

<b>Title</b>	<b>Internal Audit Charter</b>
<b>Objectives</b>	<p>To define the purpose, authority, and responsibility of the Internal Audit Department (IAD) of Lepanto Consolidated Mining Company (LCMC).</p> <p>To provide a blueprint on how Internal Audit will operate and allow the Audit Committee to clearly signal the value it places on Internal Audit's independence</p>
<b>Scope</b>	The Internal Audit Charter applies to internal audit's purpose and mission, authority, responsibility, independent reporting relationships, scope of internal audit activities and requirements to conform to International Standards for the Professional Practice of Internal Auditing (Standards)

## 1.0 DEFINITION OF TERMS

- 1.1 **Board** – the Board of Directors of LCMC
- 1.2 **Charter** – This Internal Audit Charter
- 1.3 **Code of Ethics** – The Code of Ethics of The Institute of Internal Auditors (IIA) are principles relevant to the profession and practice of internal auditing, and Rules of Conduct that describe the behavior expected of internal auditors. The purpose of the Code of Ethics is to promote an ethical culture in the global profession of internal auditing.
- 1.4 **Compliance** – adherence to policies, plans, procedures, laws, regulations, contracts or other requirements or compliance obligations.
- 1.5 **Conflict of Interest** – any relationship that could possibly compromise an individual's ability to perform his or her duties and responsibilities objectively.
- 1.6 **Control Processes** – the policies, procedures (both manual and automated) and activities that are part of a control framework, designed and operated to ensure that risks are contained within the level that an organization is willing to accept.
- 1.7 **Executive Management** – primarily the President & Chief Operating Officer and Chief Finance Officer. May also include other corporate officers such as Vice Presidents and Assistant Vice Presidents.
- 1.8 **Governance** – the combination of processes and structures implemented by the Board to inform, direct, manage and monitor the activities of the organization towards the achievement of its objectives.

- 1.9 **Independence** – the freedom from conditions that threaten the ability of the internal audit activity to carry out internal audit responsibilities in an unbiased manner.
- 1.10 **Objectivity** – An unbiased mental attitude that allows internal auditors to perform engagements in such a manner that they believe in their work product and that no quality compromises are made. Objectivity requires that internal auditors do not subordinate their judgment on audit matters to others.
- 1.11 **Risk** – the possibility of an event occurring that will have an impact on the achievement of objectives. Risk is measured in terms of impact and likelihood.
- 1.12 **Risk Management** – a process to identify, assess, manage and control potential events or situations to provide reasonable assurance regarding the achievement of the organization’s objectives.
- 1.13 **Standards** – A professional pronouncement promulgated by the Internal Audit Standards Board that delineates the requirements for performing a broad range of internal audit activities and for evaluating internal audit performance. Also pertains to International Standard for the Professional Practice of Internal Auditing

## **2.0 POLICY STATEMENT**

The Internal Audit Charter is a formal document approved by the Audit Committee and agreed to by management. The Charter defines the purpose, authority, and responsibility of the IAD of LCMC. It also establishes the Internal Audit’s position within LCMC and reporting lines, authorizes access to records, people and physical properties relevant to the performance of IAD’s engagements.

## **3.0 PROVISIONS**

### **3.1 Purpose and Mission**

The purpose of the IAD is to add value and improve the operations of LCMC and its affiliates by providing independent and objective assurance and consulting services. The mission of IAD is to provide risk-based and objective assurance and advice to LCMC in relation to governance, risk management, and control processes.

### **3.2 Standards for the Professional Practice of Internal Auditing**

The IAD shall adhere to the mandatory elements of The Institute of Internal Auditors’ International Professional Practices Framework including the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, and the International Standards for the Professional Practice of Internal Auditing.

### **3.3 Authority**

The IA Manager shall report functionally to the Audit Committee of the Board and administratively to the Chief Finance Officer. To establish, maintain and assure that the IAD has sufficient authority to fulfill its duties, it shall submit to the Audit Committee for approval the following:

- this Charter
- risk-based internal audit plan
- IAD's budget and resource plan

The IA Manager shall have unrestricted access to and communicate and interact directly with the Audit Committee, as deemed appropriate.

The IAD shall have the authority to:

- Access all records, properties and personnel pertinent to carrying out any engagement, subject to accountability for confidentiality and data privacy and safeguarding of records and information.
- Select subjects of review and frequencies of such review, determine scope of work, and apply techniques required to accomplish audit objectives and issue reports.
- Obtain resources for the accomplishment of its tasks, assistance from the necessary personnel, as well as other specialized services from within or outside of LCMC in order to complete the engagement.

### **3.4 Independence and Objectivity**

The IA Manager shall ensure that the IAD remains free from any conditions that could threaten the ability of the internal auditors to carry out their responsibilities objectively.

The Internal Auditors shall maintain an unbiased mental attitude to allow them to perform engagements objectively and not compromise the quality of their data gathering and reports. They shall not subordinate their judgment on audit matters to others.

The Internal auditors shall have no direct operational responsibility or authority over any of the activities audited. Accordingly, internal auditors shall not engage in the following activities:

- Assessing specific operations for which they had responsibility within the previous year.
- Performing any operational duties for LCMC or its subsidiaries/affiliates
- Initiating or approving transactions external to the IAD
- Directing the activities of any employee not employed within the IAD except to the extent that such employee has been appropriately assigned to auditing

teams or to otherwise assist internal auditors (e.g. during Environmental Management Systems (EMS) audit)

Where the IA Manager has or is expected to have roles and/or responsibilities that fall outside of internal auditing, safeguards will be established to limit impairments to independence or objectivity.

Internal Auditors shall:

- Disclose any impairment of independence or objectivity, in fact or appearance, to appropriate parties
- Exhibit professional objectivity in gathering, evaluating and communicating information about the activity or process being examined.
- Make balanced assessments of all available and relevant facts and circumstances
- Take necessary precautions to avoid being unduly influenced by their own interests or by others in forming judgments.

The IA Manager shall confirm to the Audit Committee, at least annually, the organizational independence of the IAD and disclose to the Audit Committee any inappropriate attempts from the Executive Management or department heads to alter their audit reports.

### **3.5 Scope of Internal Audit Activities:**

The scope of internal audit activities encompasses, but is not limited to, objective examinations of evidence for the purpose of providing independent assessments to the Audit Committee, executive management and outside parties on the adequacy and effectiveness of governance, risk management and control processes for LCMC and its subsidiaries/affiliates.

### **3.6 Internal Audit Plan**

The IA Department shall develop a flexible, risk-based annual internal audit plan which sets out the list and schedule of audit engagements and activities for the coming years. The risk-based internal audit plan shall be developed based on a prioritization of the audit universe using a risk-based methodology, including the inputs from section/department heads, corporate officers, executive management and Audit Committee, if any. The IA Manager shall review and adjust the plan, as necessary, in response to changes in the organization's business, risks, operations, programs, systems and controls. Any significant deviation from the approved internal audit plan shall be communicated to Chief Finance Officer and the Audit Committee.

### **3.7 Reporting and Monitoring**

A written report shall be prepared and issued by the IA Manager or designee following the conclusion of each internal audit engagement and shall be distributed as

appropriate. Internal audit results shall also be communicated to the Audit Committee during the quarterly meetings or otherwise as directed by the Audit Committee.

The internal audit report shall include management's response and corrective action taken or to be taken with regard to the specific findings and recommendations. Management's response, whether included within the original audit report or provided thereafter by responsible officers of the audited department should include a timetable for anticipated completion of action to be taken and an explanation for any corrective action that will not be implemented.

### **3.8 Quality Assurance and Improvement Program**

The IAD shall maintain a quality assurance and improvement program that covers all aspects of the internal audit activity. The program will include an evaluation of the internal audit activity's conformance with the Definition of Internal Auditing and the Standards and an evaluation of whether internal auditors apply the Code of Ethics. The program also assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement.

## **4.0 RESPONSIBILITY**

### **4.1 Internal Audit Department:**

The IAD shall be responsible for the evaluation of the:

- 4.1.1 Risk exposure relating to the achievement of LCMC's strategic objectives
- 4.1.2 Reliability and integrity of information and the means used to identify, measure, classify and report such information
- 4.1.3 Systems established to ensure compliance with the policies, plans, procedures, and applicable legal, regulatory and environmental requirements and standards which could have a significant impact on the organization
- 4.1.4 Means of safeguarding assets and, as appropriate, verifying the existence of such assets
- 4.1.5 Effectiveness and efficiency with which the resources are employed.
- 4.1.6 Terms of acquisition of assets, their usage and maintenance.
- 4.1.7 Operations or programs to ascertain whether results are consistent with established objectives and goals.

- 4.1.8 Effectiveness and efficiency of governance, risk management and control processes. Opportunities for improvement of these processes, if any, shall be communicated to the appropriate level of management.
- 4.1.9 Significant risk exposures and control issues, including fraud risks, governance issues and other matters needed or requested by the Audit Committee.
- 4.1.10 Specific audit engagements at the request of the Audit Committee or executive management, as appropriate.

## **4.2 Internal Audit (IA) Manager**

The IA Manager shall:

- 4.2.1 Submit, at least annually, to executive management and the Audit Committee a flexible, risk-based internal audit plan for review and approval. The internal audit plan shall consist of a work schedule and resource requirements for the next calendar year.
- 4.2.2 Communicate to executive management and the Audit Committee the impact of resource limitations on the internal audit plan, if any.
- 4.2.3 Communicate to executive management and the Audit Committee any significant interim changes to the internal audit plan
- 4.2.4 Ensure that each engagement in the internal audit plan is executed, including the establishment of objectives and scope, the assignment of appropriate and adequately supervised resources, the documentation of work programs and testing results and the communication of engagement results, conclusions, and recommendations to appropriate parties.
- 4.2.5 Manage the follow-up of corrective action plan addressing the engagement findings and report periodically to the Audit Committee any corrective action/corrections not effectively implemented.
- 4.2.6 Ensure that the principles of integrity, objectivity, confidentiality and competency are applied and upheld.
- 4.2.7 Ensure that the IAD collectively obtains the knowledge, skills and other competencies needed to meet the requirements of the Internal Audit Charter.
- 4.2.8 Ensure that trends and emerging issues that could impact the organization are considered and communicated to executive management and the Audit Committee as appropriate.
- 4.2.9 Ensure emerging trends and successful practices in internal auditing are considered.

4.2.10 Ensure adherence to policies and procedures designed to guide the Internal Audit Department.

## **5.0 FORMS**

5.1 FRM-CHA-003: Table of Organization (Internal Audit Department)

5.2 FRM-CHA-004: Job Descriptions (Internal Audit Manager, Senior Internal Auditor, Internal Auditors)

## **6.0 REFERENCES**

6.1 Employee Code of Conduct

6.2 Data Privacy Act of 2012 (DPA) and Implementing Rules and Regulations

6.3 Data Privacy and Protection Manual

6.4 Environmental Policy

6.5 Environmental Management System Manual