

INTERNAL AUDIT CHARTER

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Purpose and Mission

The purpose of Commercial Bank of Dubai's (CBD) Internal Audit Department is to provide independent assurance to the Board of Directors and Senior Management (as an independent function) on the quality and effectiveness of CBD's (the bank and its subsidiaries) internal control, risk management, governance systems and processes, thereby helping the Board and Senior Management protect the organization and its reputation.

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

The Internal Audit Department provides an independent function to examine and evaluate operations in CBD. The Internal Audit Department assists all levels of management in the achievement of the Bank's goals and objectives by striving to provide a positive impact on the efficiency and effectiveness of management functions.

The relationship between a bank's business units, the support and control functions and the Internal Audit function comprises of the three lines of defense model. The Internal Audit Department is the third line of defense that independently assesses the effectiveness of the key processes created in the first and second lines of defense, and provides assurance on these processes.

The Internal Audit Department seeks to assist management by independently evaluating the:

- Effectiveness and efficiency of internal control, risk management and compliance systems;
- Reliability and integrity of management information systems and processes;
- Safeguards in place over assets; and
- Compliance with laws, regulations, Shari'ah Supervisory Board Fatwas & Guidelines, and standards, and the instructions of the Central Bank of the UAE.

The Internal Audit Department accomplishes its mission by carrying out an annual audit plan that utilizes risk analysis and ensures that there are sufficient checks and balances throughout the Bank.

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Standards for the Professional Practice of Internal Auditing

The Internal Audit Department will ensure adherence to the mandatory elements of The Institute of Internal Auditors’ (IIA) International Professional Practices Framework, including the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the International Standards for the Professional Practice of Internal Auditing, and the Definition of Internal Auditing. The Chief Audit Executive will report periodically to the Board Audit Committee regarding Internal Audit’s conformance with the Code of Ethics and the Standards.

The Internal Audit Department will also ensure it adheres to the Internal Controls, Compliance and Internal Audit Regulation and Standards (2018) of the Central Bank of the UAE.

The purpose of the Institute’s *Code of Ethics* is to promote an ethical culture in the profession of internal auditing. A code of ethics is necessary and appropriate for the profession of internal auditing, founded as it is on the trust placed in its objective assurance over risk management, control, and governance. Core principles of the Code of Ethics:

INTEGRITY The integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgment.	COMPETENCY Internal auditors apply the knowledge, skills, and experience needed in the performance of internal auditing services.
OBJECTIVITY Internal auditors exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors make a balanced, unbiased assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgments.	CONFIDENTIALITY Internal auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.

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Independence and Objectivity

The Chief Audit Executive 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 Audit Executive determines that independence or objectivity may be impaired, the details of impairment will be disclosed to appropriate parties. The nature of the disclosure will depend upon the impairment.

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 CBD or its affiliates.
- Initiating or approving transactions external to the Internal Audit Department.
- Directing the activities of any CBD 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.

The Internal Audit function must not be involved in designing, selecting, implementing or operating specific internal control procedures. Therefore, the Internal Audit Department is not expected to have roles and/or responsibilities that fall outside of internal auditing. The Chief Audit Executive will confirm to the Board Audit Committee, at least annually, the organizational independence of the Internal Audit Department.

The Chief Audit Executive 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. A scope limitation, along with its potential effect, needs to be communicated, in writing, to the Board Audit Committee.

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Scope of Internal Audit Activities

- a. The scope of Internal Audit activities encompasses, but is not limited to, objective examinations of evidence for the purpose of providing independent assurance to the Board Audit Committee and CBD Senior Management on the quality and effectiveness of CBD's corporate governance, risk management, compliance, internal controls, and the systems and processes created by the business units and support and control functions. Internal audit assessments include evaluating whether:
- Risks relating to the achievement of CBD's strategic objectives are appropriately identified and managed.
 - Sufficient checks and balances are in place to ensure a smooth, efficient organization where risks are reported and responded to in a timely and efficient way.
 - Internal control, risk management and compliance systems are effective and efficient.
 - The actions of CBD's officers, directors, employees, and contractors are in compliance with CBD's policies, procedures, and applicable laws, regulations, and governance standards.
 - The standard of corporate conduct in areas such as arm's length dealing and potential conflicts of interest are appropriate.
 - Significant legislative or matters of regulatory interest impacting the Bank are recognized and addressed appropriately.
 - Interaction with the various regulatory, governance and compliance officers occurs as needed.
 - The results of operations or programs are consistent with established goals and objectives.
 - Operations or programs, including outsourced activities, are being carried out effectively and efficiently.
 - Established processes and systems enable compliance with policies, procedures, laws, regulations, standards and instructions of the Central Bank of UAE and other regulatory bodies.
 - Information and the means used to identify, measure, analyze, classify, and report such information are reliable and have integrity.
 - Resources and assets are acquired economically, used efficiently, and protected adequately.
 - In relation to the Bank's exposure to fraud risks, a Fraud Risk assessment is part of the overall risk assessment of the processes. However, there are inherent limitations in any internal control system and accordingly errors or fraud may occur and may not be detected by the Internal Audit Department. Internal Audit's assurance work, in general, is not designed specifically to investigate fraud and other irregularities.
 - In relation to Internal Audit's coverage of Shari'ah related matters, the scope of work includes assurance work in relation to products, processes and operations. This is primarily achieved by auditing specific areas included in the audit universe i.e. delivery

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channels – branches/online, general operations, credit underwriting, Islamic banking, accounting and operations; and

- Opportunities for improving management control, profitability and the Bank's image may be identified during audits. These will be communicated to the appropriate level of management.

In special circumstances, the Internal Audit Department can obtain external assistance should the requisite knowledge, skills, or competencies not be available within the team or due to resource constraints. Approval of any such assistance will be required from the Board Audit Committee.

- b. The Chief Audit Executive will report periodically to the Board Audit Committee regarding:
- The Internal Audit Department's 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. The Board Audit Committee promotes the independence of the Internal Audit Department by ensuring that internal audit reports are provided to the Board Audit Committee without management filtering and the Chief Audit Executive has direct access to the Board Audit Committee.
 - Shari'ah issues, which are also to be reported to the Shari'ah Supervisory Board for resolution proposals. This should include any material issues raised by Dar al Shari'ah.
 - An annual summary of internal control systems and operating environment, based on the audit activities performed during the year.
 - Resource requirements.
 - Any response to risk by management that may be unacceptable to CBD.

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

- c. Nature of Consulting /Advisory Work: Internal Audit can be engaged in a number of reviews that form part of the advisory/consulting work. The nature and scope of which will be agreed in advance, provided the Internal Audit Department does not assume management responsibility. This may include, but not limited to the following:
- Policies and Procedures Review:
From a governance, risk and compliance perspective, Internal Audit can provide feedback on the products, policies and procedures. These reviews will include the following scenarios - new projects and changes in existing products, policies and procedures.
 - Risk and Control Self-Assessment:

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Risk and Control Self-Assessment (RCSA) provides a framework for business units to review, assess and design optimal control frameworks to manage their risks and achieve business and quality objectives. Internal Audit can facilitate the exchange of leading practices and assist business units to develop and implement cost-effective control and risk management systems.

- **Internal Control Education:**

Internal control management and literacy is important for all the business functions across the bank. Internal Audit can conduct training and education sessions for business units to develop and embed enhanced internal control components.

- **Business Process Improvement:**

Business Process Reengineering involves the radical redesign of core business processes to achieve dramatic improvements in productivity, cycle times and quality. Internal Audit can advise on the risk landscape and overall control framework of the processes.

- **Special Assignments:**

On the instruction of the Board Audit Committee, Internal Audit may conduct a special assignment for reviewing an internal control failure driven by specific internal or external factors. Such assignment scope, approach and report method will be agreed-upon in advance.

Authority

The Chief Audit Executive will report functionally to the Board Audit Committee and administratively (i.e. day-to-day operations) to the Chief Executive Officer.

To establish, maintain, and assure that CBD'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 Audit Executive on the Internal Audit Department's performance relative to its plan and other matters.
- Approve decisions regarding the appointment and removal of the Chief Audit Executive.
- Approve the remuneration of the Chief Audit Executive.
- Approve the annual performance rating of the Chief Audit Executive. Performance measures and remuneration/incentives are based on the Internal Audit Department's objectives rather than the performance of the Bank.
- Make appropriate enquiries of management and the Chief Audit Executive to determine whether there are inappropriate scope or resource limitations.

The Chief Audit Executive will have unrestricted access to, and communicate and interact directly with, the Board Audit Committee, including in private meetings without management present.

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The Board Audit Committee authorizes 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 the scope of work, apply techniques required to accomplish audit objectives, and issue reports.
- Obtain assistance from the necessary personnel of CBD, as well as other specialized services from within or outside CBD, in order to complete the engagement. Responsibility of any outsourced internal audit activities should remain with CBD Internal Audit department.

In specific circumstances, the Internal Audit Department may be requested to communicate internal audit reports to stakeholders and third parties outside CBD. Such circumstances are limited to:

- External Auditors, as part of performing the external audit services for CBD;
- The Financial Audit Authority, upon request for submission; and
- Central Bank of the U.A.E, upon request for submission.

Responsibility

The Internal Audit Department is accountable to the Board Audit Committee on all matters related to the performance of its mandate as described in the Internal Audit Charter.

The Chief Audit Executive has the responsibility to:

- Submit, at least annually, to the Board Audit Committee a risk-based internal audit plan for review and approval.
- Communicate to 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 CBD's business, risks, operations, programs, systems, and controls.
- Communicate to the Board Audit Committee for approval any significant interim changes to the internal audit plan.
- Ensure each engagement on the internal audit plan is executed. This includes 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 results with applicable conclusions and recommendations to appropriate parties.
- Follow up on engagement findings and corrective actions, and report periodically to senior management and the Board Audit Committee any corrective actions not effectively implemented. Validation of internal audit issues raised by outsourced providers should be performed by CBD Internal Audit, including Shari'ah-related findings.

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- 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.
- Ensure trends and emerging issues, which could impact CBD, are considered and communicated to senior 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 CBD'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 senior management and the Board Audit Committee.

Senior Management has the responsibility to:

- Respect and promote the independence of the Internal Audit function by ensuring that the internal audit reports are provided to the Board and the Board Audit Committee without management filtering, and that the Internal Audit function has direct access to the Board or Board Audit Committee.
- Inform the Internal Audit Department on a timely basis of any changes to the Bank's risk governance framework, including risk management strategy, policies and processes.
- Ensure that timely and appropriate actions be taken on all Internal Audit findings and recommendations.

Quality Assurance and Improvement Program

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 Standards and an evaluation of whether internal auditors apply The IIA's Code of Ethics. The program will also assess the efficiency and effectiveness of the Internal Audit Department and identify opportunities for improvement.

The Chief Audit Executive will communicate annually to the Board Audit Committee on the Internal Audit Department's quality assurance and improvement program, including results of internal assessments (both ongoing and periodic) and external assessments conducted at least once every five years by a qualified, independent assessor or assessment team from outside of CBD.

The Internal Audit Charter is reviewed on an annual basis and proposed changes are approved by the Board Audit Committee.

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Approval/Signatures

Chief Audit Executive

Date

Chair - Board Audit Committee

Date

Version History	Reviewed By	Approved By
17 December 2018	Chief Audit Executive	Chair of Board Audit and Compliance Committee
14 October 2019	Chief Audit Executive	Chair of Board Audit and Compliance Committee (16 December 2019)
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7 February 2022	Chief Audit Executive	Audit Committee 1 March 2022