


APPROVED
By the Board of Directors
of the OJSC «Company «M.video»

Chairman of the Board of Directors


/Peter Gyoeffy/
(Minutes №78/2013 dated 12.09.2013)

INTERNAL AUDIT CHARTER
of the Open Joint Stock Company
«COMPANY «M.VIDEO»

1. GENERAL

- 1.1. This Charter is an internal document of OJSC “M.video” (here and after – the Company), which defines the mission, purpose, functions, authority, responsibilities and reporting lines of the Internal Audit function (here and after – Internal Audit or IA).
- 1.2. The organizational form of the function is to be defined by Staffing Plan and Organizational Chart, introduced by the Order authorized by the Chief Executive Officer.
- 1.3. Company’s management agrees the Internal Audit function to carry out its responsibilities in accordance with the present Internal Audit Charter and an audit plan approved by the Audit Committee.
- 1.4. The Head of Internal Audit manages Internal Audit function. During absence of the Head of Internal Audit (sickness, vacation or other reasons) responsible person is designated by the Head of internal audit.

2. MISSION AND PURPOSE

- 2.1. The Internal Audit function is established to provide the Audit Committee in particular, and Company’s Board of Directors and Management in general with an independent review of business processes and controls necessary to manage the risks and to ensure that the Company achieves its objectives.
- 2.2. The Internal Audit function is a part of the internal control system which examines and evaluates the adequacy and effectiveness of other controls. Altogether this is activity that is guided by a philosophy of adding value to improve the operations of the Company.
- 2.3. The Internal Audit function assists the Company in accomplishing its objectives using a systematic and disciplined approach in:
 - providing assurance, aiming to give confidence to the stakeholders that the threats that are faced by the Company have been mitigated appropriately (i.e. the controls used by management are adequate and operating effectively);
 - advising and consulting managers in relation to issues within its remit, i.e. improve risk management, governance and control (e.g. appropriate controls in new projects/developments).

3. PROFESSIONALISM

- 3.1. The internal audit activity governs itself by adherence to The Institute of Internal Auditors' mandatory guidance including the Definition of Internal Auditing, the Code of Ethics, and the International Standards for the Professional Practice of Internal Auditing (Standards). This mandatory guidance constitutes principles of the fundamental requirements for the professional practice of internal auditing and for evaluating the effectiveness of the internal audit activity’s performance.

4. INDEPENDENCE

- 4.1. Independence is achieved through organizational status of the Internal Audit function and objectivity of internal auditors.
- 4.2. To ensure its independent organizational status, Internal Audit reports to the Audit Committee of the Board of Directors and administratively to the Chief Executive Officer.
 - 4.2.1. Reporting line to the Audit Committee involves:

- review and recommendation for approval to the Board of IA Charter, including its changes and additions;
- recommendation for approval to the Board of the Head of Internal Audit appointment or removal, his/her annual compensation and salary adjustment and Labor Contract terms;
- approval of annual internal audit risk assessment and related audit plan, including all amendments and additions;
- review and approval of internal audit annual budget;
- receipt of communications from the Head of Internal audit on the results of internal audit activities, as well as private meetings with the Head of Internal audit (without management presence);
- review of internal audit reports;
- evaluation of annual internal audit and the Head of Internal audit activities results;
- making of appropriate inquiries with management and the Head of Internal audit to determine whether there is an audit scope or budgetary limitations that impede internal audit activities;
- receiving from the Head of Internal audit annual confirmation of organizational independence of IA.

4.2.2. Administrative reporting line of accountability is built within the organizational structure and facilitates day-to-day internal audit operations. Administrative reporting includes:

- the issuance of the relevant regulations concerning the Internal audit activities based on decisions taken by the Board;
- review of internal audit reports and approval of action plans developed by management to resolve issues;
- monitoring and calling management to account if the action plans are not implemented;
- provision of execution of the internal audit activity budget;
- provision of necessary working conditions for internal auditors, including equipment, access to information and internal communications, administrative support;
- organization and provision of efficient internal communications and information flows between internal auditors and other Company departments;
- support of adherence to Company policies (coming to and leaving the workplace at the right time, payment of salary at the stated time, adherence to business trip procedures, etc.).

4.2.3. The Head of Internal Audit annually confirms organizational independence to the Audit Committee as required by the Standards.

4.3. Each internal auditor has a sufficiently independent position to be able to have an objective attitude to exercise judgment, express opinions and present recommendations with impartiality. Specifically:

- The Internal Audit staff is free from any conflict of interest arising either from professional or personal relationships or other interests in the Company or any related activity, which it may subject to audit;
- The Internal Audit staff is free from undue influence, which either restricts or modifies the scope or conduct of its work or overrules or significantly affects its judgment as to the content of any internal audit reports.
- In the interests of independence, the Internal Audit staff has direct access to all members of the Audit Committee and has no direct responsibility for, or authority over any of the Company’s activities. i.e.:
 - Be involved in day-to-day control and functional procedures, including drafting and implementing controls or take any managerial function in the Company.
 - Vote with decisive vote in any discussion of the strategic and operational management, to be an approving participant in the decision-making process (with the exception of decisions related to the organization of internal audit).
 - Make decisions on the imposition of penalties on the Company's employees, except Internal Audit staff.
 - Give any orders and instructions prescribing or regulating any actions of the Company's employees, except instructions related to the organization of Internal Audit activity;
 - Develop organizational, administrative and regulatory documents, except those regulating Internal Audit activity.
- The Head of Internal Audit have no executive or managerial powers and duties in the Company except those relating to the management of the Internal Audit department.

5. SCOPE AND RESPONSIBILITIES

5.1. The audit scope is based on the assessment of corporate risk.

5.2. Audit coverage is focused on high-risk areas and gives a review of risk management procedures, internal control system, information systems and governance processes.

5.3. Audit work involves periodic testing of transactions, leading practice reviews, acquisition due diligence and other special investigations, appraisals of regulatory or internal requirements, and measures to help prevent and detect fraud. Specifically:

- evaluation of the effectiveness of controls over the relevance, reliability and integrity of information for management and reporting purposes;
- assessment of the level of compliance with policies, plans, procedures, laws and regulations;
- evaluation of the operations or programs to ascertain whether results are consistent with established objectives and goals and whether the operations or programs are being carried out as planned;
- evaluation of the means of safeguarding assets and, as appropriate, verifying the existence of such assets;
- appraisal of the economy and efficiency with which resources are employed;

- assistance to management in identifying business risks and assessing the adequacy of the risk management processes;
 - evaluation of the risk exposure relating to achievement of the organization’s strategic objectives and reporting significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by the Board;
 - follow-up on recommendations to make sure that effective corrective action is taken;
 - advice on risk management, internal controls and governance issues;
 - close cooperation with all the oversight and assurance bodies, i.e. the External Auditor, Fraud Investigation department, Security department to better coordinate oversight activities with a view to providing effective audit coverage and reducing any overlaps.
- 5.4. Internal Audit staff is accountable for safekeeping and confidentiality of information obtained, whilst carrying out the Internal Audit work.
- 5.5. Each business unit is responsible for its internal control and efficiency. The Internal Audit department is not allowed to be involved in the implementation of internal control systems, but may be consulted on the adequacy of controls when they are first implemented.

6. AUTHORITY

- 6.1. The Head of Internal Audit has an unrestricted access to the Chairman of the Audit Committee and the CEO of the Company and reports to the Audit Committee.
- 6.2. To perform its duties, Internal Audit staff with the agreement of the Audit Committee is authorized to:
- decide on the nature, scope and timing of audits;
 - enter any premises of the Company and have access to and inspect any documents and records other than as agreed by the Audit Committee or CEO;
 - request any officer of the Company to provide such information and explanations as may be deemed necessary;
 - have discussions with line managers and employees of the Company at any reasonable time;
 - subject to direct supervisor’s approval, involve other employees of the Company in audit execution.
- 6.3. Specific sensitive and highly confidential matters are handled by the Head of Internal Audit.
- 6.4. To conduct audits, evaluations, assessments and appraisals within the competence of internal audit, the Head of Internal Audit may engage on a contractual basis third-party independent providers within the approved budget. The contracts are subject to approval of the Audit Committee.
- 6.5. The Head of Internal Audit has the right to limit the number of persons acknowledged about the audit when premature disclosure of the ongoing work may result in the loss or falsification of documents and other audit evidence by the involved staff or to create obstacles to the audit.

7. INTERNAL AUDIT PLAN AND REPORTING

- 7.1. At least annually, the Head of Internal Audit submit to senior management and the Audit Committee an internal audit plan for review and approval.
- 7.2. The internal audit plan is developed based on a prioritization of the audit universe using a risk-based methodology, including input of senior management and the Audit Committee.

- 7.3. The Head of Internal Audit communicates the impact of resource limitations and significant interim changes to the Audit Committee through periodic activity reports.
- 7.4. A written report is prepared and issued by the Head of Internal Audit or designee, following the conclusion of each internal audit engagement. Distribution list includes, but not limited, the Audit Committee, CEO, and senior management of an audited department.

8. INTERNAL AUDIT LIMITATIONS

- 8.1. Reviews by Internal Audit do not in any way relieve management of its absolute responsibility to ensure that the controls on which it relies are robust.
- 8.2. Identification and prevention of fraud is a fully management responsibility.
- 8.3. Upon request the Internal Audit department assists management to identify the main fraud risks the Company may be exposed to and helps management design adequate controls that could minimise the effects of the risks.

9. PERFORMANCE EVALUATION

- 9.1. The Performance of the Internal Audit department is evaluated annually by the Audit Committee.
- 9.2. The key performance indicators of the Internal Audit are:

Indicator	Metric
<ul style="list-style-type: none"> • Coverage of Company’s activity 	<ul style="list-style-type: none"> Completed versus planned audits
<ul style="list-style-type: none"> • Turnaround time 	<ul style="list-style-type: none"> • Days from end of field work to draft report issuance
<ul style="list-style-type: none"> • Internal control environment improvement 	<ul style="list-style-type: none"> • Process and control improvements suggested by the IA department
<ul style="list-style-type: none"> • Staff utilization 	<ul style="list-style-type: none"> • Percentage of time spent on projects as opposed to administrative time or vacation
<ul style="list-style-type: none"> • Execution of technological innovations 	<ul style="list-style-type: none"> • Audits using computer assisted techniques • AuditModern deployment for standard methodology and automated work papers
<ul style="list-style-type: none"> • Client acceptability 	<ul style="list-style-type: none"> • Audit findings remediated by the management over a 12 month period
<ul style="list-style-type: none"> • Positive brand image 	<ul style="list-style-type: none"> • Average customer satisfaction level in accordance with Survey
<ul style="list-style-type: none"> • Perception and use of Internal Audit as a strategic resource 	<ul style="list-style-type: none"> • Existence of requests for internal audit services from business units and Company's management

- 9.3. The target value for each KPI is annually reviewed and approved by the Audit Committee.

10. OTHER PROVISIONS

- 10.1. This Charter is subject to Audit Committee of the Board of Directors review and recommendation for approval by the Board.
- 10.2. The Charter is introduced by the order of CEO issued on the ground of Board’s approval.
- 10.3. The Head of Internal Audit, at least once a year, should review and evaluate the relevance of the Charter and, when necessary, make appropriate changes with further review by senior management and Audit Committee.