

## Internal Audit Charter

### INTRODUCTION

Internal Auditing is an independent and objective assurance and consulting Department that is guided by a philosophy of adding value to improve the operations of the Bank of Sharjah and its Subsidiaries ("the Group"). It assists the Group in accomplishing its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of the organisation's governance, risk management and internal controls.

### ROLE

The Internal Audit Department is established by the Board of Directors and the Audit and Compliance Committee. The Internal Audit Department's responsibilities are defined by the Board as part of their oversight role.

### PURPOSE OF THE INTERNAL AUDIT DEPARTMENT

The purpose of the Internal Audit and Compliance Committee (the 'Committee') of the Board of Directors (the 'Board') shall be to oversee the accounting and financial reporting processes, operations of the Group, the audits of the consolidated financial statements of the Group, and the independence, qualifications and performance of the Internal Audit department and the External Auditor. The Committee has an oversight role and in fulfilling that role it relies on the reviews and reports noted below.

This Audit Charter (the 'charter') sets forth the authority and responsibilities of the Committee in fulfilling the purposes described herein. In fulfilling its responsibilities, it is recognised that members of the Committee are not full-time employees of the Group and do not represent themselves to be, professional accountants or auditors. The functions of the Committee are not intended to duplicate or substitute for the activities of management and the external auditor, and the Committee members cannot provide any expert or special assurance as to the Group's consolidated financial statements, internal controls or management of risk or any professional certifications as to the work of the external auditor.

While the Committee has the responsibilities and powers set forth in this charter, it is not the duty of the Committee to plan or conduct audits or to determine that the Group's consolidated financial statements are complete, accurate and in accordance with generally accepted accounting principles. Each member of the Committee shall be entitled to rely on the:

- integrity of those persons and organisations within and outside of the Group from which it receives information;
- accuracy of the financial and other information provided to the Committee by such persons or organisations absent actual knowledge to the contrary (which shall be promptly reported to the Board);
- representations made by management as to any audit and non-audit services provided by the external auditor.

While this Charter should be interpreted in the context of all applicable laws, regulations and listing requirements, as well as in the context of the Group's Article of Association and bylaws, it is not intended to establish by its own force any legally binding obligations.

### MEMBERSHIP

The Committee will consist of three members of the Board. Each member of the Committee will:

- not have participated in the preparation of the consolidated financial statements of the Group;
- have the ability to read and understand fundamental consolidated financial statements;
- be free from any relationship that, in the opinion of the Board, would interfere with the exercise of independent judgment as a Committee member;
- have sufficient accounting or financial experience and ability to enable them to discharge their responsibilities; and
- be appointed by, and will serve at the discretion of, the Board. The Board may appoint a member of the Committee to serve as the chairperson of the Committee (the 'Chair'), who must be an Independent Director. If the Board does not appoint a Chair, the Committee members may designate a Chair by their majority vote. The Chair will set the agenda for Committee meetings and conduct the proceedings of those meetings.

### PROFESSIONALISM

The Internal Audit department will govern itself by adherence to The Institute of Internal Auditors' mandatory guidance including the Definition of Internal Auditing, the Code of Ethics, and the International Standards for the Professional Practice of Internal Auditing (Standards). 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 Department's performance.

The Institute of Internal Auditors' Practice Advisories, Practice Guides, and Position Papers will also be adhered to as applicable to guide operations. In addition, the Internal Audit Department will adhere to the Group relevant policies and procedures and the Internal Audit Department's Manual.

## **AUTHORITY**

The Internal Audit Department, with strict accountability for confidentiality and safeguarding records and information, is authorised full, free, and unrestricted access to any and all of the Group records, physical properties, and personnel pertinent to carrying out any engagement. All employees are requested to assist the Internal Audit Department in fulfilling its roles and responsibilities. The Internal Audit Department will also have free and unrestricted access to the Board.

## **ORGANISATION**

The Group Head of Internal Audit will report functionally to the Board and administratively (i.e. day to day operations) to the General Manager.

The Board will:

- Approve the Internal Audit Charter.
- Approve the risk based Internal Audit Plan.
- Approve the internal audit budget and resource plan.
- Receive communications from the Group Head of Internal Audit on the Internal Audit. Department's performance relative to its plan and other matters.
- Approve decisions regarding the appointment and removal of the Group Head of Internal Audit.
- Approve the remuneration of the Group Head of Internal Audit.
- Make appropriate inquiries of management and the Group Head of Internal Audit to determine whether there is inappropriate scope or resource limitations.
- Agree on the conditions under which the Internal Audit department can provide consultancy and assurance services.
- Approve co-sourcing of Internal Audit Department activity where deemed necessary.
- Review the performance of the Internal Audit Department annually.

The Group Head of Internal Audit will communicate and interact directly with the Board, including in executive sessions and between Board meetings as appropriate.

## **INDEPENDENCE AND OBJECTIVITY**

The Internal Audit Department 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.

Internal Auditors will have no direct operational responsibility or authority over any of the activities audited. Accordingly, they will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other Department that may impair internal auditor's judgment.

Internal Auditors will exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the Department or process being examined. Internal Auditors will make a balanced assessment of all the relevant circumstances and not be unduly influenced by their own interests or by others in forming judgments.

The Group Head of Internal Audit will confirm to the Board, at least annually, the organisational independence of the Internal Audit Department.

## **RESPONSIBILITIES AND DUTIES**

The principal responsibilities and duties of the Committee in serving the purposes outlined in this charter are set forth below. These duties are set forth as a guide with the understanding that the Committee will carry them out in a manner that is appropriate given the Group's needs and circumstances. The Committee may supplement them as appropriate and may establish policies and procedures from time to time that it deems necessary or advisable in fulfilling its responsibilities.

Senior Management must inform the Internal Audit function of new developments, initiatives, projects, products and operational changes, and ensure that all associated risks, known and anticipated, are identified and communicated at an early stage.

If the Group Head of Internal Audit is expected to have roles and/or responsibilities that fall outside of internal auditing, the Board Audit and Compliance Committee will put in place safeguards to limit impairments to independence or objectivity,

## **REPORTING AND MONITORING**

- A written report will be prepared and issued by the Group Head of Internal Audit or designee following the conclusion of each Internal Audit engagement and will be distributed as appropriate. Internal audit results will also be communicated to the Board.

- The Internal Audit report may include management's response and corrective action taken or to be taken in regard to the specific findings and recommendations. Management's response, within the original audit report should include a timetable for anticipated completion of action to be taken and an explanation for any corrective action that will not be implemented.
- The Internal Audit Department will be responsible for appropriate follow-up on engagement findings and recommendations. All significant findings will remain in an open issues file until cleared.

## **External Auditors**

### *Appointment and Oversight of External Auditors*

The Committee will appoint the external auditor to examine the Group's accounts, controls and consolidated financial statements. The Committee has sole responsibility for the appointment, compensation, retention and oversight of the work of any registered public accounting firm engaged (including resolution of disagreements between the Group's management and the firm regarding financial reporting) for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the Group, and the external auditor and each such registered public accounting firm will report directly to the Committee.

### *Auditor Independence and Qualifications*

The Committee is responsible for assessing the external auditor's qualifications, performance and independence annually. In connection with this assessment, the Committee will make sure it reviews, on an annual basis, all relationships between the external auditor and the Group.

Obtain and review an annual report from the external auditors describing (i) the external auditors' internal quality control procedures and (ii) any material issues raised by any recent internal quality control review of the external auditors, and steps taken to deal with any such issues.

### *Approval of Audit and Non-Audit Services*

The Committee will review the external auditor's audit planning, scope and staffing.

The Committee will pre-approve all audit and non-audit related services provided to the Group by the external auditor.

### *Interaction with External Auditor*

The Committee will obtain, at least annually, required reports from the External Auditor, including:

- Any material issues raised by the most recent internal quality-control review, or peer review, of the Group, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the Group; and
- Any steps taken to deal with any such issues. In addition, the Committee will review and, to the extent warranted, discuss with the external auditor such reports and any other matters required to be reviewed under applicable legal or regulatory requirements.

The Committee will periodically consult with the external auditor out of the presence of the Group's management about the Group's internal controls, the fullness and accuracy of the Group's consolidated financial statements, any audit problems or difficulties and management's response, and any other matters that the Committee or external auditor believes should be discussed privately with the Committee.

The Committee will review and concur with the Group's hiring of employees of the External Auditor who were engaged on the Group's account or otherwise, as required by applicable legal or regulatory requirements.

### *Consolidated Financial Statements and Disclosures*

The Committee will meet to review and discuss with the external auditor and the Group's management the Group's quarterly consolidated financial statements and annual audited consolidated financial statements, including the Group's specific disclosures under "Management's Discussion and Analysis Report", and recommend these to the Board of Directors for approval.

The Committee will be responsible for recommending to the Board whether the annual audited consolidated financial statements should be included in the Group's annual report.

The Committee will discuss with the external auditors and the Group's management any items appropriate or required to be discussed in accordance with applicable accounting standards in connection with the preparation of consolidated financial statements of the Group.

#### *Earnings Announcements and Other Financial Information*

The Committee will discuss generally with the Group's management and the external auditor, as appropriate, the type of information to be disclosed and type of presentation to be made regarding the Group's earnings press releases and other financial information released to analysts and rating agencies, and recommend these to the Board of Directors for approval.

#### *On-going Reviews*

In connection with the foregoing, the Committee will review the Group's financial reporting and accounting standards and principles, significant changes in such standards or principles or in their application and the key accounting decisions affecting the Group's consolidated financial statements.

#### **Internal Audit Department**

##### *Review of Processes, Systems, Controls and Procedures.*

The Committee will review and discuss with the External Auditor and the Group's management their periodic reviews of the organisation's accounting and financial reporting processes, systems of internal control (including any significant deficiencies and material weaknesses identified in their design or operation), and disclosure controls and procedures (and management's reports thereon).

##### *Whistleblower Procedures*

The Committee is responsible for establishing and overseeing procedures for the receipt, retention and treatment of complaints received by the regarding accounting, internal accounting controls or auditing matters, and for the confidential anonymous submission by employees of the Group of concerns regarding questionable accounting or auditing matters.

##### *Related Party Transactions*

The Committee will review and approve, in accordance with the Group's Related Party Transactions Policy, any proposed transaction between the Group and any related party, as defined by applicable law.

##### *Ethics Waivers*

The Committee will consider requested waivers of the Code of Business Conduct and Ethics involving a member of the Governance Committee and retain authority to grant any such waivers.

#### **INTERNAL AUDIT PLAN**

At least annually, the Group Head of Internal Audit will submit to Senior Management and the Board an Internal Audit Plan for review and approval. The Internal Audit Plan will consist of a work schedule as well as budget and resource requirements for the next fiscal/calendar year. The Group Head of Internal Audit will communicate the impact of resource limitations and significant interim changes to senior management and the Board.

The Internal Audit Plan will be developed based on a prioritisation of the audit universe using a risk-based methodology, including input of Senior Management and the Board. The Group Head of Internal Audit will review and adjust the plan, as necessary, in response to changes in the organisation's business, risks, operations, programs, systems, and controls. Any significant deviation from the approved Internal Audit Plan will be communicated to Senior Management and the Audit and Compliance Committee through periodic Department reports.

Internal Audit reviews will among other things include evaluations of the:

- a. Effectiveness and efficiency of internal control, risk management, and compliance systems;
- b. Reliability and integrity of management information system processes;
- c. Compliance with laws, regulations, standards and instructions of the Central Bank; and
- d. Safeguarding of assets.

#### **STUDIES AND ADVISERS**

The Committee, in discharging its responsibilities, may conduct, direct, supervise or authorise studies of, or investigations into, any matter that the Committee deems appropriate, with full and unrestricted access to all books, records, documents, facilities and personnel of the Group. The Committee has the sole authority and right, at the expense of the Group, to retain legal and other consultants, accountants, experts and advisers of its choice to assist the Committee in connection with its functions, including any studies or investigations. The Committee will have the sole authority to approve the fees and other retention terms of such advisers. The Group will provide for appropriate funding, as determined by the Committee, for:

- Payment of compensation to any legal and other consultants, accountants, experts and advisers retained by the Committee; and
- Ordinary administrative expenses of the Committee those are necessary and appropriate in carrying out its functions.

#### **MEETINGS**

Meetings of the Committee shall be held at least four times in a year or more frequently, as determined appropriate by the Committee. The Chair, in consultation with the other members of the Committee, will set the dates, times and places of such meetings. The Chair or any other member of the Committee may call meetings of the Committee by notice. The Committee will report to the Board from time to time with respect to the activities of the Committee. A quorum of the Committee for the transaction of business will be a majority of its members. Meetings may be held via tele- or video-conference. The Committee may also act by unanimous written consent in lieu of a meeting. Subject to the requirements of this Charter, and applicable law, the Committee and the Chair may invite any director, executive or employee of the Group, or such other person, as it deems appropriate in order to carry out its responsibilities, to attend and participate (in a non-voting capacity) in all or a portion of any Committee meeting. The Committee may exclude from all or a portion of its meetings any person it deems appropriate in order to carry out its responsibilities. The Chair will designate a Secretary for each meeting, who need not be a member of the Committee.

The Group Head of Internal Audit will periodically report to Senior Management and the Board on the group's Internal Audit Department's purpose, authority, and responsibility, as well as performance relative to its plan. Reporting will also include significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by Senior Management and the Board.

#### **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 Definition of Internal Auditing and the Standards and an evaluation of whether Internal Auditors apply the Code of Ethics. The program also assesses the efficiency and effectiveness of the Internal Audit Department and identifies opportunities for improvement.

The Group Head of Internal Audit will communicate to Senior Management and the Board on the Internal Audit Department's quality assurance and improvement program, including results of ongoing internal assessments and external assessments conducted at least every five years.

#### **MINUTES**

The Committee will maintain written minutes of its meetings and these will be signed by the Chairman and Secretary of the Committee. Copies of the minutes will be forwarded to the Corporate Secretary of the Group for inclusion in the appropriate Board agenda.

#### **REVIEW OF COMMITTEE COMPOSITION, PERFORMANCE AND CHARTER**

The Committee will evaluate the Committee's composition and performance on an annual basis. The Committee will review and reassess the adequacy of this Charter at least every 3 years, and recommend to the Board any changes the Committee determines are appropriate. The Charter will be available both internally and publicly.