

APPROVED

**By the Resolution of the
Management Board of the Ukrainian
Red Cross Society**

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INTERNAL AUDIT CHARTER

OF THE UKRAINIAN RED CROSS SOCIETY

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I. GENERAL PROVISIONS

1.1. Internal Audit Charter of the Ukrainian Red Cross Society (hereinafter referred to as the Charter) is developed considering the requirements of the legislation of Ukraine, the Charter of the Ukrainian Red Cross Society (hereinafter referred to as the Society), as well as the main provisions of the international professional practice of internal audit. The Charter regulates the activities of the Internal Audit Department (hereinafter referred to as the IAD), defines the principles, subordination, goals, functions, authority, responsibilities of the IAD employees.

1.2. The requirements of this Charter apply to the employees of the IAD and persons involved in the implementation of internal audit projects and engagements, employees of other structural units of the National Committee and regional (local) organizations of the Society that interact with the IAD during the internal audit.

1.3. IAD carries out its activities in accordance with the requirements of:

- legislation of Ukraine;
- the basic principles of professional practice of internal audit, the definition of internal audit, the Code of Ethics, and the International Standards for the Professional Practice of Internal Audit;
- of this Charter and local Provisions of the Society.

II. DEFINITION, MISSION, AND PURPOSE OF THE IAD

2.1. Internal audit is an independent, objective activity for the provision of audit and consulting services, which should benefit the organization and improve its activities.

Internal audit helps the Society to achieve its goals through a systematic, orderly approach to assessing and improving the effectiveness of risk management, control, and management of the Society's activities.

2.2. The mission of the IAD is to strengthen and protect the values of the Society by providing objective audit services, consultations and explanations based on risk assessment.

2.3. The purpose of the establishment and operation of the IAD is to provide confidence to the Management Board, the Audit, Risk Management and Ethics Committee of the Ukrainian Red Cross Society (hereinafter referred to as the Committee), the General Director of the National Committee of the Society and his deputies (hereinafter referred to as the Management of the National Committee) regarding the effectiveness and adequacy of the management of the Society, risk management and internal control processes of the National Committee and regional (local) organizations of the Society.

III. BASIC PRINCIPLES OF EMPLOYEES' WORK OF THE IAD

3.1. While performing their functions, the employees of the IAD shall:

- demonstrate honesty;
- demonstrate competence and due professional diligence;
- be objective and avoid undue influence (be independent);
- direct its activities in accordance with the strategies, goals and risks of the Society;
- have adequate accountability and adequate resources;
- demonstrate quality work and continuous improvement;
- effectively present information;
- provide risk-based audit services;
- demonstrate deep understanding, proactivity and focus on the future;
- promote positive changes in the Society.

IV. SCOPE AND TYPES OF THE IAD ENGAGEMENTS

4.1. The scope of the IAD activities includes (but is not limited to) the provision of independent and objective audit services and advice to the Management Board, the Committee and the Management of the National Committee on the effectiveness and adequacy of the Society's management processes, risk management and internal control of the National Committee and regional (local) organizations of the Society.

4.2. The objects of internal audit are any activities, processes, operations, procedures, systems, risks, projects, and programs of the National Committee and regional (local) organizations of the Society.

4.3. Audit services and IAD consultations are aimed at providing assurance that:

- risks associated with the achievement of strategic goals by the National Committee and regional (local) organizations of the Society are identified, assessed, and properly managed;
- management, employees of the National Committee and regional (local) organizations of the Society, as well as third parties during their cooperation with the National Committee and regional (local) organizations of the Society, comply with the current legislation, local Provisions of the National Committee and regional (local) organizations of the Society;
- the results of the implementation of projects, programs, processes correspond to the established goals and target metrics;
- projects and programs are implemented efficiently and rationally;
- the implemented systems and processes ensure compliance with the current legislation, local Provisions of the Society;
- the information and means used to identify, assess, analyse, classify such information and prepare reports, is credible and reliable;
- the assets of the National Committee and regional (local) organizations of the Society are acquired/received on fair terms, effectively used and properly protected.

4.4. For this purpose, the IAD may perform (but not be limited to) the following projects and tasks:

- audit of risk management and internal control systems;
- operational audit (audit of the effectiveness of projects/programs);
- audit of the reliability of financial and management information;
- audit of compliance with external and internal regulatory requirements;
- audit of risks associated with interaction with third parties;
- audit of information technology;
- special inspections and official investigations;
- consultations on issues within the competence of the IAD;
- other tasks on behalf of the Management Board, the Committee and the Management of the National Committee.

V. ORGANIZATIONAL STRUCTURE AND SUBORDINATION OF IAD

5.1. The IAD is a structural subdivision of the National Committee, the head of which is administratively subordinated to the General Director of the National Committee, and functionally – to the Committee.

5.2. Prior to the establishment of the Committee, the head of the IAD is functionally subordinate to the General Director.

5.3. Functional subordination of the head of the IAD provides that the Committee carries out:

- consideration and provision of recommendations regarding the approval and revision of these Provisions;
- providing recommendations on the budget and resources necessary to implement the internal audit plan, including the involvement of external professional service providers to perform individual internal audit tasks;
- providing recommendations on the necessary qualifications, hiring, appointing and dismissing the head of the IAD;
- providing recommendations on the amount of salary of the head of the IAD;
- reviewing and providing recommendations on the strategy, goals, performance indicators and evaluation of the results of the IAD's activities;
- consideration, discussion and provision of recommendations regarding the approval of a risk-oriented work plan of internal audit and amendments to such a plan, as well as approval of unscheduled tasks for internal audit;
- consideration and discussion of internal audit reports, results of the internal audit plan and regular communication with the head of the IAD on other issues, including without the participation of the management of the National Committee;
- assessment of the results and quality of implementation of corrective measures introduced by the management of the National Committee and regional (local) organizations of the Society based on the recommendations provided by the IAD;
- consideration, discussion and provision of recommendations regarding the results of any special investigations conducted by the IAD;
- requesting information from the head of the IAD and the management of the National Committee regarding any restrictions on the operations of the internal audit;
- requesting information from the head of the IAD regarding the detection of any indicators or signs of fraud during the execution of internal audit engagements, and an assessment of what additional measures should be taken.

5.4. The administrative subordination of the head of the IAD to the General Director of the National Committee provides for:

- subordination to the local normative legal acts of the Society in the part that does not contradict this Charter;
- compliance with the rules of the internal labour provisions of the National Committee;

- ensuring the financing of the IAD within the approved budget;
- ensuring effective internal communication of the IAD employees with all subdivisions of the National Committee and regional (local) organizations of the Society;
- compliance with the requirements of personnel administration.

VI. RIGHTS AND OBLIGATIONS OF IAD EMPLOYEES

6.1. IAD employees have the right to:

- during the execution of internal audit engagements and tasks for unimpeded and unlimited access to any assets (property) of the National Committee and regional (local) organizations of the Society, information systems, documents (including regulatory and administrative), decisions of management bodies, accounting and management records and reports, contracts, communications with employees of the National Committee and regional (local) organizations of the Society, as well as other information necessary for the implementation of such projects and tasks;
- make copies of the provided documents, including file copies of any information stored on electronic storage devices;
- initiate meetings with any employee of the National Committee and regional (local) organizations of the Society;
- receive written and oral explanations from the employees of the National Committee and regional (local) organizations of the Society on issues related to internal audit engagements and tasks;
- initiate the involvement of employees of other structural divisions of the National Committee and regional (local) organizations of the Society (including for obtaining expert opinions), third-party experts and consultants in cases where special knowledge and skills to carry out internal audit engagements and tasks are required;
- initiate an unscheduled internal audit engagement;
- discuss the results of internal audit projects and tasks with the members of the Committee, the General Director and the heads of structural units of the National Committee and regional (local) organizations of the Society;
- propose changes to the internal normative documents on the implementation of internal audit functions, approved by the Board or the General Director of the National Committee;
- send requests to third parties for obtaining necessary information related to internal audit engagements and tasks;
- participate without the right to vote in the meetings of the Committee;
- participate in any meetings and meetings of working, project groups (if necessary, such participation is approved by the General Director of the National Committee);
- exercise other rights granted by local regulatory acts of the Society.

6.2. IAD employees are obliged to:

- have a sufficient level of knowledge and skills, constantly improve them, ensure continuous professional training and education;
- submit a risk-based internal audit activity plan for consideration by the Committee;
- submit to the Committee for consideration the calculation of the resources necessary for the implementation of the internal audit activity plan, report on any existing limitations of the internal audit operators;
- to ensure compliance, sufficiency and efficiency of the use of IAD resources for the implementation of the internal audit plan;
- determine the procedures and methods used to carry out internal audit engagements and tasks; ensure the implementation of the internal audit plan;
- to inform the Committee, the General Director of the National Committee, as well as the heads of the regional (local) organizations of the Society and the heads of structural divisions of the National Committee and regional (local) organizations of the Society (responsible for the processes, projects, systems that were the subject of the audit) about the results of the engagements and internal audit tasks;
- to monitor the completeness and timeliness of the implementation of recommendations provided based on the results of internal audit engagements and tasks;
- to inform the Committee about the instances discovered during monitoring, where the measures adopted by the management of the National Committee and regional (local) organizations of the Society are not adequate to the determined level of risk;
- in the event of circumstances preventing the IAD employees from executing their duties, interference by the employees of the National Committee and regional (local) organizations of the Society in the activities of the IAD, detection of a level of risk unacceptable for the activities of the National Committee and regional (local) organizations of the Society, in writing to inform the Committee about it in order for it to take appropriate decisions or apply measures;
- periodically report to the Committee and the General Director of the National Committee on the implementation of the internal audit plan and performance results, the sufficiency of resources and authority, compliance with this Charter and the requirements of the Code of Ethics and International Standards for the Professional Practice of Internal Auditing, compliance with the principles of objectivity and independence.

VII. REQUIREMENTS FOR RISK-ORIENTED PLANNING OF IAD ACTIVITIES

7.1. IAD carries out internal audit engagements and tasks in accordance with the internal audit activity plan.

7.2. The activity plan (changes to the plan) of the internal audit is developed using a risk-based approach, considering the proposals and tasks received from the Committee, the General Director of the National Committee and the heads of structural divisions of the National Committee and regional (local) organizations of the Society. The internal audit activity plan is subject to periodic revision in view of changes in the Company's operations, programs, projects, systems, control procedures, etc.

7.3. The head of the IAD submits the internal audit activity plan (changes to the plan) for consideration and approval by the Committee, with further approval by the Board.

7.4. The Board, the Committee, the General Director of the National Committee and the head of the IAD can initiate unscheduled engagements and internal audit tasks.

7.5. The approval of unscheduled engagements and internal audit tasks is carried out in one of two ways:

- by approval of the Committee before the start of the project or task, if the unscheduled engagement or task may affect the implementation of the approved internal audit activity plan;
- by informing the Committee about the unscheduled engagement or task within the time budget for unscheduled engagements and tasks approved in the internal audit activity plan.

7.6. Informating and coordination are carried out by e-mail.

7.7. The internal audit activity plan is brought to the attention of the General Director of the National Committee, heads of regional (local) organizations of the Society, heads of structural units of the National Committee and regional (local) organizations of the Society responsible for processes, projects, systems within ten working days after its approval in the prescribed manner and others, which are planned as the subject of the audit.

VIII. THE ORDER OF INTERACTION AND EXCHANGE OF INFORMATION BETWEEN THE IAD AND STRUCTURAL UNITS

8.1. Employees of the structural units of the National Committee, heads and employees of the regional (local) organizations of the Society must provide all the necessary assistance to the IAD employees in the process of the latter's carrying out of internal audit engagements and tasks, including providing requested documents or their copies in a timely manner, providing written or oral explanations. Refusal of assistance or help must be documented by an employee of the IAD and is the basis for informing the Committee, with further initiation by the Committee of the adoption of response measures by the management of the National Committee and/or heads of regional (local) organizations of the Society.

8.2. IAD employees organize interaction, communication and exchange of information on internal audit with the employees of the National Committee and regional (local) organizations of the Society. Communications can be carried out by means of e-mail, audio and video communication.

8.3. IAD employees exchange information and coordinate their activities with other divisions of the National Committee and regional (local) organizations of the Society and external providers of professional services that provide professional services and consultations on issues related to the field of internal audit, in order to ensure proper coverage and minimization of duplication of work.

8.4. IAD employees should organize the collection of information about significant changes in the strategy, methods and risk management procedures of the National Committee and regional (local) organizations of the Society, changes in the operational activities of the National Committee and regional (local) organizations of the Society, as well as about the initiation and results of special inspections and official investigations carried out in connection with the receipt of messages to the «integrity line», the results of inspections of the National Committee and regional (local) organizations of the Society by the controlling authorities.

IX. REQUIREMENTS FOR CONDUCTING INTERNAL AUDIT ENGAGEMENTS AND TASKS AND REPORTING RESULTS

- 9.1.** Carrying out of internal audit engagements and tasks is done in accordance with the International Standards of Professional Practice of Internal Audit and are regulated by the relevant internal procedures of the IAD.
- 9.2.** The process of carrying out internal audit projects and tasks includes the following main stages: planning the audit task (determining the plan, goals, scope of the audit and necessary resources), performing audit procedures (testing, analysis and evaluation of current processes, procedures and controls), formulating and agreeing observations, conclusions and recommendations based on the results of the performed procedures, monitoring of the implementation of recommendations.
- 9.3.** In case of discovery of facts within the framework of the engagement, which require immediate intervention / response of the management of the National Committee and regional (local) organizations of the Society, IAD employees immediately report such facts in the most appropriate way.
- 9.4.** According to the results of engagements and internal audit tasks, the IAD should report on the results by preparing an audit report. The results of internal audit projects and tasks are agreed with the heads of structural units of the National Committee and regional (local) organizations of the Society (responsible for the processes, projects, systems that were the subject of the audit).
- 9.5.** Audit reports should contain relevant observations, conclusions, as well as recommendations for the elimination of identified deficiencies.
- 9.6.** The process of monitoring the implementation of recommendations provided based on the results of internal audit projects and tasks begins after notification of such results and ends after the implementation of all provided recommendations.
- 9.7.** The IAD periodically provides the Committee and the General Director of the National Committee with information on the status of implementation of the recommendations provided as a result of the completed projects and internal audit tasks.
- 9.8.** The IAD periodically reports to the Committee and the General Director of the National Committee on the implementation of the internal audit activity plan and performance, the adequacy of resources and authority, compliance with this Charter and the requirements of the Code of Ethics and International Standards of Professional Practice of Internal Audit, compliance with the principles of objectivity and independence.

X. REQUIREMENTS FOR ENSURING AND IMPROVING THE QUALITY OF IAD ACTIVITIES

10.1. The head of the IAD must ensure the development and support of the quality assurance and improvement program (hereinafter - the Program), which covers all aspects of internal audit activities.

10.2. The Program provides internal and external assessments of the quality of internal audit.

10.3. Internal assessments of audit quality assurance and improvement include:

- continuous (ongoing) quality monitoring of the internal audit function;
- periodic quality assessment (annual quality self-assessment);
- conducting a periodic survey regarding compliance with the expectations of interested parties;
- establishment of key performance indicators for IAD employees.

10.4. Periodic internal quality assessment is carried out at least once a year and consists of the assessment of internal audit activities compliance with the Code of Ethics and International Standards of Professional Practice of Internal Auditing. Periodic internal assessment is carried out in the form of a self-assessment or by other qualified employees of the National Committee and regional (local) organizations of the Society who have sufficient knowledge in the field of internal audit and are involved in such an assessment if necessary.

10.5. An external assessment must be conducted at least once every five years by a qualified independent expert (group of experts).

10.6. External quality assessment is carried out with the aim of confirming compliance with the requirements of the International Standards of Professional Practice of Internal Auditing, as well as obtaining an independent opinion on the quality of the internal audit function.

10.7. The external evaluation should cover the entire range of audit and consulting work performed by the IAD.

10.8. A report on the results of the Program is periodically submitted to the Committee and the General Director of the National Committee.

XI. LIMITATION

11.1. IAD employees must not disclose and use confidential information that has become known to them in the performance of their functions, for their own benefit or for the benefit of third parties.

11.2. IAD employees should not perform functional duties, initiate or carry out operations not related to internal audit activities.

11.3. IAD employees must not engage in any activity that could affect the impartiality of their assessment or be perceived as causing such harm.

11.4. IAD employees should not take part in internal audit engagements and tasks related to the spheres of activity of the National Committee and regional (local) organizations of the Society, for which they were responsible (performed management functions) during the previous year.

11.5. IAD employees should not receive anything as a gift that could damage their objectivity or be perceived as causing such damage.

XII. FINAL PROVISIONS

12.1. This Charter and amendments to it are approved by the Board after approval by the Committee.

12.2. The head of the IAD brings the content of this Charter to the attention of all employees of the National Committee and regional (local) organizations of the Society and ensures the opportunity to familiarize with it for all interested persons.

12.3. The head of the IAD once a year assesses the need to update this Charter.





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