

# **MERITOR, INC.**

## **INTERNAL AUDIT CHARTER**

### **INTRODUCTION**

Internal auditing is an important management tool and is one of the ways Meritor's management maintains the integrity, efficiency and effectiveness of its financial, operational, information systems, and other management control systems. Internal Audit operates as an independent yet integral part of management, conducting its duties professionally and with objectivity.

Meritor's General Auditor is employed by the Chief Executive Officer and Chief Financial Officer (CFO) with the concurrence of the Audit Committee of the Board of Directors. Independence and accessibility to Meritor and related information sources are essential to internal auditing being performed freely and objectively.

### **MISSION AND VALUE DRIVERS**

The mission of Meritor's Internal Audit Services (IAS) is to provide independent, objective assurance and consulting services designed to add value and improve Meritor's operations. IAS helps Meritor 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 work of IAS is to determine whether Meritor's system of risk management, control, and governance processes, as designed and represented by management, is adequate and functioning in a manner to ensure that:

- Risks are appropriately identified and managed,
- Control processes and risk management activities are effective and continually reviewed to determine need for improvement,
- Significant financial, managerial, and operating information is accurate, reliable, and timely,
- Employees' actions are in compliance with policies, standards, procedures, and applicable laws and regulations,
- Resources are acquired economically, used efficiently, and adequately protected, and
- Significant legislative or regulatory issues impacting the organization are recognized and addressed appropriately.

### **ACCOUNTABILITY**

The General Auditor, in the discharge of his/her duties, shall be accountable to management and the Audit Committee.

## **INDEPENDENCE**

To provide for the independence of IAS, its personnel report to the General Auditor, who reports functionally to the Audit Committee and administratively to the CFO in a manner outlined above. It functions independent of each business unit and corporate function.

IAS will refrain from performing any operational duties for the organization or its affiliates or from directing the activities of any employee not employed by or assigned to IAS, except in the context of providing assistance with continuous improvement initiatives, consultative engagements, or other non-independence conflicting requests from management.

IAS will also refrain from initiating or approving accounting transactions other than for the administration of IAS.

## **RESPONSIBILITY**

The General Auditor and staff of IAS have responsibility to:

- Develop and periodically review with management and the Audit Committee the internal audit mission, adapting it as necessary for changing business objectives,
- Develop, using an appropriate risk-based methodology, a flexible annual audit plan, including any risks or control concerns identified by management, and submit that plan to the Audit Committee for review and approval as well as periodic updates,
- Develop a reasonable budget sufficient to accomplish the approved audit plan,
- Implement the annual audit plan, as approved, including as appropriate any special tasks or projects requested by management or the Audit Committee,
- Maintain a professional audit staff (or secure comparable augmentation resources) with sufficient knowledge, skills, experience, and professional certifications to meet the requirements of this Charter,
- Evaluate and assess significant merging/consolidating functions and new or changing services, processes, operations, and control processes coincident with their development, implementation, and/or expansion,
- Issue periodic reports to the Audit Committee and management summarizing results of audit activities, including root cause analyses as appropriate,
- Assist with the administration, disposition and reporting of corrective actions committed to by the auditee,
- Keep the Audit Committee informed of emerging trends and successful practices in internal auditing,
- Assist in the investigation of suspected fraud occurrences and notify management and the Audit Committee of the results,
- Act as a conduit to the Audit Committee for notice and information relating to all fraud within the company,
- Assist in the investigation of Business Standards Compliance Committee occurrences and notify management and the Audit Committee of the results,
- Consider the scope of work of the external auditors and others, as appropriate, for the purpose of providing optimal audit coverage to the organization at a reasonable overall cost.

## **AUTHORITY**

IAS is authorized to:

- Have unrestricted access to all company or related functions, records, property, and personnel.
- Have full and free access to the Audit Committee.
- Allocate resources, set frequencies, select subjects, determine scopes of work, and apply the techniques required to accomplish audit objectives.
- Obtain the necessary cooperation and assistance of personnel in units of the organization where they perform audits, as well as other specialized services from within or outside the organization.
- Consult to management on matters such as the design of business control systems, risk management activities, and governance processes.
- Participate as an ex-officio member of the Disclosures Committee and as members of other committees, teams, boards, etc. provided such participation does not compromise or appear to compromise the independence of IAS or its staff.

*As of November 4, 2015*