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# Internal Audit Charter

## Schaeffler India Limited

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## **1. Summary**

### **1.1 Objectives and summary**

This internal audit charter forms the foundation for the work of the internal audit department in Schaeffler India Limited. The internal audit charter bindingly defines the organizational integration, rights & obligations, tasks, authorities and responsibilities of internal audit. It is valid for all divisions and applies to all units of the Schaeffler India Limited ('Company').

All positions of the Company, are expected to fully support internal audit in exercising its responsibilities and performing audit work.

On an annual basis, the internal audit charter is checked for validity, correctness and actuality and will be adjusted whenever necessary. A revision of the internal audit charter will also be performed in case of other circumstances (e.g. significant changes in internal audit) which would require an update to the charter. The responsibility for the periodical review and adjustment of the internal audit charter lies with the head of internal audit.

### **1.2 Scope**

This procedure is valid for all divisions and applies to all units of the Company.

### **1.3 Procedure responsibility**

Owner of this procedure is the head of internal audits.

## **2 Definition and Integration**

The Audit Committee and Board of Directors of Schaeffler India Limited deem a strong internal control system in all areas and activities of the Company to be of high importance.

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. With its function, internal auditing contributes to the achievement of communicated business objectives of the Schaeffler India Limited, by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

The fields of activity of internal audit include all activities of the Schaeffler India Limited and, where necessary, activities outsourced to third parties (unrestricted right to audit).

Internal audit, as an independent function of the Schaeffler India Limited, reports to the Audit Committee of the Schaeffler India Limited. The Audit Committee appoints the head of internal audit, whose disciplinary supervisor is the Managing Director. Further, internal audit has access to the Board of Directors of Schaeffler India Limited at any time.

The internal audit function can be exercised by employees of the Schaeffler India Limited, as well as by experienced external service providers.

### **3 Independence, Responsibility and Authority**

Internal audit performs its work independent, non-committed and objectively. It is not bound by any instructions for its audit work, particularly for defining audit objectives and scopes, audit type, timing and reporting of audit findings.

To enable internal audit to execute its function and to ensure its independence, the Company supports internal audit with adequate quantitative and qualitative human resources, as well as other necessary equipment.

All internal audit activities are carried out by persons without any operational responsibilities or prejudice regarding the activities in audit scope. However, the possibility that other persons with special knowledge can temporarily work for internal audit remains unaffected thereof.

It is the responsibility of internal audit to provide proper assurance and consulting services based on the rules and standards of the internal audit professional practice. In this respect, internal audit also committed to adhere to the standards, code of ethics and the definition of internal audit as applicable. This requirement is valid for all internal audit employees of the Company, as well as for external service providers, engaged to perform single audits, if any.

Internal audit does not have any direct authority over, nor responsibility for the audited areas. Internal audit does not create or implement working instructions or other documents, make management decisions or work on tasks that might affect its independency in any way. The audit and audit evaluation does not replace operational activities within the organization, nor does it dispense employees of the Company from their individually assigned responsibilities.

Internal Audit has access to all documents (including all systems) necessary to perform its work and is included in the distribution list for important company information. Internal audit has the right to interview employees and third parties regarding their tasks and to inquire written confirmations for their statements. All employees are obliged to support internal audit in performing their work, to provide necessary resources immediately and to grant insight into all operational and business processes of the company organization.

Internal audit has to be timely notified of any material changes in the risk assessment of single areas, the internal control system and the operational and organizational structure, as well as of any negative incidents.

## **4 Internal Audit Scope**

Internal auditing is an independent, objective assurance and, as long as the objectivity of the audit work is not affected, also consulting activity. The scope of internal auditing includes, but is not limited to the following activities:

1. Auditing and assessing the adequacy, profitability and efficiency of the internal control system;
2. Auditing and assessing the adequacy, profitability and efficiency of control and governance processes;
3. Auditing and assessing finance and accounting, information system and reporting system;
4. Auditing and assessing the effectiveness of risk management;
5. Auditing and assessing the effectiveness of measures to prevent and detect fraud;
6. Auditing precautions for the protection of assets;
7. Auditing and assessing the implementation and adherence of statutory provisions and corporate regulations (correctness);
8. Performance of special investigations regarding fraud, conflicts of interest and other irregularities;
9. Special- and consulting-engagements.

Whenever the completion of audit- or consulting assignments requires special knowledge or qualifications which are not available within the company, internal audit requests the support of third party experts.

## **5 Risk-Based Audit Planning and Reporting**

Internal Audit will provide the Audit Committee of the Company with an annual audit plan for approval, which is based on a systematic identification of material financial and operational risks, as well as risks related to the compliance applicable to the Company and defines the recommended audit scope and period.

The annual audit plan is created with respect to the internal audit strategic multi-annual audit plan and the strategic plans of the Schaeffler India Limited. Based on the annual audit plan, the period and the order of the objects to be audited are defined and the assignment of resources and responsibilities is comprehensibly derived.

After completion of an audit, internal audit issues a written audit report, which is then distributed according to the distribution list defined by the Management. This report includes management comments related to the findings, as well as internal audit recommendations together with planned measures to resolve the finding, the responsible person and a deadline for the implementation.

Internal audit maintains an overview over all agreed measures from completed audits together with implementation dates and a current status. This overview is updated regularly and the persons responsible for the implementation of measures are reminded of the defined deadlines. Internal audit also conducts follow up audits to assess the effectiveness of implemented measures.

On an annual basis, Audit Committee of the Company are informed about internal audit activities, current trends and major risks.

## **6 Cooperation with Third Parties**

Internal audit ensures a regular exchange of information with external third parties, like for example the statutory auditor of the company, as well as with internal areas and functions, like for example finance, compliance, legal etc.

## **7 Quality-assurance and –improvement program**

Internal audit has developed and implemented a quality-assurance and –improvement program, involving all fields of activity of internal audit. Regular internal quality checks are performed based on the defined quality standards.

Further, internal audit will be subject to a quality assessment (QA) by independent external auditors every 5 years to ensure its quality.

Measures to improve the quality of internal audit will be derived based on the insights gained from the quality management and implemented in the framework of a continuous improvement program.

Note: Schaeffler India Limited, being part of the Schaeffler Group, the Internal Audit function at Schaeffler India Limited, is also governed by Schaeffler Group Guidelines on Group Internal Audit No. P172461.