



# **INTERNAL AUDIT TERMS OF REFERENCE**

## **1. PURPOSE AND OBJECTIVE**

Internal Audit (IA) is an independent, objective assurance and consulting function established to add value and improve the Bank's operations, processes, and controls. IA helps the Bank accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, internal control, and governance processes.

## **2. SCOPE**

The internal audit function's scope of operations is by its very nature quite wide. The internal audit function provides independent assurance to the board of directors through the Audit committee and senior management on the quality and effectiveness of the bank's internal control, risk management and governance systems and processes, thereby helping the board and senior management protect their organisation and its reputation. This will assist the Bank in fulfilling its vision, mission, strategic initiatives, and objectives, while adhering to its core values.

Ultimately, the internal audit function helps ensure:

Risks are appropriately identified and managed.

- Significant financial, managerial, and operating information is accurate, reliable, and timely.
- Bank resources are used efficiently and adequately safeguarded.
- Bank operations are transacted in accordance with sufficient internal controls, good business judgment, and high ethical standards.
- Quality and continuous improvement are fostered in the Bank's internal control processes.
  
- Opportunities for improving the Bank's internal controls may be identified during internal audits; these opportunities will be communicated to the Audit Committee of the Board, the Managing Director, and other appropriate members of management.

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## **3. INDEPENDENCE**

The Audit Committee of the main Board reviews IA responsibilities and activities. The Head Internal Audit reports functionally to the Audit Committee and administratively to the Managing Director. The Head Internal Audit shall attend Audit Committee meetings as directed by the Audit Committee. The Head Internal Audit shall have full and unrestricted access to the Audit Committee and the Managing Director and shall bring significant matters to the attention of the Audit Committee and/or the Managing Director as considered necessary.

## **4. ACCESS**

The Head Internal Audit and staff are authorized to:

- Have unrestricted access to all Bank functions, systems, records, property, and personnel relevant to performance of an audit, investigation or other special project.

- Have adequate audit resources, determine types of audits to perform, determine the frequency of audits, establish audit scopes of work, and apply techniques required to accomplish audit objectives.
- In the role of consultant provide input into the development of new policies, procedures, processes, controls, or systems provided it does not impair audit independence.
- Obtain the necessary assistance of personnel in units of the Bank where they perform audits, as well as other specialized services from within or outside the Bank.

The Head Internal Audit and staff are not authorized to:

- Perform any operational duties for the Bank.
- Initiate, change, or approve transactions, policies, procedures, processes or systems external to the IA department.
- Eliminate, implement, or otherwise change any Bank internal controls (Management is responsible for these activities in their respective areas of responsibility).
- Direct activities of any Bank employee not employed by IA, except to the extent they have been appropriately assigned to work for or assist IA.

## **5. RESPONSIBILITIES**

IA's primary responsibilities are to:

- Perform an annual risk assessment and prepare an annual audit plan including input from the Audit Committee and the Managing Director and senior management.
- Prepare a formal Internal Audit Plan Report, review it with the Managing Director and present it at the designated Audit Committee meeting.
- Allocate resources and plan and complete audit projects in accordance with the approved annual audit plan; evaluate and recommend needed changes to the plan if considered necessary and notify the Audit Committee and Managing Director of significant changes.
- Plan and complete any special project or fiscal misconduct investigation under the direction of the Audit Committee and /or Managing Director.
- Consider the need for co-sourced resources for staff supplementation or specialized expertise and engage resources as considered appropriate.
- Prepare and issue written reports on all audit projects, special projects, and fiscal misconduct investigations with copies to client (Executive Committee).
- Report significant observations, as considered necessary to the Finance and Audit Committee.
- Monitor management's implementation of corrective action to IA observations.
- Prepare formal mid-year and year-end Status Reports summarizing audit activity completed compared to the annual audit plan and related results, review it with the Managing Director and present it at the designated Audit Committee meeting.
- Maintain a professional audit staff with sufficient knowledge skills, experience and professional certifications and maintain an adequate training program.

- Engage all Bank employees as opportunities arise to promote a better understanding of IA, internal controls and responsibilities for monitoring and improving internal controls

## **6. STANDARDS AND APPROACH**

The Internal Audit department's work will be performed with due professional care, in accordance with appropriate professional auditing practice. It will have due regard to the Banks regulatory framework and the IIA Code of Ethics and International Standards and their mandatory requirements.

In achieving its objectives, the Internal Audit department will develop and implement an audit strategy that assesses the Bank's risk management, control, and governance.

The Head of Internal Audit will implement measures to monitor the effectiveness of the service and compliance with standards.

The Audit Committee will consider and approve these performance measures and may also ask the external auditor to provide an independent assessment of Internal Audit's effectiveness.

## **7. REPORTING**

The Head of Internal Audit must submit an annual report to the Board through the Audit Committee. The report must relate to the banks financial year and include any significant issues up to date for preparing the report which affect the opinion. The report should give an opinion on the adequacy and effectiveness of the Banks arrangements for:

- Risk management, control and governance, economy, efficiency and effectiveness and the extent to which the governing body can rely on them.

The Auditor should also prepare, before the beginning of the year, a long-term audit plan supported by an assessment of resource needs. These should be submitted to the Board for approval following consultation with relevant managers and after consideration by the Audit Committee.

The Head of Internal Audit is accountable to the Board through the Audit Committee for the performance of the bank. He or she should also report audit findings to relevant managers and draw the attention of the Audit Committee to key issues and recommendations.

The Head of Internal Audit should usually produce its reports, in writing, within one month of completion of each audit, giving an opinion on the area reviewed and making recommendations where appropriate. These reports are copied to the Managing Director and the Audit Committee. Managers will be required to respond to each audit report, usually within one month of issue, stating their proposed action with a timetable for implementing agreed recommendations. Material recommendations will usually be followed up some six to twelve months later. In addition, the Audit Committee will monitor implementation of audit recommendations.

The Head of Internal Audit will report to the audit committee any serious weaknesses, significant fraud or major accounting breakdown discovered during the normal course of audit work.

## **8. LIASON**

The Internal Audit department will liaise with the external auditors and its regulators to optimise the audit services provided to the bank.