

INTERNAL AUDIT CHARTER

1. INTRODUCTION

This charter primary aims to define and establish:

- The formal mission statement of internal audit department
- The objectives and scope of internal audit department
- The internal audit department position within the company, its access to various records, departments and activities, its responsibility and accountability

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps organization accomplish its objectives and bringing a systematic and disciplined approach to evaluate and improve the effectiveness of risk management, control and governance process. This should include:

- Reliability and integrity of financial and operational information
- Effectiveness and efficiency of operations
- The safeguarding of assets
- Compliance with laws, regulations, and contracts
- The accomplishment of established objectives and goals

2. MISSION STATEMENT

To provide independent appraisal of all the activities of PT. INDO TAMBANGRAYA MEGAH Tbk and its subsidiary's companies (here in after referred to as ITM) aiming to add value, improve operational efficiency, risk management and internal control systems. The prime objective of internal audit department is to examine and evaluate whether the ITM frame work of its risk management, control, and governance process adequate and functioning properly.

In addition, the objectives of internal audit department include advising and recommending senior management for improvements in internal control and risk management systems. In order to fulfill its mission statement and objectives, internal audit department's scope of work include:

- a. The examination and evaluation of adequacy and effectiveness of the internal control systems at various operations and activities of ITM

- b. The review of the application and effectiveness of risk management procedures and risk assessment methodologies at various activities of ITM
- c. The review of management and financial information systems, including the electronic information system
- d. The review of the accuracy and reliability of ITM accounting record and financial reports
- e. The testing of both transactions and functioning of specific internal control procedures at various ITM departments and offices
- f. The evaluation of effectiveness of existing policies and procedures and give recommendations for improvements
- g. Identifying opportunities for cost savings and making recommendations for improving cost efficiencies
- h. Examining the resources are acquired economically, used efficiently and safeguard adequately
- i. Join with other investigation team to carry out special investigation audit assignment
- j. Precisely, every activity, department and office of ITM falls within the scope of internal audit independent appraisal. The head and Auditors of internal audit department are, however, not allowed to:
 1. Perform any operational duties for ITM outside internal audit department function
 2. Initiate or approve accounting transactions external to internal audit department
 3. Direct the activities of any ITM employee by the internal audit department, except to the extent such employees have been appropriately assigned to auditing teams or to otherwise assist the internal auditors

3. INTERNAL AUDIT STRUCTURE AND ITS POSITION IN THE ORGANIZATIONAL STRUCTURE

- a. Internal audit department is led by a head of internal audit
- b. The head of internal audit department is appointed and dismissed by the president director with commissioner's approval
- c. President director can propose the replacement of the head of internal audit department with commissioner's approval, if he or she does not

fulfill the requirement as an auditor of internal audit department as stated or fails or is incapable to perform his or her duty

- d. The head of internal audit department has to report directly to president director and dotted line to Audit Committee
- e. Auditor of internal audit department has to report directly to the head of internal audit

4. INTERNAL AUDIT DUTY AND RESPONSIBILITY

The head of internal audit department has responsibility to:

- a. Formulate annual audit plan in consultation with Audit Committee and Management
- b. Implement the annual audit plan, including as appropriate any special tasks or projects requested by President Director
- c. Maintain requisite professional audit strength with sufficient knowledge, skills, experiences, and professional qualifications to meet the requirements of this charter
- d. Issue periodic reports on a timely basis to President Director summarizing results of audit activities
- e. Ensure that the departments complies with sound internal auditing principles and best practices; seek guidance from the standards issued by the Indonesian Institute of Internal Auditors

The Head and Auditors of internal audit department have responsibility to:

- a. Follow guidelines and methodology given by the Internal Audit Manual
- b. Exercise due professional care in carrying out audit assignments
- c. Maintain integrity and objectivity
- d. The internal audit process, however, does not relieve departmental heads of their responsibility for the maintenance and improvement of control in their respective areas

5. INTERNAL AUDITOR AUTHORITY

The head and Auditors of internal audit department are authorized to:

- a. Have unrestricted access to all ITM departments, offices, activities, records, information, properties and personnel, relevant the performance of audit function
- b. Determine scope of work and apply the techniques required to accomplish audit objectives
- c. Obtain the necessary assistance of personnel in various departments/ offices of ITM where they perform audits
- d. Obtain assistance of specialists/ professionals where considered necessary from within or outside ITM
- e. Internal auditor have authority to communicate directly with directors, commissioners, and /or audit committee
- f. Internal auditor have authority to perform regular and incidental meeting with director, commissioner, and/or audit committee
- g. Internal auditor have authority to coordinate its activity with external auditor

6. INTERNAL AUDITOR CODE OF ETHICS

All internal auditors of ITM must uphold the code of ethics set out by the Indonesia Association of Internal Auditor, which specifically requires that internal auditors have expertise in the field, to be in accordance with honesty in fact and have relationship with a firm, cautious, conscientious, trustworthy and able to maintain confidentiality and avoid feelings of partisanship in delivering recommendations to the company.

The *Code of Ethics* is a statement of principles and expectations governing behavior of individuals and organizations in conducting internal auditing:

- Integrity
The integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgments
- Objectivity
Internal auditors exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgments
- Confidentiality
Internal auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so

- **Competency**
Internal auditors apply the knowledge, skills and experience needed in the performance of internal auditing services

7. THE REQUIREMENT OF AUDITOR

- a. Has professional, integrity and conduct independence, fairness and objectiveness in performing his or her duty
- b. Has knowledge and experience in audit technique and other relevant science in accordance to his or her duty
- c. Has capability to effectively interact and communicate both verbally and in writing
- d. Has knowledge in capital market regulations and other relevant regulations
- e. Understands good corporate governance and risk management principles
- f. Is willing to enhance his or her professional knowledge, expertise and skill in ongoing basis
- g. Shall comply with professional standard which is issued by Indonesian Institute of Internal Auditors
- h. Shall comply with ethical code of internal auditor
- i. Shall maintain confidentiality of company's information and/ or data related to performing of internal audit department duty and responsibility except required by regulations or court's decrees/ decisions

8. INDEPENDENCE

- a. To maintain the independence of internal audit department from other ITM departments and offices, its personnel shall report to Head of Internal Audit departments, who shall report directly to President Director and functionally (dotted line) to Audit Committee
- b. Internal audit department shall be independent of the activities audited. The department must also be independent from every day internal control process
- c. Internal audit department shall exercise its assignment on its own initiative in all departments, offices and functions of ITM

- d. Head of internal audit department shall be authorized to communicate directly, and on his own initiative, to the Board and the members of audit committee
- e. The internal audit function should be subject to an independent professionals e.g. practicing chartered accountants, on peer review, or any parties assigned by President Director

9. ACCOUNTABILITY

The head of internal audit department, in the discharge of his/ her duties, shall be accountable to the President Director of ITM and Audit Committee to:

- a. Submit an assessment on the adequacy and effectiveness of the ITM process for controlling its activities and managing its risks in all areas of ITM operations on annual basis
- b. Report significant issues related to the process for controlling the activities of ITM, together with recommendations for improvements to those process
- c. Provide information on the status and results of the annual audit plan on a quarterly basis
- d. Coordinate with external auditors and provide oversight of other control and monitoring functions e.g. security and legal etc.
- e. The performance of the head of Internal Audit will be evaluated by the President Director

10. CONTINUITY AND IMPARTIALITY

- a. Internal audit within ITM shall be a permanent function
- b. Internal audit department shall be objective and impartial in performing its assignment
- c. Internal auditor prohibited of dual duties and positions from performing company's operation activities
- d. Objectivity and impartiality entails that the internal audit department itself seeks to avoid any conflict of interest. To this end, auditors assignments within internal audit department shall be rotated periodically, if necessary
- e. Impartiality requires that internal audit department is not involved in the operations of ITM or in selecting or implementing internal control process measures

- f. However, internal audit department may give recommendations for strengthening internal controls and can also give opinions on specific matters related to internal control procedures as per the request of senior management

11. VALIDITY

This revised Internal Audit Charter shall take effect as of the date it is approved.