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## 1. INTRODUCTION

It is the policy of National Bank of Umm Al Qaiwain (“NBQ”) to establish, maintain and support the Internal Audit & Control function (“IAC”) as an independent assurance and consultation function to provide management at all levels and the Audit Committee of the Board of Directors with objective evaluations, appraisals, and recommendations on the risk management, internal control and corporate governance. The IAC directly reports to the Board Audit Committee. IACD has dotted reporting line to the CEO for execution of day-to- day activities and administrative matters.

Internal audit is an independent appraisal activity to evaluate, assess, monitor and refine the internal controls of National Bank of Umm Al Qaiwain (NBQ). As per the internal audit best practices, the role of Internal Audit & Control Department is defined in the internal audit charter.

The Charter of Internal Audit and Internal Control primarily aims to define and establish the mission statement of Internal Audit & Control Department (IACD) of National Bank of Umm Al Qaiwain (NBQ), objectives and scope of IACD and role of IACD in NBQ and their authorities, responsibilities and accountability.

## 2. PURPOSE OF THE INTERNAL AUDIT & CONTROL DEPARTMENTCHARTER

The Charter of Internal Audit and Internal Control function documents the understanding between Internal Audit and other parties viz. Board of Directors, Board Audit Committee and Bank’s Senior Management. The Charter of Internal Audit and Internal Control establishes IA’s organizational position in the bank, its reporting responsibilities, its right of access to the records, access to third parties, the personnel and the assets of the Bank and defines the scope of the Internal Audit. Limitations on the scope of the Internal Audit function should be clearly delineated.

## 3. MISSION STATEMENT

To provide independent appraisal of all the activities of NBQ aiming to evaluate, monitor and refine the internal control functions and provide value adds to improve operational efficiency, risk management and corporate governance standards of NBQ. Internal Audit & Control Department has the mission to ensure compliance to internal policies and procedures and regulatory guidelines and improve staff quality and awareness to accomplish laid down objectives of NBQ.

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#### 4. OBJECTIVES OF INTERNAL AUDIT & CONTROL DEPARTMENT FUNCTION

The ultimate objectives of the Internal Audit are to maintain, add and create value for its stakeholders. Internal Audit will proactively assist its stakeholders in protecting the Bank resources against loss resulting from waste, inefficiency, negligence, mismanagement, misuse, fraud and errors. Internal Audit shall render assessment and advice for improving Bank’s activities that will advance the goals and objectives of the Bank with focus on risk management, internal control and other governance processes.

Following are the department’s primary objectives which will be achieved through the performance of a comprehensive and systematic program of independent audits:

- Establish and maintain Bank’s Internal Audit function as the best in its class activity.
- Promote full understanding, acceptance and utilization of the internal auditing activity at all levels of management of the Bank.
- Provide the opportunity for professional development of internal auditing staff to the extent possible and practical and in the best interests of the staff and the Bank.
- Automate with state of the art technologies adopting latest audit techniques.

#### 5. SCOPE OF INTERNAL AUDITING AND INTERNAL CONTROL

In general, every activity and every entity of the Bank falls within the scope of the Internal Audit function. The scope of internal audit is subject to review and approval of the Board Audit Committee but shall not otherwise be restricted. The scope of the Department involves:

- The examination and evaluation of the adequacy and effectiveness of the Bank’s system of internal control (including controls over financial reporting), and the quality of performance in carrying out assigned responsibilities.
- Review the reliability and integrity of financial, managerial and operating information and the means used to identify, measure, classify and report such information on a timely basis.
- Review the system/function established to ensure compliance with Bank’s policies, procedures, business plans, pertinent laws and regulations, and to ensure that the Bank is in compliance.
- Examine the reliability and timeliness of the regulatory reporting.
- Review of means of safeguarding Bank’s assets and, as appropriate, verify the existence of such assets and safeguarding from losses.
- Evaluate plans and actions taken to correct audit observations. Also, provide adequate follow-up to ensure corrective action is taken and evaluate its effectiveness.
- Review of the risk management function and effectiveness of risk management procedures and risk assessment methodologies.
- Rating for performance appraisal exercise and as a balance score card measures.

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## 6. AUTHORITY

Internal Audit & Control Department and its staff members are authorized to:

- Have unrestricted access to all branches, functional units, activities, records, information, properties and personnel relevant to the performance of the audit function.
- Have authority to determine the scope of work and apply the standards and techniques required to accomplish the audit plan and audit objectives.
- Have authority to obtain required assistance from the management/ departments/ branches of NBQ to accomplish audit objectives.
- Have authority to obtain required assistance from external agents, professionals or third parties when considered necessary with the prior approval of Senior Management and /or Audit Committee.
- Have the authority to conduct information systems audit of NBQ with the authorities mentioned in the Information System Audit Charter of NBQ.
- Conduct peer reviews whenever required.

## 7. ORGANIZATIONAL POSITION OF THE INTERNAL AUDIT & CONTROL FUNCTION

The following principles shall be followed:

- Bank's internal audit & control function shall be independent of the activities audited and shall also be independent from day-to-day control processes. This means that internal audit is given an appropriate standing within the Bank and carries out its assignments with independence, objectivity and impartiality.
- The Head of Internal Audit & Control will primarily and functionally report to the Board Audit Committee, National Bank of UAQ, Umm Al Qaiwain. Also, the Head of Internal Audit will have a dotted reporting line to the CEO for resolution of day-to-day activities, which may include the following:
  - Resolution of audit observations of significant nature.
  - Special investigation of fraudulent activities.
  - Administrative and day-to-day operation matters.
  - Resolution of conflict between internal audit and line management.
  - Perform special assignments advised by the CEO
- Internal Audit & Control Department shall be free from interference in:
  - Determining the scope of internal auditing,
  - Performing work, and
  - Communicating audit results.

The Internal Audit & Control Department shall be allowed to exercise its assignments on its own initiatives in all departments, establishments and functions of the Bank. However, the need for impartiality and independence does not exclude the possibility that management may request from the Internal Auditor an opinion on specific matters related to the internal control principles to be complied with. Also, Internal Auditor may provide consultation, advice and opinions to Management concerning reengineering initiatives, evaluation of internal controls in developed policies and procedures, risk assessment and compliance with relevant laws, policies and procedures, project related consultancies etc.

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## 8. RESPONSIBILITY

Overall Internal Audit function is responsible for compliance with CBUAE regulations and the mandatory elements of IPPF of IIA including the core principles, definition of internal auditing, code of ethics and the international standards for professional practice of internal auditing as issued by IIA (Institute of Internal Auditors).

In discharging their duties, Internal Audit & Control Department and its staff members are responsible for:

- Formulating an audit plan and strategic plan for the department in consultation with the executive management and Audit Committee as applicable. Audit Plan shall also cover bank’s subsidiary Twin Towns Marketing Management LLC .
- Implement the audit plan and strategic plan by framing operational audit strategies, assignments, projects and concurrent audit and compliance assignments.
- Train, maintain and up skill professional audit team with sufficient knowledge, skills, experience and professional qualification to accomplish the audit objectives.
- Issue timely reports to the reporting authorities providing meaningful, complete and un- biased reports with conclusive recommendations and follow up rectification.
- Issue periodic reports to Executive Management on timely basis summarizing audit activity through audit report.
- Update Executive Management about the implementation of new audit practices and other developments in internal auditing practices and its implementation in NBQ.
- Investigate specific events as and when notified by relevant officials and through incident reports and suggest remedial action and refinement to procedures and policies as applicable.
- Frame suitable audit procedure to identify leakages of income and provide recommendations for controlling leakages.
- Ensure that best practices in internal auditing and information audit are implemented on a timely basis are applied in NBQ wherever applicable and practicable.
- Co-ordinate with External Auditors and Central Bank examiners and provide oversight of controls and monitoring functions and provide support for their initiatives.
- Ensure Automation of manual processes and Go Paperless environment.
- Ensure Balance score cards are in place for each department/branch to assist Management /Board for performance appraisal exercise.

## 9. ACCOUNTABILITY

Internal Audit & Control Department is accountable for the following:

- Submit an assessment on the adequacy and effectiveness of the control environment, wok processes, and governance processes etc. for controlling its activities and managing its risks in all the core functional areas.
- Report all significant issues related to people, products, policies, macro processes, micro processes etc. on a timely basis and provide recommendations for improvements.
- Accomplishment of audit plan and strategic plan initiatives and provide variance report with reasons for non-accomplishment.
- Provide grading of branches and departments based on the criticality of the deficiencies noticed during audit and rectifications proceedings.

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## 10. INDEPENDENCE & OBJECTIVITY

- Department staff must maintain an independent frame of mind while performing audit functions and must maintain independence from functional and operational units.
- Internal Audit & Control Department functionally reports to the Board Audit Committee and administratively reports to Chief Executive Officer.
- The appointment, removal and the remuneration of the Head of Internal Audit is done by Board Audit Committee
- Department must plan their audits and scope of their work on their own initiatives which is as per the operational audit plan and occasionally under the advice of the Executive Management.
- Department must not be involved in operational duties and in discharging functions which can hamper its independence in their engagement as an auditor. If so, there must be clear disclosure to this effect to the Executive management.
- Department is authorized to communicate directly to the Audit Committee as applicable without disclosing the relevant information to the other management officials in respect of confidential matters which needs such disclosure.
- Communication through audit reports and audit findings and circulation of the reports are within the powers of the department.
- Dept. is subject to independent review by the External Auditors and Central Bank examiners or by independent professionals for the quality assessment.

## 11. CONTINUITY & IMPARTIALITY

- Internal Audit & Control in NBQ is a continuous function and will be of permanent nature.
- Department must be objective and impartial in performing its assessments and in reporting its findings.
- Department seeks to avoid conflicts of interest and assignments are executed with due segregation and are rotated periodically to enhance quality and to facilitate succession planning and independence.
- Staff members who have performed operational duties are not entitled to audit such duties and auditees within one year of the change.
- Department must not be involved in operations of NBQ and in implementing internal control measures. However, department may provide value adding suggestions in preparation of procedures and manuals for the benefit of NBQ. Such engagements are considered as consultancy engagements and are not hampering independence of the audit function.
- Department staff must not initiate or approve accounting transactions or direct staff not employed by Audit Department to perform operational duties.

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## 12. QUALITY ASSURANCE AND IMPROVEMENT PROGRAM

- IACD shall maintain a quality assurance and improvement program (QAIP) that covers all aspects of the internal audit activity including its evaluation of conformance to IIA standards. The QAIP shall include both:
  - Internal assessment: Ongoing monitoring and periodic self-assessments
  - External assessment: to be conducted at least once every 5 years by a qualified, independent assessor.
- The QA function shall report directly to HO-IACD. The staff of QA shall be independent of audit activities and shall have unrestricted access to internal audit records, processes, functions and personnel
- IACD shall report periodically to senior management and BAC on the QAIP results.

## 13. DISCLAIMERS AND DISCLOSURES

- While performing any consulting engagements assigned by CBUAE, Board or Senior Management, IACD will only provide services as consultancy and internal auditors and/or IACD, individually or collectively, shall bear no responsibility of the subsequent implementation and/or consequences of the process/system/activity/product on which advice/feedback was provided to management.
- In case any IACD staff confronts a situation which is in fact or perceived to be an impairment to independence or objectivity, the same shall be disclosed along with complete details to HO-IACD for further escalation / action if deemed necessary.
- In case an additional role is assigned to HO-IACD which is outside the spectrum of internal audit, the same shall be communicated and approved from Board Audit Committee and relevant disclosures shall be made in quarterly reporting in Board meetings as safeguards for any actual or perceived impairments to independence and objectivity of internal audit function.

## 14. AMENDMENT OF THE CHARTER

The Head of Internal Audit & Control Department shall be responsible for maintaining the Internal Audit & Control Charter in a current state.

Amendments to the Internal Audit & Control Charter are subject to the approval of the Board Audit Committee.

Periodicity of reviewing the Internal Audit & Control Charter shall be annually.

## 15. APPROVAL OF THE CHARTER

The Internal Audit & Control Charter will be approved by the Board Audit Committee.



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## 16.Approval Sign-off

Prepared by (a): Initiator Section				
Name	Designation	Department	Date	Signature
Arsalan Ali Khan	Asst. Manager	Quality Assurance Review Unit	06-Sep-2024	Wet signature

Reviewed by (b): Stakeholder Section				
Name	Designation	Department	Date	Signature
Videha Pererra	Senior Officer	IT & Security Unit	06-Sep-2024	Wet signature
Syed Asad	Asst. Manager	Market Risk Review Unit	06-Sep-2024	Wet signature
Rosmin Matthew	Asst. Manager	Follow up / Rectification Unit	06-Sep-2024	Wet signature
Buddhi Ediriweere	Manager	Operations, Financial & Regulatory Review Unit	06-Sep-2024	Wet signature
Lankara De Silva	Manager	Credit & AML Review Unit	06-Sep-2024	Wet signature

Reviewed by (c): Mandatory Reviewer Section				
Mourad Ben Ali Saidani	HO-IACD	Internal Audit & Control Department	06-Sep-2024	Wet signature

Approved by (e): Approver Section				
	BAC (Board Audit Committee)		06-Sep-2024	Wet signature & email approval

**\*Note: Guidelines on signing authorities are as follows:**

Section (a): Initiator signoff to be signed by document owner, i.e. Head of the Department

Section (b): Stakeholder signoff to be signed by Heads of Department whose processes are directly impacted by this document

Section (c): Mandatory Reviewer signoff to be signed by Head of Department Legal and Senior Management Team, i.e. CFO DGM, Head of Risk and Head of Compliance

Section (d): Approver section to be signed by the final approver/s of this document, i.e. CEO and/or Board or Board Committee, as applicable.

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## 17. Revision Log

Revision No.	Revision Date	Section	Change
1.	22-02-2022	N/A	Introduction of Internal Audit & Control Charter
2.	31-01-2024	8.	Audit Plan shall also cover bank's subsidiary Twin Towns Marketing Management LLC.
3.	06-09-2024	12. & 13.	Addition of Section 12. Quality Assurance & Improvement Program Section 13. Disclosures and Disclaimers