

Internal Audit Charter

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(Version 6.1)



بنك الشارقة
Bank of Sharjah

Purpose and Mission

The purpose of Bank of Sharjah's Internal Audit department is to strengthen the organisation's ability to create, protect, and sustain value by providing the Board and Management with independent, risk-based, and objective assurance, advice, insight, and foresight.

Internal auditing enhances the organisation's:

- Successful achievement of its objectives.
- Governance, risk management, and control processes.
- Decision-making and oversight.
- Reputation and credibility with its stakeholders.
- Ability to serve the public interest.

The Internal Audit department recognises its responsibility to act in the public interest by promoting transparency, sound governance, and sustainable value creation at Bank of Sharjah.

Internal auditing is most effective when:

- Performed by competent professionals in conformance with the Global Internal Audit Standards, which are set in the public interest.
- The internal audit function is independently positioned with direct accountability to the Board.
- Internal auditors are free from undue influence and committed to making objective assessments.

Standards for the Professional Practice of Internal Auditing

The Internal Audit department will govern itself by adhering to the Institute of Internal Auditors 2024 Global Internal Audit Standards, which include five domains:

- Purpose of Internal Auditing,
- Ethics and Professionalism,
- Governance of the Internal Audit Function,
- Management of the Internal Audit Function,
- Performing Internal Audit Services.

The Chief Internal Auditor will report periodically and at least annually to the Board Audit Committee and the Executive Management regarding the Internal Audit department's conformance to the Code of Ethics and the Standards.

Authority

The Chief Internal Auditor will report functionally to the Board Audit Committee and administratively (i.e., day-to-day operations) to the Executive Management. To establish, maintain, and assure that Bank of Sharjah's Internal Audit department has sufficient authority to fulfill 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.
- Receive communications from the Chief Internal Auditor on the Internal Audit department's performance relative to its plan and other matters.
- Approve decisions regarding the appointment and removal of the Chief Internal Auditor.

- Approve the annual appraisal and remuneration of the Chief Internal Auditor.
- Make appropriate inquiries of management and the Chief Internal Auditor to determine whether there is inappropriate scope or resource limitations.

The Chief Internal Auditor 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 Bank of Sharjah, as well as other specialised services from within or outside Bank of Sharjah in order to complete the engagement.

Independence and Objectivity

The Chief Internal Auditor 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 Chief Internal Auditor 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, 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 Bank of Sharjah or its affiliates and subsidiaries.
- Initiating or approving transactions external to the Internal Audit department.
- Directing the activities of any Bank of Sharjah 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 Chief Internal Auditor 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.

The role of Chief Internal Auditor in various committees:

- The Chief Internal Auditor represents the Internal Audit Department in the Internal Controls Committee;
- The Chief Internal Auditor may attend Management Committees in an advisory capacity or as an observer/ invitee. Such participation is non-executive in nature and does not impair the objectivity or independence of the internal audit function.

- The Chief Internal Auditor may be part of external Committees such as UBF based on nomination.

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.
- Not accept any tangible or intangible item, such as a gift, reward, or favor, that may impair or be presumed to impair objectivity.
- Refrain from assessing specific activities for which they were previously responsible for at least 12 months.
- Promptly disclose if their objectivity is impaired in fact or appearance.

The Chief Internal Auditor will confirm to the Board Audit Committee, at least annually, the organisational independence of the Internal Audit department. Internal Auditors will confirm their Independence and Objectivity through an annual declaration of Conflict-of-Interest process.

The Chief Internal Auditor 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.

The Chief Internal Auditor shall report any significant issues, material deviations from the Internal Audit Charter, or impairments to independence or objectivity to the UAE Central Bank, in accordance with applicable regulatory requirements.

Scope of Internal Audit Activities

The Internal Audit department performs both assurance and advisory services, in accordance with the Global Internal Audit Standards.

Assurance services involve the objective examination of evidence for the purpose of providing an independent assessment on governance, risk management, and control processes to the Board Audit Committee and Executive Management.

Advisory services are activities performed at the request of management, the Board Audit Committee, other stakeholders or through special assignments requested by the Chief Internal Auditor, intended to add value and improve the organisation's operations. These services are consultative in nature and do not involve the internal audit function assuming management responsibility.

The nature and scope of advisory services will be agreed in advance, and internal auditors must maintain their independence and objectivity in performing such services.

Internal Audit assessments include evaluating whether:

- Risks relating to the achievement of Bank of Sharjah's strategic objectives are appropriately identified and managed.

- The actions of Bank of Sharjah's officers, directors, employees, and contractors are in compliance with Bank of Sharjah'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 Bank of Sharjah.
- Information and the means used to identify, measure, analyse, classify, and report such information are reliable and have integrity.
- Resources and assets are acquired economically, used efficiently, and protected adequately.

The Chief Internal Auditor will report periodically to the Board Audit Committee and the Executive Management regarding:

- The Internal Audit department purpose, authority, and responsibility.
- The Internal Audit department's plan and 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 Board Audit Committee.
- Results of audit engagements or other activities.
- Resource requirements.
- Any response to risk by Executive Management that may be unacceptable to Bank of Sharjah.

The Chief Internal Auditor also coordinates activities, where possible, and considers relying upon the work of other internal and external assurance and consulting service providers as needed.

All Information Security audits are to be performed in compliance with ISO27001 and the UAE's NESI Information Assurance Standards.

The Internal Audit department may also make use of data analytics, automation tools, and other emerging technologies to enhance the effectiveness, efficiency, and value of its audit activities.

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.

The Internal Audit department is also responsible for independently validating the closure of regulatory observations, including those raised through thematic reviews conducted by the UAE Central Bank or other regulatory bodies such as the SCA if mandated.

Additionally, the Internal Audit team shall validate the closure of observations raised by Subject Matter Experts (SMEs) through various engagements. Unless the complexity or technical nature of the observation requires further validation by the respective SME, in which case external support will be re-engaged under the Chief Internal Auditor's supervision.

Internal Audit Plan

The Chief Internal Auditor will:

- Submit, at least annually, to Executive Management and the Board Audit Committee a risk-based Internal Audit Plan for review and approval.
- Communicate to Executive Management and the Board Audit Committee the impact of resource limitations on the Internal Audit plan.
- Review and adjust the Internal Audit plan, as necessary, in response to changes in Bank of Sharjah's business, risks, operations, programs, systems, and controls.
- Communicate to Executive Management and the Board Audit Committee any significant interim changes to the Internal Audit Plan.
- 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.
- Where required, the Internal Audit function may engage external resources, including Subject Matter Experts (SMEs), through co-sourcing, secondment, or advisory arrangements, to support the execution of specific reviews. If required under the CBUAE outsourcing regulations, necessary regulatory approvals will be obtained.

All such engagements shall be governed by formal agreements, including non-disclosure commitments, and all external parties shall report directly to the Chief Internal Auditor. The Internal Audit function retains full ownership of the work performed, and all reports will be issued under the authority of the Bank of Sharjah's Internal Audit Department.

Bank of Sharjah Internal Audit department will seek the services from time to time from Big 4 firms and other competent service providers 'in execution of the Risk Based Audit Plan. The roles and responsibilities are documented and highlighted in the applicable Engagement Letters and relevant aspects of the Internal Audit Manual.

To support effective execution of the Internal Audit Plan, the Chief Internal Auditor will identify relevant training and development needs for the Internal Audit team, aligned with the risk areas, focus topics, and emerging issues included in the plan. Training shall be prioritised as an enabler for audit quality, capability enhancement, and continuous professional development, and shall be pursued within available resources. These trainings should include a behavioral and ethics training to ensure Internal Auditors are up to date with such information as mandated by the Global Internal Audit Standards.

Responsibility

The Chief Internal Auditor has the responsibility to:

- Follow up on engagement findings and corrective actions quarterly, and report periodically to Executive Management and the Board Audit Committee any corrective actions not effectively implemented.
- Ensure the principles of integrity, objectivity, confidentiality, and competency are applied and upheld.
- 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 and Continuing Professional Development as documented in the Internal Audit Manual.

- Ensure trends and emerging issues that could impact Bank of Sharjah are considered and communicated to Executive Management and the Board Audit Committee as appropriate.
- Ensure emerging trends and successful practices in Internal Auditing are considered.
- Establish and ensure adherence to Policies and Procedures designed to guide the Internal Audit department.
- Ensure adherence to Bank of Sharjah'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 Executive Management and the Board Audit Committee.
- 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 Chief Internal Auditor 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 UAE Central Bank, the Chief Internal Auditor will ensure that the Internal Audit department conforms to the Standards, even if the Internal Audit department also conforms with the more restrictive requirements of the UAE Central Bank.

Quality Assurance and Improvement Program (QAIP)

The Internal Audit department will maintain a quality assurance and improvement program that covers all aspects of the Internal Audit department. The program will include an evaluation of the Internal Audit department's conformance with the Global Internal Audit Standards and continuous performance improvement. The program will also assess the efficiency and effectiveness of the Internal Audit department and identify opportunities for improvement. The program includes ongoing monitoring, periodic internal assessments (at least annually), and external quality assessments conducted at least once every five years by a qualified, independent assessor from outside Bank of Sharjah.

The Chief Internal Auditor will communicate to Executive Management and the Board Audit Committee on the Internal Audit department's Quality Assurance and Improvement Program (QAIP), including results of internal assessments (both ongoing and periodic). Periodic Audit Committee and Executive Management surveys are performed on an annual basis. As mandated by the Global Internal Audit Standards and CBUAE regulatory requirements, external assessments shall be conducted at least once every five years by a qualified, independent assessor or assessment team from outside Bank of Sharjah.

Minutes and Retention Policy

The Board Audit Committee will maintain written minutes of its meetings and these will be signed by the Chairman and Secretary of the Committee. Copies of the minutes will be forwarded to the Board Secretary of the Group for inclusion in the appropriate Board agenda.

Internal Audit department will maintain the documents as per Bank of Sharjah retention policy and as mandated by the regulations of the UAE Central Bank or any other applicable regulatory body.

Frequency of review of the Internal Audit Charter

In accordance with Standard 6.2 of the Global Internal Audit Standards, the Internal Audit Charter will be reviewed periodically and updated whenever material changes arise that impact the internal audit function's purpose, authority, or responsibility.

The Chief Internal Auditor is responsible for conducting this review and shall submit any proposed revisions to the Board Audit Committee for approval. Once approved, the updated Charter will be published and made available internally and externally, in accordance with the UAE Central Bank's applicable Regulations and Standards.