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State Trading Corporation of Bhutan Ltd.



An ISO 9001: 2015 QMS, Quality Certified Company

TERMS OF REFERENCE FOR INTERNAL AUDITOR

10.1. Purpose:

The purpose of Terms of Reference (TOR) for Internal Auditors is to provide a framework within which the internal audit shall function in State Trading Corporation of Bhutan Limited (STCBL) and shall be read in conjunction with the Audit Committee Charter.

10.2. Scope:

The scope of the internal audit activities, among other things, is to ensure:

- Internal control systems are adequate and effective in various operational, financial and administrative activities of STCBL.
- Accounting records and financial reports are accurate and reliable;
- Operational functions are in compliance with internal policies, procedures and guidelines/manuals;
- Compliance with directives/decisions of Board of Directors, the Board Audit Committee and Management of STCBL;
- Quality and continuous improvement are fostered in the organization's control process. Statutory and other regulations binding on STCBL are complied.

10.3. Authority:

- The Internal Audit does not have decision making authority but can determine an opinion on each area of audit and make recommendations for improvement.
- The Internal Auditors are authorized to have complete access to all functions, records, property, and personnel of the company with the prior approval of the Chairman of the BAC.
- Seek assistance and support of respective functions of the organization to carry out quarterly physical verification of spares and half-yearly physical verification of inventories and other audit engagements as per plan;
- The management and all company personnel shall cooperate with and support internal audit activities as required and shall proactively inform internal audit in a timely manner of any serious incidents, notably damage or well-founded suspicion of misconduct in their areas, of any material changes in the internal control system, and breaches of internal control.

10.3.1. External Relationships

The Internal Audit shall liaise with the Royal Audit Authority, the Statutory Auditors and their representatives to coordinate audit work for efficiency and effectiveness of audit resources, audit approach and coverage, management inputs and to minimize audit costs.





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10.4. Independence & Reporting:

To maintain independency of internal auditing functions:

- Chief Internal Auditor (CIA) and Internal Audit staff shall have free and direct access to the Chairman of BAC and its members at all times;
- The CIA shall report directly to BAC on the progress of work assigned and other significant audit findings on timely manner;
- CIA shall provide professional and administrative supervision and approvals to internal auditors to carry out their day to day functions; CIA shall report to the BAC Chairman for approvals to all work-related internal travels while internal audit staff shall report to CIA for such approvals;
- Internal Audit staff shall report to the CIA for all work-related internal travel, leave, etc.
- Administrative support functions needed by the Internal Audit and for administrative issues such as work decorum, code of conduct, behavioral aspect, attendance in the office, shall be under the CEO's supervision;
- The CEO may also assign the Internal Audit for fact finding and investigation for which assignments must be undertaken and report thereof submitted to the CEO with a copy to BAC Chairman.

10.5. Roles & Responsibilities:

The Internal Auditors shall have responsibilities to:

- Develop an annual audit plan and submit to BAC for approval;
- Implement the annual audit plan and undertake any special tasks directed by the management and BAC;
- Present a preliminary findings/report to the concerned auditee during the course of the audit and prior to exit meeting.
- Conduct an audit exit meeting with the concerned Divisions and Units to discuss and review audit findings.
- Produce final audit memo/report and also provide reasonable time for the response.
- Submit periodic audit reports to Audit Committee and management on progress results of annual audit plan and adequacy of internal audit resources;





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- Regularly communicate to the BAC and CEO on the progress and results of the annual plan, on the adequacy of internal audit resources and emerging trends and practices in internal auditing;
- Strengthen internal auditing capacity with adequate knowledge and skills, experience and professional capacities in alignment with growth of the company;
- Assist in the investigation of significant suspected fraudulent activities within the company and notify management and the audit committee of the results;
- Provide oversight of coordination functions with external auditors, viz. Statutory and Royal Audit Authority in furnishing quality management responses and resolution of all audit memos;
- Assess and verify whether audit recommendations in earlier audit reports of statutory, royal audit authority and internal auditor are implemented;
- Conduct surprise audit in physical verification of cash balance and bank statement and its reconciliation; and inventory and spare parts; Assess all operations/functions are in compliance with all policies and procedures, manuals and standards, and applicable laws and regulations of the company;
- Conduct continuous auditing of all Divisions/Units and Sections as per annual audit plan approved by Board Audit Committee,

