the approved plan.

40. Head of IAO should effectively manage the internal audit unit so that to provide its utility for the Company.

41. Head of IAO should introduce internal policies and procedures regulating the activity of the internal audit unit.

42. IAO employees should make and document the plan of performance of each auditor task, including the purposes, task scope, its terms and distribution of resources.

43. IAO employees should show the professional relation to work considering:

• scope of work necessary to achieve the purposes of the auditor task;

• relative complexity, sufficiency or importance of questions in which relation guarantees are given;

• adequacy and efficiency of the corporate management processes, risk management and control;

• probability of essential errors, fraud or non-observance of procedures;

• expenses for granting auditor guarantees in comparison with potential benefits.

44. Showing the professional relation to work, IAO employees should consider possibility of application of the automated methods of audit and other methods of data analysis.

45. IAO employees should be ready to reveal essential risks capable to affect the purposes, activity or resources of the Group organization. Nevertheless, the procedures which are carried out during the performance of auditor tasks even if they are spent at due professional level, in itself do not guarantee revealing of all essential risks.

46. IAO employees should collect sufficient volume of reliable, pertinent and helpful information to achieve the purposes of the task (Sufficient information is the information which is based on the facts and is convincing so that based on that information any sane and informed user will come to the same conclusions as the auditor. Reliable information is the fullest and reliable information which could be received applying the appropriate auditor procedures. Pertinent information is the information which confirms the observance and recommendations and corresponds to the task purposes. Helpful information is the information which helps the organization to reach the purposes).

47. IAO employees should fix documentary acknowledgement of the task results and conclusions in sufficient volume of the reliable, relevant and helpful information.

48. IAO employees shall inform on results of the task performance. Messages should be exact, objective, clear, short, constructive, full and timely. Messages on results should contain information on the purposes, maintenance and results of the task performance.

49. The final reporting about task results should contain corresponding conclusions, and also corresponding recommendations and plans of correcting actions of the audit object management.

50. If, according to the head of IAO, level of the residual risk accepted by the Group organization management cannot be acceptable, the head of IAO should discuss this issue with the organization management. If the issue of the residual risk still remains unresolved, the head of IAO should immediately inform the Executive Board of Directors about the issue of concern.

51. IAO employees should inform the head of IAO on any facts of fraud found out during audit immediately. The head of IAO in turn shall immediately inform on these facts to the Board of the Company and Executive Board of Directors simultaneously.

52. The head of IAO shall develop and introduce the program of IAO activity maintenance and improvement. Such program includes current monitoring and also carrying out of periodic internal and external estimations of the internal audit quality. The external estimation of the internal audit quality with the engagement of the external expert, shall be conducted no less than once in five-year period. Head of the internal audit should promote involving Executive Board of Directors in formation of actions and estimation of the program of maintenance and improvement of the internal audit quality efficiency.

53. Head of IAO should supervise the access to the documents concerning IAO activity. Before transferring documents to any external party, the head of IAO should get the approval from the Company management.

54. Head of IAO should develop and maintain system of monitoring of actions of the Group Organization management (performance of action plan on recommendations) undertaken by the results of the auditor task.

55. Head of IAO shall bear responsibility for annual estimation of the conformity of the purposes, powers and responsibility of IAO defined by these Regulations to the tasks set for the internal audit and informing Executive Board of Directors about the results of such estimation.

**Chapter 7. Qualification Requirements**

56. Head of IAO shall have:

1) graduate degree education in the field of finance/economics/ mathematics/jurisprudence;

2) work experience in the sphere of audit, accountancy, finance – not less than seven years;

3) work experience in the leadership roles – not less than three years;

4) knowledge of international standards on financial statements and international professional standards on internal audit developed by the Institute of Internal Auditors Inc;

5) it is preferably: availability of the certificate in the field of internal audit – СIА (Certified Internal Auditor), the certificate of АССА (Association of Certified Chartered Accountants) or diploma of DipIFR (Diploma in International Financial Reporting);

6) it is preferably: competence in national language and English.

57. Other employees of IAO shall have:

1) graduate degree in the field of finance / economics / mathematics / information technologies / jurisprudence or technical education;

2) work experience in the sphere of audit / accountancy / finance / information technologies / in the field of industry conforming to the specialization of UMP JSC – not less than three years for Chief Managers - not less than 2 years;

3) knowledge of international standards on financial statements and international professional standards on internal audit developed by the Institute of Internal Auditors Inc;

4) it is preferably: availability of the certificate in the field of internal audit – СIА (Certified Internal Auditor), the certificate of АССА (Association of Certified Chartered Accountants) or diploma of DipIFR (Diploma in International Financial Reporting);

5) it is preferred the certificate of CISA (Certified information systems auditor) or CISM (Certified information security manager), if an employee is appointed as the auditor in IT/information security;

6) good knowledge of English is a preference.

58. Head and employees of IAO shall not have outstanding or unexpunged conviction for crimes in the field of economic activity, for corruption and other crimes against interests of governmental service and state administration.

**Chapter 8. Final Provisions**

59. Amendments and additions to these Regulations can be inserted by the Executive Board of Directors resolution.

60. Should the name of IAO change with no change in the functional of this Provision, rights and liabilities of the re-organized unit shall automatically pass over to its successor.

61. Appendices to the Regulations are its integral part and shall be adhered and used in the work.

**Chapter 9. Appendices**

Appendix 1

to the Regulations for Internal Audit Office

approved by the Decision of UMP JSC Executive Board of Directors

dated \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_2019, No. \_\_\_\_\_\_\_\_\_\_

**Code of Ethics of the Internal Audit Office employees 1**

**Principles**

Internal auditors shall adhere to the following principles.

**1. Honesty**

Honesty of the internal auditor is a basis on which founds the credibility to the auditor’s opinion.

**2. Objectivity**

Internal auditors shall demonstrate the highest level of professional objectivity in the course of collection, evaluation and transfer of information on audited entity. Internal auditors shall make well-considered evaluation of all relevant circumstances and shall not be affected by the influence of its own interests or interests of other persons.

**3. Confidentiality**

Internal auditors shall respectfully relate to the proprietary right of information, which they receive in the course of their activity, and shall not disclose it without proper powers and authority, with the exception of cases when disclosure of such information is determined by legal or professional duties.

**4. Professional competency**

Internal auditors shall use knowledge, skills and experience necessary for providing services in the field of internal audit.

**Rules of Behavior**

1. **Honesty**

Internal auditors:

1.1) Shall perform their work fairly, conscientiously and responsibly.

1.2) Shall operate within the confines of the law and disclose relevant information if the law or professional standards require it.

1.3) Shall not consciously participate in the actions or activities, which bring discredit on the profession of internal auditor or their Company.

1.4) Shall respect legally and ethically justified objects of their Company and make a contribution to its achievement.

**2. Objectivity**

Internal auditors:

2.1) Shall not participate in any activity, which could cause damage to their impartiality or considering as causing such damage. It also extended to the activity and relationship, which can contradict to the Company’s interests.

2.2) Should not accept any gifts, which could cause damage to their professional opinion or considering as causing such damage.

2.3) Shall expose all material facts known to them, which in case of non-exposing can distort the reports on audited entity.

**3. Confidentiality**

Internal auditors:

3.1) Shall be rational and circumspect when using and storing information received in the course of its duties performance.

3.2) Shall not use information for personal purposes or in any manner whatsoever, which are contrary to the law or able to cause damage to the achieving of legally and ethically justified goals of the Company.

**4. Professional competency**

Internal auditors:

4.1) Shall participate only in those tasks, for performing of which they have sufficient professional knowledge, skills and experience.

4.2) Shall provide the services of internal audit in accordance with International Professional Standards of Internal Audit.

4.3) Shall constantly improve their professional standards as well as efficiency and quality of provided services.