

STATUTE OF THE INTERNAL AUDIT DEPARTMENT OF THE STATE OIL FUND OF THE REPUBLIC OF AZERBAIJAN

1. GENERAL PROVISIONS

- 1.1. Internal Audit Department (the Department hereafter) is a structural unit of the State Oil Fund of the Republic of Azerbaijan (the Fund hereafter).
- 1.2. The Department is guided by the Constitution of the Republic of Azerbaijan, the laws of the Republic of Azerbaijan, the decrees and orders of the President of the Republic of Azerbaijan, the “Statute of the State Oil Fund of the Republic of Azerbaijan”, the decrees and orders of the Fund, as well as this Statute in its activities.
- 1.3. The Department operates in collaboration with other structural units of the Fund in fulfilling the functions identified by this Statute.
- 1.4. The terms and definitions used in this Statute are the following:

Audit Group – the working group appointed by Department director to provide internal audit examination;

Business process – relevant activity linked to the Fund’s goals and conducted for achieving certain result;

Internal audit report – report which is based on observations and audit evidence of Audit Group, reflecting objective opinion and containing information on the status of governance, internal control and risk management systems;

Internal audit examination – collection and analysis of audit evidence in order to evaluate the status of governance, internal control and risk management systems;

External auditors – independent auditor who performs audit of financial reports of the Fund, as well as other entities performing audit of the Fund’s activity, processes and etc.;

Monitoring – control over implementation of the Action plan developed to remove shortages and gaps discovered while performing internal audit examination – last stage of internal audit examination;

Action plan – plan of actions developed to remove discovered shortages based on findings of internal audit examination as well as to improve Business processes.

2. MAIN OBJECTIVE OF THE ACTIVITIES OF THE DEPARTMENT

The main objective of the Department is to assist senior management in achieving goals of the Fund through systematic approach to evaluation of adequacy and efficiency of governance, internal control and risk management systems.

3. THE FUNCTIONS OF THE DEPARTMENT

The Department has the following functions:

- 3.1. Evaluation of adequacy and efficiency of governance, internal control and risk management systems in independent and impartial (objective) manner and submission of information on their status to the Fund’s Executive Director;

- 3.2. Provide recommendations on improving governance, internal control and risk management systems.

4. THE RESPONSIBILITIES OF THE DEPARTMENT

Department carries out the following responsibilities for the sake of performing functions established by this Regulation:

- 4.1. Evaluates conformity of the Fund's activity with legislation and statutory acts of the Republic of Azerbaijan, the Statute and internal procedures of the Fund while performing Internal audit examination;
- 4.2. Evaluates adequacy and efficiency of systems and procedures created in order to provide observance of laws, guidelines and procedures;
- 4.3. Evaluates organization and implementation of governance, internal audit and risk management activities;
- 4.4. Evaluates efficiency of resource utilization;
- 4.5. Provides recommendation on the improvement of governance, internal audit and risk management systems aiming to increase their adequacy and efficiency;
- 4.6. Provides recommendations on removing of shortcomings (if available) discovered during internal audit examination;
- 4.7. Whether immediate removal of shortcomings discovered is possible, collects audit evidence on the relevant work done in this direction;
- 4.8. Produces Internal audit report based on final results of internal audit examination;
- 4.9. Organizes Monitoring on implementation of Action plan developed to remove shortcomings discovered during internal audit examination and produces report on Monitoring results;
- 4.10. Within its authority investigates cases submitted to the Department which had or may have impact on the Fund's activity as well as information about damage caused to the Fund and occurrence of other negative cases;
- 4.11. Carries out relevant procedures for confirming or denying cases of fraudulence if any doubt arises on fraudulence;
- 4.12. Provides safety of documents submitted for internal audit examination and registers audit evidence;
- 4.13. Establishes business relations with External auditor (information exchange and coordination of the activity, awareness on audit methods and etc.) in order to achieve maximum benefit from internal audit service and reduce work duplication;
- 4.14. Drafts Fund's normative and other acts on organization and implementation of internal audit service;
- 4.15. Provides continuous studying of new directions and advanced international experience on internal audit service development and applies them to the Fund's internal audit system;
- 4.16. Develops and submits to the Executive Director annual audit strategy and plan;
- 4.17. Execute all other risk management related tasks set by senior management.
- 4.18. Prepare and present regular reports on the activities of department;

5. ORGANIZATION OF DEPARTMENT ACTIVITY

- 5.1. The organizational structure and the number of employees of the Department are determined by the Executive Director of the Fund.

- 5.2. The operations of the Department are overseen by the Director of the Department. The Director of the Department is appointed and dismissed from his position by the Executive Director of the Fund. The Director of the Department bears personal responsibility for the accomplishment of the responsibilities assigned to the Department.
- 5.3. The Director:
 - 5.3.1. Allocates work the employees under his supervision, coordinates their activities and monitors the execution of duties and oversees employee discipline in the workplace;
 - 5.3.2. Determines structure of Audit groups and supervises their work;
 - 5.3.3. Subject to Executive Director's approval, includes employees of the Fund's other structural divisions or third party experts to the Audit group if necessary;
 - 5.3.4. Submits information on significant issues regarding Department's activity and status of internal audit examinations and presents Internal audit report on examination results to the Executive Director;
 - 5.3.5. Informs the Fund's Executive Director about current obstacles impeding effective execution of the tasks assigned;
 - 5.3.6. In order to evaluate work of the Department revises annual report on Department's performed activities and presents it to the Executive Director;
 - 5.3.7. Prepares proposals for the Fund's Executive Director on main directions of improving internal audit service, ensures implementation of measures on improving internal audit service;
 - 5.3.8. Ensures relevant sustainable professional development for Department employees;
 - 5.3.9. Provides recommendations to the Executive Director on encouragement and punishment measures to the Department employees;
 - 5.3.10. Subject to the Executive Director's approval assigns an audit examination;
 - 5.3.11. Defines internal audit procedures and their scope taking into account the type, methods of internal audit examination and features of Business process;
 - 5.3.12. Participates in cooperation with external auditors;
 - 5.3.13. According to the procedures set out by the Fund, attends (without voting right);those meetings of the Fund which are considered strategically important;
 - 5.3.14. Supervises quality of audit service;
 - 5.3.15. Within his competence signs letters, reports and other related documents on the Fund's internal audit issues;
 - 5.3.16. Ensures the review of incoming letters, requests, complaints and proposals in accordance with the legislation ;
 - 5.3.17. Ensures the execution of the clerical work of the Department;
 - 5.3.18. Represents the Department;
 - 5.3.19. Performs other tasks assigned by the Executive Director regarding functions of the Department.
- 5.4. In the case of absence of the Department Director, his/her duties are delegated to the one of the employees within the Department.
- 5.5. The employees of the Department are appointed and dismissed from their position by the Executive Director.