

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.

Purpose and Mission

The purpose 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. The mission of IAS is to enhance and protect organizational value by providing risk-based and objective assurance, advice, and insight. 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.

Authority

IAS personnel report to the General Auditor, who reports functionally to the Audit Committee and administratively to the Chief Financial Officer (CFO). It functions independent of each business unit and corporate function.

To establish, maintain, and assure that IAS has sufficient authority to fulfill its duties, the Audit Committee will:

- Annually, review, recommend changes (if any), and approve the internal audit charter.
- Review and approve the scope of the annual internal audit plan; including proposed staffing, budget and other resources necessary for its accomplishment.
- Review the results of completed internal audits and management's response to audit reports.
- Review any comments the General Auditor may have on significant issues related to the internal audit activities or restrictions, if any, imposed thereon.
- Review with General Auditor significant internal control matters (including incidents of fraud identified by Meritor, the independent auditors or internal audit, or reported directly to the Committee).
- Annually, review the composition and qualifications of the Internal Audit staff.
- Review and concur with management as to the appointment, reassignment, replacement, dismissal, and compensation of the General Auditor.
- Review the results of any quality assurance reviews.

Where the General Auditor has or is expected to have roles and/or responsibilities that fall outside of internal auditing, ensure safeguards have been established to limit impairments to independence and objectivity.

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, including in private meetings without management present.
- 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.

Independence and Objectivity

The General Auditor will ensure that IAS remains free from all conditions that threaten the ability of internal auditors to carry out their responsibilities in an unbiased manner, including matters of audit selection, scope, procedures, frequency, timing, and report content. If the General Auditor determines that independence or objectivity may be impaired in fact or appearance, the details of impairment will be disclosed to appropriate parties.

Internal auditors will maintain an unbiased mental attitude that allows them to perform engagements objectively and in such a manner that they believe in their work product, that no quality compromises are made, and that they do not subordinate their judgment on audit matters to others.

As a general rule, Internal auditors will have no direct operational duties over any of the activities audited. Accordingly, internal auditors will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair their judgment, including:

- Initiating or approving transactions external to IAS activity.
- 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.

Internal auditors will:

- Exhibit professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined.

- Make balanced assessments of all available and relevant facts and circumstances.
- Take necessary precautions to avoid being unduly influenced by their own interests or by others in forming judgments.

The General Auditor will confirm to the Audit Committee, at least annually, the organizational independence of IAS.

The General Auditor will disclose to the Audit Committee any interference and related implications in determining the scope of internal auditing, performing work, and/or communicating results.

Accountability

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

Scope of Internal Audit Activities

The scope of internal audit activities encompasses, but is not limited to, objective examinations of evidence for the purpose of providing independent assessments on the adequacy and effectiveness of 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, governance 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 and assets are acquired economically, used efficiently, and adequately protected.
- Operations or programs are consistent with established goals and objectives and are being carried out effectively and efficiently.
- Significant legislative or regulatory issues impacting the organization are recognized and addressed appropriately.

The General Auditor will report periodically to senior management and the Audit Committee regarding:

- IAS's purpose, authority, and responsibility, adapting it as necessary for changing business objectives.
- IAS's audit plan and performance relative to its plan.
- IAS's conformance with The IIA's Code of Ethics and *Standards*, and action plans, if any, to address any significant conformance issues.
- Significant risk exposures and control issues, including fraud risks, governance issues, and other matters requiring the attention of, or requested by, the Audit Committee.
- Results of audit activities, including root cause analyses as appropriate.
- Audit staff qualifications and resource requirements.

The General Auditor also coordinates activities, where possible, and considers relying upon the work of other internal and external assurance and consulting service providers as needed. IAS may perform advisory and related client service activities, the nature and scope of which will be agreed with the client, provided IAS does not assume management responsibility.

Opportunities for improving the efficiency of governance, risk management, and control processes may be identified during engagements. These opportunities will be communicated to the appropriate level of management.

Responsibility

The General Auditor and staff of IAS have responsibility to:

- 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.
- 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.
- Communicate to senior management and the Audit Committee any significant interim changes to the internal audit plan.
- Ensure each engagement is properly planned and executed.
- 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.
- Evaluate the means of safeguarding assets and, as appropriate, verifying the existence of such assets.
- Obtain management's response and corrective actions to be taken in regard to specific findings.
- Assist with the administration, disposition and reporting of corrective actions committed to by the auditee.
- Ensure the principles of integrity, objectivity, confidentiality, and competency are applied and upheld.
- Establish and ensure adherence to policies and procedures designed to guide IAS activity.
- Ensure emerging trends and successful practices in internal auditing are considered.
- Assist in the investigation of suspected fraud and Business Standards Compliance Committee 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.
- 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.

As of September 26, 2018