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## INTERNAL AUDIT CHARTER

UBL UK

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## **1. Purpose of document**

To define the purpose, authority, and responsibility of the internal audit function.

## **2. Mission statement**

The purpose of UBL UK (the Bank)'s Internal Audit department is to provide independent, objective assurance and consulting services designed to add value and improve the Bank's operations. The mission of internal audit is to enhance and protect organisational value by providing risk-based and objective assurance, advice, and insight. The internal audit department helps the Bank accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management, and control processes.

## **3. Standards for the Professional Practice of Internal Auditing**

The Internal Audit department will govern itself by adherence to the mandatory elements of The Institute of Internal Auditors' International Professional Practices Framework, including the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the International Standards for the Professional Practice of Internal Auditing, and the Definition of Internal Auditing. The Head of Internal Audit will report periodically to senior management and the Board Audit Committee regarding the Internal Audit department's conformance to the Code of Ethics and the Standards.

## **4. Authority**

The Head of Internal Audit (HIA) will report functionally to the Board Audit Committee and administratively to the chief executive officer. To establish, maintain, and assure that the internal audit department has sufficient authority to fulfil its duties, the Board Audit Committee will:

- Approve the Internal Audit department's charter.
- Approve the risk-based internal audit plan.
- Approve the Internal Audit department's budget and resource plan.

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- Receive communications from the Head of Internal Audit on the Internal Audit department's performance relative to its plan and other matters.
- Approve decisions regarding the appointment and removal of the Head of Internal Audit.
- Approve the remuneration of the Head of Internal Audit.
- Make appropriate inquiries of management and the Head of Internal Audit to determine whether there is inappropriate scope or resource limitations.

The Head of Internal Audit will have unrestricted access to, and communicate and interact directly with, the Board Audit Committee, including in private meetings without management present.

The Board Audit Committee authorises the Internal Audit department to:

- Have full, free, and unrestricted access to all functions, records, property, and personnel pertinent to carrying out any engagement, subject to accountability for confidentiality and safeguarding of records and information.
- Allocate resources, set frequencies, select subjects, determine scopes of work, apply techniques required to accomplish audit objectives, and issue reports.
- Obtain assistance from the necessary personnel of the Bank, as well as other specialised services from within or outside the Bank, in order to complete the engagement.

### **5. Independence and objectivity**

The Head of Internal Audit will ensure that the Internal Audit department 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 Head of Internal Audit 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.

Internal auditors will have no direct operational responsibility or authority over any of the activities audited. Accordingly, internal auditors will not implement internal controls,

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develop procedures, install systems, prepare records, or engage in any other activity that may impair their judgment, including:

- Assessing specific operations for which they had responsibility within the previous year.
- Performing any operational duties for the Bank.
- Initiating or approving transactions external to the internal audit department.
- Directing the activities of any Bank employee not employed by the internal audit department, except to the extent that such employees have been appropriately assigned to auditing teams or to otherwise assist internal auditors.

Where the Head of Internal Audit has or is expected to have roles and/or responsibilities that fall outside of internal auditing, safeguards will be established to limit impairments to independence or objectivity.

Internal auditors will:

- Disclose any impairment of independence or objectivity, in fact, or appearance, to appropriate parties.
- 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 Head of Internal audit will confirm to the Board Audit Committee, at least annually, the organisational independence of the Internal Audit department.

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

### **6. Scope**

The scope of Internal Audit activities encompasses, but is not limited to, objective examinations of evidence for the purpose of providing independent assessments to the Boards Audit Committee, management, and outside parties on the adequacy and effectiveness of governance, risk management, and control processes for the Bank. Internal audit assessments include evaluating whether:

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- Risks relating to the achievement of the Bank's strategic objectives are appropriately identified and managed.
- The actions of the Bank's officers, directors, employees, and contractors are in compliance with the Bank's policies, procedures, and applicable laws, regulations, and governance standards.
- The results of operations or programs are consistent with established goals and objectives.
- Operations or programs are being carried out effectively and efficiently.
- Established processes and systems enable compliance with the policies, procedures, laws, and regulations that could significantly impact the Bank.
- Information and the means used to identify, measure, analyse, classify, and report such information is reliable and have integrity.
- Resources and assets are acquired economically, used efficiently, and protected adequately.

The Head of Internal Audit will report periodically to senior management and the Board Audit Committee (BAC) regarding:

- The Internal Audit department's purpose, authority, and responsibility.
- The Internal Audit department's plan and its performance relative to its plan.
- The Internal Audit department's conformance with The IIA's Code of Ethics and *Standards* and action plans 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 engagements or other activities.
- Resource requirements.
- Any response to risk by management that may be unacceptable to the Bank.

The Head of Internal Audit also coordinates activities, where possible, and considers relying upon the work of other internal and external assurance and consulting service providers as needed. The Internal Audit department may perform advisory and related client service activities, the nature, and scope of which will be agreed with the client provided the Internal Audit department 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.

Internal Audit's scope is unrestricted and covers all the Bank's operations. It will cover all systems, projects, key corporate changes, and functional units.

Internal Audit will review the skills necessary to adequately review a particular function and will obtain specialist audit resources if required.

The higher-level controls exercised by the senior management and the control environment promoted are subject to audit as well as the controls exercised within each system.

Internal Audit will include in its overall scope review of processes around internal governance, corporate management information, risk appetite setting, the risk and control culture, conduct risk, treating customers fairly, and assessment of capital and liquidity risks.

## **7. Responsibility**

The Head of Internal Audit has the responsibility to:

- a) Submit, at least annually, to senior management and the Board Audit Committee a risk-based internal audit plan for review and approval.
- b) Communicate to senior management and the Board Audit Committee the impact of resource limitations on the internal audit plan.
- c) Review and adjust the internal audit plan, as necessary, in response to changes in the Bank's business, risks, operations, programmes, systems, and controls.
- d) Communicate to senior management and the Board Audit Committee any significant interim changes to the internal audit plan.
- e) Ensure each engagement of the internal audit plan is executed, including the establishment of objectives and scope, the assignment of appropriate and adequately supervised resources, the documentation of work programs and testing results, and the communication of engagement results with applicable conclusions and recommendations to appropriate parties.
- f) Follow up on engagement findings and corrective actions, and report periodically to senior management and the Board Audit Committee any corrective actions not effectively implemented.



- g) Ensure the principles of integrity, objectivity, confidentiality, and competency are applied and upheld.
- h) Ensure the Internal Audit department collectively possesses or obtains the knowledge, skills, and other competencies needed to meet the requirements of the internal audit charter.
- i) Ensure trends and emerging issues that could impact the Bank are considered and communicated to senior management and the Board Audit Committee as appropriate.
- j) Ensure emerging trends and successful practices in internal auditing are considered.
- k) Establish and ensure adherence to policies and procedures designed to guide the Internal Audit department.
- l) Ensure adherence to the Bank's relevant policies and procedures unless such policies and procedures conflict with the Internal Audit charter. Any such conflicts will be resolved or otherwise communicated to senior management and the Board Audit Committee.
- m) Ensure conformance of the Internal Audit department with the Standards, with the following qualifications:
  - If the Internal Audit department is prohibited by law or regulation from conformance with certain parts of the Standards, the Head of Internal Audit will ensure appropriate disclosures and will ensure conformance with all other parts of the Standards.
  - If the Standards are used in conjunction with requirements issued by the regulators, the Head of Internal Audit will ensure that the Internal Audit department conforms with the Standards, even if the Internal Audit department also conforms with the more restrictive requirements of the regulators.

Responsibilities of the BAC are stated in the BAC TOR.

### **8. Quality Assurance and Improvement Programme**

The Internal Audit Department will maintain a quality assurance and improvement program that covers all aspects of the Internal Audit department. The program will

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include an evaluation of the Internal Audit department's conformance with the Definition of Internal Auditing and the Standards and an evaluation of whether internal auditors apply the Code of Ethics.

The program also assesses the efficiency and effectiveness of the Internal Audit department and identifies opportunities for improvement. The Head of Internal Audit will communicate to senior management and the Board on the Internal Audit department's quality assurance and improvement program, including results of ongoing internal assessments and external assessments conducted at least every five years.

### **Appendix 1 - Standards for the Professional Practice of Internal Auditing**

The IIA requirements are known as the International Professional Practices Framework (IPPF). The mandatory elements of the IPPF are:

- Definition of Internal Auditing
- Core Principles
- Code Of Ethics
- International Standards

#### **A. DEFINITION OF INTERNAL AUDITING**

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

#### **B. CORE PRINCIPLES**

The core principles articulate internal audit effectiveness and they should all be present and operating effectively.

1. Demonstrates integrity.
2. Demonstrates competence and due professional care.
3. Is objective and free from undue influence (independent).
4. Aligns with the strategies, objectives, and risks of the organization.
5. Is appropriately positioned and adequately resourced.
6. Demonstrates quality and continuous improvement.
7. Communicates effectively.
8. Provides risk-based assurance.
9. Is insightful, proactive, and future-focused.
10. Promotes organisational improvement.

## C. CODE OF ETHICS

### 1. Integrity Principle

The integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgement.

#### Rules of Conduct

Internal auditors:

- 1.1 Shall perform their work with honesty, diligence and responsibility.
- 1.2 Shall observe the law and make disclosures expected by the law and the profession.
- 1.3 Shall not knowingly be a party to any illegal activity, or engage in acts that are discreditable to the profession of internal auditing or to the organisation.
- 1.4 Shall respect and contribute to the legitimate and ethical objectives of the organisation.

### 2. Objectivity Principle

Internal auditors 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 judgements.

#### Rules of Conduct

Internal auditors:

- 2.1 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 organisation.
- 2.2 Shall not accept anything that may impair or be presumed to impair their professional judgement.
- 2.3 Shall disclose all material facts known to them that, if not disclosed, may distort the reporting of activities under review.

### ***3. Confidentiality Principle***

Principle 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.

#### Rules of Conduct

Internal auditors:

3.1 Shall be prudent in the use and protection of information acquired in the course of their duties.

3.2 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 organisation.

### ***4. Competency Principle***

Internal auditors apply the knowledge, skills and experience needed in the performance of internal auditing services.

#### Rules of Conduct

Internal auditors:

4.1 Shall engage only in those services for which they have the necessary knowledge, skills and experience.

4.2 Shall perform internal auditing services in accordance with the International Standards for the Professional Practice of Internal Auditing.

4.3 Shall continually improve their proficiency and the effectiveness and quality of their services.

## D. STANDARDS

The International Standards are authoritative guidance for the internal audit profession from the Global Institute of Internal Auditors. They are part of the International Professional Practices Framework.

The International Standards are principles-focused, mandatory requirements consisting of:

- Statements of basic requirements for the professional practice of internal auditing and for evaluating the effectiveness of performance.
- Interpretations, which clarify terms or concepts within the statements.

The International Standards require:

- The purpose, authority and responsibility of internal audit is defined in a charter that recognises the professional standards and that is approved by the organisation's governing body and management.
- Internal audit's organisational independence and internal auditors' objectivity are protected by direct reporting to the governing body.
- Internal auditors undertake work only when they have the knowledge, skills and other competencies necessary. Professional qualifications and commitment to ongoing learning are essential.
- The head of internal audit is responsible for creating an ongoing programme of activities to ensure the quality of internal audit; to obtain periodic independent confirmation of its quality; and to strive to improve continuously.

In terms of performance of internal audit work they require that:

- The head of internal audit works with the organisation's management and other assurance providers to develop and deliver risk-based plans; and reports plans, performance and significant issues to the governing body.
- Internal audit's scope of work covers evaluating and helping to improve all aspects of the organisation's governance and system of internal control, including the management of risk.
- Internal auditors plan their work so that it meets its objectives, particularly agreeing the criteria they will use.
- Internal auditors identify, analyse, evaluate and document evidence, on which to base their conclusions.
- Internal auditors communicate the results of their work to managers and governors who can take action; monitor whether agreed actions are completed; and discuss with senior management and the governing body when unacceptable levels of risk are being taken.