

Regulations for Internal Control System at I-Shou University

Ratified and promulgated by the President on July 25, 2010

Adopted on November 17, 2010 by the Board of Trustees

Amendments to Articles 1~4, 11 and 14~20 ratified and promulgated by the President on October 2, 2014

Adopted on November 19, 2014 by the Board of Trustees

Amendments to Articles 1, 3, 5~11, 13~18 and 20 ratified and promulgated by the President on November 16, 2017

Adopted on December 26, 2017 by the Board of Trustees

Chapter I General Principles

Article 1 The Regulations for Internal Control System at I-Shou University (hereinafter referred to as “the Regulations”) are made by I-Shou University (hereinafter referred to as “the University”) pursuant to Article 51 of the Private School Law and the Implementation Regulations Governing Internal Control System of School Foundations and Affiliated Private Schools in a bid to conduct self-monitoring on affairs related to human resources, finance, and operations through the management of the Board of Trustees, the University, and affiliated members with the aim of ensuring a) the improvement of operational performance and efficiency, b) the reliability, timeliness, and transparency of financial and non-financial information, and c) total obedience to the applicable laws and regulations.

Article 2 The Office of Auditing is in charge of all the affairs mentioned herein.

Article 3 The design, implementation and self-assessment of the internal control system (hereinafter referred to as “the System”) shall take five constituent elements into consideration, and proper adjustments may be made to required items based on actual needs, including personnel, finance, management regulations and design process of university administration, internal control points, and vertical and horizontal loop-control.

The five constituent elements are control environment, risk assessment, control activities, information and communications, and monitoring activities.

Article 4 All matters and operations related to the functions of units shall be subject to the Regulations, unless stipulated otherwise.

Chapter II Internal Control System

Article 5 The University establishes management regulations and designs operating procedures and internal control points in terms of the following personnel affairs:

1. appointment, salary assessment, salary, benefits and welfare, insurance, retirement, severance, and bereavement compensation; and
2. attendance, leave of absence, training, continuing education, research, performance evaluation, and rewards and punishments.

Article 6 The University establishes management regulations and designs operating procedures and internal control points in terms of the following financial affairs:

1. decision-making, trading, custody, and records of investment in negotiable securities and other investments;
2. disposition, encumbrance, purchase, and lease of immovable property; procurement of movable property, establishment of subsidiaries, and handling of related businesses;
3. decision-making, execution, and records of fund-raising, receipt of donations, and borrowings;
4. decision-making, execution, and records of capital leases;
5. management and records of liability commitments and contingencies;
6. budget, management, execution, and records of government subsidies;
7. auditing, budget, management, and records of receipts under custody as well as other income and expenditure items;
8. preparation of budget plans and financial statements as well as disclosure of financial and non-financial information;
9. management of official seals; and
10. management of university-owned property.

Article 7 The University establishes management regulations and designs operating procedures and internal control points in terms of the following operational affairs:

1. teaching-related affairs;
2. student-related affairs;
3. general affairs;
4. affairs related to research and development;
5. affairs related to industry-university collaboration;
6. affairs related to international exchange and cooperation;
7. affairs related to information processing; and
8. other operational affairs related to the University.

Article 8 The University establishes management regulations and designs operating procedures and internal control points in terms of related-party transactions.

The related-party transactions mentioned herein refer to the trading, lease, or borrowing of capitals between the University and the following natural persons or juristic persons:

1. the directors and supervisors of the Board of Trustees of the University or the President;
2. the spouses of the directors and supervisors of the Board of Trustees of the University or the spouse of the President;
3. relatives within the second degree of kinship of the directors and supervisors of the Board of Trustees of the University or of the President;
4. juristic persons where a director or supervisor of the Board of Trustees of the University serves as its chairperson of the Board of Directors; and
5. juristic persons where at least one-half of the directors or supervisors are concurrently the directors or supervisors of the Board of Trustees of the University.

Article 9 The University may adjust the required loop-control operation based on actual needs and make vertical and horizontal strategies and procedures as follows in terms of functions, attributes, development goals and features:

1. student recruitment;
2. from admission to graduation;
3. teaching;
4. student counseling;
5. personnel management;
6. procurement and payment;
7. real estate, buildings, and equipment;
8. financing;
9. investment; and
10. information management.

Chapter III Review of Internal Control System

Article 10 The University shall implement the internal audit to assist the Board of Trustees and the President in reviewing the efficacy of the System and evaluating the efficacy and efficiency of the University's operation to provide suggestions for improvement, with an eye to ensuring the sustainability of the System.

Article 11 The University shall have one or more full- or part-time auditors under the direct supervision of the President to conduct the internal audit, and the University shall establish the Office of Auditing and one director shall be appointed. The University may form an internal control committee or appoint appropriate personnel to design or implement the System based on actual needs, and the University shall make a reasonable division of the supervision of internal audit.

Article 12 The University may, based on the suggestions proposed by auditors, invite specialists from within or outside the University to serve as co-auditors in order to magnify the

efficacy of internal audit.

Article 13 Auditors shall carry out the internal audit as per the Regulations to evaluate the effectiveness and compliance of the prevailing strategies and operating procedures made for personnel, finance, and operation without coming into conflict with the duties of the accounting unit. Auditors are responsible for:

1. post auditing of matters related to personnel, finance, and operation of the University;
2. post auditing of cash flows of the University;
3. on-site inventory of cash, bank deposits, and negotiable securities of the University;
4. auditing and suggestions for enhancing financial efficiency and reducing non-economic expenditure of the University; and
5. special audits of the University.

Article 14 After assessing the operating cycle and risks of the University in accordance with the rules of internal audit operations and the rules of internal control risk assessment, supervision and administration, auditors shall draft up an audit plan as the basis for internal control.

The rules of internal audit operations and the rules of internal control risk assessment, supervision and administration shall be established separately.

The audit plan shall be submitted to the President for ratification; the same procedure applies to any amendment to the audit plan.

Auditors shall specify the items to be audited in writing based on the pre-arranged items of audit, including the audit procedure and focuses, and the items to be audited may be expressed in any form and adjusted whenever necessary.

Article 15 Auditors shall fully disclose deficiencies, irregularities, and other defects of the System identified during the auditing process in audit reports along with working papers and relevant documents attached, and they shall also make regular follow-ups to ensure that the deficiencies, irregularities, and defects are corrected.

Other defects as referred to in the preceding paragraph include:

1. deficiencies discovered by government agencies;
2. deficiencies listed on the internal control statement provided by the University during the certification of annual financial statements by certified accountants;
3. deficiencies discovered by certified public accountants while auditing and attesting annual financial statements or doing special audits; and
4. other deficiencies.

Article 16 Audit reports, follow-up reports, working papers, and relevant documents shall be stored for a minimum of five years.

- Article 17 Auditors shall regularly submit audit reports and follow-up reports to the President for ratification and deliver duplicates to the supervisors of the Board of Trustees for review. In case of any major violations which might bring about material loss to the Board of Trustees or the University, auditors shall immediately compile and submit an audit report to the President for review. As soon as the President receives the report, he/she shall make an assessment and improvement immediately, submit the report to the Board of Trustees for future reference, and at the same time submit a duplicate to the supervisors of the Board of Trustees for review.
- Article 18 Auditors may request administrative units or staffers-in-charge to provide relevant account books, certificates, documents, and other required information for the purpose of auditing. Any operating procedures, internal control points, loop-control operation, rules of audit operations, and rules of internal control risk assessment, supervision, and administration not listed herein shall be subject to the applicable laws and regulations.
- Article 19 The audit results as well as the correction of deficiencies and irregularities will be an important reference to performance evaluation in order to effectively enhance the efficacy of university administration.
- Article 20 The Regulations become effective on the third day of promulgation after being adopted by the University Administration Council, ratified by the President, and approved by the Board of Trustees.

Note: In the event of any disputes or misunderstanding as to the interpretation of the language or terms of these Regulations, the Chinese language version shall prevail.