



5 July 2021

## Internal Audit Charter

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This Charter describes the role of the Internal Audit function.  
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### **Mission**

The mission of Internal Audit (IA) is to help ensure that the Bank's operations are conducted according to best practices and the highest standards by providing an independent, objective assurance and advisory function. As the Bank's third line of defence, IA primarily provides assurance on the adequacy and effectiveness of the activities performed by the first and second lines of defence. IA helps the Bank accomplish its objectives by evaluating and improving the effectiveness of risk management, control, and governance systems and processes, and by acting as a strategic adviser to promote continuous improvement. IA aims to promote effective, efficient and agile risk management practices.

### **Independence and objectivity**

To ensure independence, the Head of Internal Audit reports functionally to the Chair of the Audit Committee of the Board and administratively to the General Manager. The Head of Internal Audit sets the objectives of internal auditors and appraises their performance annually in line with the Bank's policies.

To maintain objectivity, IA does not have operational responsibility for or authority over any of the activities audited. Each business unit is responsible for its own operations, including internal controls.

### **Scope and responsibilities**

Every activity and every entity of the Bank, including outsourced activities, fall within the overall scope of IA.

To fulfil its responsibilities, IA:

- identifies and assesses potential risks to the Bank's operations;
- reviews the adequacy of controls established to ensure compliance with policies and procedures, and consistency with the Bank's risk strategy;
- assesses the reliability and integrity of financial and operational information;
- assesses the means of safeguarding assets;
- appraises the effectiveness and efficiency of operations;
- follows up on recommendations to make sure that effective remedial action is being taken;
- carries out non-routine assurance engagements. These comprise project audits, special requests and special investigations. Project audits are intended to provide recommendations at an early stage of a project. Special requests and special investigations are unplanned audit engagements performed at the request of Management or the Audit Committee;



- carries out formal consulting engagements. These are part of the Annual Audit Plan, agreed with Management and intended to improve the Bank's governance, risk management and internal controls; and
- coordinates with external audit and other control functions at the Bank to ensure proper coverage and avoid duplication of effort.

When necessary, IA may outsource or co-source some of its audit engagements to external experts. In such cases, the responsibility for those engagements remains with IA.

IA may, at the request of the General Manager or Deputy General Manager, provide assurance to parties outside the organisation (eg with respect to the verification of assets held by the BIS on behalf of such parties).

### **Authority**

IA is authorised in performing their duties:

- to have access to all of the Bank's information, physical properties and personnel; and
- to attend as an observer any internal meeting at the Bank.

### **Accountability**

IA contributes its perspective in the periodic process of formulation of the Bank's risk strategy.

IA prepares an Annual Audit Plan. The plan is based on a risk analysis and on input from Management, line managers and informed by the Bank-wide risk strategy. In addition, all areas of the Bank are subject to an audit with a frequency determined by the risk rating of the area (audit cycle).

The Annual Audit Plan provides information about the planned audit work. The draft plan, including the audit cycle for the coming year, is presented to the General Manager and the Deputy General Manager for comment, and to the Audit Committee for approval. If needed, adjustments can be made to the plan during the year. Significant changes are communicated to Management for comment and to the Audit Committee for approval.

IA is responsible for planning, conducting, reporting and following up on audit engagements included in the Annual Audit Plan, and decides on the objectives, scope and timing of audits.

Audit fieldwork is conducted in a professional and timely manner. Communication of results includes an open process to agree on the facts and the validity of audit observations. In all cases, follow-up work is undertaken to ensure an adequate response to audit observations. IA communicates the results of the follow-up exercises to Management and the Audit Committee.

IA submits an annual report to the General Manager and the Deputy General Manager for comment and to the Audit Committee for approval.

Engagements must be performed with proficiency and due professional care.

IA maintains a quality assurance and improvement programme that covers both internal and external assessments. The internal assessments include ongoing monitoring of the quality of internal audit work. External, independent assessments are conducted once every five years.

### **Standards**

IA adheres to the standards of leading professional practice, such as those published by the Institute of Internal Auditors (IIA) and the Information Systems Audit and Control Association (ISACA) as well as the relevant reports and recommendations of the Basel Committee on Banking Supervision. The definition of internal auditing, the Code of Ethics and the International Standards as set forth by the IIA are recognised to be of a mandatory nature.



## Implementation

This revision of the Charter was approved by the Audit Committee on 5 July 2021. The Head of Internal Audit, in consultation with the Audit Committee Chair, is hereby authorised to issue more detailed policies, procedures and guidance consistent with the provisions of this Charter, after legal review to ensure consistency with BIS internal rules.