

<b><u>Applied BioCode Corporation</u></b> <b>Implementation Rule for Internal Audit</b>	<b>Version</b>	<b>Date</b>
	1.0	7/20/2016
	<b>Approved by</b> Board of Directors	
	<b>Approver Date</b>	7/28/2016

## 1. Internal Audit Unit

An internal audit unit is established and appointed under the Board of Director in accordance with the company size, business condition, management needs, and the provisions of other applicable laws and regulations.

Appointment or dismissal of chief internal auditor is subject to approval by the board of directors. Any objection or reservations about the appointment or dismissal expressed by an independent director should be recorded in the minutes of the board of directors meeting.

## 2. Function and Responsibility of Internal Audit Unit

- Assess the soundness and effectiveness of the internal control systems.
- Measure the effectiveness and efficiency of operational procedure and control activities.
- Provide timely recommendations for improvements to ensure the sustained operating effectiveness of the systems and a basis for review and correction.

## 3. Requirements for internal auditors

- a. The internal auditors shall be detached, independent, objective, and impartial, in faithfully performing their duties, and shall exercise due professional care, and in addition to reporting their audit operations to each supervisor on a regular basis, the internal audit officer shall also attend and deliver a report to a board of directors meeting.
- b. The internal auditors shall perform their duties in good faith and shall not do any of the following:
  - Conceal or make false or inappropriate disclosure of any the company's business activities, reporting, or compliance with applicable laws, regulations, and bylaws, knowing that they have caused direct damage to an interested party;
  - Damage any right or interest of the company or any interested party through neglect of duty;
  - Act beyond the scope of audit functions or engage in other improper activity, with the intent to gain illegal benefit for him/herself or a third party, violate the auditor's duties or embezzle company assets.
  - Conduct an audit on a department where he/she worked within the past 1 year.
  - Fail to recuse him/herself from auditing of cases in which he or she has a personal interest or has a conflict of interest.
  - Fail to audit any matter as instructed by the FSC or provide relevant information; or
  - Provide, promise, request, or accept, directly or indirectly, unreasonable gifts, entertainment, or any other improper benefits in whatever form.

- Any other activity in violation of any act or regulation or prohibited by any rule of the FSC.
- c. Qualification of Internal Auditor  
The internal auditor shall meet one of the following requirements:
  - Serve as an internal auditor in public company, securities and futures market organizations over 2 years
  - Conduct auditing work over 2 years in a joint CPA firm or incorporated CPA firm which comply with 「Regulations Governing Approval of Certified Public Accountants to Audit and Attest to the Financial Reports of Public Companies」.
  - Has over 3 years working experience in business operation of public companies
  - has over 3 years working experience as computer programmer or system analyst
  - Obtain certificate of passing the CPA examination or certificate of internal auditor issued by the international institution of internal auditor
- d. The internal auditors shall pursue continuing education as well as attend internal audit training held by institutions recognized by the FSC, to improve their auditing quality and competence. The internal audit shall include the various professional courses, computerized auditing, and basic legal knowledge. The hours required for the continuing shall be as prescribed separately by the FSC.

#### 4. Internal Audit Procedures

- a. The annual audit plan is formulated based on the results of the risk assessment, including matters to be audited monthly. The annual audit plan, and any amendments thereto, should be passed by the board of directors.  
Where the Company has established independent director position(s), when it submits the annual audit plan to the board of directors for deliberation under the preceding paragraph, the board of directors shall take into full consideration each independent director's opinions, and shall include their opinions in the board meeting minutes.
- b. In accordance with “Regulations Governing Establishment of Internal Control Systems by Public Companies”, the following audit items shall be included in the annual audit plan for each year:
  - (1) Matters relating to compliance with applicable laws, regulations, and bylaws.
  - (2) The control activities for major financial or business activities, such as for acquiring or disposing of assets, engaging in derivatives transactions, extending loans to others, granting endorsements or guarantees for others, and management of related party transactions.
  - (3) Supervision and management of subsidiaries.
  - (4) Management of operation of board meetings.
  - (5) Management of preparation process of financial statements, including management of application of International Financial Reporting Standards, procedures for professional accounting judgments, and processes for making changes in accounting policies and estimates.
  - (6) Inspection of information and communications security.
  - (7) Major operating cycles such as the sale and receipt cycle and purchase and payment cycle.

When company has established an audit committee, the management of audit committee meeting operations should be included in the annual audit plan. The Company whose stock is already listed or traded over-the-counter at securities firms shall also include management of the operations of the remuneration committee in the annual audit plan.

c. Audit period

An audit period, 12 months, will be established in the annual audit plan.

d. Audit method

The review is conducted through a number of methodologies and tools, including Interviews, analysis of documentation, on-site observations, validation through audit sampling and data analysis, in accordance with the International Standards for the Professional Practice of Internal Auditing.

e. Communication

The internal auditor shall communicate fully with the audited unit regarding the inspection results of the annual audit items, and shall faithfully disclose in audit reports any defects and irregularities of the internal control systems discovered during the audit process.

## **5. Follow up for implementation Status**

The implementation status should be followed up at least quarterly until all management action plan has been fully implemented, to ensure that the relevant departments have taken appropriate corrective measures in a timely manner. Review documents and implementation status report should be issued accordingly.

The company shall include any defects, irregularities, and the status of corrections in the internal control systems as major items of performance evaluation for each department.

The status of correction of defects and irregularities of internal control systems shall include all defects found in the course of inspections by the FSC, found in the course of internal audit operations, those listed in Internal Control System Statements, and those discovered in the course of self-assessment or by CPAs in special audits. A public company that has established independent director position(s) or an audit committee shall additionally forward the materials or give notice to the independent director(s) or audit committee.

## **6. Working paper**

The audit process, include audit method adopted, sample selection approach and documents reviewed, exceptions found and conclusion should be documented thoroughly for audit report preparation. All relevant information and documentation should be maintained properly as the supporting documents for each audit task.

## **7. Audit Report**

a. Type of audit report

The audit report can be classified as the following type by the purpose of the audit performed

- Regular or periodic audit report  
An audit task is performed in accordance with the annual audit plan. This type of report is mainly used for communicating with the responsible management for the weakness or improvement opportunities of the current operation control activities identified during the audit process.
- Special project audit report  
An audit task is performed for a particular item. The report is only used for disclosing the findings of the particular item.
- Audit report for fraud detection or other confidential items  
The audit task is usually requested by the top management. The design of the audit method and selection of auditor should be performed cautiously.

b. The following required elements should be included in the audit report.

- Overall Objective
- Audit period and audit scope
- Audit methodology
- Overall conclusion
- Recommendation and findings
- Risk and implication
- Action plan from management

The audit and follow-up reports should be submitted for review by the supervisors by the end of the month following the completion of the audit items.

The internal auditor shall promptly prepare and present a report and notify the supervisors any material violation or any likelihood of material damage to the company. When the Company has independent directors, the materials or notification shall be simultaneously submitted to the independent directors.

## **8. FSC Reporting**

1. The names, ages, educational background, experience, seniority, and training of internal auditors shall be reported to the FSC for recordation by the end of January each year via the Internet-based information system.
2. The next year's audit plan shall be submit to the FSC for recordation by the end of each fiscal year. A report on the execution of its previous year's annual audit plan shall be submit to the FSC for recordation within 2 months from the end of each fiscal year in the prescribed format via the internet-based information system.
3. The corrections of any defects and irregularities of the internal control system discovered during the past year's internal auditing shall be reported to the FSC for recordation within 5 months from the end of each fiscal year in the prescribed format and via the internet-based information system.

## **9. Documentation retention requirement**

The audit report, the working papers, and relevant information shall be preserved for no less than 5 years.

This Implementation rule of Internal Audit is applied to all audit tasks performed for all wholly owned subsidiaries.