



Internal Audit Department

CHARTER

Approved by the Board Audit Committee on 15th August 2023

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1. Abbreviations

Acronym/Term	Description
BOD	Board of Directors
BAC	Board Audit Committee
CBUAE	Central Bank of United Arab Emirates
CEO	Chief Executive Officer
Control Functions	Risk Management, Compliance and Internal Audit
HOA	Head of Internal Audit
IAD	Internal Audit Department
IIA	The Institute of Internal Auditors
ISAD	Internal Sharia Audit Department
Management	Executive and Senior Management
NBF Or NBF Group	National Bank of Fujairah and its subsidiaries
Staff	All persons working for NBF except members of the BOD

2. Introduction

- 2.1.** This Charter defines IAD's purpose, authority and responsibility and establishes IAD's position within NBF. The Charter also formalises IAD's access to records, information systems, staff and physical properties of NBF relevant to the performance of engagements and defines the scope of IAD's activities.
- 2.2.** The BOD of NBF have appointed a BAC to provide oversight of the financial reporting process, the audit process and NBF's system of internal control and compliance with applicable laws and regulations. BAC's authorities and responsibilities are outlined in the BOD approved BAC Charter.
- 2.3.** NBF's IAD reports to the BAC and is managed by the HOA who functionally reports to the Chairman of the BAC and administratively to the CEO. In addition, the Head of Internal Sharia Audit who functionally reports to the BOD, will administratively report to the HOA.
- 2.4.** The HOA has unfettered access to all members of the BAC.
- 2.5.** The Charter will be reviewed, published on the Intranet and the Bank's website and updated at least once every three years or when significant changes to Internal Audit requirements are made by CBUAE/IIA. Any amendments to this Charter will only be effective upon BAC approval.
- 2.6.** The HOA is also the Secretary to the BAC and will seek the Chairman of the BAC's approval on the agenda and timing for each meeting.

3. Purpose

IAD is an independent function that provides assurance to the BOD through the BAC and Management of NBF on the quality and effectiveness of Internal Controls, Risk Management, Compliance, Corporate Governance, Systems and Processes.

4. Internal Audit Department's Mission

Provide independent and objective value adding assurance and consulting services that enhances and synergizes the effectiveness of NBF's internal control environment to minimize "unknown risks" and facilitate "positive change".

5. Internal Audit's Authority

5.1. The HOA is authorized to:

- 5.1.1.** Ensure that Internal Audit staff have full and unrestricted access to all functions, records, files, data, information systems, physical property, staff and management of NBF.
- 5.1.2.** Request and expect staff and management to provide information and explanations within a reasonable period of time.
- 5.1.3.** Allocate resources, set frequencies, select functions/process/incidents for audit/review, determine scope of audits/reviews and apply appropriate techniques to accomplish the objective of the audit or review.
- 5.1.4.** Coordinate with other control functions such as risk management and compliance as needed.
- 5.1.5.** Meet with regulators, external auditors, other consultants or third parties.
- 5.1.6.** Authorized to make amendments to the BAC approved plan to accommodate change in NBF's risk profile and obtain approval from the BAC.
- 5.1.7.** Conduct performance review of IAD staff and recommend to the BAC promotions and salary adjustments.
- 5.1.8.** Make recommendations to the BAC for appointment of staff within IAD.

5.2. The HOA and staff are not authorized to:

- 5.2.1.** Perform any operational activities across NBF including but not limited to designing, implementing or operating any internal control measures.
- 5.2.2.** Initiate or approve accounting transactions unrelated to IAD.
- 5.2.3.** Initiate or approve any business transactions across NBF.
- 5.2.4.** Direct the activities of any staff not employed to work in IAD except to the extent such employees have been appropriately assigned to IAD or are otherwise assisting IAD in a review.
- 5.2.5.** Perform any activity that would impair IAD's independence and/or objectivity.

6. Internal Audit's Responsibility

- 6.1.** Plan, conduct and report on audit engagements included in the BAC approved annual plan.
- 6.2.** Provide advisory/consulting services at the request of BAC or Management without involvement in day to day activities or assuming management responsibility.
- 6.3.** Ensure audits and reviews are executed in line with the process outlined in the Internal Audit procedure manual.

- 6.4.** Ensure documents and information provided to IAD during the reviews are handled in the same prudent and confidential manner similar to the employees accountable for them.
- 6.5.** Ensure audit fieldwork is conducted in an objective, professional and timely manner and all audit observations and conclusion are clearly communicated prior to finalisation of the report.
- 6.6.** Ensure exchange of information with external auditors and/or other assurance providers is in line with the procedures outlined in the Internal Audit procedure manual.
- 6.7.** Follow up on the state of corrective action of issues raised by Internal Audit and or other issues as requested by BAC and or CEO.
- 6.8.** Assist in the investigation of (a) fraudulent/whistleblowing incidents together with the associated operational lapses and (b) standalone operational incidents and update the BAC with the outcome of such engagements.
- 6.9.** Ensure full adherence to NBF's Code of Conduct and IIA's Code of Ethics and Standards.

7. Scope of Work

- 7.1.** IAD's scope of work includes every function, including outsourced functions of NBF with the exception of Islamic Banking which is covered by ISAD to evaluate the:
 - 7.1.1.** Effectiveness and efficiency of Internal Control, Risk Management and Compliance Systems.
 - 7.1.2.** Reliability and integrity of management information systems and processes.
 - 7.1.3.** Compliance with laws, regulations, standards and the instructions of the CBUAE.
 - 7.1.4.** Safeguarding of assets.
 - 7.1.5.** Engagements whose frequency is mandated by regulatory authorities.
- 7.2.** IAD provides the following three types of services:
 - 7.2.1.** Audits: Assurance services defined as examinations of evidence for the purpose of providing an independent assessment on governance, risk management, and control processes.
 - 7.2.2.** Consulting Services: Where the nature and scope of the consulting service is agreed with the relevant stakeholder and is intended to add value and improve NBF's organization governance, risk management, and control processes. Consulting services will only be provided as long as the service does not impair IAD's objectivity or independence and does not involve IAD assuming management responsibility. Examples of consulting services include but are not limited to:
 - Follow Up Reviews – Assignments where the scope is restricted to follow up on corrective action of issues noted during previous audits, investigations, regulatory reviews etc.

- Surprise Cash Count Reviews – Assignments where the objective is on an unannounced basis perform physical count at branch vault and reconcile the cash with balance on the branch's general ledger.
- Continuous Auditing Assignments – Assignments where the objective is to facilitate timely management action on control related issues
- Special Assignments – Ad-hoc consultancy or other assignments based on specific requests from the BOD, BAC or Management on an agreed upon scope.

7.2.3. Investigations: Independently evaluate allegations or suspicions of improper/unauthorised activities including misuse of NBF's resources, fraud, financial irregularities, significant control weaknesses and unethical behaviour or actions.

7.3. In providing consulting services, HOA will ensure the scope of the engagement is sufficient to address the agreed-upon objectives and are subject to restrictions outlined in sections 5.2, 6.2, 6.9 and 8.3. If the HOA at any stage of the engagement has any concerns of potential impairment of IAD's objectivity and/or independence, then these concerns will be assessed by the HOA to determine whether to continue with the engagement.

7.4. Follow up on the state of remedial action taken to address issues raised by IAD or other issues as requested by the BAC and or CEO.

8. Independence

8.1 All IAD staff report to the HOA who reports to the Chairman of the BAC. The performance assessment and financial remuneration of the HOA is conducted by the Chairman of the BAC whereas the performance assessment, financial remuneration and promotion of staff within IAD is conducted and recommended by the HOA to the BAC. Financial remuneration of IAD staff is based on the overall assessment of IAD by BAC and individual achievements.

8.2 The HOA meets with the BAC at least once a year to discuss any matters that either the HOA or BAC believe should be discussed without the presence of Management and on an annual basis the HOA confirm independence of IAD to the BAC in writing and will immediately report to BAC any instances of interference and/or restrictions placed on the activities of IAD.

8.3 The restriction on IAD's activities outlined under section 5.2 of this Charter is intended to protect and maintain IAD's objectivity and independence which is further supplemented with an objectivity and ethics statements signed by IAD staff on every engagement acknowledging adherence to NBF's Code of Conduct and the IIA's Code of Ethics.

8.4 All instances of non-conformance to either IIA's Ethics or Standards or any instance of impairment to IAD's objectivity or independence will immediately be reported to the Chairman of the BAC.

9. Responsibilities of Management

9.1. Respect and promote the independence of IAD.

9.2. Developing, implement and maintain adequate and effective risk management, internal control and governance processes.

9.3. Notify IAD in a timely manner of (a) updates to NBF's policies, procedures, business objectives, organisational structure that impacts the risk governance framework (b) new and/or update in regulatory instructions as communicated by Central Bank or other relevant regulatory authorities (c) results of regulatory inspections together with incidents of regulatory and policy non-compliance and regulatory criticisms/sanctions (d) operational errors, incidents, near misses and frauds and (e) new developments, initiatives, projects, products and operational changes.

9.4. Provide responses to audit observations.

9.5. Participate in the closing audit meeting to discuss audit issues and corrective actions.

9.6. Ensure that timely and appropriate actions are taken on all Internal Audit observations and outline the overall corrective action plan or the rationale for disagreement to the observation.

10. Responsibilities of HOA

10.1. Establish procedures to guide IAD in line with IIA's Standards and CBUAE instructions.

10.2. Define IAD Strategy and prepare an annual Internal Audit plan using a risk-based methodology that identifies the material risks of NBF and present the plan to BAC for approval.

10.3. Ensure adequate coverage of risk/functions/process/incidents that are mandated either by CBUAE or required by policy.

10.4. Implement the BAC approved annual Internal Audit plan together with special reviews/investigations or consulting engagements as requested by the BAC or the CEO.

10.5. Issue Terms of Reference to the BOD or its committees for assignments that are executed based on their specific directives.

10.6. Establish a follow up process to monitor and report on the status of Management's corrective actions.

10.7. Update the BAC on the execution status of the approved Internal Audit plan.

10.8. Update BAC on the results of audit activities.

10.9. Manage the update of audit activities to parties inside and outside NBF.

10.10. Update the BAC on sufficiency of IAD staffing and systems requirements.

10.11. Appointing IAD staff with approval from BAC and assessing their performance regularly.

10.12. Establish a quality assurance program to ensure the activities of IAD are in line with IIA standards and update the BAC with the outcome.

10.13. Resource the department with individuals with sufficient qualifications, experience and skills to develop collective competence of IAD to examine all areas in which NBF operates.

10.14. With prior approval of BAC engage and/or retain external consultants at NBF's expenses in relation to discharging its duties if IAD has gaps in knowledge, skills, or resources to perform all or part of the engagement. The appointment of external consultants should be



recommended to the BAC after ensuring the objectivity of the proposed consultant is not impaired as a result of previous or current engagements at NBF.

- 10.15.** Evaluate and direct IAD activities and facilitate ongoing training and development of IAD staff.
- 10.16.** Manage investigations and special reviews and keep the BAC updated.
- 10.17.** Review IAD's Charter at least every three years and recommend changes to BAC.
- 10.18.** At least once in five years, with approval of the BAC, facilitate an external quality assurance (EQA) review of IAD using an independent consultant. The EQA consultant will be appointed by the BAC and the final report will be addressed to the Chairman of BAC which will be supplemented with a presentation and discussions with BAC.
- 10.19.** Confirm the independence and present the qualifications of the shortlisted External Quality Assurance consultants to the BAC prior to the final selection and appointment by BAC.
- 10.20.** Execute responsibilities in line with BOD approved Whistleblowing Policy and update the BAC.
- 10.21.** Coordinate and exchange findings and reports between IAD and ISAD.
- 10.22.** Ensure all audit-based paper records are retained in line with NBF'S Information Security Record Management Procedure whereas electronic records are retained in line with NBF's Electronic Data Retention Policy.
- 10.23.** Promptly report to the CBUAE violations of the CBUAE Law, regulations, instructions and any matters of significance in normal course in coordination with the Compliance Department or in exceptional circumstances directly to CBUAE.

11. Reliance on the Work of Others

IAD may place reliance on the work of other control functions, external auditors and consultants provided the use of such information does not impair IAD's objectivity.