**UNITED ARAB BANK**

البـنـك الـعـربـي الـمـتـحـد

**Internal Audit Department**

إدارة التدقيق الداخلي

# Internal Audit Charter

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This Charter sets out the mandate, approach, authority and responsibility of Internal Audit Department ("IAD") within United Arab Bank (the "Bank"). This has been compiled by taking into consideration the standards and guidelines issued by the Institute of Internal Auditors ("IIA"), the Information Systems Audit and Control Association ("ISACA") and the Central Bank of the United Arab Emirates ("CB-UAE"). The IIA Standard and Guidelines includes the International Professional Practices Framework (IPPF), the Code of Ethics, and the Guidance on Effective Internal Audit in Financial Services ("the Code").

## 1. IAD's Mandate

IAD continues to be an independent function within the Bank whose primary role is to assist the Board of Directors ("BOD") and Executive Management to protect the assets, reputation and sustainability of the Bank.

IAD does this by risk assessing the Bank and its activities (including outsourced activities) at least once every year. This assessment together with the regulatory expectations on carrying out certain periodic audits allows IAD to formulate and execute an annual audit plan (the "Plan"). Audits are executed in accordance with the Plan to form an opinion on the overall control environment. The Plan is reviewed on a periodic basis to assess the impact of changing risks, with any significant changes to the Plan discussed and reviewed with senior management and approved by the Board Audit Committee ("BAC").

The scope of IAD activities covers, but is not restricted to, inspections of evidence to provide independent assessments on the adequacy and effectiveness of risk management, control and governance processes within the Bank. IAD also performs special reviews at the request of regulators, the BOD or the BAC. While carrying out the Audits and Reviews, IAD assesses if key risks within the scope of these reviews have been identified, governed in line with the established risk management processes (including Bank's risk appetite) and reported by senior management and/or the Risk function to Committees and Executive Management. IAD also considers business strategy, policies, procedures and systems, and the Bank's key priorities as part of this evaluation.

There is no aspect of the organization which IAD is restricted from looking at as it delivers on its mandate. IAD's scope includes information presented to the Board for strategic decision making, including a review of significant business process changes, key corporate events, new products and services, acquisitions and divestments.

*Reference: IIA IPPF 2017, 1000 – Purpose, Authority, and Responsibility, 1010 – Recognizing Mandatory Guidance in the Internal Audit Charter, 2100 – Nature of Work, 2110 – Governance, 2120 – Risk Management*

## 2. Audit Approach

IAD provides independent assurance of the effectiveness of management's control of business activities and of the control processes governed by the Bank's Risk Management team including the reliability and integrity of management information systems and processes. IAD continues to work with the Bank's other control/support functions, such as Finance, Risk and Compliance, but does not place unqualified reliance on their work.

IAD's core assurance work is audits and the main output of an audit is a graded report with an opinion on the control environment and comments on management's control approach included in the Executive Summary. However, IAD also performs other types of review work including control reviews (testing limited number of control processes), special reviews as well as Continuous Risk Assessment activities to keep abreast of changing risks. Whilst Senior Management may request IAD undertake special assignments, investigations or ad-hoc reviews related to risks and internal controls, the requests should be strategic in nature and event driven. In exceptional cases, IAD reserves the right to issue an ungraded audit report or Final Audit Report without Management

Action Plans and closure dates. In its approach, IAD evaluates the potential for fraud and how the organization manages fraud risk, however is not responsible for fraud detection and reporting.

An Audit Manual is maintained by IAD. This is determined and refined in accordance with industry best practice from the IIA Standards and Code, as recognized by regulators and external auditors.

Working with senior management, IAD supports long term improvements in the Bank's control environment and tracks that sustainable corrective action plans are effectively implemented. As a member of the bank's Management Committee ("MANCO") the Chief Audit Executive ("CAE") has a role to both advise and educate management on risk and control observations and audit practice

Internal Audit Department expects to complete all the audit assignments using the available resources; however, in certain engagements IAD may outsource or co-source some of the engagements on a limited and targeted basis to specialized expertise where the expertise is not available in house or due to resource constraints.

*Reference: IIA IPPF 2017, 2130 – Control*


## 3. Authority and Independence

To ensure independence and avoid conflict of interest, IAD will remain free from interference by any element in the Bank, including in matters of audit selection, scope, procedures, frequency, timing or report content.

The following safeguards are in place:
a. The BAC approves IAD's budget and resourcing, which are presented by the CAE.
b. The BAC recommends the appointment and removal, and sets the remuneration, of the CAE.
c. The CAE reports to the Chairman of the BAC and is accountable for setting and reinforcing IAD's strategic direction, while ensuring that IAD has the necessary independence and authority, to exercise judgement, express opinions and make recommendations.
d. The CAE works with the Bank's Chief Executive Officer (CEO) to establish Internal Audit's strategic direction. The CEO supports the day-to-day operations of Audit's activities and effectiveness. The CAE will consider requests for review made by the CEO, particularly those relating to integrity, conduct or accountability. These request are generally event driven where the CEO needs the expertise and independence of IAD.
e. Internal auditors have no direct operational responsibility or authority over any of the activities they review. Accordingly, they do not develop or install systems or procedures, prepare records, or engage in any other activities or decision making which would normally be audited.
f. IAD may initiate direct communication with any member of staff, examine any activity of the Bank and has full and unconditional access to any records, files, data and physical assets of the Bank. This includes access to management information systems and records, and agendas, papers and minutes of all committees and forums. IAD has the right to attend and observe all executive committees, management meetings and any other management decision making forums across the Bank. The relevant MANCO member will be engaged appropriately. Accordingly, IAD staff must respect the confidentiality of information acquired in the course of their duties.
g. IAD requires CEO and BAC Chair approval to access confidential staff information
h. IAD is not authorized to assume any operational responsibility other than relating to IAD itself; or process or approve any accounting entries or the Bank's operating policies and procedures.
i. Internally recruited IAD staff and staff rotated to and from the IAD must not engage in auditing activities for which they have had previous responsibility during the mandatory "cooling off" period. This also applies to outsourcing IAD relationships.

*Reference: IIA IPPF 2017, 1100 – Independence and Objectivity, 1110 – Organizational Independence, 1200 – Proficiency and Due Professional Care, 1220 – Due Professional Care*

## 4. Responsibility and Accountability

The CAE is responsible and will be accountable for:

a. Ensuring that the contents of this Charter are implemented within IAD and for establishing a process to ensure that IAD is performing in accordance with its Charter, IIA and CB UAE standards and practices.

b. Reviewing the Charter and presenting it to the Audit Committee for approval at least annually.

c. Communicating the results of the IAD's engagements (performance reporting) to BAC.

d. Following up on agreed-to corrective actions and submitting to BAC quarterly updates on the progress of closing the agreed actions.

e. Assessing the skillset, resources and budget for IAD and presenting this to the Audit Committee. Staff within the internal audit function must be sufficient, competent and collectively have the appropriate experience to understand and evaluate all of the business activities, support and control functions of the Bank. All staff in IAD must exhibit the highest level of professional objectivity in gathering, evaluating and communicating information about the activity or process being examined. They must make a balanced assessment of all the relevant circumstances and not be unduly influenced by their own interests or by others in forming judgments.

f. IAD will adhere to the Definition of Internal Auditing, Code of Ethics and the Standards for the Professional Practice of Internal Auditing that are published by the IIA.

g. Coordinate with the assurance providers including the external auditor.

*Reference: IIA IPPF 2017, 1111 – Direct Interaction with the Board, 2000 – Managing the Internal Audit Activity, 2030 – Resource Management, 2040 – Policies and Procedures, 2050 – Coordination and Reliance, 2060 – Reporting to Senior Management and the Board*

## 5. Quality Assurance

The quality assurance and improvement program would include both internal and external assessments. CAE would be responsible for ongoing internal assessment and monitoring of the performance of the internal audit activity through periodic self-assessment. CAE will report periodically the results of its quality assurance and improvement program to senior management and the governing body.

A full and independent 'Quality Assurance Review' will be every five years as recommended by IIA.

*Reference: IIA IPPF 2017, 1300 – Quality Assurance and Improvement Program, 1310 – Requirements of the Quality Assurance and Improvement Program, 1312 – External Assessments, 1320 – Reporting on the Quality Assurance and Improvement Program*