

Internal Audit Charter

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DOCUMENT CONTROL

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1. Introduction

- 1.1 Internal Audit is an independent, objective assurance function that is guided by a philosophy of adding value to improve the control framework of Al Maryah Community Bank (Mbank).
- 1.2 Internal Audit assists Mbank in accomplishing its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of the Bank's risk management, control, and governance processes.
- 1.3 Internal Audit can also play a consulting role on occasion, when called upon to do so, without impacting on its independence.

2. Role

- 2.1 The Internal Audit activity is established by the Board Audit Committee and its responsibilities are defined by the Board Audit Committee as part of their oversight role.
- 2.2 The Board Audit Committee is appointed by the Board of Mbank.
- 2.3 This Charter provides the role for the conduct of the Internal Audit activity in Mbank.
- 2.4 The Charter serves as the guide to Internal Audit in the performance of its duties.
- 2.5 The Charter does not include, nor is it intended to include, all their duties or responsibilities, as may exist from time to time.
- 2.6 The Charter is intended to: -
 - 2.6.1 Provide a written record of formally approved policies of Internal Audit.
 - 2.6.2 Provide a basis for the evaluation of the performance of Internal Audit by the Board Audit Committee and Board of Directors/Senior Management of Mbank.
 - 2.6.3 Serve as a basic document in Mbank for administration of Internal Audit.
 - 2.6.4 The Charter describes the purpose and mission, independence and objectivity, scope and responsibilities, authority, accountability, reporting & monitoring, and standards of the Internal Audit function.

3. Professionalism

- 3.1 The Internal Audit activity will govern itself by adherence to The Institute of Internal Auditors' mandatory guidance including the Global Internal Audit Standards and Topical Requirements.
- 3.2 This mandatory guidance constitutes principles of the fundamental requirements for the professional practice of internal auditing and for evaluating the effectiveness of the Internal Audit activity's performance.

3.3 The Institute of Internal Auditors' Supplemental Guidance including the Global Practice Guides, Global Technology Audit Guides and Position Papers will also be adhered to as applicable to guide operations.

3.4 In addition, the Internal Audit activity will adhere to Mbank's relevant policies and procedures and the Internal Audit Manual.

4. Purpose & Mission

4.1 The purpose of Mbank's Internal Audit function is to strengthen the bank'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.

4.2 It assists Mbank's Board of Directors in discharge of their governance responsibilities and to support Management in the achievement of their approved strategic and operational objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

4.3 Internal Audit examines and evaluates the adequacy and effectiveness of system of internal controls in place at Mbank.

4.4 The objective is to provide all levels of management with sufficient, relevant, and useful information that will help them to ensure: -

4.4.1 The reliability & integrity of information.

4.4.2 The safeguarding of assets.

4.4.3 The economical and efficient use of resources.

4.4.4 The accomplishment of established objectives.

4.4.5 The reliability of structure of segregation of roles & responsibilities.

4.5 The mission of Internal Audit is to enhance and protect organizational value by providing risk based and objective assurance, advice, and insight. Internal Audit helps the Bank accomplish its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of governance, risk management and control processes.

4.6 In line with the Bank's commitment and accountability to its shareholders and stakeholders, a professional and independent Internal Audit function exists to provide necessary independent assurance on compliance with the Bank's policies and procedures as well as local regulations, statutes, and laws as applicable in the banking industry.

4.7 The purpose of this Charter is to define the roles and responsibilities of the Internal Audit function and authorize their unrestricted access to all the entity's records, information, personnel, and locations needed in the performance of its duties.

- 4.8 It also defines the nature, objective, and scope of internal auditing activities and to delegate to the Head of Internal Audit (also known as Chief Audit Executive – CAE) the authority necessary to achieve these objectives.
- 4.9 Internal Audit in Mbank has an independent status and will not be involved in the day-to-day operations or internal checking systems and will also not be directly involved or responsible for implementation of internal control systems.
- 4.10 Internal Audit may be consulted when considered necessary on the instructions of the CEO, in assessing the adequacy of controls when first implemented and during changes in control specifications, but this will be subject to impact on the independence of Internal Audit.
- 4.11 Internal Control is the responsibility of the Management. It is a process designed to provide reasonable assurance of:
- 4.11.1 Control over Operations.
 - 4.11.2 Prevention of Frauds.
 - 4.11.3 Adequate self-checking mechanisms and timely detection & resolution of errors.
 - 4.11.4 Reliable financial data.
 - 4.11.5 Control culture Bank’s risk appetite assessed through sound and tested risk evaluation processes.
- 4.12 The required reasonable assurance exists when all the components of management control (the control environment; risk assessment processes; control activities; information and communication systems; monitoring activities) are present and operate effectively.
- 4.13 Internal Audit is an independent assurance activity which is managed in Mbank as an integral part of its governance and risk management process.
- 4.14 It assists management in accomplishing their objectives by assessing the state of internal controls within Mbank. In that regard, Internal Audit also:
- 4.14.1 Assists Management in understanding and assessing risks.
 - 4.14.2 Evaluates the adequacy of techniques and controls to manage risk.
 - 4.14.3 Provides an assessment of the level of comfort that risk management, control and governance processes are operating effectively and efficiently.
 - 4.14.4 Identifies and recommends changes that add value.
 - 4.14.5 In a consultative capacity advises on efficiency of controls and effectiveness of structure on new initiatives and during change processes.
- 4.15 Through these assurance and consultative activities, Internal Audit assists management in accomplishing its objectives by bringing a systematic disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

5. Organization

- 5.1 The Head of Internal Audit (Chief Audit Executive) will report functionally to the Board Audit Committee and administratively (for day-to-day operations) to the Chief Executive Officer (CEO), whose role is limited to providing administrative support to the Head of Internal Audit in the following manner: -
- 5.1.1 Provide oversight on Internal Audit's human resources activities including recruitment, development, evaluation, retention etc.
- 5.1.2 Approve expenses, capital expenditure budgets to support the function of Internal Audit.
- 5.1.3 Facilitate open and direct communication with executive and line management at all levels and provide appropriate stature for the independent functioning of Internal Audit.
- 5.1.4 Review and endorse Internal Audit Charter and Annual Audit Plans prior to Board Audit Committee's final approval.
- 5.2 To establish, maintain and assure that the Internal Audit function has sufficient authority to fulfil its duties, the Board Audit Committee will: -
- 5.2.1 Approve the Internal Audit Charter.
- 5.2.2 Approve the risk based Internal Audit Plan, Internal Audit Budget & Resource Plan.
- 5.2.3 Discuss with Head of Internal Audit, at least annually, the sufficiency both in numbers and capabilities of the internal audit resources to fulfil the internal audit mandate and achieve the internal audit plan.
- 5.2.4 Receive communications from the Head of Internal Audit on the Internal Audit's activity performance relative to its plan and other matters.
- 5.2.5 Make appropriate inquiries of the Management & Audit to determine whether there is any inappropriate scope or resource limitations.
- 5.2.6 Approve all decisions regarding the appointment, performance evaluation, remuneration or removal of the Head of Internal Audit.
- 5.3 The Head of Internal Audit will communicate and interact directly with the Board Audit Committee in meetings and as appropriate/necessary at any time should the need arise.

6. Independence & Objectivity

- 6.1 The Internal Audit activity will remain free from interference by any element in Mbank, including matters of audit selection, scope, procedures, frequency, timing of audits or report content to permit maintenance of a necessary independent and objective approach by the audit function.

- 6.2 Internal auditors will have no direct operational responsibility or authority over any of the activities audited.
- 6.3 Accordingly, they will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair Internal Audit's independent judgement.
- 6.4 Internal Auditors will: -
 - 6.4.1 Exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being reviewed.
 - 6.4.2 Make a balanced assessment of all the available and relevant facts & circumstances and not be unduly influenced by their own interests or by others in forming their objective judgements.
 - 6.4.3 Disclose any impairment of independence or objectivity, in fact or appearance, to appropriate parties.
- 6.5 The Head of Internal Audit will confirm to the Board Audit Committee, at least annually, the organizational independence of the Internal Audit activity.
- 6.6 It will also be disclosed to the Board Audit Committee of any interference and related implications in determining the scope of internal auditing, performing work, and/or communicating results.

7. Scope & Responsibilities

- 7.1 The scope of Internal Audit encompasses, but is not limited to, the examination and evaluation of the adequacy and effectiveness of the Bank's risk management procedures, internal control systems, information systems and governance processes, as well as carrying out assigned responsibilities to achieve Mbank's stated goals and objectives.
- 7.2 To fulfil its responsibilities, Internal Audit shall: -
 - 7.2.1 Identify and assess potential risks to the bank's business.
 - 7.2.2 Review the adequacy of controls established to ensure compliance with policies, plans and procedures.
 - 7.2.3 Assess the reliability and security of financial and management information and the systems and operations that produce this information.
 - 7.2.4 Assess the means of safeguarding assets.
 - 7.2.5 Review established procedures and systems and propose improvements if any.
 - 7.2.6 Appraise the use of resources regarding economy, efficiency, and effectiveness.
 - 7.2.7 Follow up on Audit recommendations to make sure effective remedial action is taken.
 - 7.2.8 Carry out Adhoc audits or reviews, where possible, as requested by the Management/ Board Audit Committee.

- 7.2.9 Carry out Examinations/Investigations, when called upon to do so, of reported wilful fraudulent acts or other violations of Code of Conduct.
- 7.2.10 Evaluate Governance and Risk Management processes.
- 7.2.11 Provide services in consultative capacity on occasions when called upon to do so by the CEO without impacting its independence.
- 7.2.12 Interact with other Control functions and align Audit approach as appropriate.
- 7.2.13 Contribute to development of Products/Projects selected according to risks involved and ensure adequate controls are properly incorporated.
- 7.2.14 Coordinate with External Auditors through periodic interactions/meetings and share required information / audit reports to enable appropriate coverage and avoid duplication of effort where possible.
- 7.3 The Head of Internal Audit will report periodically to the Senior Management and the Board Audit Committee regarding: -
 - 7.3.1 Internal Audit's purpose, authority, and responsibility.
 - 7.3.2 Internal Audit's plan and performance relative to its plan.
 - 7.3.3 Internal Audit's conformance with the best practices as proposed per The Institute of Internal Auditors (IIA) Global Internal Audit Standards and action plans to address any significant non-conformance issues.
 - 7.3.4 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.
 - 7.3.5 Results of audit engagements or other activities.
 - 7.3.6 Resource requirements.
 - 7.3.7 Any response to risk by Management that may be unacceptable to Internal Audit.
- 7.4 The Head of Internal Audit also coordinates activities, where possible, and considers relying on the work of other internal and external assurance & consulting service providers as needed.
- 7.5 Internal Audit may perform advisory and related client service activities, the nature and scope of which will be agreed with the client, provided Internal Audit does not assume management responsibility.
- 7.6 Opportunities for improving the efficiency of governance, risk management and control processes may be identified during engagements. The opportunities will be communicated to the appropriate level of management.
- 7.7 The Head of Internal Audit has the responsibility to: -
 - 7.7.1 Submit at least annually to the Board Audit Committee a risk based Internal Audit plan for review and approval.
 - 7.7.2 Communicate to the Management and the Board Audit Committee the impact of resource limitation on the Internal Audit plan.

- 7.7.3 Review and adjust the Internal Audit plan, as necessary, in response to changes in the Bank's business, risks, operations, products, systems and controls.
- 7.7.4 Communicate to the Management and the Board Audit Committee any significant interim changes to the Internal Audit Plan.
- 7.7.5 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 stakeholders.
- 7.7.6 Follow up on engagement findings and corrective actions, and report periodically to the Senior Management and the Board Audit Committee any corrective actions not effectively implemented.
- 7.7.7 Ensure that the principles of integrity, objectivity, confidentiality, and competency are applied and upheld.
- 7.7.8 Ensure that human resources are appropriate, sufficient and effectively deployed to achieve the approved internal audit plan. Appropriate refers to the mix of knowledge, skills, and abilities. Sufficient refers to the quantity of resources. Effective deployment refers to assigning resources in a way that optimizes achievement of the internal audit plan.
- 7.7.9 Ensure that Internal Audit collectively possess or obtains the knowledge, skills and other competencies needed to meet the requirements of the Internal Audit Charter.
- 7.7.10 Ensure trends and emerging issues that could impact the Bank are considered and communicated to the Senior Management and the Board Audit Committee as appropriate.
- 7.7.11 Ensure emerging trends and successful practices in internal auditing are considered.
- 7.7.12 Ensure adherence to policies and procedures designed to guide Internal Audit.
- 7.7.13 Ensure adherence to Mbank's relevant policies and procedures unless any such policies and procedures conflict with the Internal Audit Charter. Any such conflict will be resolved or otherwise communicated to the Senior Management and the Board Audit Committee.
- 7.8 Ensure conformance of Internal Audit with the Standards prescribed by The Institute of Internal Auditors (IIA). However, following qualifications will hold: -
 - 7.8.1 If Internal Audit 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.
 - 7.8.2 If the Standards are used in conjunction with requirements issued by regulatory bodies, the Head of Internal Audit will ensure that Internal Audit conforms with the Standards, and conforms with the more restrictive requirements of the regulatory bodies.

7.9 Promptly report to Central Bank of UAE (CBUAE) about violations of CBUAE laws, regulations, instructions and matters of significance. Further notify CBUAE of deviations from the Board approved Compliance policies and Internal Audit Charter.

8. Authority

8.1 The Internal Audit activity, with strict accountability for confidentiality and safeguarding records and information, is authorized full, free, and unrestricted access to any and all of Mbank's records, systems, properties, assets, and personnel pertinent to carrying out any engagement in accordance with its duties.

8.2 To achieve this, Internal Audit is authorized during its activities to: -

8.2.1 Enter all areas of Mbank and have unrestricted access to all areas as necessary in the fulfilment of its duties.

8.2.2 Conduct analysis, investigation and determination of facts as required to enable objective statement of recommendations in its reports, as considered necessary for the performance of its function.

8.2.3 Require all members of Staff and Management to supply such information and explanations as may be needed within a reasonable period.

8.3 Senior Management should inform Internal Audit immediately on occurrence of any significant incident concerning non-compliance with regulations, processes, and procedures, and/or security violations.

9. Accountability

9.1 Internal Audit shall prepare an annual audit plan.

9.2 The plan will be based on a risk model that identifies Business Risks (both Inherent & Control Risks) and will include inputs from Line Managers as appropriate.

9.3 It will provide information about the risk assessment, the current order of priority of audit assignments and how they are to be carried out.

9.4 The annual audit plan for Mbank shall be presented by the Head of Audit to the Board Audit Committee for approval.

9.5 In case of need, adjustments may be made to the audit plan during the year.

9.6 Any significant changes that impact the risk/frequency model would need to be approved by the Head of Internal Audit and communicated to the CEO and the Board Audit Committee.

- 9.7 Internal Audit is responsible for planning, conducting, reporting, and following up on audit assignments included in the audit plan, and will decide on the scope and timing of audits as necessary to achieve its objectives in accordance with the risk model.
- 9.8 The above does not restrict Internal Audit from initiating any action and/or recommendation, including an unscheduled audit, where exceptions, emerging risks, process gaps, losses, near losses or other matters requiring timely preventive action, should they deem it necessary/appropriate.
- 9.9 Senior Management may also investigate/highlight concern which may prompt action by Internal Audit.
- 9.10 Audit fieldwork shall be conducted in a professional and timely manner.
- 9.11 Reporting of results will include an open process to agree on the facts and the validity of audit recommendations.
- 9.12 In cases of any disagreements with the stakeholders, the decision of the Head of Audit will prevail. Escalations if any, can be made to the CEO/Board Audit Committee.
- 9.13 Robust follow up work will also be undertaken to ensure adequate response/closure to audit recommendations/action items.

10. Reporting and Monitoring

- 10.1 A written report will be prepared and issued by the Head of Internal Audit or designee following the conclusion of each internal audit engagement.
- 10.2 The detailed audit report will be addressed to the Business Head (Auditee) with a copy to the CEO/relevant stakeholders summarizing the objectives and scope of the audit as well as observations and recommendations/action plans to remediate the risks.
- 10.3 Internal Audit results will also be communicated to the Board Audit Committee by way of highlighting key risks noted.
- 10.4 The Internal Audit report will also include the management's response and corrective action to be taken regarding the specific finding and recommendation to address/mitigate the risk along with the exact timelines required to address/mitigate the risk (target dates will be provided and agreed between the business and audit).
- 10.5 Any action to be taken to address/mitigate the risk that cannot be implemented, must be escalated by the business to Internal Audit & CEO with proper explanation/justifications and these will be reported to the Board Audit Committee.
- 10.6 Internal Audit will be responsible for appropriate follow up on all findings and recommendations.
- 10.7 All findings/issues noted in an audit assignment will remain as open issues until formal closure is advised in writing by Internal Audit to the stakeholders which should be retained for any future audit trails.

11. Standards for Professional Practice of Internal Auditing

- 11.1 The Internal Audit activity will govern itself by adherence to the mandatory elements of The Institute of Internal Auditors' International Professional Practices Framework, including the Global Internal Audit Standards and Topical Requirements.
- 11.2 The Head of Internal Audit will annually report to the Senior Management and the Board Audit Committee regarding the Internal Audit's conformance to the Global Internal Audit Standards.
- 11.3 Internal Audit will also adhere to applicable standards of best professional practice, such as those published by the Information Systems Audit and Control Association (ISACA) and Guidelines, Rules & Regulations issued from time to time by the regulators.

12. Review of Charter

- 12.1 This Internal Audit Charter will be reviewed annually by the Head of Audit and then submitted to the Board Audit Committee for review and approval.

RECOMMEND FOR BOARD AUDIT COMMITTEE APPROVAL

Mr.Rajesh Verma
Head of Audit

Mr.Mohammed Wassim Khayata
Chief Executive Officer

APPROVED BY THE BOARD AUDIT COMMITTEE

Mr. Obaid Hilal Al Kaabi
Chairman

Mr.Saeed Abdulla Al Dhaheri
Vice Chairman

Mr. Younus Fateh Al Khaja
Member

Mr.Khaled Thani Al Romaithi
Member

Mr. Ahmed Jaber Al Suwaidi
Member