

«APPROVED»
by the decision of annual
general shareholders' meeting of
«KOKAND BIOCHEMICAL»
June 20, 2020 year

H.A.Omonov _____

Chairman of the meeting signature

JOINT-STOCK COMPANY

«KOKAND BIOCHEMICAL»

REGULATION
ON THE INTERNAL
AUDIT SERVICE

2020 year

- I** GENERAL PROVISIONS
- II** MAIN TASKS AND FUNCTIONS OF THE INTERNAL AUDIT SERVICE
- III** RIGHTS AND OBLIGATIONS OF THE INTERNAL AUDIT SERVICE
- IV** REQUIREMENTS TO THE INTERNAL AUDIT SERVICE
- V** AUTONOMY OF THE INTERNAL AUDIT SERVICE
- VI** REQUIREMENTS FOR CONDUCTING INTERNAL AUDIT AND FORMING A CONSOLIDATED REPORT ON THE RESULTS OF ITS CONDUCT
- VII** RESPONSIBILITY OF THE INTERNAL AUDIT SERVICE

I. GENERAL PROVISIONS

1. This Regulation in accordance with the Decree of the President of the Republic of Uzbekistan, dated September 27, 2006 № IIII-475 “On measures for the further development of the securities market” establishes uniform requirements for organizing internal audits in companies with a book value of assets of more than 1 billion soums, and in joint-stock companies with a book value of assets of more than one hundred thousand minimum wages, and also determines the methodological basis for the organization of its work.

2. For the purposes of this Regulation, the following definitions are used:

internal audit - activity of the Company's structural subdivision (the internal audit service) for monitoring and evaluating the job of the executive management body and structural subdivisions of the Company by checking and monitoring their compliance with legislative acts of the Republic of Uzbekistan, constituent and internal documents, ensuring the completeness and accuracy of data reflected in accounting and financial statements, established rules and procedures for carrying out business transactions, the safety of assets, and the introduction corporate governance principles;

the internal audit service - a structural subdivision of the Company performing an internal audit and established by a decision of the Supervisory Board of the Company, taking into account the requirements established by this Regulation.

II. MAIN TASKS AND FUNCTIONS OF THE INTERNAL AUDIT SERVICE

3. The main tasks of the internal audit service are:

- providing the Supervisory Board with reliable information and preparation of proposals for improving the Company's activities based on the results of the internal audit;
- promptly making recommendations to the management bodies of the Company on the elimination of issues identified in the internal audit process, monitoring their elimination.

4. The main functions of the internal audit service are:

- conducting an internal audit (quarterly and based on the results of the reporting year) by conducting appropriate audits in the areas specified in paragraph 12 of this Regulation in accordance with the plan approved annually by the Supervisory Board of the Company;
- carrying out an examination of the concluded unique economic contracts for the subject of their compliance with the requirements of the legislation;
- providing the structural subdivisions of the Company with methodological assistance in conducting accounting and preparing financial statements, advising them on financial, tax, banking and other legislation issues;
- Assistance to the Supervisory Board of the Company in the development of technical tasks, evaluation of proposals of external audit organizations, as well as the preparation of recommendations for the selection of an external audit organization to conduct an audit.

III. RIGHTS AND OBLIGATIONS OF THE INTERNAL AUDIT SERVICE

5. The internal audit service has the right to:

- decisions of the governing bodies, certificates, calculations, certified copies of the necessary documents and other documentation), oral and written explanations from officials and responsible officials of the Company on issues arising during implementation internal audit reports;
- engage relevant specialists of the Company to assist in the internal audit.
- receive documents of the Company, (orders, orders of the head, The internal audit service is obliged:
- to comply with the requirements of this Regulation and other legislative acts when conducting an internal audit;
- prepare reports in accordance with the requirements established by paragraphs 13-18 of this Regulation;
- to check the accuracy of indicators of financial and statistical reporting;

- to ensure the confidentiality of information obtained during the internal audit;
- in case of identifying of facts testifying to the loss of the company by its employees to inform the executive body of the Company, and if the losses are caused to the Company by its officials, inform the Supervisory Board of the Company about this and make an appropriate entry in the audit report;
- participate in the inventory of assets and control the timeliness of its implementation in the manner prescribed by law.

The internal audit service may also have other obligations in accordance with the legislation and the Charter of the Company.

IV. REQUIREMENTS TO THE INTERNAL AUDIT SERVICE

6. The employees of the internal audit service must have at least two years out of the last ten years of practical work (including part-time) in accounting, auditing, financial or tax control, and must meet one of the following requirements:

- must hold a qualification certificate of an internal auditor;
- to have a qualification certificate of the internal auditor (certificate approved by the Certificates of passing annual advanced training courses);
- higher economic education obtained in higher educational institutions of the Republic of Uzbekistan or in educational institutions of a foreign state and in accordance with the legislation of the Republic of Uzbekistan recognized as equivalent to education in the Republic of Uzbekistan;
- work experience specified in paragraph 10 of this Regulation;
- experience with Microsoft Office programs, as well as 1-C Accounting (at least as a user).

7. The number of employees of the internal audit service should be sufficient to effectively achieve the objectives and solve the internal audit tasks, and is determined by the Supervisory Board of the Company in the number of three certified internal auditors and they must meet the following requirements:

The chief auditor - the head of the internal audit service: should have practical experience in accounting, auditing, financial or tax control (or teaching experience in higher educational institutions of the Republic of Uzbekistan) for at least ten years out of the last ten;

Leading auditor: should have practical experience in accounting, auditing, financial or tax control (or teaching experience in higher educational institutions of the Republic of Uzbekistan) of at least five years out of the last ten;

Auditor: must have practical experience in accounting, auditing, financial or tax control (or teaching experience in higher educational institutions of the Republic of Uzbekistan) for at least two years out of the last ten.

8. Annually the head of the internal audit service prepares an annual estimate of the costs of the internal audit service and submits it to the supervisory board of the Company for approval.

9. The professional level of the employees of the internal audit service should be maintained by improving their qualifications on a systematic basis in educational institutions with an appropriate license.

10. Employees of the internal audit service are subject to annual examination by the supervisory board of the Company.

V. AUTONOMY OF THE INTERNAL AUDIT SERVICE

11. The main conditions for the independence of the internal audit service are:

— direct subordination of the internal audit service to the Supervisory Board of the Company;

— appointment and dismissal of the head of the internal audit service and its employees from their position, on the decisions of the Supervisory Board of the Company.

When setting salary to employees of the internal audit service, the following criteria are taken into account, including the amount of salaries according to the staffing list:

Chief Auditor (Head of Internal Audit Service)	on	12-13
	category;	
Leading auditor -	on	10-11
	category;	

The main workplace of the Chief auditor and leading auditors is “KOKAND BIOCHEMICAL” JSC, hiring is carried out only on the basis of an employment contract. An internal audit service auditor may be hired as part-time, also on the basis of an employment contract, in individual cases under an employment agreement.

Employees of the internal audit service, in addition to direct subordination to the Supervisory Board as members of the labor collective of “KOKAND BIOCHEMICAL” JSC, follow local regulatory acts governing the internal rules and procedures of the Company. At the same time, the rights and obligations of employees of the internal audit service are established by the employment contract and other local regulations.

To the Employee hired under an employment agreement does not include rights and obligations established by local regulations governing internal rules and procedures of “KOKAND BIOCHEMICAL” JSC, as well as other local regulations, the relationship between this employee and the Company is regulated by the Civil Code of the Republic of Uzbekistan.

It is prohibited to use the above-mentioned local regulatory acts as a tool to influence employees of the internal audit service.

VI. REQUIREMENTS FOR CONDUCTING INTERNAL AUDIT AND FORMING A CONSOLIDATED REPORT ON THE RESULTS OF ITS CONDUCT

12. Internal audit is carried out only by employees of the internal audit service through audits and monitoring of:

- the progress in the implementation of the approved business plan;
- the compliance with the principles of corporate governance;
- the conditions of accounting and financial reporting;
- the correctness of calculation and payment of taxes and other obligatory payments;
- the compliance with the law in the implementation of financial and economic activities;
- the asset status;
- the internal control.

On the basis of the Company's profile, the Supervisory Board may determine other directions for conducting inspections in accordance with the legislation, including the audit of special issues.

13. Based on the results of the inspections carried out, the corresponding reports are drawn up and signed by the employee (employees) who directly conducted it.

Wherein:

a) report on the results of the audit of the implementation of the business plan should include:

- analysis of quantitative and qualitative indicators of its implementation;
- description of the causes of failure of its implementation, with personal identification of the guilty officials;

b) report on the results of the audit of compliance with the principles of corporate governance should include:

— analysis of the effectiveness of decisions made by the Company's management bodies, following the legal rights and interests of its participants (founders);

— description of facts of violation of legislation in the field of corporate governance (compliance with constituent documents, holding general meetings and meetings of the Company's management bodies, correctness of accrual and timeliness of dividend payment, etc.);

c) report on the results of the audit of the accounting and financial statements of the company should include:

— assessment of compliance with the established order of accounting and financial reporting;

— description of the found violations of the established order of accounting and financial reporting;

d) report on the results of checking the correctness of the calculation and payment of taxes and other obligatory payments should include:

— assessment of the correctness of calculations of taxes and other obligatory payments made and submitted to the relevant authorities;

— description of the facts of violation of the established procedure for the calculation and payment of taxes and other obligatory payments, deviations in determining the taxable base;

e) report on the results of the audit of the company's compliance in financial and business operations should include:

— assessment of compliance of the financial and business operations of the Company with the legislation;

— description of the inconsistencies identified during the internal audit to the legislation of the financial and business operations of the Company;

f) report on the results of the audit of the internal control should include:

— description of the internal control system and issues in its operation;

— data on the performing discipline in the Company's structural units, existing shortcomings in the work of its specific employees.

The results of an asset status audit should be based on an inventory of assets and include information on their movement, actual availability and safety.

Also, all reports on audit should contain a final part, including an assessment of the activities of the executive body of the Company and its structural divisions, recommendations for eliminating identified issues and violations, a full package of supporting documents.

14. According to the results of the conducted internal audit, in accordance with paragraphs 12 and 13 of this Regulation, a summary report is drawn up and signed by the head of the internal audit service.

15. The summary report should include:

— analytical part;

— the final part;

— a full package of supporting documents.

16. The analytical part of the summary report should include summarized information on the results of audit conducted by internal audit in accordance with paragraphs 12 and 13 of this Regulation.

17. The final part of the report should contain:

— general assessment of the activities of the executive body and structural divisions of the Company, as well as its liquidity;

- recommendations of the internal audit service to eliminate identified issues and violations, as well as generalized proposals for improving the efficiency of the Company's financial and economic activities, and improving corporate governance.

18. A consolidated report should be prepared within 10 days after completion of the internal audit.

19. A summary report should be submitted to the Supervisory Board of the Company for further approval. After approval, copies of the reports must be submitted to the Company's executive body.

20. The executive body of the Company is obliged to take measures to eliminate deficiencies identified, as a result of the internal audit.

21. The Internal Audit Service controls over the timely and proper execution of measures to eliminate violations found during the audit, as well as to improve the efficiency of the Company's financial and economic activities as a whole.

VII. RESPONSIBILITY OF THE INTERNAL AUDIT SERVICE

22. Employees of the internal audit service are responsible for:

- distortion of the results of their audit;
- non-observance of confidentiality of information constituting a commercial secret of the company;
- ensuring the safety and return of received documents.

23. The Internal Audit Service is responsible for assessing the measures taken to eliminate violations of the law identified during the audit, and to improve the efficiency of the Company's financial and economic activities.

24. The Supervisory Board of the Company quarterly hears the report of the internal audit service on the results of inspections, taking measures to eliminate the identified issues and improve the efficiency of the Company's financial and economic activities.