



INTERNAL AUDIT CHARTER

FOR

UAE OPERATIONS

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2.	Head – Central Internal Audit Division
3.	Chief Executive – GCC Operations
4.	Head - Internal Audit (UAE Operations)
5.	IA function (UAE Operations)

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1. Terms and Definitions

Term	Definition
UAE - AC	Audit Committee for UAE Operations
Best Practices	Those practices that have produced outstanding results within the industry that could be used by the Bank.
UAE - SMC	Senior Management committee for UAE Operations The highest-level governing body charged with the responsibility to direct and/or oversee the Bank's activities and hold Senior Management accountable.
BOB	Bank of Baroda (UAE Operations)
CIAD	Central Internal Audit Division
Charter	The Internal Audit Charter that describes the mission, independence and objectivity, scope and responsibilities, authority, accountability, and standards of Internal Audit.
COE	Code of Ethics States the principles and expectations governing behaviour of individuals and organizations in the conduct of internal auditing. It describes the minimum requirements for conduct and behavioural expectations rather than specific activities.
Control	Any action taken by Management, the UAE - SMC, and other parties to manage risk and increase the likelihood that established objectives and goals shall be achieved.
External Auditors	Audit firms assigned to provide external audit services.
Fraud	"fraud" includes any act, omission, concealment of any fact or abuse of position committed by any person or any other person with the connivance in any manner, with intent to deceive, to gain undue advantage from, or to injure the interests of, the company or its shareholders or its creditors or any other person, whether or not there is any wrongful gain or wrongful loss.
Governance	The set of regulations, criteria and procedures that ensure institutional discipline in managing the Bank with international criteria and practices by determining responsibilities and obligations of the Bank's UAE - SMC and Senior Management, taking into consideration the protection of 'shareholders' rights and other 'stakeholders' interests.
IA Function	Internal Audit function
IIA	The Institute of Internal Auditors
Independence	The freedom from conditions that threaten objectivity or the appearance of objectivity of the Internal Auditor.

Internal Audit	An independent, objective assurance and consulting activity designed to add value and improve Bank's operations. It helps the Bank evaluate and improve the effectiveness of risk management, control, and governance processes.
Internal Auditors	Employees of Bank's IA function or members of the Internal Audit service provider contracted to assist Internal Audit projects.
Internal Control	Management functions of acting to ensure that objectives are achieved, including effectiveness, economy, efficiency, compliance, policies, procedures, statutory, safeguarding assets, integrity, and reliability of management information.
KPIs	Key Performance Indicators Formally documented and approved measurements of operational and financial performance.
Objectivity	An unbiased mental attitude that allows auditors to perform engagements in such a manner that they believe in their work product and that no quality compromises are made. Objectivity requires that internal/external auditors do not subordinate their judgment on audit matters to others.
Operations	The operations that constitute the Bank's core business.
Risk	The uncertainty of an event occurring that could have a negative impact on the achievement of objectives.
Risk Management	Processes to identify, assess, manage, and control potential events or situations, to provide reasonable assurance regarding the achievement of Bank's objectives.
Risk Based Audit	Risk Based audit is an audit approach that sets materiality thresholds based on audit risk, analysis and develops audit programs that allocate a larger portion of audit resources to high-risk areas.

2. Introduction

This Charter defines the purpose, authority and responsibility of the IA function of BOB UAE Operations.

3. Purpose

The primary role of IA function is to provide independent assurance to the UAE - SMC and UAE - Audit Committee on effectiveness of internal control framework, comprehensiveness of corporate governance and risk management activities; there by helping the UAE - SMC and Senior Management protect the assets, reputation, and sustainability of the bank.

4. Rights & Authority

The rights and authorities of IA function are, as established by the UAE - AC with strict accountability for confidentiality and safeguarding of records and information, to have:

- i. Full, free, and unrestricted access to the UAE - SMC and any UAE sub-committees;
- ii. Unrestricted and timely access to all businesses, functions, information, systems, premises, property, records, and personnel of BOB and to third parties;
- iii. Full and unrestricted access to all relevant External Agencies, Regulatory Bodies, and Statutory Auditors;
- iv. Full assistance of all BOB employees to support IA function in fulfilling its roles and responsibilities.
- v. The independence to allocate resources, set frequency, select the subject, and determine the scope of audit work.
- vi. Timely receive information from various departments about any significant incident which has a bearing on the security of assets and compliance with Procedures and Regulatory guidelines.

5. Organization

- i. The Head Internal Audit (UAE Operations) reports functionally to the UAE - AC and administratively to the Chief Executive – GCC Operations. The Head Internal Audit (UAE Operations) shall review the charter, mission, purpose, authority, scope of work, and resources of the IA function annually to confirm these remain appropriate.
- ii. The UAE - AC shall:
 - a. Approve the Internal Audit Charter;
 - b. Approve the Annual Audit Plan;
 - c. Approve the Internal Audit budget and resource plan;
 - d. Receive communication from the Head Internal Audit (UAE Operations) on IA's function's performance relevant to its plan and other matters.
 - e. Approve decisions regarding the appointment and removal of the Head Internal Audit (UAE Operations).
 - f. Approve the remuneration of the Head Internal Audit (UAE Operations).
 - g. Make appropriate inquiries to Management and the Head Internal Audit (UAE Operations) to determine whether there is an inappropriate scope or resource limitation; and

- h. Annually report to the Audit committee of the Board (Head Office) on the above matters mentioned in this sub-section.
- iii. The Head Internal Audit (UAE Operations) shall communicate and interact directly with the UAE - AC as appropriate.

6. Core Principles and Mandatory Code of Ethics

Both individual internal auditors and the IA function as a whole are expected to apply and uphold the following principles:

- i. Integrity
The integrity of internal auditors establishes trust and thus provides the basis for reliance on their professional judgment.
- ii. Objectivity
Internal auditors are expected to exhibit the highest level of professional objectivity in gathering, evaluating and communicating information about the activity or process being examined. Internal auditors make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgments. It is the responsibility of internal auditors to highlight in a timely manner to their line managers, any possible situations that may impair their objectivity and independence irrespective of the stage of the audit engagement. Such instances should be further escalated to Head Internal Audit (UAE Operations) and UAE - AC prior to any action.
- iii. Confidentiality
Internal auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.
- iv. Competency
Internal auditors apply the knowledge, skills and experience needed in the performance of internal auditing services.

Rules of Conduct

The following Rules of Conduct apply to Internal Audit staff:

- i. Integrity
 - a. Shall perform their work with honesty, diligence and responsibility.
 - b. Shall observe the law and make disclosures expected by the law, the profession and the organization.
 - c. Shall not knowingly be a part of any illegal activity or engage in acts that are discreditable to the profession of internal auditing or to the BOB.
 - d. Shall respect and contribute to the legitimate and ethical objectives of the BOB.
- ii. Objectivity
 - a. Shall not participate in any activity or relationship that may impair or be presumed to impair their unbiased assessment. This participation includes those activities or relationships that may be in conflict with the interests of the BOB.
 - b. Shall not accept anything that may impair or be presumed to impair their professional judgment. Shall disclose all material facts known to

them that, if not disclosed, may distort the reporting of activities under review.

- iii. Confidentiality
 - a. Shall be prudent in the use and protection of information acquired in the course of their duties.
 - b. Shall not use information for any personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the BOB.
- iv. Competency
 - a. Shall engage only in those services for which they have the necessary knowledge, skills and experience.
 - b. Shall perform internal audit services in accordance with the International Standards for the Professional Practice of Internal Auditing (Standards).
 - c. Shall continually improve their proficiency and the effectiveness and quality of their services.

7. Independence and Objectivity

- i. The IA function do not:
 - a. Direct or approve the business strategy, plans, policies, or procedures;
 - b. Approve projects including systems implementations (excluding audit management system used by IA function) and/or enhancements;
 - c. Direct the activities of any BOB employees not employed by IA function, except to the extent such employees have been appropriately assigned to auditing teams or to otherwise assist the internal auditors;
 - d. Have direct responsibility or authority over any operational activities reviewed;
 - e. Relieve others of such responsibilities;
 - f. Perform any assignments where conflict of interest is present (or perceived to be present) or where an impartial or unbiased attitude or objectivity cannot be guaranteed.
 - g. Perform or manage reviews in the business area for which they were previously responsible for within the business for a period of at least one complete financial year after the end of their role. Internal auditors on rotation from a business unit shall not perform or manage reviews in the business areas for which they were previously responsible for one complete financial year.
 - h. Assume any executive powers or responsibilities related to the business, activities and contracts that may be audited by them.
- ii. Any nonconformance must be disclosed to the Head Internal Audit (UAE Operations) and UAE - AC.
- iii. IA function shall submit an annual confirmation of its independence in the form of an Independence Declaration signed by all members of IA staff. If at any point the independence or objectivity of Head Internal Audit (UAE Operations) or IA staff is impaired in fact or appearance the details of the impairment shall be disclosed to relevant Management and the UAE - AC. The nature of the disclosure shall depend upon the impairment.
- iv. IA function shall remain free from interference by any element in the organization, including the matters of audit selection, the scope of work,

procedures, frequency, timing, or report content to permit maintenance of a necessary independent and objective attitude.

8. Responsibility

- i. The Head Internal Audit (UAE Operations) has the responsibility to:
 - a. Prepare the IA Charter, IA Manual in line with best practices and professional standards;
 - b. Develop the IA strategy including a risk-based audit plan, taking account of risk and control concerns identified by Management. In developing the plan, the Head Internal Audit (UAE Operations) shall consider the risks arising from significant organizational transformation initiatives including entry into new markets, new products, policies and procedures, legislative/regulatory changes or any other major change initiatives.
 - c. To carry out the Internal Audit of various areas of operations as per Annual Audit Plan and provide an independent and objective appraisal to the concerned authorities.
 - d. To carry out credit audit, special investigations, ad-hoc assignments as advised by UAE - AC.
 - e. Report to the UAE - AC status of findings that have not yet been rectified by Senior Management;
 - f. Track all outstanding audit issues and agreed action plans and escalate matters requiring further attention;
 - g. Review internal audit reports and issue it to auditee and relevant stakeholders;
 - h. Identify where Management has accepted a level of risk that may be unacceptable to the organization and discuss the matter with the UAE - AC;
 - i. Develop key performance indicators (KPIs) for IA function based on IA function's balance scorecard and report these to the UAE - AC;
 - j. Submit a quarterly report to UAE - AC, providing updates on execution of internal audit plan, key internal audit activities performed and key matters to be reported;
 - k. Conduct quarterly meeting with Senior Management to discuss key updated within internal audit activities and business operations;
 - l. Keep UAE - AC informed of emerging trends and best practices in internal auditing;
 - m. Maintain quality assurance and improvement program that covers all aspects of the internal audit activity;
 - n. Consider the scope of work of the bank's Second Line of Defence as well as statutory auditors and regulators, as appropriate, for the purpose of providing optimal audit coverage to BOB;
 - o. Ensure that IA function conforms to the International Standards for the Professional Practice of Internal Auditing;
 - p. Where other assurance providers (such as external auditors) and internal assurance providers (risk management and compliance departments) may have undertaken relevant assurance and audit work, the IA function shall seek to rely on the work of these other assurance providers where professional standards would make it appropriate to do so.

- q. Obtain competent advice and assistance from external experts if there are resource constraints or internal audit staff lacks the required specialization or other competencies needed to perform all or part of the audit plan; and
- r. Report to the Central Bank, in coordination with Compliance, on the violations of the Central Bank law, regulations, instructions, and any matter of significance. Such reports shall be prepared in good faith and shall not be considered to have breached any of the internal 'audits' obligations. Besides, reporting can be in the mode of regular meetings with the Central Bank which can be direct or shared with Compliance function.
- s. Participate in periodical meeting with Risk Management & Compliance function conducted for risk convergence and exchange of information.
- ii. IA staff shall be independent of the activities they audit; and comply with BOB and IIA Code of Ethics.

9. Accountability

- i. The Head Internal Audit (UAE Operations), in the discharge of their duties, shall be accountable to the UAE - AC to:
 - a. Provide regular assessment of the adequacy and effectiveness of BOB governance, risk management, compliance function, and internal control framework;
 - b. Report the status of significant internal control issues and management responses; and
 - c. Quarterly provide information on the status of the Audit Plan, the adequacy of resources, and IA activity compliance with International Internal Audit Professional Standards;

10. Scope of Work

- i. The scope of work of IA function is to determine whether BOB's systems of risk management, internal controls, and governance processes, as designed and represented by Management, are adequate and functioning in a manner to ensure:
 - a. Risks inherent in the BOB Strategy and Operating model are appropriately identified, assessed, and effectively managed;
 - b. Significant financial, managerial, operating, and other information necessary to make informed business and risk decisions is accurate, reliable, and timely;
 - c. Where core banking and support services are outsourced to other group entities or to third parties, the risk associated with such activity are identified, assessed, and managed in line with BOB policies and regulatory requirements;
 - d. Employees and contracted third 'parties' actions are in compliance with policy, standards, procedures, code of ethics, and applicable laws and regulations;
 - e. Quality and continuous improvement are fostered in 'BOB's governance, risk, and internal control framework;
 - f. Significant legislative or regulatory issues impacting BOB are identified on a timely basis and a program of compliance is assured; and

- ii. IA function shall continue to review its resourcing and capability requirements and adjust for the nature and strategy of the Bank. At the discretion of the UAE - AC, the IA function shall utilize external expertise where necessary to deliver all or part of the audit plan.
- iii. IA function shall provide independent and objective assurance in assessing and reporting on:
 - a. the effectiveness of the design and operation of the framework of controls which enables risk to be assessed and managed;
 - b. the effectiveness of management actions to address deficiencies in the framework of controls; and
 - c. cases of suspected financial crime, fraud, and malpractice.
- iv. Consulting and advisory assignments - IA function shall provide consulting services, business advisory, and advice to the BOB at the request of the UAE - SMC and sub-committees and senior management on specific issues or events. This shall extend to ad-hoc advice to Management on risk, governance, and internal control matters, provided that such advice does not conflict with Section 7 of this Charter.
- v. The Head Internal Audit (UAE Operations) shall decline the consulting engagement if the internal auditors lack the knowledge, skills, or other competencies needed to perform all or part of the engagement.

11. Quality Assurance

- i. Head Internal Audit (UAE Operations) shall communicate the results of the quality assurance and improvement reviews to senior Management and UAE - AC, including:
 - a. The scope and frequency of both internal and external assessments;
 - b. The qualifications and independence of the assessors or assessment team, including any potential conflict of interest;
 - c. Conclusions of assessors; and
 - d. Corrective action plans.
- ii. The Head Internal Audit (UAE Operations) shall appoint an external quality assessor (at least every five years) to perform an independent review on the effectiveness of the IA function.

12. Fraud

The identification and prevention of fraud is the responsibility of the Management. The Head Internal Audit (UAE Operations) shall coordinate with relevant officers/ departments to support investigations and ensure that BOB complies with reporting requirements.

13. Adding Value

The IA function shall endeavor to add value to BOB by offering ways to enhance governance, risk management, and control processes and objectively provide relevant assurance.

14. Review and Approval

The initial version of this Charter shall be approved by the Audit Committee of The Board (Head Office). This Charter shall be reviewed every three years by UAE - AC. A non-editable soft copy of the Internal Audit Charter shall be stored on the intranet and Bank's website.