

# APPENDIX 1

## Internal Audit Charter

**Vol. 1.1**

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## Document review and approval

### Revision history:

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### This document has been reviewed by:

Reviewer	Date reviewed
1. Roa'a Salah Al Kooheji	18 July 2018

### This document has been approved by:

Subject matter experts		
Name	Signature	Date reviewed
1. Audit Committee	Resolution 5 / m3 1.1	5 August 2018

## **1 Policy**

The Bank has established the Internal Audit Department ('IAD') as an independent appraisal and consulting activity designed to add value and improve the Bank's operations.

The mission of IAD is to assist members of Management and the Audit Committee of the Board of Directors in the effective discharge of their responsibilities.

## **2 Organization, Authorization & Responsibilities**

The Head of Internal Audit reports directly to the Audit Committee of the Board and administratively to the Chief Executive Officer, and is responsible for the development, review and modification of audit policies, procedures, and goals for the conduct of audits.

In the execution of their duties and responsibilities, staff of the IAD will be independent of all activities and functions of the Bank they audit, will have full, free and unrestricted access to all operations, record, properties of the Bank and to all levels of its personnel. Documents and information given to internal audit during a periodic review will be handled in the same prudent manner as by those employees

normally accountable for them. An internal audit does not in any way relieve other persons in the bank of the responsibilities assigned to them

### **3 Scope & Responsibilities**

The Department shall:

1. Plan, execute and control the full scope review of the Bank activities in compliance with standards for the professional practice of internal auditing as established by the concerned professional and regulatory bodies.
2. Independently carry out the assessment of the internal control effectiveness in relation to significant operational, credit, liquidity and other banking risks. This assessment will include review of accounting and other reports as well as examination of supporting documents, as necessary, and follow up of corrective action.
3. Review of activities and controls in relation to operating companies of projects promoted by the Bank.

In undertaking internal audits the IAD shall:

1. Examine the reliability and timelessness of financial and operating information and effectiveness of internal control system.

2. Review the extent of adherence to Management Policies, Board of Directors' Resolutions, Sharia Committee resolutions (Fatwas), bank's procedure manuals, CBB circulars and regulations applicable to bank activities (e.g. Basel Committee on Banking supervision) and prudent banking principles and practices, as well as Islamic Accounting Standards and International Accounting Standards.
3. Reviewing the means of safeguarding assets and, as appropriate, verifying the existence of such assets to minimize the risk of losses from irregularities, fraud and errors.
4. Undertake risk review to determine asset quality and ensure that assets are properly valued in the books.
5. Appraise the control over the development, maintenance and operations of the electronic information system. This is to make sure that the controls are sufficient to process accurate, authorized and complete data and secure continuity of operations.
6. Appraise the economy and efficiency with which resources are employed and recognize areas in the Bank

operations where increased efficiencies, cost reductions or improvements can be made.

#### **4 Audit Plans**

At the start of each year an audit plan shall be prepared and take into account the risk and complexity of assignment to be undertaken. Such plans shall also allow for flexibility to deal with urgent or unforeseen situations.

The Audit plan should be discussed with bank's management and then submitted to the Audit Committee for approval.

#### **5 Audit Recommendations & Reports**

At the conclusion of the audit, a draft audit report shall be issued to the head of the activity or department audited for discussion and responses. The report shall be prepared promptly after each audit and set out in a clear and constructive manner the weaknesses identified, risks resulting there from and recommended actions. The head of the activity or department receiving the report will respond to any audit recommendations within 5 working days, the responses will be included in the finalized report. The response should include a planned completion date for action to be taken and an explanation for any

recommendations that will not be addressed. The final report shall include management response and be issued to:

- Chairman of the Board and all members of audit committee
- The Chief Executive Officer
- The Head of concerned business unit
- Risk Manager
- Any other officer with direct managerial responsibility over the area.
- Any other officer who will be directly affected by the report.
- IAD staff
- Significant audit findings and management action shall be reported to the Audit Committee and tracked periodically.

## **6 Follow-Up on Implementation of Internal Audit Recommendations**

Internal audit shall periodically follow up with the concerned unit to ensure that corrective actions on reported weaknesses has been undertaken within the agreed time frame.

## 7 External Contract & liaison

The head of Internal Audit Department shall:

- Maintain an on-going liaison with other areas of the bank in the design and implementation of new and/ or enhancement of existing systems, procedures, policies, products, services or technology in the Bank to ensure that the same are adequately understood by the Internal audit staff and provide acceptable audit trails.
- Coordinate audit efforts with external auditors as required.
- Review the audit reports, programs and other working papers of internal auditors of the banks investments (if any), provide them with professional guidance and directive as well as assist them in conducting full scope audits of the unit.
- Coordinate, upon the request from the Investment Department, the process of outsourcing, appointment / recruitment of internal auditors for the Bank's investment / project operating companies.



## **8 Audit Quality Review (AQR) Program**

The Head of Internal Audit will maintain an AQR program that covers all Quality aspects of internal audit activity. This program will incorporate internal resources for continuously monitoring effectiveness, as well as periodic evaluation by independent external resources covering:

- Ongoing monitoring of work papers.
- Peer review of audit assignments by internal audit staff.
- Completion of audit assessments by business unit personnel and tracking of feedback.
- Review of audit tools and performance metrics.

Bank-wide audit activities will be conducted in accordance with the Institute of Internal Auditors Standards for the Professional Practice of Internal Auditing. Bank-wide audit will be subject to an external audit quality review at least once every five years by a qualified and independent third party.

## **9 Code of Ethics**

Internal Audit staff has a responsibility to conduct in a manner so that his integrity, objectivity, confidentiality, and

competency are not open to question. Standards of professional behavior are based upon the Code of Ethics issued by the Institute of Internal Auditors. Internal auditor will:

- Exercise honesty, objectivity, and diligence in the performance of his duties and responsibilities.
- Exhibit loyalty in all matters pertaining to the affairs of the Bank and not knowingly be a party to any illegal or improper activity.
- Refrain from entering into any activity which may be in conflict with the interest of the Bank or which would prejudice his ability to objectively carry out his duties.
- Decline to accept anything that may impair or be presumed to impair his professional judgment.
- Be prudent in the use of information acquired in the course of his duties and not use confidential information for any personal gain or in a manner that knowingly would be detrimental to the Bank's welfare.
- Use reasonable care to obtain sufficient, factual evidence to support the conclusions drawn and, in reporting, reveal such material facts known to him which, if not revealed,



could distort the report of the results of operations under review or conceal an unlawful practice.

- Engage only in those projects which he has the necessary knowledge, skill, and experience.
- Continue to strive for improvement in the proficiency and effectiveness of his service.