

*Bank of China Ltd.-Abu Dhabi*

# **Internal Audit Charter**

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## **1.General Provisions**

1.1 According to the requirements of the Bank of China (“BOC”) Co., Ltd. to establish a good corporate governance mechanism, in order to better play the active role of Internal Audit (“IA”) in the process of business operation, risk management and compliance, in accordance with the UAE Central Bank Circular No. 3017/2018 Re Internal Controls, Compliance and IA and with reference to relevant IA regulations of BOC Head Office (“HO”), this charter is specifically formulated.

1.2 The IA work of Bank of China Ltd.-Abu Dhabi (“the Branch”) is a series of independent, objective supervision and evaluation activities led by the IA Department of BOC HO, with the aim of improving the Branch’s operations and value adding, with the goal of assisting management to fulfill the internal control responsibilities, through the use of standardized methods to review and consistently improve the effect of business operation, risk management, internal control and corporate governance.

1.3 The purposes of the Branch's IA function are as follows:

- to promote the effective implementation of relevant national economic and financial laws, regulations and regulatory rules , as well as relevant policies from the HO in the Branch;

- to propel the Branch to establish and continuously improve effective risk management, internal control and compliance and corporate

governance structure;

- to supervise and urge relevant auditees to effectively perform their duties and jointly achieve the Branch's strategic objectives.

1.4 IA shall be governed by requirements of Central Bank of the UAE (Regulations & Standards for Internal Audit) and The Institute of Internal Auditors' (Definition of Internal Auditing, International Standards for the Professional Practice of Internal Auditing, Guidance, Core Principles, and Code of Ethics). The IIA's Mandatory Guidance constitutes the fundamental requirements for the professional practice of internal auditing and the principles against which to evaluate the effectiveness of the internal audit activity's performance, which is also mandated by Central Bank of the UAE.

## **2. Organizational Structure**

2.1 The IA work of the Branch is independently carried out by the internal auditor.

2.2 The internal auditor is a full-time position set up in 2020 in charge of IA work of the Branch.

2.3 To ensure the independence of the internal audit function from operational and business function, the internal auditor of the Branch has its functional reporting line to IA Department of BOC HO, and also has an administrative reporting line to the head of the Branch.

### 3.Scope and Responsibilities

#### 3.1 IA Scope

The IA Scope includes but not limited to:

- The implementation of major national policies, group strategic decisions, and the Branch's annual business plans;
- Compliance and effectiveness of business management and operation;
- The appropriateness and effectiveness of internal control;
- Comprehensiveness and effectiveness of risk management;
- Compliance and effectiveness of anti-money laundering;
- The completeness and accuracy of accounting records and financial reports;
- The continuity, reliability and security of the IT system;
- The rectification of the findings in inspection and the audit program designated by the regulatory authority;
- Matters of regulatory interest including the internal capital liquidity adequacy assessment processes, quality of risk reporting to Senior management, regulatory compliance and reporting to Central Bank.
- Other items needed to be audited.

#### 3.2 IA Responsibilities:

The internal auditor's responsibilities are as follows:

- Formulate a unified audit work plan;

- Organize the IA work based on the plan and follow up the rectification results;
- Independently evaluate the suitability and effectiveness of the Branch's business operation, risk management and internal control;
- Provide consulting services for the purpose of improving the Branch's risk management and internal control levels;
- Submit the IA results to the IA department of HO in a timely manner and communicate relevant information with the management of the HO and the Branch;
- Maintain good communication with regulatory authorities and external auditors, coordinating and sharing information with them, so as to ensure adequate audit scope and minimum duplication.

3.3 There is an inherent limitation in any internal control system and accordingly errors or fraud may occur and may not be detected by the IA. IA's work is not designed specifically to investigate fraud or other irregularities. Further, the internal audit process does not relieve the management/unit managers of their responsibility for the maintenance and improvement of controls in their respective areas.

#### **4. Authority**

4.1 The staff of Internal Audit are authorized to:

- Have unrestricted access to all functions, records (including

computer systems, relevant electronic data and materials), property, and personnel;

- Obtain the necessary assistance of personnel in units of the organization where they perform audits, as well as other specialized services from within or outside the organization;

- Attend as nonvoting delegates or attend meetings related to internal audit responsibilities and participate in relevant business training;

- Have the right to inspect all business and management activities (including outsourcing business), obtain relevant information on operation and management in a timely and comprehensive manner, and investigate, enquire and collect evidence from auditees and relevant personnel of the Branch on relevant issues;

- Have the right to provide professional advice on matters such as risk management and internal controls;

- Have the right to submit suggestions for handling and punishment to Senior Management and relevant departments;

- Perform duties independently and in accordance with laws. No organization or individual may retaliate. If the internal auditor is attacked, retaliated or framed due to the performance of his duties, the auditee shall deal with the relevant responsible person; if a crime is suspected, the person shall be transferred to the judicial organ for the investigation of criminal responsibility in accordance with laws.

4.2 Where the audited entity refuses to accept or does not cooperate in the internal audit; refuses or delays the provision of information related to internal audit matters, or provides untrue and incomplete information; refuses to correct the issues found in the audit; conducts ineffective rectification and incur the same issues repeatedly regardless of repeated audits; violates state regulations or other circumstances stipulated by the HO and the Branch, the auditee shall order corrections and deal with the directly responsible executives and other directly responsible personnel.

## **5. Independence and Objectivity**

5.1 The Internal Audit isn't allowed to engage in work that may affect the independent and objective performance of audit responsibilities. The Internal Audit is independent of all activities under their supervision, inspection and evaluation, including the Branch's daily internal control process and the decision-making process for business operations and risk management. The Internal Audit function shall not include designing and operating business process and system, performing operation and management function, initiating or approving business matters.

5.2 Auditors shall avoid conflict of interests and shall not participate in audit projects with interests in order to maintain an objective and fair attitude.



## **6. Annual Audit Plan and Reports**

6.1 In the first quarter of each year, the internal auditor should formulate an annual audit plan on the basis of annual key work and risk assessment results, etc.

6.2 The annual audit focus, the audit work timeline, the follow-up arrangement and the contact person of every audit scope should be specified in the plan.

6.3 The annual audit plan shall be presented to the Branch's management for comment and to the HO for approval.

6.4 Audit work is conducted in a professional and timely manner. Communication of results includes an open process to agree on the facts and the validity of audit recommendations. In all cases, follow-up work is undertaken to ensure an adequate response to audit recommendations. Internal auditor communicates the results of the audit and follow-up exercises to the Management of the Branch and submits the audit report to the IA department of HO.

## **7. Standards and Qualities**

7.1 The IA work should be carried out:

- in strict accordance with the laws and regulations of the country;
- according to the objectives and key work of the Branch;

- on the basis of risk assessment.

7.2 The frequency and degree of IA work should follow the regulatory requirements and be consistent with the nature, complexity, risk profile and management level of the Branch's business.

7.3 The internal auditor should continue to learn the necessary laws and regulations, master professional knowledge and technical methods to maintain and enhance auditing skills.

7.4 The internal auditor should be responsible for the audit results and corresponding responsibilities must be assumed by the one who violates the audit disciplines stipulated by the IA department of HO.

## **8. Outsourcing of Audit Activities**

When the internal audit activities of the Bank are based on the needs of the work and involve a special professional field, but the internal auditors do not have the corresponding knowledge and skills in the field, internal audit activities in the field (except for confidential matters) may be outsourced to third parties with appropriate qualifications and capabilities after approval by the AC. The internal audit should utilize their service results and be responsible for the results. Outsourcing of internal audit activities shall comply with the independence principle:

- Internal audit activities shall not be outsourced to the accounting firm and its affiliates that are providing external audit services to the Bank;
- Internal audit activities shall not be outsourced to third parties and their affiliates that have provided consulting services related to the audit outsourcing business to the auditees in the last three years.

## **9. Supplement**

9.1 This Charter applies to Bank of China Ltd.-Abu Dhabi.

9.2 This Charter governs the activities and operations of the Internal Audit of the Branch. The Charter is updated at least every 3 years and if and when required to reflect any changes and amendments. All updates to this charter will be approved by Senior Management Committee of the Branch.

9.3 The Charter will be dated once get approved/signed by Senior Management Committee of the Branch, supersedes any Internal Audit Charters previously.