

# **INTERNAL AUDIT DIVISION AUDIT CHARTER**



## **AUDIT CHARTER**

Approved on 54<sup>th</sup> Board Meeting dated 24 March 2023

## Table of Contents

1.0	Introduction.....	2
2.0	Purpose.....	2
3.0	Vision.....	2
4.0	Mission.....	2
5.0	Roles .....	2
6.0	Scope of Work.....	3
7.0	Accountability .....	3
8.0	Authority .....	4
9.0	Organization, Independence, and Objectivity.....	4
10.0	Responsibilities .....	5
11.0	Internal Audit Plan.....	6
12.0	Reporting.....	6
13.0	Quality Assurance and Improvement .....	6
14.0	Internal Audit Standards/Professionalism.....	6
15.0	Amendment and effective date of Audit Charter.....	6
16.0	Effective Date.....	6

## 1.0 Introduction

The Audit Charter of Internal Audit Division (“IAD”) is a formal written document that defines the purpose, authority, scope, and responsibility and standard of Internal Audit function of EMGS (hereinafter referred to as the company)

## 2.0 Purpose

- Internal Audit is to add value and improve the company operations by providing independent, objective assurance and consulting activities which are designed to evaluate and enhance the risk management, internal control and governance processes in order to assist management to achieve its vision and mission.
  
- It aims to assist the company in accomplishing its objectives by bringing a systematic and disciplined approach towards reviewing the effectiveness of the company risk management, internal control, and governance processes.
  
- Will ensure audit function are operating in compliance with per required guidelines and/or standard e.g., International Professional Practices Framework (IPPF) and Malaysia Code on Corporate Governance (MCCG) and other applicable regulatory.

## 3.0 Vision

The vision of the IAD is to be a “trusted advisor” in providing reasonable assurance to the Board that EMGS is operating in good compliance and governance culture.

## 4.0 Mission

The mission of the Internal Audit is to enhance and protect the company’s value by providing risk-based and objective assurance, consulting services, advice and insight designed to add value and improve the company’s operations and systems of controls.

It helps the company accomplishes its objectives and bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, internal control and governance.

## 5.0 Roles

Internal Audit’s roles are as follows:

- i. To report directly and assist the Audit Committee (“AC”) with dotted line the CEO of the company, in discharging the responsibilities defined in its TOR. The Internal Audit activity is established by Board of Directors, Audit Committee or other highest-level body e.g., Ministry of Higher Education. Internal Audit activity’s responsibilities is as part of their oversight role.
  
- ii. To provide Board, AC and Senior Management with independent assurance that the internal control, risk management system, internal control and governance process of the company is effective and the company’s operations are properly controlled.
  
- iii. To discharge its independent assurance function as the 3<sup>rd</sup> line of defense, which includes assurance on the adequacy and effectiveness of the roles undertaken by the first line of defense (function that own and manage the risks) and second line of defense (function that monitor and oversee risks).
  
- iv. To provide consulting services, advice and insight guided by a philosophy of adding value to the company’s operations.
  
- v. To ensure the requirements of the Institute of Internal Auditors Malaysia (“IIAM”) on International Professional Practices Framework (“IPPF”) of Internal Auditing and other regulatory auditing (if any) are complied with.

## **6.0 Scope of Work**

The scope of work of Internal Audit is to provide reasonable, but not absolute assurance that the company's risk management, internal control and governance as designed and implemented by senior management is adequate and functioning in a manner to help ensure that:

- i. Risks are appropriately identified and managed through implementation of risk-based audit approach.
- ii. Interaction with the various governance groups where needed i.e. governing body and/or authority.
- iii. Significant financial, managerial, and operating information is accurate, reliable and timely.
- iv. Employee's actions follow policies, standards, procedures and applicable laws and regulation
- v. Resources are acquired economically, used efficiently and adequately protected.
- vi. Review and monitor the adequacy of controls established by Management through ensuring compliance with policies, plans, procedures and business objectives.
- vii. Quality and continuous improvements are fostered in the company control process
- viii. Significant legislative or regulatory issues impacting the Bank are recognized and addressed appropriately
- ix. Follow up is performed on the recommendations made to make sure that effective remedial actions are taken against the weaknesses identified by Group Audit Division, Jabatan Audit Negara (JAN), External Auditors and Board
- x. Carry out ad hoc appraisals, inspections, special investigations, or reviews requested by CEO, AC or Board as and when required
- xi. The Internal Audit coverage may extend to all areas of EMGS business and operational activities
- xii. The extend and frequency of these activities will depend upon varying circumstances such as results of previous audits, relative risks associated with activities, materiality, the adequacy of the system of internal control and resource availability

## **7.0 Accountability**

The Head of Internal Audit, in discharging his duties, shall be accountable functionally to Audit Committee, in respect of activities performed by Internal Audit:

- i. To provide coverage of the adequacy and effectiveness of the company processes for controlling its activities and managing risks in the areas set forth under the mission and scope of work
- ii. To report significant issues related to the processes for managing risk and controlling the activities of the company, including potential improvements to processes and provides information concerning such issues thorough resolution. This includes coverage of risk management, internal control and governance practices
- iii. To periodically provide information on the status and results of the risk based annual audit plan (AAP) and the sufficiency of division resources. This includes ensuring the resources are sufficient in amount and competency to cover the risks in AAP

- iv. To establish a follow up process to track actions related to important issues and recommendations
- v. To co-ordinate and work with other control and monitoring function/body (e.g., ethics, legal, corporate services, and external audit)

## **8.0 Authority**

The Internal Audit Division aims to promote effective controls at reasonable cost. To carry out their responsibilities properly and independently, the IAD shall be granted the following authorities:

- i. Internal Audit will have full and unrestricted access to any and/or all company's operations, records (including management information and the minutes of all board and management committee meetings), information systems, assets, physical properties, premises and personnel relevant to the fulfilment of its responsibilities including matters of audit selection, scope, procedures, frequency, timing, or report content to permit maintenance of a necessary independent and objective.
- ii. Authority of Head of IA, to communicate directly, as and when necessary to the Board, Chairman of the Board and empowered to determine the nature and scope of their audits and to formulate programs and methods of investigation to ensure complete and effective audit coverage and reporting
- iii. The auditors are authorized to obtain the necessary assistance of staff in unit/department/division of the company where they perform audits as well as other specialized services within or outside the organization.
- iv. The auditors will provide consulting services, advice and insight to management as deemed appropriate
- v. Carry out investigation on suspected or potential fraud or any malpractices. Upon initiation of a special investigation involving potential or suspected fraud or any other malpractices which have a "prima facie" case, IAD shall consult and work together with company's legal adviser (internal and/or external) and Human Resources for legal advice and coordination of efforts. The IAD must be allowed to perform investigation without any hinderance or restriction imposed by the operating management
- vi. The auditors are authorized to follow up with management on action taken in response to audit findings and recommendations.

## **9.0 Organization, Independence, and Objectivity**

- i. To provide for independence of internal audit, its personnel report to the Head of Internal Audit, who reports functionally to the Audit Committee and administratively (i.e., day to day operations) to the CEO.
- ii. The Audit Committee will
  - Approve the internal audit charter
  - Approve the risk-based annual audit plan
  - Approve the internal audit budget and resource plan
  - Receive communication from Head of IA on internal audit activities and progress relevance to its plan and other matters.
  - Approve the appointment, remuneration, performance appraisal, transfer, and dismissal of the Head of IA.



- Make appropriate inquiries of management and the Head of IA to determine whether there is inappropriate scope or resource limitations.
- iii. The Head of IA will communicate and interact directly with the Audit Committee and between AC meetings as appropriate.
  - iv. The internal audit function should be independent of the activities and from day-to-day internal control process. The Head of IA will confirm to the Audit Committee at least the internal audit activity
  - v. IAD and its audit personnel have an impartial, unbiased attitude and avoid conflict of interest. Internal Auditors will exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors will make a balance assessment of all the relevant circumstances and not be unduly influenced by their own interests or by others in forming the judgements.
  - vi. Internal auditors shall have no direct operational and line responsibilities or authorities over any of the review activities. Accordingly, they do not have executive line responsibilities nor take line management decisions, rather they make recommendations to management; nor do they write procedural manuals or establish control procedures, but they review and comment on them. Reviews by Internal Audit do not relieve management or personnel of their assigned responsibilities for effectiveness of the management or personnel of the assigned responsibilities for effectiveness of the internal audit. IAD should not be restrained from making subsequent recommendations on the deficiencies or weaknesses on internal controls although it was previously involved in providing advice.
  - vii. Employees who have been transferred into Internal Audit from line areas or other support functions will not review any aspects of their previous work within 12 months of leaving

## **10.0 Responsibilities**

The primary responsibilities will include but are not restricted to:

- Develop a dynamic annual plan using risk-based methodology, including any risks by management.
- Implementing the annual audit plan, as approved including as appropriate any special tasks or project requested by senior management and IA may review the plan if required and approve by Audit Committee.
- Adequacy, appropriateness, effectiveness, and efficiency of the company overall governance, including its operations, information system, compliance and appropriateness of internal policy and procedure, risk management and internal controls.
- Maintaining professional audit staff with sufficient knowledge, skills and experience and professional certification.
- Conduct and/or assist as appropriate in any special review or investigation conducted by authorities (if any) or upon request of CEO/Audit Committee. IA also to notify senior management and Audit Committee of the development and/or result.
- Conduct follow up on reported audit findings. Internal Audit shall track all significant recommendations resulting from past internal audits and external consultants' reviews.
- Conducted a quality assurance and improvement by external parties to assures the operations of IA activities as per IPPF standards
- Coordinate with external auditors and other authority bodies on the scope of audit as well as review their audit reports to ensure the content/findings is accurate and appropriate actions have been taken on their findings.
- Provide comments, consultation, advisory service, and insight mainly on internal control as well as risk associated with operational procedures, agreements, and

system with the objective to add value to the company in terms of governance, risk management without assuming management responsibility.

#### **11.0 Internal Audit Plan**

- i. At least annually, the Head of IA will submit to Audit Committee an internal audit plan for review and approval. The Head IA will also communicate if there is any changes and limitation in terms of timeline and resources to the audit plan to senior management and the Board.
- ii. Audit plan will be developed based on a prioritization of the audit universe using risk-based methodology, including input of senior management and the Board/Audit Committee.

#### **12.0 Reporting**

- i. A written report will be prepared and issued by the Head of Internal Audit or designee following the conclusion of each of internal audit engagement and will be distributed as appropriate. Internal Audit results will also be communicated to the Audit Committee.
- ii. The internal audit report will include management's response, corrective action taken or to be taken with anticipated timeframe of recommendation completion in regard to the specific findings and recommendation.

#### **13.0 Quality Assurance and Improvement**

- i. The Internal Audit will conduct from time to time an assessment towards its activity with the purpose for improvement to ensure their activity is in line with IPPF and/or Internal Auditing standard in the industry/market. It is also to assess the effectiveness and efficiency of the internal audit as well as identifies opportunities for improvement
- ii. The assurance can be conducted by relevant qualified external parties/consulting bodies. The Head of IA will inform CEO and the Audit Committee on the outcome of the assessment conducted at least every 2-3 years

#### **14.0 Internal Audit Standards/Professionalism**

The Internal Audit Department will meet the standards of best professional practice recommended by the Standards for the Professional Practice of Internal Auditing (IPPF) and EMGS relevant policies and procedures, code of conduct and ethical policies, policies and procedures embodied in Audit procedures and/or work guide

#### **15.0 Amendment and effective date of Audit Charter**

Amendment of this Audit Charter is subject to approval by Audit Charter and endorsement by the Board. Thereafter, to notify senior management for implementation and communication throughout EMGS. The Audit Charter should be reviewed periodically

#### **16.0 Effective Date**

This Audit Charter and the policy and procedure therein become effective upon approval by the Audit Committee and adoption by the senior management of EMGS