

# Corporate Internal Audit Regulations



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## 1. Definition of Auditing Activity

TOTVS' Internal Audit is an independent and objective activity that renders evaluation and consulting services, aiming to add value and improve TOTVS' operations. The audit helps the organization to reach its objectives by adopting a disciplined, systematic approach to evaluate and improve the effectiveness of risk management, control and corporate governance processes.

## 2. Scope

The scope of internal audit encompasses the entire TOTVS ecosystem, including all operations in Brazil and abroad, investments and even franchises and partners, respecting the limits set in the contract.

## 3. Standards

Current regulations are based on international standards for the exercise of the Internal Auditing profession, elaborated by *The institute of Internal Auditors - IIA*, to which the Instituto dos Auditores Internos do Brasil – *AUDIBRA* is affiliated.

This document aims to outline the basic principles that represent the practice of internal auditing, to provide a structure for the execution and promotion of an added value scope, to lay the foundations for a performance evaluation and to help improve processes and organizational operations. The TOTVS internal audit must essentially fulfill the required guidelines issued by *The institute of Internal Auditors - IIA*.

## 4. Structure - Management and Supervision of Jobs

The Chief Audit Executive is responsible for the effective management of the internal auditing activity in accordance with regulations, compliant with the code of ethics of the profession, standards, annual planning and any other jobs developed by the area, department budget management and internal resources.

The approval of current regulations and the supervision of auditing jobs is under the Audit Committee's responsibility.

### 4.1 Ethical Conduct

The ethical conduct of TOTVS' internal auditors complies with the principles and rules of conduct set in the code of ethics of IPPF - International Professional Practices Framework. The principles to be followed are:

- I. **Integrity:** The integrity of internal auditors demands trust, substantiating the reliability of their judgment.
- II. **Objectivity:** Internal auditors present the highest degree of professional objectivity in data gathering, evaluation and communication regarding the activity or process under analysis. To formulate their judgments (opinions), internal auditors create a balanced assessment of all relevant circumstances, not being unduly influenced by their own interests or by others.
- III. **Confidentiality:** Internal auditors respect the value and ownership of the information they can access and do not disclose it without due authorization, except in case of legal or professional duty.
- IV. **Competence:** Internal auditors apply the required knowledge, skills and experience to perform Internal Audit services.

### 4.2 Authority and Subordination

TOTVS Internal Audit members, rigidly accountable regarding the confidentiality and safeguard of records and information, have full, unrestricted authorization to access each and every record and property, whether physical



or personal, of the organization to conduct any auditing job. They also have free, unrestricted access to the administration board, top management and audit committee, whenever appropriate.

The Chief Audit Executive functionally reports to the Audit Committee, directly reporting to the Administration Board and, administratively to the CFO of TOTVS.

The audit committee also approves all decisions related to the performance evaluation, appointment or dismissal of the Chief Audit Executive, as well as the approval and yearly adjustment of the Chief Audit Executive's compensation.

### 4.3 General Attributions

The scope of TOTVS' Internal Audit encompasses, but is not limited to, the examination and evaluation of the effectiveness and suitability of the organization's governance, risk management and internal controls, as well as the performance quality of the execution of assigned responsibilities so TOTVS can reach its goals and objectives. This includes:

- Assessment of risk exposure regarding the attainment of the organization's strategic objectives.
- Evaluation of information reliability and integrity, and the means employed to identify, measure, classify and promote such information.
- Assessment of systems and controls established to ensure the fulfillment of policies, procedures, laws and regulations that may have a significant impact in the organization.
- Evaluation of the means to safeguard assets and, depending on the case, to check for the existence of such assets.
- Assessment of the effectiveness and efficiency with which resources are employed.
- Evaluation of the operations or processes to determine whether the results are consistent with the set goals and objectives and whether the operations or processes are executed as planned.
- Monitoring and evaluation of governance processes.
- Monitoring and evaluation of the effectiveness of the risk management processes of the organization and of mitigation plans.
- Support with consulting and assistance regarding governance, risk management and control, as suitable for the organization.
- The periodic issue of reports related to the audits set in the annual plan.
- Disclosure of risks and control vulnerabilities, including fraud risks identified in audit jobs or in specific scope, governance questions and other topics needed or requested by the administration board, audit committee or top management.
- Investigating complaints received through the complaints channel, whenever activated.
- Evaluating specific operations requested by the administration board, audit committee or top management.

### 4.4 Independence

TOTVS Internal Audit activities are free from the interference of any element of the organization regarding the selection of areas or processes to be audited, the scope of jobs, the frequency of evaluations, dates or the content of reports, in order to maintain their independence and objectivity.

TOTVS internal audits must not assume responsibilities that may compromise the independence of internal auditing. Thus, internal auditors cannot have any direct operational responsibility or authority over any audited activities. In this manner, they do not implement internal controls, develop procedures, conduct procedures expecting to create revenues or reduce costs and expenses, install systems, prepare records, or exercise any other activity that may bias their judgment.

TOTVS' internal auditors present the highest degree of professional objectivity, evaluation and communication of information regarding the activity or process under analysis, as well as make a balanced assessment of all relevant circumstances, not being unduly influenced by their own interests or by others when shaping their judgments.



The person in charge of internal auditing must annually formalize a letter of independence, addressed to the audit committee.

## 4.5 Annual Audit Plan

Annually, the Chief Audit Executive of TOTVS must present an Internal Audit plan to the Audit Committee for analysis and approval.

The Internal Audit plan is composed of working hours as well as budget requirements, resources needed to set priorities of the audit universe, using a risk based methodology that includes fraud risk and the concerns of both top management and the Audit Committee.

The Chief Audit Executive must review and adjust the plan, as needed, in response to changes in the business, risks, operations, systems and controls of the organization. The Audit Committee must be notified of any significant deviation from the approved internal audit plan.

## 4.6 Jobs and Monitoring Report

When the internal audit observes shortcomings after completing each job, it must prepare a report for the top management in charge of the process, containing the identified audit points.

For the identified shortcomings, the manager in charge of the area or process must submit an action plan and a deadline for its completion, after the formal recommendation of internal audit. Once issued, the audit report must be published with all action plans and persons responsible in up to 45 days from the job's closing date.

Internal Audit is responsible for monitoring the fulfillment of the proposed action plans and deadlines. It must report a detailed deployment status of the action plans to the company's managers, directors and VPs, at least biannually. To the CEO and Audit Committee, it must report the significant control shortcomings and other relevant pending issues of the audit jobs not completed within the stipulated deadlines.

## 4.7 Ongoing Improvement and Quality Review

The Chief Audit Executive must develop and maintain a quality assurance and improvement program that includes all aspects of the internal audit activity.

The quality assurance program is composed of internal and external evaluations. The processes and tools used in the evaluation may include the checking and supervision of the audit job, checklists, customer opinions, selective peer reviews, time annotation systems and other metrics.

At the request of the Administration Board or Audit Committee, an evaluation may be conducted outside the organization.

## 4.8 Acceptance of Jobs

The internal auditor may accept an audit job only when one of the following conditions is met:

- Scheduled job, approved by the audit committee.
- Unscheduled job, to investigate complaints or suspected fraud.
- Unscheduled job, to meet specific requests from internal areas, as long as it does not compromise the execution of jobs scheduled for the year.



If the audit job request does not meet any of the set conditions, the internal auditor can only accept the job after approval by the audit committee.

At least biannually, the Chief Audit Executive must report to the audit committee, in an appropriate level of detail, the statuses of completed jobs, both scheduled and unscheduled, with the volume of hours and main conclusions reached.

## 4.9 Internal Training Policy

TOTVS' internal auditors will be constantly encouraged to obtain certificates from "*The Institute of Internal Auditors - IIA*". The internal audit area is responsible for keeping study materials up-to-date and to refund the application exam expenses, as long as the internal auditor succeeds in the exam or certification phase.

## 5. Approvals (Document)

Name / Position	Description
Mauricio Alexandre Gonçalves Chief Audit Executive	Prepared by
Silvio Roberto Reis de Menezes Director, Ombudsman, RCC, Processes, Risks and Compliance	Review
Andre Rizk Legal Director	Review
Audit Committee	Review/Recommendation
Administration Board	Approval