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Internal Audit Manual

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INTERNAL AUDIT POLICY STATEMENT

I. PURPOSE

The purpose of this policy is to establish the objectives, authority, responsibility and procedures for the Internal Audit Unit to provide guidance and standard for the implementation of an effective and sound Internal Audit function.

II. OBJECTIVES AND SCOPE

Internal Audit is an independent appraisal function established by the management of the Company to provide independent, objective assurance and consulting activity designed to add value and improve the Company's operations. It helps the Company accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

The scope of the Internal Audit shall encompass the examination and evaluation of the adequacy and effectiveness of the Company's system of internal control and the quality of performance in carrying out assigned responsibilities. The objectives of internal control are:

- 1) Reliability and integrity of information;
- 2) Compliance with policies, plans, procedures, laws, and regulations;
- 3) Safeguarding of assets;
- 4) Economical and efficient use of resources; and
- 5) Accomplishment of established objectives and goals for operations and programs.

III. ROLES AND RESPONSIBILITIES

Major roles and responsibilities of Internal Audit function are summarized below:

- Evaluates and provides reasonable assurance that risk management, control, and governance systems are functioning as intended and will enable the Company's objectives and goals to be met;
- Reports risk management issues and internal controls deficiencies identified directly to the Audit Committee and provides recommendations for improving the Company's operations, in terms of both efficient and effective performance;
- Evaluates information security and associated risk exposures;
- Evaluates regulatory compliance program with consultation from legal counsel;
- Evaluates the Company's readiness in case of business interruption;
- Maintains open communication with management and the Audit Committee;
- Teams with other internal and external resources as appropriate;
- Engages in continuous education and staff development; and
- Provides support to the company's anti-fraud programs.

IV. AUTHORITY

The Internal Audit Unit administratively reports to the Chief Financial Officer/ Chief Risk Officer and functionally reports to the Audit Committee. Additionally, it is empowered to:

- Have unrestricted access to any reports, data, and/or information pertaining to the financial operations;
- Have unrestricted access to any locations that belong to the Company;
- Obtain independent assistance from external professionals to fulfil the audit's objectives;

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- Seek information it requires from employees – all of whom are directed to cooperate with the Internal Auditor’s requests;
- Issue independent reports without management’s influence;
- Attend scheduled Audit Committee meetings as well as any other meetings, as necessary; and
- Meet with company officers, external auditors, or outside counsel, as necessary.

V. AUDITING STANDARDS

The Internal Audit Unit's work will be performed with due professional care, in accordance with appropriate professional auditing practice. In achieving its objectives the Internal Audit Unit will develop and implement an audit strategy that assesses the Company's arrangements for risk management, control, governance, and quality of data and for achieving value for money.

The Head of Internal Audit Unit will implement measures to monitor the effectiveness of the service and compliance with standards. The Audit Committee will consider and approve these performance measures and may also ask the external auditor to provide an independent assessment of Internal Audit’s effectiveness.

AUDITING PRINCIPLES

The key principles described below are essential for the effective operation of an Internal Audit function.

Principle No. 1: Independence and Objectivity¹

The Company's Internal Audit function must be independent of the audited activities, which requires the Internal Audit function to have sufficient standing and authority within the Company, thereby enabling Internal Auditors to carry out their assignments with objectivity.

On the basis of the audit plan established by the head of the Internal Audit function and approved by the Board of Directors, the Internal Audit function must be able to perform its assignments on its own initiative in all areas and functions of the Company. It must be free to report its findings and assessments internally through clear reporting lines. The head of Internal Audit should demonstrate appropriate leadership and have the necessary skills to fulfil his or her responsibility for maintaining the function’s independence and objectivity.

The Internal Audit function should not be involved in designing, selecting, implementing or operating specific internal control measures. However, the independence of the Internal Audit function should not prevent senior management from requesting input from Internal Audit on matters related to risk and internal controls. Nevertheless, the development and implementation of internal controls should remain the responsibility of management.

Continuously performing similar tasks or routine jobs may negatively affect an individual Internal Auditor’s capacity for critical judgement because of possible loss of objectivity. It is therefore a sound practice, whenever practicable and without jeopardising competence and expertise, to periodically rotate Internal Audit staff within the Internal Audit function. In addition, the Company may rotate staff from other functional areas of the Company to the Internal Audit function or from the Internal Audit function to other functional areas of the Company. Staff rotations within the Internal Audit function and staff rotations to and from the Internal Audit

¹ Both “independence” and “objectivity” have a specific meaning in an internal audit environment. The Glossary of The Institute of Internal Auditors refers to independence as the freedom from conditions that threaten the ability of the internal audit activity to carry out internal audit responsibilities in an unbiased manner. Objectivity is referred to in the Glossary as an unbiased mental attitude that allows internal auditors to perform engagements in such a manner that they believe in their work product and that no quality compromises are made. Objectivity requires that internal auditors do not subordinate their judgement on audit matters to others.

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function should be governed by and conducted in accordance with a sound written policy. The policy should be designed to avoid conflicts of interest, including the observance of an appropriate “cooling-off” period following an individual's return to the Internal Audit staff before that individual audits activities in the functional area of the Company where his/her rotation had been served.

The independence and objectivity of the Internal Audit function may be undermined if the Internal Audit staff's remuneration is linked to the financial performance of the business lines for which they exercise Internal Audit responsibilities. The remuneration of the head of the Internal Audit function should be determined in accordance with the remuneration policies and practices of the Company. Remuneration to reward the performance of the head of Internal Audit or Internal Audit staff members should be structured to avoid creating conflicts of interest and compromising independence and objectivity.

Principle No. 2: Professional Competence and due professional care

Professional competence, including the knowledge and experience of each Internal Auditor and of Internal Auditors collectively, is essential to the effectiveness of the Company's Internal Audit function.

Professional competence depends on the auditor's capacity to collect and understand information, to examine and evaluate audit evidence and to communicate with the stakeholders of the Internal Audit function. This should be combined with suitable methodologies and tools and sufficient knowledge of auditing techniques.

The head of Internal Audit should be responsible for acquiring human resources with sufficient qualifications and skills to effectively deliver on the mandate for professional competence and to audit to the required level. He/she should continually assess and monitor the skills necessary to do so. The skills required for senior Internal Auditors should include the abilities to judge outcomes and make an impact at the highest level of the Company.

The head of Internal Audit should ensure that the Internal Audit staff acquires appropriate ongoing training in order to meet the growing technical complexity of Company's activities and the increasing diversity of tasks that need to be undertaken as a result of the introduction of new products and processes within the Company's industry.

Internal auditors collectively should be competent to examine all areas in which the Company operates. Alternatively, when outsourcing² arrangements are in place, it is the responsibility of the head of Internal Audit to maintain adequate oversight and to ensure adequate transfer of knowledge from external experts to the Company's Internal Audit staff. The head of Internal Audit should ensure that the use of those experts does not compromise the independence and objectivity of the Internal Audit function.³

Internal auditors must apply the care and skills expected of a reasonably prudent and competent professional. Due professional care does not imply infallibility; however, Internal Auditors having limited competence and experience in a particular area should be supervised by more experienced Internal Auditors.

² Outsourcing is the engagement of experts from outside the Company to perform internal audit activities to support the internal audit function.

³ If internal experts from within the Company (so-called guest auditors) are used in lieu of or in addition to external experts, the head of internal audit has the same responsibilities for oversight, knowledge transfer, independence and objectivity.

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Principle No. 3: Professional Ethics

Internal auditors must act with integrity. Integrity establishes trust as it requires the Internal Auditor to be straightforward, honest and truthful. This provides the basis for reliance on the Internal Auditor's professional judgement.

Internal auditors should respect the confidentiality of information acquired in the course of their duties. They should not use that information for personal gain or malicious action and should be diligent in the protection of information acquired.

The head of the Internal Audit function and all Internal Auditors should avoid conflicts of interest. Internally recruited Internal Auditors should not engage in auditing activities for which they have had previous responsibility before a sufficiently long "cooling off" period has elapsed. Moreover, compensation arrangements should not provide incentives for Internal Auditors to act contrary to the attributes and objectives of the Internal Audit function.

VI. GUIDELINES

A. STAFFING AND TRAINING

The effectiveness of Internal Audit depends substantially on the quality, training and experience of its staff. The aim should be to appoint staff with the appropriate background, personal qualities and potential. Thereafter, steps should be taken to provide the necessary experience, training and continuing professional education.

Staffing

- The Internal Audit Unit should be managed by a head of Internal Audit who should be suitably qualified and should possess wide experience in Internal Audit and its management. He should plan, direct, control and motivate the resources available to ensure that the responsibilities of the Internal Audit Unit are met.
- The full range of duties may require Internal Audit staff to be drawn from a variety of disciplines. The effectiveness of Internal Audit may be enhanced by the use of specialist staff, particularly in the Internal Audit of activities of a technical nature.
- The Internal Audit Unit should employ staff with varying types and levels of skills, qualifications and experience in order to satisfy the requirements of each Internal Audit task.
- The head of Internal Audit should participate in the recruitment and selection of his staff. New entrants to Internal Audit work should have time to familiarize themselves with the activities of the Internal Audit Unit and the Company, and to demonstrate their suitability for audit work.

Training

- The Company has a responsibility to ensure that the Internal Auditor receives the training necessary for the performance of the full range of duties.
- Training should be tailored to the needs of the individual. It should include both theoretical knowledge and its practical application under the supervision of suitably competent and experienced Internal Auditors. Account should be taken of:
 1. Internal Audit objectives and priorities;
 2. the type of Internal Audit work;
 3. previous training, experience and qualifications; and
 4. personal development in the light of the needs of the Company and the Internal Audit Unit.

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- Training should be a planned and a continuing process at all levels and should cover:
 1. Basic training - providing the knowledge of basic auditing principles and practices which all Internal Auditors should possess;
 2. Development training - in general audit skills and techniques and inter-personal skills, to improve the effectiveness of those currently employed in Internal Audit; and
 3. Specialised training - for those responsible for the Internal Audit of activities which require special skills or knowledge.
- Other forms of staff development should be considered according to particular needs. These may include periods of attachment to other parts of the Company or secondment to other Company.
- The Internal Auditor should keep abreast of current developments, improvements, new techniques and practices in auditing.
- The Internal Auditor should maintain technical competence through professional development which may include:
 1. private reading and study; and
 2. participation in professional activities such as attending meetings, courses and Conferences, lecturing, writing articles and papers and contribution to research groups.
- The head of Internal Audit should coordinate, and keep under review, the training requirements of Internal Auditors. He should be responsible for preparing training profiles which identify the training requirement for different grades of Internal Auditors, and should maintain personal training records for each individual. In large Companies this may be performed by a designated training officer.

B. PLANNING, CONTROLLING AND RECORDING

Internal audit work should be planned, controlled and recorded in order to determine priorities, establish and achieve objectives, and ensure the effective and efficient use of audit resources.

Planning

- The main purposes of Internal Audit planning are:
 - a. to determine priorities and to establish the most cost-effective means of achieving audit objectives;
 - b. to assist in the direction and control of audit work;
 - c. to help ensure that attention is devoted to critical aspects of audit work; and
 - d. to help ensure that work is completed in accordance with pre-determined targets.
- The stages of Internal Audit planning are:
 - a. to identify the objectives of the Company;
 - b. to define Internal Audit objectives;
 - c. to take account of relevant changes in legislation and other external factors;
 - d. to obtain a comprehensive understanding of the Company's systems, structure and operations;
 - e. to identify, evaluate and rank risks to which the Company is exposed;
 - f. to take account of changes in structures or major systems in the Company;
 - g. to take account of known strengths and weaknesses in the internal control system;
 - h. to take account of management concerns and expectations;
 - i. to identify audit areas by service, functions and major systems;
 - j. to determine the type of audit: e.g. full, general, spot, situational, follow-up);
 - k. to take account of the plans of external audit and other review agencies; and
 - l. to assess staff resources required, and match with resources available.

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- The Internal Auditor should prepare strategic, periodic and operational work plans.
- The strategic plan should usually cover a period of between two to five years during which all major systems and areas of activity will be audited. It should set out audit objectives, audit areas, type of activity and frequency of audit and an assessment of resources to be applied.
- The periodic plan, typically for financial or calendar year, translates the strategic plan into a schedule of audit assignments to be carried out in the ensuing period. It should define the purpose and duration of each audit assignment and allocate staff and other resources accordingly and should be formally approved by management.
- Operational work plans should be prepared for each audit assignment as it is arranged covering:
 - a. objective and scope of the audit;
 - b. time budget and staff allocation; and
 - c. methods, procedures and reporting arrangements, including supervision and allocation of responsibilities.
- All Internal Audit plans should be sufficiently flexible to respond to changing priorities.

Controlling

- Control of the Internal Audit Unit and of individual assignments is needed to ensure that Internal Audit objectives are achieved and work is performed effectively. The most important elements of control are the direction and supervision of the Internal Audit staff and review of their work. This will be assisted by an established audit approach and standard documentation. The degree of control and supervision required depends on the complexity of assignments and the experience and proficiency of the Internal Audit staff.
- The head of Internal Audit should establish arrangements:
 - a. to allocate Internal Audit assignments according to the level of and proficiency of Internal Audit staff;
 - b. to ensure that Internal Auditors clearly understand the responsibilities and Internal Audit objectives;
 - c. to communicate the scope of work to be performed and agree the programme of work with each Internal Auditor;
 - d. to provide and document evidence of adequate supervision, review and guidance during the Internal Audit assignment;
 - e. to ensure that adequate working papers are prepared to support Internal Audit findings and conclusions; and
 - f. to ensure that Internal Audit's performance is in accordance with the Internal Audit plan or that any significant variations have been explained.
- The head of Internal Audit should establish arrangements to evaluate the performance of the Internal Audit Unit. He may also prepare an annual report to management on the activities of the Internal Audit Unit in which he gives an assessment of how effectively the objectives of the function have been met.

Recording

- Internal audit work should be properly recorded because:
 - a. the head of Internal Audit needs to be able to ensure that work delegated to staff has been properly performed. He can generally do this only by reference to detailed working papers prepared by the Internal Audit staff who performed the work;
 - b. working papers provide, for future reference, evidence of work performed, details of problems encountered and conclusions drawn; and
 - c. the preparation of working papers encourages each Internal Auditor to adopt a methodical approach to his work.

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- The head of Internal Audit should specify the required standard of Internal Audit documentation and working papers and ensure that those standards are maintained.
- Internal audit working papers should always be sufficiently complete and detailed to enable an experienced Internal Auditor with no previous connection with the Internal Audit assignment subsequently to ascertain from them what work was performed and to support the conclusions reached. Working papers should be prepared as the Internal Audit assignment proceeds so that critical details are not omitted and problems not overlooked. These should be reviewed by Internal Audit management.

C. EVALUATION OF THE INTERNAL CONTROL SYSTEM

- Controls, whether they relate to financial or operational areas, ensure that processes act to meet the system's objectives.
- The main objectives of the internal control system are:
 - a. to ensure adherence to management policies and directives in order to achieve efficiently and economically the Company's objectives;
 - b. to safeguard assets;
 - c. to secure the relevance, reliability and integrity of information, so ensuring as far as possible the completeness and accuracy of records; and
 - d. to ensure compliance with regulatory requirements.
- When evaluating internal control systems the Internal Auditor should consider the effect which all the controls have on each other and on related systems.
- As part of the planning process the Internal Auditor should identify the whole range of systems within the Company. For those systems to be examined, the Internal Auditor should establish appropriate criteria to determine whether the controls are adequate and assist in achieving the objectives of the system. The stages of a systems audit would normally be:
 - a. to identify the system parameters;
 - b. to determine the control objectives;
 - c. to identify expected controls to meet control objectives;
 - d. to review the system against expected controls;
 - e. to appraise the controls designed into the system against control objectives;;
 - f. to test the actual controls for effectiveness against control objectives;
 - g. to test the operation of controls in practice; and
 - h. to give an opinion based on audit objectives as to whether the system provides an adequate basis for effective control and whether it is properly operated in practice.

TYPES OF AUDIT ENGAGEMENTS

The Internal Auditor may perform different types of audits:

1. Full Audit - Normally, full audits are required when an area has never been audited before, or significant changes have occurred subsequent to the last audit. A full audit requires completion of all of the following phases:
 - a. Engagement Planning
 - b. Performing the Engagement
 - c. Communicating the Results
 - d. Monitoring Progress
2. General Audit - A general audit usually does not require the completion of all the phases of a full audit. The topics are usually conducted year after year and tend to require the same testing. There is no need to fully document the system and consider the impact of internal controls again. It is only necessary to ensure that the system has not drastically changed since the prior audit.

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3. Spot Audit - A spot audit is a periodic audit of a particular transaction at a particular point in time which gives reasonable assurance that controls in place are still working. Results of spot audits may help determine if a full audit should be scheduled. Examples are an inventory location test or a surprise cash count.
4. Situational Audit – A situational audit is narrower in scope than a full audit. It is usually an unanticipated project that may take priority over a planned audit. The focus is usually based on a previously identified specific control weakness, or the likelihood that a weakness not readily identifiable exists. Examples are: a management or Board requested special project, an integrity or fraud related issue.
5. Follow-up Audit - The focus of a follow-up audit is to contact the audited department to determine if previously agreed to recommendations have been implemented. The follow-up audit may require additional testing to ensure that controls are working and effective as anticipated. An attempt should be made to conduct a timely follow-up audit if a previous audit uncovered serious control issues.

D. REPORTING AND COMMUNICATING RESULTS

Internal audit reports provide a formal means of communicating to management the results arising from audits undertaken. Such reports should include audit findings, recommendations and conclusions relating to the adequacy of and compliance with the system of internal control and the efficiency, effectiveness and economy of operations in the area covered by the audit. From the point of view of completeness, management response to the audit findings should preferably also be included in the report. The aim of every Internal Audit report should be:

- a. to prompt management action to implement recommendations for change leading to improvement in performance and control; and
- b. to provide a formal record of points arising from the Internal Audit assignment and, where appropriate, of agreements reached with management.

Reporting arrangement, including the format and distribution of Internal Audit reports, should be agreed with management. The head of Internal Audit should ensure that reports are sent to managers who have a direct responsibility for the unit or function being audited and who have the authority to take action on the Internal Audit recommendations. Internal audit reports are confidential documents and their distribution should be restricted to those managers who need to know and other appropriate persons on a need to be informed basis.

While the Internal Auditor may clear minor matters which do not indicate a consistent or systematic weakness with members of staff directly involved, matters of consequence should be reported formally in writing to management.

The Internal Auditor should produce clear, constructive and concise written reports based on sufficient, relevant and reliable evidence, which should:

- a. state the scope, purpose, extent and conclusions of the Internal Audit assignment;
- b. make recommendations which are appropriate and relevant, and which flow from the conclusions; and
- c. acknowledge the action taken, or proposed, by management.

The Internal Auditor should present an interim report, orally or in writing, where it is necessary to alert management to the need to take immediate action to correct a serious weakness in performance or control, or where there are reasonable grounds for suspicion of

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malpractice. Consideration should also be given to interim reporting where there is a significant change in the scope of the Internal Audit assignment or where it is desirable to inform management of progress. Interim reporting does not diminish or eliminate the need for final reporting.

The Internal Auditor should normally meet with management to discuss the audit findings at the completion of field work for each Internal Audit assignment and the formal written report should be presented to management as soon as possible thereafter.

Before issuing the final report, the Internal Auditor should normally discuss the contents with the appropriate levels of management, and may submit a draft report to them, for confirmation of factual accuracy.

If the Internal Auditor and management disagree about the relevance of the factual content of the draft audit report, the Internal Auditor should consider whether reference should be made to this in the final report.

The audited department has two (2) weeks to respond to any recommendations or comments contained in the preliminary report. The President can authorize an extension of the response due date if unanticipated circumstances occur within the audited department. The responses should explain the department's corrective actions, the dates of implementation, or the reasons no corrective action will be taken.

The Internal Auditor shall determine the completeness and propriety of the responses. If the responses are deemed not appropriate, the Internal Auditor will meet with the audited department management to recommend an alternative response. The Internal Auditor will incorporate the final responses into the preliminary report within two weeks of receipt of the responses. The final report will be dated, signed by the Internal Auditor and issued to the Audit Committee and to the president. The audited department management will receive a copy.

In some cases, a preliminary report is not necessary because the Internal Auditor has no recommendations for the audited department management or no response is necessary. In these cases, there is only a final report. The draft final report will be discussed with the audited department management. After discussion and review with the department as to content and wording of the report, the Internal Auditor will finalize the report, will be dated, signed by the Internal Auditor and issued to the Audit Committee and to the President. The audited department management will receive a copy.

Audit reports should be distributed to those who are able to ensure that audit results are given due consideration.

E. MONITORING PROGRESS

It is management's responsibility to ensure that proper consideration is given to Internal Audit reports. The Internal Auditor should ensure that appropriate arrangements are made to determine whether action has been taken on Internal Audit recommendations or that management has understood and assumed the risk of not taking action.

The status of implementation, in respect of matters of consequence, so determined should be reported to the appropriate levels of management to enhance Internal Audit effectiveness.

The Internal Auditor will meet with the Audit Committee as required and will provide the Committee with an understanding of the current work status. Additionally, open

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communication between the Committee's members and the Internal Auditor may occur at any time to allow for discussion of any urgent issues or any areas of concern that involve the Company's operations.

VII. RELATIONSHIPS

In order that the Internal Auditor may properly perform all his tasks, it is necessary for all those with whom he has contact to have confidence in him. Constructive working relationships make it more likely that Internal Audit work will be accepted and acted upon, but the Internal Auditor should not allow his objectivity to be impaired.

Organizational relationships

- The head of Internal Audit should prepare the Internal Audit plan in consultation with senior management. The Internal Auditor should arrange the timing of Internal Audit assignments in consultation with the management concerned, except on those rare occasions where an unannounced visit is a necessary part of the audit approach. Consultation can lead to the identification of areas of concern or of other interest to management.
- Matters which arise in the course of the audit are confidential and discussion should be restricted to management directly responsible for the area being audited unless they have given express agreement to broaden the discussion.
- Discussions with management are necessary when preparing the audit report. This is an essential feature of the good relationship between the auditor and the management.

Relationship with external audit

- The relationship between internal and external audit needs to take account of their differing roles and responsibilities. Internal audit is an independent appraisal function within the Company and Internal Auditors are direct employees. The external auditor usually has a regulatory responsibility to express an independent opinion on the financial statements and stewardship of the Company.
- The aim should be to achieve mutual recognition and respect, leading to a joint improvement in performance and the avoidance of unnecessary over-lapping of work. It should be possible for the external and Internal Auditors to rely on each other's work, subject to limits determined by their different responsibilities, respective strengths and special abilities. Consultations should be held and consideration given to whether any work of either auditor is adequate for the purpose of the other. The Internal Auditor does not automatically have a right of access to the records of the external auditor. However, the relationship between the internal and external auditor will usually be such that the external auditor will be able to allow access to the necessary records.
- Since Internal Audit evaluates a Company's internal control system the external auditor may need to be satisfied that the Internal Audit function is being planned and performed effectively. This review needs to be seen by both parties as a necessary part of the working relationship.
- Regular meetings should be held between internal and external auditors at which joint audit planning, priorities, scope and audit findings are discussed and information exchanged. The benefits of joint training programmes and joint audit work should also be considered.

VIII. QUALITY ASSURANCE AND IMPROVEMENT PROGRAM

The Internal Audit Head must develop and maintain a quality assurance and improvement program to enable an evaluation of the internal audit activity's conformance with the Definition of Internal Auditing and the Standards and an evaluation of whether internal auditors apply the Professional Code of Ethics. The program also assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement. The quality assurance and improvement program must include both internal and external assessments.

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Internal Assessments. Internal assessments must include:

- a. *Ongoing monitoring of the performance of the internal audit activity* - an integral part of the day-to-day supervision, review, and measurement of the internal audit activity. Ongoing monitoring is incorporated into the routine policies and practices used to manage the internal audit activity and uses processes, tools, and information considered necessary to evaluate conformance with the Professional Code of Ethics and the Standards.
- b. *Periodic assessments* – conducted, at least once a year, to evaluate conformance with the Professional Code of Ethics and the Standards. Sufficient knowledge of internal audit practices requires at least an understanding of all elements of the International Professional Practices Framework. It may be self-assessments or assessments by other persons within the organization with sufficient knowledge of internal audit practices.

External Assessments. External assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organization. The Internal Audit Head must discuss with the Board:

- The form and frequency of external assessment; and
- The qualifications and independence of the external assessor or assessment team, including any potential conflict of interest.

The Internal Audit Head must communicate the results of the quality assurance and improvement program to senior management and the Board.

To demonstrate conformance with the Definition of Internal Auditing, the Code of Ethics, and the Standards, the results of external and periodic internal assessments are communicated upon completion of such assessments and the results of ongoing monitoring are communicated at least annually. The results include the assessor's or assessment team's evaluation with respect to the degree of conformance.

The Internal Audit Head may state that the internal audit activity conforms with the International Standards for the Professional Practice of Internal Auditing only if the results of the quality assurance and improvement program support this statement. The internal audit activity conforms to the Standards when it achieves the outcomes described in the Definition of Internal Auditing, Code of Ethics, and Standards. The results of the quality assurance and improvement program include the results of both internal and external assessments. All internal audit activities will have the results of internal assessments. Internal audit activities in existence for at least five years will also have the results of external assessments.

When non-conformance with the Definition of Internal Auditing, the Code of Ethics, or the Standards impacts the overall scope or operation of the internal audit activity, the Internal Audit Head must disclose the non-conformance and the impact to senior management and the Board.

IX. OUTSOURCING/ THIRD PARTIES

A separate policy established by the Board of Directors and senior management shall govern the vendor management aspect of outsourced internal audit activities. The policy includes the contract provisions, assessments of vendor competence, communication between the vendor and the institution, requirement that work products will be owned by the institution and subject to regulatory review, and contingency planning.

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X. OTHER RESPONSIBILITIES

The Internal Auditor should have regard to the possibility of malpractice and should seek to identify serious defects in internal control which might permit the occurrence of such an event.

An Internal Auditor who discovers evidence of, or suspects malpractice should report firm evidence, or reasonable suspicions to the appropriate level of management. It is a management responsibility to determine what further action to take.

The President and/or the Audit Committee of the Company may request the Internal Audit Unit to conduct any audits and special requests or investigate any matters within its scope of responsibilities with or without prior notice to management and/or external parties.