

# HBL UK - INTERNAL AUDIT CHARTER

## Introduction

The Board of Directors (Board) of Habib Bank UK (Bank) has ultimate responsibility for monitoring and overseeing senior management 's establishment and maintenance of an adequate, effective and efficient governance, risk management and internal control framework. The Board has established an Audit and Compliance Committee (ACC), comprising of members of the Board, to assist it in effectively discharging these responsibilities. The Board has further established an Internal Audit (IA) function as a key component of the corporate governance framework.

This Charter defines the purpose, mission, authority, independence, scope and responsibility of the Bank's IA function.

## Purpose of Bank's Internal Audit (IA)

IA is the third line of defence within Bank's risk management framework. IA supports the Board in executing its duty to safeguard the Bank by protecting and strengthening its assets, reputation and sustainability. Through its functional reporting line to the Chairman of the ACC, IA fulfils its oversight and assurance objectives through:

- assessing whether significant risks have been identified and reported appropriately to the Board and Senior Management;
- providing a view of the design and operation of key controls to determine whether they are effective in mitigating risk within the Bank's agreed appetite;
- challenging management to improve the effectiveness of governance, risk management and internal control;
- coordinating with other assurance providers to optimise assurance coverage and outputs;
- conducting and supporting on specific investigations where required and appropriate; and
- helping to ensure agreed business actions are implemented sustainably.

## Mission

IA's mission is to provide insightful and independent assurance that helps the Bank protect its assets, reputation and sustainability. As a result, the Bank will inspire confidence in our customers, regulators and stakeholders and ultimately make banking better for all its customers.

## Independence

IA is independent of Bank's operational activities which enables it to provide unbiased judgements and facilitate impartial advice to management. IA team members are independent, objective, and constructive when carrying out their work. They avoid conflicts of interest and personal, business or other issues that may impair impartiality. The Head of Internal Audit will confirm its organisational independence to the ACC at least annually. If the independence or objectivity is impaired, the Head of Internal Audit will disclose details to the ACC and Senior Management.

## Authority

IA receives its authority from the ACC which is responsible for the appointment of the Head of Internal Audit. IA has unrestricted access to all the Bank's businesses and functions, property, records, Board and Executive Management papers. This includes the right to attend key management decision making fora to help gain an understanding of the business and provide perspectives on risk and control.

The Head of Internal Audit's primary reporting line is to the Chair of the ACC with an administrative reporting line to Bank's Chief Executive Officer (CEO). The Head of Internal Audit also liaises with the Chief Internal Auditor of HBL (Parent Bank) for audit support, where required, with the approval of the ACC. Information sharing and other protocols with HBL Group Audit will be as mutually agreed and defined in the "HBL Internal Audit Framework for Subsidiaries" and approved by the Bank's Board.

## Standards for the Professional Practice of Internal Auditing

IA performs the work in accordance with the Chartered Institute of Internal Auditors' 'Guidance on Effective Internal Audit in the Financial Services Sector' (Revised in September 2017), and the Institute of Internal Auditors' Code of Ethics and International Standards for the Professional Practice of Internal Auditing –Revised in January 2017 (IIA Standards)' and the IIA's definition of Internal Auditing:

*INTERNATIONAL STANDARDS FOR THE PROFESSIONAL PRACTICE OF INTERNAL AUDITING (STANDARDS):* Internal Auditing is independent, objective assurance and consulting services designed to add value and improve an organization's operations. The internal audit activity helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management and control processes.

## Scope

The scope of IA's work extends to all Business Units and risks across the organisation. The activity undertaken by IA is determined by the business strategy as well as an independent view of the key risks facing the organisation and how those risks are being managed. IA will make a risk-based decision as to which areas within its scope will be included in the audit plan and will not necessarily cover all the potential scope areas every year. The scope of IA's work is unrestricted and includes assessing and providing opinion on, but is not limited to:

- Design and operating effectiveness of internal governance structures and processes, and risk management systems to assess the extent to which these are effective and efficient in assisting the Bank to achieve its objectives in accordance with the Three Lines of Defence model;
- Information presented to the Board and Executive Management for strategic and operational decision making;
- The setting of, and adherence to, risk appetite;
- The risk and control culture of the Bank including whether the processes, actions and 'tone at the top' are in line with the values, ethics, risk appetite and policies of the organisation;
- An evaluation as to whether the Bank is acting with integrity in its dealings with customers and whether the design and control of products, services and supporting processes deliver appropriate customer outcomes and experience;
- Capital, liquidity and other prudential regulatory risks; and
- Key corporate events including the information used to support key decisions (such as significant business process changes, divestments, acquisitions, major outsourcing and the introduction of new products);
- An evaluation of the design and operating effectiveness of the organisation's policies and processes and whether the outcomes are in line with the objectives, risk appetite and values of

the organisation. This will include assessing the reliability and integrity of information, and whether the risk management, control and governance structures are functioning as intended and with the aim that:

- ✓ business strategy, programmes, plans and objectives are achieved;
  - ✓ cultural and ethical standards are defined;
  - ✓ significant risks are appropriately identified, managed and reported to the board and executive management;
  - ✓ employees and contracted third parties comply with policies, standards and procedures;
  - ✓ financial, management and operating information is fair, balanced, reasonable and presented to relevant stakeholders on a timely basis;
  - ✓ responsibility for assessing the reliability and integrity of financial and operational information i.e. whether activities are properly, accurately and completely recorded.
  - ✓ assets are valued appropriately and protected from loss, theft or fraud; and
  - ✓ all regulatory and legislative requirements are recognised and complied with; and
- IA may consider placing some reliance on work completed by other internal and external assurance providers, to maximise coverage across the Bank. Before relying on the work of others, IA will undertake sufficient independent audit work to evaluate the effectiveness of the provider and to check the reliability and relevance of the assurance work to the audit topic or scope; and

In delivering this scope IA will:

- Recommend improvements in procedures and systems to prevent loss and increase efficiency and effectiveness;
- Advise on appropriate systems of internal control and other operational matters;
- Draw attention to any failure by management to take remedial action to address key issues identified; and
- Carry out ad hoc appraisals, inspections, investigations, examinations, consulting services<sup>3</sup> or reviews in related areas of fraud control, risk management, policy compliance, regulatory requirements, safety and security and any other areas of focus as approved by the ACC, CEO or Chairman of the Board.

## Responsibilities

IA responsibilities include:

- developing a risk-based Audit Plan for approval of the ACC;
- delivering the Audit Plan, reporting significant findings to Senior Management and the ACC;
- reviewing and adjusting the Audit Plan, as necessary, in response to changes in Bank's business, risks, operations, programmes, systems and controls; and communicating any changes to senior management and the ACC.
- providing opinions periodically on the overall effectiveness of the governance, risk and control framework and whether Banks's risk appetite is being adhered to;
- challenging management on emerging risks and highlighting themes and trends from Internal Audit work;
- maintaining an independent view of what IA should audit and when.

To deliver this, the Head of Internal Audit's responsibilities include:

- assessing the resources, skills and budget required to deliver the Audit Plan;
- recruiting and maintaining a team with the right skills, knowledge and experience to provide effective challenge throughout the Bank; and
- providing a quality assurance to evaluate the performance of Internal Audit following each Audit.

IA staff have no line responsibility or authority over any of the activities or operations they review and (except in circumstances approved by the ACC) are not authorised to:

- ✓ Perform any operational duties of the organisation except within IA.
- ✓ Develop or implement procedures or systems external to IA.
- ✓ Initiate or approve any transactions external to IA.
- ✓ Direct the activities of any employee not employed by IA.
- ✓ Engage on any other activity which could compromise their objectivity.

## REPORTING

IA has reporting obligations to the ACC, and that the HIA will meet with the Chair of the ACC in private to discuss the IA matters. Reporting covers:

- ✓ Periodic assessments, at least annually, of the adequacy and effectiveness of the governance, risk management and internal control framework of the organisation, including the reporting on remediation plans to address weaknesses, identified by IA.
- ✓ Significant control weaknesses and breakdowns together with root cause analysis;
- ✓ Thematic issues and trends identified across the Bank and their impact on the Bank's risk and control profile;
- ✓ Management control awareness (at all levels of management) and approach to addressing known issues;
- ✓ The IA Plan (ACC will review and approve the Plan and key changes) and delivery of IA strategy; and
- ✓ Regular information on the delivery of the plan and results.

## Regulators and External Auditors

- ✓ IA will maintain a close relationship and co-operate with the Bank's external auditors to optimise the effectiveness and productivity of audit work completed throughout the Bank. IA's role, responsibilities and scope however will remain independent of the Bank's external auditors.
- ✓ IA will have an open, constructive and co-operative relationship with regulators which supports sharing of information relevant to carrying out their respective responsibilities.

## Quality Assurance and Improvement Programme

IA maintains a quality assurance and improvement programme that covers all aspects of its activity. The Head of Internal Audit will communicate to the ACC the results of the programme, including findings from internal and external assessments, and any areas for development.

## Responsibilities of the ACC

These include:

- approving the risk-based internal Audit Plan;

- IA activities are reviewed and overseen by ACC
- approving the Internal Audit budget and is satisfied that Internal Audit has the appropriate resources;
- monitoring the performance and effectiveness of the Internal Audit function; and
- commissioning an independent external assessment of Internal Audit, in line with the Chartered Institute of Internal Auditors' Standards, at least once every five years.

### **Effective Date**

This Charter was approved by the Board of Directors on the recommendations of ACC and will be effective from **29th August 2018**

- ✓ This charter will be reviewed by the ACC annually recommending any changes to the Board for approval.
- ✓ supersedes previous charter in force.