



Internal Audit Charter

October 2022



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1. Introduction

The Internal Audit Charter (hereinafter “the Charter”) defines and describes the principles and basic operational concepts of the Internal Audit within NBB. In addition, the Charter also defines the set of principles and rules which Auditors must adhere to when performing their roles.

Access to the Charter is provided to the members of the Board of Directors, the Audit Committee, the Senior Management and the staff of the Internal Audit Department (IAD).

The Charter is in compliance with the current legal and regulatory framework.

The Internal Audit Charter will be reviewed by the Internal Audit Committee either annually or when there are material changes in the operation, the responsibilities, the organizational structure of the IAD or auditing practices which necessitate amendments to the charter. The Audit Committee approval will be sought for any amendments to the charter.

2. Definitions

2.1. **Internal Audit**

Internal auditing is defined by the Institute of Internal Auditors (IIA) as “an independent, objective assurance and consulting activity designed to add value and improve an organization’s operations. It assists an organization to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.”

2.2. **Role of Internal Audit**

The internal audit activity is established by the Board Audit Committee and its roles and responsibilities are defined by the Board Audit Committee as part of their oversight role.

2.3. **Internal Audit Charter**

The internal audit charter is a formal document that defines the authority, scope of work, and responsibility of Internal Audit Department. The charter establishes the Internal Audit Department’s position, power and responsibilities within the organization; and authorizes access to records, personnel, and physical properties relevant to the performance of engagements.

3. Mission of Internal Audit

- 3.1. Perform all and any type of audits to all units, activities and third parties who provide substantial (critical) services to the Bank, in order to form a reasonable, objective and independent opinion about the adequacy and the effectiveness of the Internal Control System (hereinafter “ICS”) of NBB.
- 3.2. Provide objective assurance, as defined, through the Audit Committee to the Board of Directors of NBB with regards to the results of the assessment of the adequacy and effectiveness of the Internal Control System of the Bank.
- 3.3. Perform any other activity that is specifically required by the legal and regulatory framework.
- 3.4. Assess the Internal Control System based on criteria derived from international standards and best practices.

4. Internal Audit Authority

- 4.1. The internal audit activity, with strict accountability for confidentiality and safeguarding records and information, is authorized full, free, and unrestricted access to any and all of Bank’s records, physical properties, and personnel pertinent to carrying out any engagement.
- 4.2. All employees are requested to assist the internal audit activity in fulfilling its roles and responsibilities. Restriction to these accesses imposed by any employee or management of the Bank, which prevents the Internal Audit Department from performing its duties, will be reported immediately to the CEO and to the Audit Committee, based on circumstances as determined by the Group Chief Internal Auditor (GCIA).
- 4.3. The internal audit activity will also have free and unrestricted access to the Board. The Group Chief Internal Auditor will have direct access to the Audit Committee and will communicate directly to the Chairman of the Audit Committee, any matter that is believed to be of sufficient magnitude and importance to require immediate attention of the Audit Committee.
- 4.4. The Subsidiary’s (BisB) Chief Internal Audit to report administratively to the Group Chief Internal Auditor and functionally to the Subsidiary’s Board Audit Committee. The Group Chief Internal Auditor is authorized to attend the Subsidiary’s Board Audit Committee meetings as an “Observer” to ensure alignment between the subsidiary (BisB) and parent (NBB) overall audit strategy.

5. Operational Structure

- 5.1. The IAD operates as a single pool comprised of auditors. The Group Chief Internal Auditor is responsible for setting up the strategy and ensuring the smooth operation of the IAD, in accordance with the legal and regulatory framework and the international best practices.
- 5.2. The Group Chief Internal Auditor is supported by Auditors. Auditors are allocated to audit teams according to audit requirements and time constraints of specific audit engagements. Participation of experts (internal or external) may be sought whenever this is deemed necessary and only following approval by the Audit Committee with regard to the associated cost.
- 5.3. The IAD has an annual budget, which is executed under the supervision of the Audit Committee, always in accordance with the established procedures regarding the request for proposals, selection process and invoice settlement.

6. Independence of Internal Audit

- 6.1. The internal audit activity in the Bank is a permanent function. The Audit Committee of the Board in coordination with the Bank's executive management will ensure that appropriate measures are taken, including providing appropriate resources and staffing to ensure that the internal audit function achieves its objectives and accomplishes its mission.
- 6.2. The Group Chief Internal Auditor will report functionally to the Audit Committee of the Board and administratively (i.e. day to day operations) to the Chief Executive Officer.
- 6.3. The Internal Audit Department will have no direct operational responsibility or authority over any of the activities that are subject to audit. Accordingly, it will not develop nor install systems or procedures, prepare records, or engage in any other activity that would normally be audited and will be independent from day-to-day internal control process in order to be able to carry out its assignments with objectivity and impartiality.

7. Audit Methodology

The audit methodology applied by the Internal Audit Department is in compliance with the Standards for the Professional Practice of Internal Auditing of the Institute of Internal Auditors (hereinafter "the Standards").

8. Scope of Internal Audit

- 8.1. The scope of coverage for the internal audit will consider the whole Bank's universe /activities. Audit planning is performed based on risk assessment for the Three Year strategic audit plan. The audit centers which comprise the audit universe of the Bank are assessed and prioritized for audit according to their risk profile.
- 8.2. The scope of internal audit will include the examination and evaluation of the appropriateness and effectiveness of risk management, internal control and governance processes and the manner in which assigned responsibilities are fulfilled by the various branches and departments in the Bank.
- 8.3. Internal Audit activities include investigating whistleblowing cases as per the requirement of the whistleblowing policy (whenever referred to Internal Audit by the Chairperson of the Audit Committee).
- 8.4. The scope and objective of the internal audit will also cover (but not limited to) the following:
 - 8.4.1. Review of the application and effectiveness of risk management procedures and risk assessment methodologies.
 - 8.4.2. Review of the management and financial information systems, including the electronic information system and electronic banking services.
 - 8.4.3. Review of the accuracy and reliability of the accounting records and financial reports.
 - 8.4.4. Review of the Bank's system of assessing its capital in relation to its estimate of risk.
 - 8.4.5. Testing of both transactions and functioning of specific internal control procedures.
 - 8.4.6. Adherence to legal and regulatory requirements, code of conduct and the implementation of policies and procedures.
 - 8.4.7. Testing of the integrity, reliability and timeliness of the regulatory reporting.
 - 8.4.8. Carrying out special investigations at the request of the Board or management, as appropriate.
 - 8.4.9. Compliance with policies, procedures and risk controls.
- 8.5. Reliability and timeliness of financial and management information including electronic information systems.
- 8.6. Assess the independence of external auditors.
- 8.7. Perform consulting and advisory services related to governance, risk management and controls as appropriate for the Bank. Any consulting and advisory services, if accepted, must be in-line with the Internal Audit standards and must not compromise the auditor's independence.

9. Impartiality of Internal Audit

- 9.1. Internal audit should be objective and impartial when performing the audit assignments and should be free from bias and interference.
- 9.2. Internal audit should avoid any conflict of interest.
- 9.3. Whenever practical, assignments to staff within internal audit should be rotated periodically.
- 9.4. Internally recruited auditors should not audit activities or functions in which they recently worked in for the last two years.
- 9.5. The internal audit should not be involved in the operations of the Bank or in selecting or implementing internal control measures to avoid impairment of its judgmental independence.
- 9.6. In cases where audit opinion is requested , for an important new risky activity or system, the auditors will only give comments and should not be made responsible for the development and introduction of any measure as such tasks will remain the Responsibility of management.
- 9.7. The internal audit can audit such activities and subsequent internal audit reports can contain recommendations relating to deficiencies or weaknesses and suggestions for improvements.
- 9.8. Internal auditors will exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors will make a balanced assessment of all the relevant circumstances and not be unduly influenced by their own interests or by others in forming judgments.
- 9.9. Annually, the Group Chief Internal Auditor will confirm to the Audit Committee, his/her independency and the organizational independence of the internal audit activity.

10. Professionalism

- 10.1. The internal audit activity will govern itself by adherence to The Institute of Internal Auditors' guidance as applicable to guide the internal audit operations including the Definition of Internal Auditing, the Core Principles, the Code of Ethics, and the International Standards for the Professional Practice of Internal Auditing (Standards). This guidance constitutes principles of the fundamental requirements for the professional practice of internal auditing and for evaluating the effectiveness of the internal audit activity's performance.

- 10.2. The internal audit activity will also adhere to the Bank's relevant policies and procedures and the internal audit activity's standard operating procedures manual.
- 10.3. All staff members of the internal audit should have sufficient and up-to-date knowledge of auditing techniques.
- 10.4. Professional competence of internal audit staff should be maintained through systematic training. Professional competence should be assessed taking into account the nature of the role and the auditor's capacity to collect, examine and evaluate information, and to communicate the findings properly given the growing technical complexity of the Bank's activities.
- 10.5. Whenever practicable, rotation of staff within the internal audit should be carried out periodically to reduce the negative impact of routine tasks that could affect the auditor's capacity for critical judgment. Where possible, the Group Chief Internal Auditor may explore the possibility of deputing members of the internal audit team to BISB (the Subsidiary). Further, co-sourcing arrangements with the external audit firms can also be considered.
- 10.6. All internal audit staff should sign and acknowledge a standard code of conduct document establishing the principle and rule of conduct covering the way the internal audit should be carried out.

11. Accountability of the Group Chief Internal Auditor

- 11.1. Annually assesses whether the authority and responsibility of IAD as defined in the Charter, continues to be adequate to enable the internal audit activity to accomplish its objectives. The result of the periodic assessment should be communicated to the Audit Committee.
- 11.2. Ensures that the Internal Audit Charter is reviewed periodically and that the charter is approved by the Audit Committee.
- 11.3. Ensures that internal audit complies where applicable with the International Standards document "Standards for the Professional Practice of Internal Auditing".
- 11.4. Establish and review on a regular basis the Audit Plan and the written Policies and Procedures for the IAD.
- 11.5. Ensure continuous enhancement of professional competence and training of the audit staff and that the necessary resources are available.
- 11.6. Inform Senior Management about audit findings, agreed action and current status. Additionally report to the Audit Committee on the same, further commenting

regarding the assessment of the adequacy and effectiveness of the internal control system as well as the achievement of internal audit objectives.

- 11.7. Support the Audit Committee in assessing the independence, accountability and effectiveness of the external auditors and in monitoring the rotation arrangements of the audit partners according to the regulatory requirements. Apart from the above, Internal Audit will provide adequate support to the Audit Committee in respect of additional requests that may be raised.

12. Internal Audit Plan

- 12.1. The Group Chief Internal Auditor will submit to the Board Audit Committee the risk based internal audit plan for review and approval. The internal audit plan will consist of a work schedule as well as resource requirements to properly and efficiently execute and implement the plan. The internal audit plan should be submitted to the Audit Committee during the fourth quarter of each year.
- 12.2. The Group Chief Internal Auditor will communicate the impact of resource limitations and significant interim changes to senior management and the Board Audit Committee.
- 12.3. The internal audit plan will be developed based on a prioritization of the audit universe using a risk-based methodology, including input of senior management and the Board.
- 12.4. The Group Chief Internal Auditor will review and adjust the plan, as necessary, in response to changes in the organization's business, risks, operations, programs, systems, and controls.
- 12.5. The progress of the plan along with any significant deviation from the approved internal audit plan will be communicated to senior management and the Audit Committee of the Board through periodic activity reports.

13. Reporting and Monitoring

- 13.1. A written report will be prepared and issued by the Group Chief Internal Auditor or designee following the conclusion of each internal audit engagement and will be distributed as appropriate.
- 13.2. The internal audit report should include management's response and corrective action taken or to be taken in regard to the specific findings and recommendations.

- 13.3. Management's response, provided by management of the audited area should include a timetable for anticipated completion of action to be taken and an explanation for any corrective action that will not be implemented.
- 13.4. IAD will be responsible for appropriate follow-up on engagement findings and recommendations.
- 13.5. Internal audit results will also be communicated on a quarterly basis to the Audit Committee of the Board.

14. Quality Assurance and Improvement Program (QAIP)

The internal audit activity will maintain a quality assurance and improvement program that covers all aspects of the internal audit activity.

The program will include an evaluation of the internal audit activity's conformance with the Definition of Internal Auditing and the Standards where applicable of whether internal auditors apply the Code of Ethics. The program also assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement.

The Group Chief Internal Auditor will communicate to the Audit Committee of the Board on the internal audit activity's quality assurance and improvement program, including results of ongoing internal assessments and external assessments. In line with the Institute of Internal Auditors (IIA) and Central Bank of Bahrain (CBB) requirements, external quality assessments will be carried out at least once every five years

15. External Communication

Any kind of communication of the Internal Audit Department (other than regulatory requirements) with third parties, external to NBB, takes place only after appropriate authorization by the Chairperson of the Audit Committee or the CEO.

16. Access

Only the Audit Committee has unrestricted access to the audit files. Access to those files by any other individual is only permitted upon written approval by the Chairperson of the Audit Committee.

17. Approvals

The Audit Committee Charter will be approved by the Board of Directors. The Audit Committee will approve the Internal Audit Charter and the Three Year Audit Plan. The detailed procedures and processes for the Internal Audit Department will be approved by the Group Chief Internal Auditor and communicated to the Audit Committee.