

PT Morgan Stanley Sekuritas Indonesia

Internal Audit Department Charter

Purpose

PT Morgan Stanley Sekuritas Indonesia (PTMSSI) Internal Audit Department (PTMSSI IAD) is established to assist both senior management and the Board of Directors/Board of Commissioners of PTMSSI in the effective discharge of their legal, fiduciary, and oversight responsibilities. PTMSSI IAD provides independent assurance on the quality and effectiveness of PTMSSI's internal control, risk management, and governance systems and processes. PTMSSI IAD therefore operates as the third line of defense in PTMSSI's internal control governance framework, after business operations and PTMSSI's oversight functions, to protect the assets and reputation of PTMSSI.

The Board of Directors/Board of Commissioners oversees senior management's establishment and maintenance of an adequate, effective, and efficient internal control system and, accordingly, the Board of Directors/Board of Commissioners will support PTMSSI IAD in discharging its duties effectively. This system encompasses the control environment and the processes of risk recognition and assessment, control activities, monitoring, information and communication (i.e., COSO framework) that supports PTMSSI and its employees in their efforts to achieve the strategic and operational objectives of PTMSSI.

PTMSSI IAD will act as an objective and independent function within the risk management framework of PTMSSI to promote an environment that fosters continual improvement of PTMSSI's risk management processes. PTMSSI IAD will identify and assess operating risks of PTMSSI and will evaluate the adequacy and effectiveness of PTMSSI's system of internal control. Accordingly, PTMSSI IAD will develop an independent and informed view of the risks faced by PTMSSI and the risk management processes employed to manage those risks and report issues back to the Board of Directors/Board of Commissioners and senior management.

PTMSSI's business units undertake risks within assigned limits of risk exposure and are responsible and accountable for identifying, assessing and controlling the risks of their business. Support functions help ensure that risks in the business units have been identified and managed appropriately. PTMSSI IAD assesses independently the effectiveness of the processes created in the business units and support functions and provides assurance on those processes.

PTMSSI IAD performs internal audit activities of sufficient scope to assist the Board of Directors/Board of Commissioners with satisfying their fiduciary and legal responsibilities. This includes policies, processes and governance measures established in response to various regulatory principles, rules, and guidance established by the relevant authorities. PTMSSI IAD reports specific deficiencies to senior management and the Board of Directors/Board of Commissioners with recommended remediation; monitors management's corrective action; and conducts a follow-up review to confirm the closure of open corrective actions.

Authority

PTMSSI IAD has full and unrestricted access to records, processes, data, personnel, and properties of PTMSSI, subject to applicable laws and regulations. PTMSSI IAD is empowered, whenever relevant, to perform its assignments, initiate direct communication with any member of staff, and examine any activity of PTMSSI. This includes access to management information systems, records, and the minutes of all consultative and decision-making bodies.

Scope

1. PTMSSI IAD will assess the key risks that face PTMSSI, including emerging and systemic risks, and how effectively these risks are being managed.

2. PTMSSI IAD will prepare and execute a risk-based audit coverage model to provide appropriate inclusion of PTMSSI's businesses, processes, and activities. Every activity (including outsourced activities as applicable) is within the overall scope of PTMSSI IAD coverage. Any areas of PTMSSI not included within PTMSSI IAD's coverage model are clearly communicated to the Board of Directors/Board of Commissioners on an annual basis.
3. Audit coverage will be determined through a risk-based semi-annual assessment process that will assist in defining the scope and frequency of audit activities. The scope of these activities will be updated at least annually and approved by the Board of Directors/Board of Commissioners. Audit coverage is also planned based on input from past audits, external factors, including regulatory requirements, market and industry trends, and internal factors such as changes in business and is commensurate with assessed risk exposure. The Board of Directors/Board of Commissioners and senior management will provide comments regularly on PTMSSI IAD's audit plan.
4. Audit activities will be designed to independently evaluate on a periodic basis the: (a) effectiveness and efficiency of internal control, risk management, and governance systems in the context of both current and emerging risks; (b) reliability, effectiveness, and integrity of management information systems and processes; (c) monitoring of compliance with laws and regulations; and (d) safeguarding of assets.
5. Audit activities will be designed to evaluate independently: (a) PTMSSI and mandates of the risk management function including market, credit, liquidity, operational, compliance, reputational and strategic risk, and such other risks, as necessary; (b) the evaluation of risk appetite, escalation, and reporting of issues and decisions made by the risk management function; (c) the adequacy of risk management systems and processes for identifying, measuring, assessing, controlling, responding to, and reporting on risks resulting from PTMSSI's activities, (d) the integrity of the risk management information systems, including the accuracy, reliability, and completeness of the data used; and the approval and maintenance of risk models, including verification of the consistency, timeliness, independence, and reliability of data sources used in such models.
6. PTMSSI IAD should understand the risks that PTMSSI is exposed to and confirm that senior management is involved actively in setting and monitoring compliance with PTMSSI's risk tolerance limits, as appropriate. PTMSSI IAD will participate in the relevant PTMSSI Committees responsible for governance and oversight of PTMSSI's various risk-taking and control environment activities. PTMSSI IAD should evaluate the reasonableness of established limits and perform sufficient testing to ensure that management is operating within these limits and other guidelines.
7. Audit activities will be designed to regularly evaluate: (a) the effectiveness of the processes by which the risk and reporting functions interact to produce timely, accurate, reliable, and relevant reports for both internal management and the regulatory supervisors; (b) the effectiveness of the compliance function in testing and monitoring adherence to laws and regulations; (c) the valuation control environment; (d) the adequacy and integrity of financial data and finance systems in meeting internal and external reporting requirements; and (e) controls to prevent and detect trading irregularities.
8. PTMSSI IAD will monitor significant control issues on an ongoing basis, whether raised by PTMSSI IAD, business management, or regulatory bodies. Following business management's completion of actions to address these issues, PTMSSI IAD will carry out procedures on Critical and High risk control issues raised by PTMSSI IAD and on other significant control issues raised by business management or regulatory bodies as considered appropriate, to evaluate the design adequacy and operational effectiveness of those actions undertaken to address the preponderance of risk of the control issues.
9. PTMSSI IAD includes, within its scope, the risk and control culture of PTMSSI. This includes assessing whether the processes (e.g., appraisal and remuneration), actions (e.g., decision-making), and "tone at the top" are in line with the values, ethics, risk appetite, and policies of PTMSSI.

Head of PTMSSI Internal Audit Responsibility

1. The Head of PTMSSI IAD functionally reports directly to the Board of Directors and Board of Commissioners of PTMSSI and Morgan Stanley Internal Audit Department in Asia Pacific on PTMSSI IAD matters including, but not limited to, development and execution of the audit plan and escalation of audit issues.
2. The Head of PTMSSI IAD, leveraging Morgan Stanley Internal Audit Department, will provide management and leadership over PTMSSI IAD activities.
3. The Head of PTMSSI IAD will ensure compliance with sound internal auditing standards, such as The Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing, the Firm's Code of Ethics and Business Conduct, and relevant regulatory requirements.
4. In the event of the departure of the Head of PTMSSI IAD, Morgan Stanley Internal Audit Department will assist to identify a suitable replacement subject to the review of PTMSSI Board of Directors/Board of Commissioners.

Principles and Operating Model

Competencies and Due Professional Care

1. PTMSSI IAD, leveraging Morgan Stanley Internal Audit Department:
 - a. Develops the necessary skills, capabilities, and technical knowledge of PTMSSI IAD staff as appropriate for the planned activities by investing in recruiting, technology workflow tools, and regular evaluation and modification of audit methodologies and techniques;
 - b. Tailors a competency model to ensure that audit staff, both individually and collectively, have sufficient qualifications and appropriate skills to execute the audit plan effectively;
 - c. Performs knowledge gap assessments, at least annually, to evaluate whether current staff members' knowledge and skills are commensurate with PTMSSI's strategy and operations; and
 - d. Acquires the appropriate ongoing training in order to meet the growing technical complexity of PTMSSI's activities and the increasing diversity of tasks that need to be undertaken as a result of the introduction of new products and processes, by PTMSSI and other developments within the financial sector.

Independency, Objectivity, and Integrity

2. PTMSSI IAD performs work in accordance with the Institute of Internal Auditors International Professional Standards and Code of Ethics, the Firm's Code of Ethics and Business Conduct, regulatory requirements, and Morgan Stanley Internal Audit Department's established policies, procedures, standards and guidance. These, collectively, address the principles of auditor objectivity, competence, confidentiality, and integrity.
3. PTMSSI IAD participates as a non-voting member when selected for inclusion on various PTMSSI committees.
4. PTMSSI IAD maintains independence from the audited activities and has sufficient standing and authority within PTMSSI, thereby enabling PTMSSI IAD to execute its assignments with objectivity. Internal Auditors recruited internally should not engage in auditing activities for which they have had previous responsibility before a sufficiently long deferral period has elapsed.
5. Remuneration to reward the performance of PTMSSI IAD will be structured to avoid creating conflicts of interest and compromising independence and objectivity.
6. The Board of Directors/Board of Commissioners reviews PTMSSI IAD's annual plan and scope of work including responsibilities, budget, and staffing as well as the results of quality assurance reviews relevant to PTMSSI as applicable.

Performance

7. PTMSSI IAD periodically (at a minimum annually) reviews and assesses the adequacy of this charter and has the Board of Directors/Board of Commissioners review and approve recommended changes. The Charter will be made available on PTMSSI's website.
8. PTMSSI IAD provides information to the Board of Directors/Board of Commissioners to assist in the evaluation of PTMSSI IAD performance.
9. Morgan Stanley Internal Audit Department maintains an effective Quality Assurance Review Program that covers all phases of audit execution and provides timely feedback and reporting, which will be used to effect positive changes to the internal audit function. Results of Quality Assurance Reviews relevant to PTMSSI will be reported periodically to the Board of Directors/Board of Commissioners as applicable.
10. PTMSSI IAD maintains an up-to-date set of policies and procedures, as well as performance and effectiveness measures for PTMSSI IAD by leveraging Morgan Stanley Internal Audit Department. PTMSSI IAD and Morgan Stanley Internal Audit Department should continuously improve these in light of industry developments.
11. PTMSSI IAD uses workpapers to document the work performed, observations and analyses made, and the support for the conclusions and audit results. PTMSSI IAD will ensure that the workpapers: contain sufficient information regarding any scope or audit program modifications and resolution of issues not included in the final report; document the specific sampling methodology, including minimum sample sizes, and the rationale for such methodology; and contain information that reflects all phases of the audit process including planning, fieldwork, reporting, and issues tracking and follow-up. On an ongoing basis, PTMSSI IAD ensures a comprehensive supervisory review is performed on all audit work.
12. PTMSSI IAD monitors the status of issues and actions raised during audit work. For higher-risk issues and actions, testing in line with audit execution standards is performed to validate that the issue or action has been resolved.

Communication

13. PTMSSI IAD communicates regularly with senior management from the respective business and functional units and the Board of Directors/Board of Commissioners to discuss emerging risks, audit coverage, plan status, results of work, root cause of significant issues, agreed remediation action status, and other topical matters, as appropriate.
14. PTMSSI IAD communicates regularly with PTMSSI management, regulators and external auditors to discuss the risk areas identified by the parties; understands the risk mitigation measures taken by PTMSSI, and understands weaknesses identified; and monitors PTMSSI's responses to these weaknesses. The audit and examination coverage models should also be shared to maximize coverage and to coordinate accordingly with the business or functional units subject to audit, as appropriate.
15. PTMSSI IAD will seek to have an open, constructive, and cooperative relationship with regulators which supports sharing of information relevant to carrying out their respective responsibilities.
16. PTMSSI IAD reports audit issues formally to the Board of Directors/Board of Commissioners on a periodic basis. These issues are identified through information aggregated from audit work and discussions from Continuous Monitoring activities. The overall impact of such control issues is a contributing factor in assessing PTMSSI's overall risk profile and in determining the Audit Plan.
17. PTMSSI IAD reports to the Board of Directors/Board of Commissioners on:
 - a. Audit results with a focus on areas rated less than satisfactory;
 - b. Audit plan, including audit plan completion status; audit plan changes, including the rationale for significant changes; and budgeted audit hours;

- c. Audit issue information, including aging, past-due status and root-cause ;
- d. Results of internal quality assurance reviews relevant to PTMSSI whenever applicable;
- e. Significant movements in PTMSSI's risk and control environment profile; and
- f. Significant changes in internal audit processes, including a periodic review of key internal audit policies and procedures.

Internal Audit Activities

18. PTMSSI IAD executes an effective risk-based audit coverage model, evaluates the results of the work, communicates issues to management, assists in the development of corrective actions, and periodic follow-ups on remediation of Critical and High risk deficiencies identified by PTMSSI IAD, as well as closure verification of significant findings identified by regulators. PTMSSI IAD will not be responsible for the design and implementation of corrective actions but may act as an advisor.
19. PTMSSI IAD provides preemptive control advisory services such as initiative and pre-implementation reviews, as requested by business and functional unit management, the Board of Directors/Board of Commissioners, and as deemed appropriate by PTMSSI IAD. PTMSSI IAD should not be involved in designing, selecting, implementing, or operating specific internal controls measures.
20. PTMSSI IAD performs other reviews and analyses at the request of business management, the Board of Directors/Board of Commissioners, or as deemed appropriate by PTMSSI IAD.
21. PTMSSI IAD utilizes Continuous Monitoring and auditing tools, call programs, and reviews of key risk indicators to assist in monitoring and assessing the risk profile of PTMSSI's activities and in identifying potential vulnerabilities. The output of ongoing monitoring and risk assessment will be to effect changes to the audit coverage model by adding, adjusting, deferring, or cancelling planned audit activities and potentially raising issues where control gaps are identified.