

Fitipower Integrated Technology Inc.

Internal Audit Implementation Rules

Chapter 1 Internal Audit System

1. Purpose of Internal Audit

The purpose of internal audit is to assist the Board of Directors and the managers to check and review the deficiencies of the internal control system and to measure the effectiveness and efficiency of the operation, and to provide timely suggestions for improvement to ensure the continuous and effective implementation of the internal control system and to serve as a basis for reviewing and amending the internal control system.

2. Internal Audit Authority and Responsibilities

Internal auditors are under the instructions of the Company's top executives and conduct internal audits of the Company as directed and supervised by the chief internal auditor. In case of doubt, the internal auditor, after receiving an explanation and gain an understanding, shall draft a handling opinion, with the functions as follows:

- 1) Assess the soundness, reasonableness and effectiveness of the Company's internal control system and various management systems.
- 2) Assess the efficiency of the various units within the Company in implementing programs or policies and their assigned functions. Ascertain the proper staffing of each unit, branch or department, the existence of good records of each transaction cycle, and the adequacy of safeguards against waste, fraud or inefficiency in the use of cash, marketable securities or other assets, and conduct comparative analysis of operating performance and review operating results in order to adopt effective measures to improve efficiency.
- 3) Review the audit reports and self-assessment reports submitted by the units and subsidiaries and track the improvement of internal control deficiencies and irregularities.

3. Code of Conduct for Internal Auditors

The internal auditors shall be supremely independent and shall perform their duties with objectivity and impartiality, truthfulness and diligence, and exercise due professional care. In addition to reporting regularly to the supervisors on the audit activities, the chief internal auditor should also attend the Board meetings to present their reports.

4. Continuing Education for Internal Auditors

Internal auditors should continue to attend various professional courses organized by audit associations and professional institutions in order to improve the quality and competence of internal auditing and to comply with the law on the continuing education of auditors.

Chapter 2 Purpose of Internal Audit

The Company shall establish an internal audit unit under the Board of Directors, and shall appoint, according to its business size, business condition, management needs, and the provisions of other applicable laws and regulations, qualified persons in an appropriate number as full-time internal auditors and have deputies in place for the internal auditors.

The deputies are required to carry out audit work in accordance with the Regulations Governing Establishment of Internal Control Systems by Public Companies. Any appointment or dismissal of chief internal auditor shall be subject to approval by the Board of Directors, as shall the purpose, rights and responsibilities of the internal audit. In addition, internal auditors are expected to conduct their business in compliance with the standards for the professional practice of internal auditing and to be committed to policy implementation, system enforcement and law compliance, as well as to liaising and coordinating with all departments to respond to any deviations from the rules and regulations and to stay on track with the intended objectives. Auditors are required to be bold and careful in their approach to audit, and to be independent in their stance.

Internal auditors actively engage, maintain and amend systems in the execution of business, while assisting units in resolving problems in order to improve internal processes in the cycle operations and to enhance the efficiency and profitability of operations.

1. Scope of Internal Audit

The scope of internal audit comprises the inspection and evaluation of the adequacy and effectiveness of the Company's internal control system and the achievement of the performance and quality of the work assigned to it.

1) Reliability and integrity of information

Review the reliability and integrity of financial and operating information and the methods used to identify, measure, classify and report such information.

2) Compliance with policies, plans, procedures, ordinances and covenants

Review established systems to ensure compliance with the requirements of policies, plans, procedures, laws and contracts that have a significant impact on operations and reporting, and to determine whether the Company is actually adhering to them.

3) Preservation of assets

Review the methods of preservation and, if necessary, verify the existence of such assets.

4) Economic and efficient use of resources

Assess the economy and efficiency of the resources used.

5) Achievement of operational or project goals and objectives

Review the operations or projects to determine whether the results are aligned with the stated goals and objectives and whether the operations or projects are being carried out as originally planned.

2. Internal Audit Items

The focus, procedures and rules of the Company's internal audits are subject to the Regulations Governing Establishment of Internal Control Systems by Public Companies, with the audit cycle as follows:

1) Sale and receipt cycle

2) Purchase and payment cycle

3) Production cycle

4) Labor and wage cycle

5) Property, plant and equipment cycle

6) Investment cycle

7) Finance cycle

8) Research and development (R&D) cycle

9) Information cycle

10) Other management control systems

(1) Management of the use of seals.

(2) Management of the receipt and use of negotiable instruments.

(3) Management of the budget.

(4) Management of assets.

(5) Management of endorsements and guarantees.

(6) Management of liabilities, commitments, and contingencies.

(7) Implementation of authorization and deputy systems.

(8) Management of loans to others.

- (9) Management of financial and non-financial information.
- (10) Management of related party transactions.
- (11) Management of the procedures for preparation 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.
- (12) Supervision and management of subsidiaries.
- (13) Management of operation of board meetings.
- (14) Management of the prevention of insider trading.
- (15) Management of shareholder services.
- (16) Management of personal information protection.
- (17) Management of the operations of the remuneration committee.

In establishing the Audit Committee, the Company's annual audit plan shall include the management of the operations of the Audit Committee's meetings.

11) Compliance with laws and regulations

Before conducting a general internal audit, the audit items, audit time, audit procedures (methods), the regulations to be followed, and the format of the working papers to be used for the audit must be determined.

The audit of projects should also be carried out based on general internal audit practices, except that audit programs and reports are dealt with on an ad hoc basis according to the programs, and where the projects have special audit procedures, these procedures are addressed in a separate chapter.

3. Project Audit Priorities

1) Project execution audit priorities

- (1) Whether the project is managed as per the contract and related regulations.
- (2) Whether reports or accounting statements are submitted as required.
- (3) Whether the project progress are checked on schedule, whether the actual progress of each phase is in line with the estimated progress, and whether the allocation of funds is appropriate.
- (4) Whether the reasons for any considerable lag or advance in progress or funding are justified.
- (5) Whether changes to the projects have been approved and whether the relevant and subsequent projects have been amended accordingly.

- (6) Whether the funds for each period have been allocated in accordance with the terms of the contract and, if not, whether the reasons are justified.
 - (7) Whether technical documents, such as reports, are recorded, compiled and retained as required.
 - (8) Whether technical confidentiality regulations are complied with.
- 2) Audit priorities for personnel costs incurred in projects
- Whether salaries for each rank are calculated according to the Company's internal or contractual requirements and are regularly scrutinized for reasonableness.
- 3) Financial audits focus on whether funds are earmarked specifically for the project and are deposited and withdrawn as required; whether other operational procedures are handled in accordance with the Company's internal audit management procedures.
- 4) Audit of Use and Management of R&D Results
- (1) The audit of the management of intellectual property refers to the audit of the management of technical data, patents, trademarks and copyrights.
 - (2) Whether technical data generated in the R&D process are recorded in detail as specified in the design control regulations.
 - (3) Whether the procedures for the scheduled and actual generation of technical data are effectively managed.
 - (4) Whether the evaluation, cataloguing and archiving of technical data are complete and accurate after generation.
 - (5) Whether technical data is properly stored and maintained, and whether it is regularly updated or collated.
 - (6) Whether the confidentiality of technical data is properly controlled and whether applications for its use are properly approved.
 - (7) Whether external applications and incentives for patents, trademarks and copyrights are handled as stipulated in the regulations.
 - (8) Whether the management of patent, trademark and copyright records, expiry dates, fees and maintenance of rights are complete and appropriate.

Chapter 3 Scope of Internal Audit

1. Scope and Rules of Internal Audit

The internal audit activities involve the inspection and assessment of the adequacy and effectiveness of the internal control system of a business entity, with the scope and rules of

the audit activities including:

1) Accounts audit

The audit of books of account and receipts with respect to financial management and accounting systems.

2) Property audit

The audit of counting of and spot checks on cash, securities, notes, inventories, fixed assets and other property of the Company.

3) Operations audit

Audits of the Company's management of materials, engineering, production, operations, personnel, paperwork, and the enforcement of laws and regulations.

4) Procurement audit

Investigation and evaluation of the process of purchasing, selling, reporting losses, price comparison, bargaining and inspection and acceptance of various assets.

5) Budget audit

Investigation and evaluation of the execution of the annual business plan.

6) Other audits

Other audits of the tracking of overdue accounts, the performance of departments, other investigations and assessments on internal management and internal control systems, and audits of specific cases as instructed by superiors.

7) Supervision of subsidiaries

Conducted under the provisions of the regulations governing the supervision of subsidiaries.

2. Responsibilities of the Audit Office

1) The Company's auditors shall undertake auditing matters as stipulated in this system.

2) The auditors shall carry out internal audits of the Company under the direction and supervision of the department head.

3) When an auditor is engaged in an audit, he/she should not draft a handling opinion until he/she has received an explanation whenever questions arise and gained a thorough understanding of the matter.

4) Auditors shall undertake audits for the following purposes:

(1) Assess the effectiveness and adequacy of the internal control system.

(2) Audit all assets for physical existence, and any assets other than those recorded in the book of account.

- (3) Audit all liabilities for physical existence, and any liabilities other than those recorded in the book of account.
- (4) Audit all income and expenditure and costs against the current budget and, if there is an overdraft or shortfall, ascertain whether the basis of recording, classification criteria and calculation of carry-forward figures are in line with the accounting system.
- (5) If an auditor finds any misconduct by an employee during an audit, the auditor should contact the employee's immediate superior and report the matter to the head of the department for instructions, rather than dealing with it directly.
- (6) The auditor may have access to all files in the course of the audit. The inspected unit may not refuse or conceal such access, and if the files are of a confidential nature, permission may be granted before access is given.
- (7) Audit reports shall not be processed without the approval of the president or his/her designee thereto as forwarded by the department head.

3. How Internal Audits are Performed

1) There are four ways in which the Company's auditors conduct audits, which are described below:

1. Prior review

Strengthen the evaluation of the system design to reduce and prevent major violations and fraudulent practices due to inadequate control points in the operating procedures.

2. Regular audits

Performed by auditors in accordance with the audit plan.

3. Occasional spot checks

For ongoing cases, conduct random checks on the clearance of receipts, mail processing time, backlog, data processing and work items, with emphasis on basic business processing, work planning and arrangement, time control, delivery process and internal liaison. Financial management focuses on the consistency between accounts and items.

4. Post audit

Audit the operations of each department for compliance with the Company's regulations.

2) Audits are conducted at least once a year for each item. With the exception of project

audits, general audits are carried out on a random basis.

3) The auditors shall proceed with the audit based on the period and results of the previous audits, and the principle of continuous auditing shall apply. However, due to time and manpower constraints, selected items may be audited and the remaining items should undergo an audit within two years.

4) Before the auditor engages in audit work, he/she should first map out the audit procedures, the content and scope of which are as follows:

1. Content of audit plan

(1) Referring to previous audit reports or instructions from superiors, the auditor shall draw up the items to be audited, the expected sampling rate and quantity, and follow up on the improvements to be made in the last audit.

(2) The estimated number of working days required, the destination, the person to be dealt with, etc.

(3) The items or information required to be provided by the relevant departments.

(4) Work progress, schedule and matters to be notified.

(5) The proposed audit procedures and the points to note in the audit.

2. Scope of the audit plan

(1) Budget execution assessment

Examine the reasons for variances in budget execution and analyze overall performance.

(2) Performance evaluation

Evaluate the extent to which labor, materials and capital are utilized and their efficiency.

(3) Assessment of internal control systems

Whether the internal controls of the Company and their balancing function are out of step with reality or are not implemented correctly.

(4) Coordination and liaison between departments

Whether there is a clear delineation of authority between departments and whether there is any fragmentation.

(5) Communication between superiors and subordinates

The implementation of the policy, whether there is a gap in awareness between superiors and subordinates, and whether the timeframe is well managed.

5) At the end of the field audit, the auditor shall communicate fully with the officer in charge of the inspected unit about the audit results, give them an opportunity to clarify and

explain, and if necessary, obtain the inspected unit's improvement plan and expected completion date.

- 6) The number of samples taken by the auditors for audit work shall be determined at the discretion of the auditors, depending on the soundness of the internal control system in place for each matter and the results of previous audits.

4. Internal Audit Techniques

- 1) The information collected by the auditors for the purpose of auditing can be divided into internal information and external information, which are described below:

1. Internal information

- (1) Company profile, history, major shareholders, key employees, etc.
- (2) Company organization chart, job descriptions, etc.
- (3) Minutes of important business decisions.
- (4) Business policies, guidelines, profit objectives, short and long-term plans, etc.
- (5) All types of approved budgets, including capital budgets, capital expenditure, expense budgets, production budgets and operating budgets.
- (6) Material financial reports.
- (7) Rules and institutions, regulations, notices, etc.
- (8) Various business review reports.
- (9) Various business project reports and follow-up records, etc.
- (10) General knowledge of the Company's products or business, operating rules, production and manufacturing processes, etc.
- (11) Binding contracts signed with external parties.

2. External information

- (1) Financial laws, tax regulations and related supplements promulgated by the government.
- (2) Relevant information on the peers and the latest industry developments.
- (3) Market research information, market conditions and economic climate surveys, etc.
- (4) Important government financial policies and incentives.
- (5) Price statistics.
- (6) Financial credit information.
- (7) Information on internal audits and professional knowledge.

2) Notes to auditors

1. They should comply with the Code of Ethics for Internal Auditors issued by the Institute of Internal Auditors of the ROC and the Regulations Governing Establishment of Internal Control Systems by Public Companies.
2. Auditors should maintain a high degree of independence so that they can perform audits autonomously and objectively and make unbiased judgements.
3. Audit procedures are carried out according to the inspection plan to avoid unnecessary discussion and consultation and to minimize disruption to the work of the handling staff of the unit under inspection. Whenever there is an issue that is unclear, questions should be put at the appropriate time until it is thoroughly clarified.
4. Auditors should be objective, professional and conscientious in carrying out their audit work without being subject to any interference or influence, and should recuse themselves in case of conflict of interest. In order to maintain objective professional judgment, internal auditors should refrain from the following when performing audits:
 - (1) Auditing items for which they were previously responsible without the passage of a reasonable period of time.
 - (2) Being responsible for the design and implementation of the internal control system.
5. The auditors should familiarize themselves with the relevant laws and regulations and be well versed in the various systems and rules of internal control in force in the Company, as well as having a thorough understanding of the individual practices and special circumstances of the unit under auditing.
6. Auditors should be familiar beforehand with the history of the unit under inspection, material information and the contents of previous audit reports.
7. The auditor should make a reasonable judgement on the results of the audit, which should be based on sound theory and supported by adequate and appropriate evidence.
8. Auditors, when undertaking audits, are expected to develop attributes such as keen observation, alertness, perseverance, professional judgement, logical thinking and reasoning, a calm attitude to analyze problems, and a passion for solving them.
9. When auditors are engaged in auditing work, the content of the audit is the first-hand confidential files and documents of the Company and should be kept strictly confidential.

3) Internal audit methodology

1. Certificate verification

(1) Review whether the original certificate is legal, whether the amount and the name are correct, and whether the verification authority is in compliance with the regulations, etc.

(2) Check whether the original certificate matches with the contract and documents.

2. Reconciliation of the books of account

(1) Reconcile the general ledger with the ledger.

(2) Examine the bank reconciliations and reconcile them with the books of account.

3. Recalculation review

Check whether the figures have been calculated and recalculated correctly.

4. Posting reconciliation

Verify whether the vouchers have been correctly posted to the ledger.

5. Process checking

Verify that the income and expenditure procedures, delivery processes and approval processes are in line with the authority and that the operating procedures of each department are done in conformity with the Company's regulations by means of the vouchers and documents received and paid.

6. Analysis of abnormalities by account

Trace the cause of anomalies in the accounts in respect of the content of the aggregate account balances and changes in their figures.

7. Comparative observation

Conduct comparative analysis of the same items from one period to another or related items among the peers to look into the causes of changes and trends where the differences are considerable or unusual.

8. Verification

Make written or verbal inquiries to the relevant external or internal units/departments to verify the accuracy of the information and obtain confirmation from the audited department upon completion of the audit report.

9. On-site stocktaking

Carry out a spot check or stocktaking to ascertain whether the "accounts" and "items" match.

10. Contract performance

Review the contract in accordance with the terms of the contract of sale or loan,

and enforce the right to impose a penalty, withhold payment or seek compensation in the event of default or breach of contract.

11. Operational audits

Examine the actual and budget execution results, gain insight into irregularities and prepare reports and recommendations.

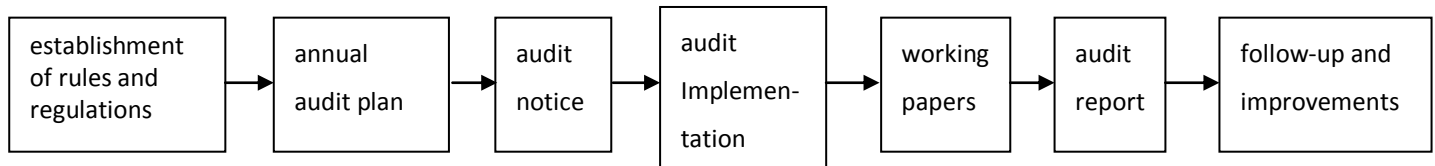
12. Conduct of auditors

Auditors shall maintain good manners, conduct and confidentiality in the performance of their duties and shall not act in a manner inconsistent with their duties.

4) Preparation of audit working papers

1. A working paper is a record of the work carried out by the auditor, showing the conclusions reached by the auditor in the course of the audit and on which the audit report is based.
2. The auditors shall prepare a working paper with the following elements:
 - (1) Each working sheet shall contain at the top a statement of the branch, the department, the name of the statement prepared, the date of the audit, and the signature of the auditor and reviewer.
 - (2) The working papers should be indexed, numbered, and the figures transferred in and out should be coded in consecutive numbers, controlled and linked.
 - (3) The working sheet should state the scope of auditing, sampling method and the number of random inspections. Check the name of the contract, certificate and each supporting document, and add notes on the source and date of the information for the next audit and follow up.
 - (4) The comments and explanations given by the auditor must be based on facts and examples and cannot be ambiguously worded.
 - (5) Any doubts arising from the checks and reviews with the other party should be recorded in writing and confirmed by the other party.
 - (6) The filing, storage and retrieval of working papers shall be managed as confidential documents.
 - (7) The working papers and related information should be retained for at least five years.

5. Internal Audit Procedures



Description:

- 1) Internal audit aims to strengthen the internal control system and the establishment of rules and regulations, and to engage in business performance and performance evaluation from a supreme independent position, so the primary task of internal audit is to assist in the creation of rules and regulations.
- 2) The Audit Office shall prepare an annual audit plan for the following year before the end of each year and submit it to the President for approval by the Board of Directors, with a copy sent to the supervisors.
- 3) In accordance with the audit planning procedures and after approval by the officer in charge, the Audit Office will communicate fully with the audited department and request information from the audited department by verbal or written notice one week prior to the audit.
- 4) Understand current operations, collect relevant information, refer to previous audit reports, and follow up to see if improvements have been made to the items audited. Observe changes in business growth and decline and analyze any major variances to understand the context and trace the causes.
- 5) Create working papers for audits to support the information collected.
- 6) Bring up issues of concern and irregularities with the relevant departments, and review the causes of difficulties and the crux of the problems, and come up with suggestions for improvement after the review. Further, prepare an audit report on any irregularities in the operation of the Company that are not in keeping with the Company's rules and regulations and hand it in to the president for approval.
- 7) If the departments concerned have any comments on the review or audit report, they may express their views for further review, with the final decisions to be made by the president. After the audit report has been endorsed by the president, the departments concerned will be notified to make improvements. The auditors shall, at least on a quarterly basis from the date of improvement, plan for regular or irregular follow-up and tracking of the situation until the amelioration is made to ensure that the relevant unit has taken appropriate improvement measures in a timely manner, and prepare and turn over a

follow-up report to the president for approval before handing it in to the supervisors for inspection.

- 8) The audit report and tracking report shall be submitted to each supervisor for perusal by the end of the next month upon the completion of the audit.
- 9) If a material breach is discovered or the Company is in jeopardy of being materially damaged, a report should be made and presented immediately and the supervisors should be informed.
- 10) If the Company has independent directors or an audit committee, it shall hand the report over to or notify the independent directors or audit committee when carrying out the procedures set out in points 7), 8) and 9).

6. Audit Report

- 1) An audit report should be prepared in a succinct and concise manner.
- 2) An audit report should be submitted together with the working papers within one month of the conclusion of the audit and should not be delayed for any reason.
- 3) Audit reports should be text-based, with an emphasis on categorization and enumeration, and should refrain from repetition.
- 4) Audit reports shall be in the custody of staff designated by the department head and shall not be accessed without prior approval. External entities may borrow audit reports only with the prior approval of the president or higher ranks.
- 5) Audit reports should be kept for a minimum of five years.
- 6) There are two types of audit report formats:
 1. Verbal report: more time-sensitive.
 2. Summary report:
 - (1) Subject of audit.
 - (2) Audit item.
 - (3) Name of report.
 - (4) Date of report.
 - (5) Status.
 - (6) Criteria.
 - (7) Cause.
 - (8) Results.
 - (9) Suggestions.
 - (10) Response from management.

(11) Improvement measures and results.

7. Information Disclosure and Declaration

- 1) The appointment and dismissal of the chief internal auditor shall be approved by the Board of Directors. In the event of a change, the reasons for the change and the details of the change shall be submitted to the competent authority for recordation within two days of the date of occurrence of the fact via the Internet-based information system.
- 2) The basic information of the Company's auditors and the training courses they have received shall be filed for recordation in the prescribed format on the website designated by the competent authority by the end of January each year.
- 3) The Company shall submit for recordation its next year's audit plan by the end of each fiscal year and a report on the execution of its previous year's annual audit plan within 2 months from the end of each fiscal year in the prescribed format on the website designated by the competent authority.
- 4) The Company shall submit for recordation its corrections of any defects and irregularities of the internal control system discovered during the past year's internal auditing within 5 months from the end of each fiscal year in the prescribed format on the website designated by the competent authority.

8. In order to facilitate the effective implementation of the internal control system, the Board of Directors shall conduct reviews and improvements from time to time, and amend these Rules as prescribed by the competent authorities' orders or laws and by referring to the development of the governance system of listed companies.

These Implementation Rules, and any amendment hereto, shall come into operation upon adoption by resolution of the Board of Directors.

These Implementation Rules were approved by the Board of Directors on June 18, 2010.

First amended on March 7, 2012

Second amended on December 29, 2014