

Group Audit – Charter

2023

a. Purpose

The primary role of Group Audit is to help the Board and Executive Management to protect the assets, reputation and sustainability of Bank ABC (B.S.C.). Group Audit provides independent and objective assurance as to whether the design and operational effectiveness of the Group's framework of risk management, control and governance processes, as represented by management, is adequate.

The Group has adopted a risk management and internal control structure, referred to as the "Three Lines Model", to ensure it achieves its commercial aims, while meeting regulatory and legal requirements, and its responsibilities to shareholders, customers and staff. Group Audit's role as the third line is independent of the first and second lines. In cases where Group Audit performs similar testing or monitoring activities to those undertaken by the first or second lines, these are undertaken as part of Group Audit's independent assurance role and are not to be relied upon by management as a substitute for, or supplement to, first or second line activities.

b. Authority

Group Audit derives its authority from the Group's Audit Committee, sub-committee of the Board of Directors of Bank ABC (B.S.C.), to which it has open access. Group Audit has, for the purpose of its work, unrestricted access at any time to all the records, personnel, property and operations of the Group including all subsidiaries. The Audit Committee oversees the independence of Group Audit and is responsible for evaluating its performance on a regular basis and more generally reviewing the effectiveness of the function. The Committee also approves the appointment or removal of the Group Chief Auditor, subject to applicable regulatory approvals.

The Group Chief Auditor reports functionally to the Chairman of the Group Audit Committee and reports administratively to the Group Chief Executive Officer. The Group Chief Auditor will also provide reports to the Group Management Committee in relation to the work of that function and the disposition of its findings. Audit-related matters are not subject to approval by the Group Management Committee or any other Executive Governance body.

The Group Chief Auditor has access to the Group Chief Executive Officer and the Chairman of the Audit Committee whenever it is required and reports directly to the Group Audit Committee on the state of risk management and internal control throughout the Group. Group Audit representatives will attend all Audit Committee meetings across the Group, including executive sessions. The Group Chief Auditor will confirm to the Group Audit Committee, at least annually, the organisational independence of the Audit Function.

The remuneration of the Group Chief Auditor is proposed by the Group Audit Committee and submitted for approval to the Board of Directors. The Group Chief Auditor is per CBB

regulation an Approved Person (a role that requires his appointment to be approved by the CBB) and has special conditions attached to any variable pay/bonus payments.

c. Independence & Objectivity

The independence of Group Audit from day-to-day line management responsibility is fundamental to its ability to deliver objective coverage of all parts of the Group. Group Audit must have an impartial, unbiased attitude and avoid any conflict of interest.

Group Audit will remain free from interference by any element in the organisation, including matters of audit selection, scope, procedures, frequency, timing, or report content to permit maintenance of a necessary independent and objective mental attitude.

All Group Audit teams report to the Group Chief Auditor either directly, via the responsible Audit Relationship Manager or via the Head of Audit of a particular unit and also to their respective Audit Committee. Group Audit teams also have an administrative reporting line to the local Chief Executive Officer or General Manager as the case may be.

Group Audit is not responsible for the management of risk or the implementation of an effective control framework to mitigate risk to levels deemed to be acceptable to the Group. These areas are the responsibility of the Board and management. Consequently, Group Audit personnel have no line responsibilities.

d. Accountabilities and Scope of Work

The Group Chief Auditor, is accountable for:

- Proposing Group Audit's risk-based Audit Plan and programme of work, which is approved by the Audit Committee annually, covering key risks, emerging risks, and regulatory obligations, in line with the Group's risk management and internal control frameworks;
- Implementing the approved Audit Plan, including any regulatory or other special tasks or projects requested by regulators and local Audit Committees;
- Recruiting, developing and retaining personnel with appropriate skills, knowledge, experience and professional certifications to provide a credible challenge to the business and to meet the requirements of this Charter. In addition, where specific expertise is required, Group Audit may utilize co-source to support the audit worked planned, with prior approval from the Audit Committee;
- Issuing periodic reports to the Audit Committee which highlight key themes that have emerged through audit activity, business and regulatory developments and provide Group Audit's view of emerging risks together with details of respective audit coverage undertaken or planned. The Group Chief Auditor will also update the Committee on key

- audit initiatives and provide regular updates on the progress of completion of the audit plan, including any changes;
- o Monitoring industry developments and market conditions to be alert for new and emerging risks and maintain flexibility in the audit plan to refocus on these accordingly, and;
- o Providing oversight and control over the Group Audit function.

The scope of the Audit Plan and the subsequent completion of the programme of work should provide reasonable assurance to management and the Board as to whether the design and operation of the Group's framework of risk management, control and governance processes, as represented by management, is adequate.

Audit coverage is achieved using a combination of business and functional audits, process and control audits, risk management framework audits, themed audits, branch audits and country audits. In addition, Group Audit may carry out regulatory audits, investigations special reviews, and advisory work.

Results of audit work together with an assessment of the overall risk management and control framework are reported to the Group Audit Committee as appropriate, as well as to such local Audit Committees that oversee the areas reviewed. Group Audit reviews management action plans in relation to audit findings and verifies the adequacy and effectiveness of the mitigating controls before formally closing the issue.

Group Audit units must maintain an open and constructive working relationship with their group and local external auditors and home and host regulators. External auditors should be kept informed of Group Audit activities and results, and be allowed free access to all internal audit reports and supporting records.

Group Audit provides independent assurance to management on the effectiveness of the processes in place to manage fraud risk.

e. Standards of Audit Practice

Internal auditors must exhibit the highest level of professional objectivity in gathering, evaluating and communicating information about the activity or process being examined. In performing their duties, internal auditors must at all times exercise due professional care. Internally recruited internal auditors must not engage in auditing activities for which they previously carried responsibility for at least one year. Internal auditors who have relatives employed in the bank must not engage in audit activities for the areas these relatives work in. Potential conflicts are subject to the Group HR's policies and procedures.

Group Audit adheres to The Institute of Internal Auditors' (IIA) mandatory Standards including the Definition of Internal Auditing, the Code of Ethics and the International Standards for the Professional Practice of Internal Auditing (Standards). In addition, Group Audit complies with Practice Advisories, Practice Guides and recommendations issued by the IIA to the extent that these apply.

Policies and procedures are set out in the Group Audit Manual (GAM). Internal processes are designed and implemented to ensure consistent quality of Group Audit work across the Group.

Group Audit maintains a quality assurance and improvement program that covers all aspects of the internal audit function. The Group Chief Auditor will communicate to Group Management Committee and the Group Audit Committee on the internal audit activity's quality assurance and improvement program, including results of ongoing internal assessments and external assessments conducted at least every five years in line with IIA standards.

This Charter has been approved by the Board of Directors as recommended by the Group Audit Committee of Bank ABC (B.S.C.). It will be reviewed annually by the Group Chief Auditor and any changes will be formally recommended by the Audit Committee for the Board of Directors approval.



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Licensed as a conventional wholesale bank by the Central Bank of Bahrain