



Internal Audit

Key Operating Procedures

Internal Audit Charter

The information contained herein is the property of HBL UK Bank and may not be copied, used or disclosed in whole or in part, stored in a retrieval system or transmitted in any form or by any means (electronic, mechanical, reprographic, recording or otherwise) outside of HBL UK Bank without prior written permission



| Internal Audit Key Operating Procedures | |
|--|--------------------------------|
| Approval sheet | |
| Policy owner: | Head of Internal Audit |
| Implementation Responsibility. | Head of Internal Audit |
| Custodian: | Internal Audit Department |
| Operating Jurisdiction: | HBL Bank UK/Branches |
| Review Frequency: | 2 years or earlier if required |
| Review Responsibility: | Board Audit Committee |
| Approval date: | 9 November 2021 |
| Effective Date: | 9 November 2021 |
| Next Review Date: | October 2023 |
| Proposed by: | |
| Paul Dempsey Head of Internal Audit | |
| Draft reviewed by: Board Audit Committee 19 th October 2021 Agenda Item 8a | |
| | |

| Action required agenda | |
|---|--|
| Policy versions uploaded to Policy Hub | |
| Policy circulated and or uploaded into individuals' libraries | |
| Policy Review date established / updated in Policy Hub | |

HBL UK - INTERNAL AUDIT CHARTER:

Introduction

The Board of Directors (Board) of Habib Bank UK Limited (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 a Board Audit Committee (BAC), 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 Internal Audit (IA)

The purpose of the Bank's IA Department is to provide independent, objective assurance and consulting services designed to add value and improve the Bank's operations

IA is the third line of defence within the 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 is to the Chairman of the BAC, 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

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

Independence and Objectivity

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 BAC at least annually. If the independence or objectivity is impaired, the Head of Internal Audit will disclose details to the BAC and Senior Management.

Authority

IA receives its authority from the BAC 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 reports functionally to the Chair of the BAC with an administrative reporting line to 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 BAC. 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.

To establish, maintain, and assure that the Bank's IA Department has sufficient authority to fulfill its duties, the BAC will:

- Approve the IA Department's charter;
- Approve the risk-based internal audit plan;
- Approve the IA Department's budget and resource plan;
- Receive communications from the head of internal audit on the IA Department's performance relative to its plan and other matters;
- Approve decisions regarding the appointment and removal of the head of internal audit; and
- Commission an independent external assessment of Internal Audit, in line with the Chartered Institute of Internal Auditors' Standards, at least once every five years

The Head of IA will have unrestricted access to, and communicate and interact directly with the BAC, including in private meetings without management present.

The BAC authorises the IA 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 scopes of work, apply techniques required to accomplish audit objectives, and issue reports.
- Obtain assistance from the necessary personnel of the Bank, as well as other specialised services from within or outside the Bank, in order to complete the engagement.

Standards for the Professional Practice of Internal Auditing

The IA Department governs itself by adherence to the mandatory elements of The Institute of Internal Auditors' 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:

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.

The Head of IA will report periodically to senior management and the BAC regarding the IA Department's conformance to the Code of Ethics and the *Standards*.

Scope

The scope of IA's work extends to all business, risk management and support 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;
- 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); and
- 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.
- 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.

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 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 BAC, CEO or Chairman of the Board.

Responsibilities

IA responsibilities include:

- submitting, at least annually, a risk-based internal audit plan to the BAC for review and approval;
- delivering the internal audit plan, reporting significant findings to Senior Management and the BAC;
- reviewing and adjusting the internal 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 BAC;
- providing opinions periodically on the overall effectiveness of the governance, risk and control framework and whether Bank's risk appetite is being adhered to;
- follow up on engagement findings and corrective actions, and report periodically to senior management and the BAC any corrective actions not implemented;
- 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 will have no line responsibility or authority over any of the activities or operations they review and (except in circumstances approved by the BAC) 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 BAC, and that the HIA will regularly meet with the Chair of the BAC 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 (BAC 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 Assessment and Improvement Programme (also refer section 4.2.4)

In order to ensure the ongoing quality of the work produced by the Internal Audit Department and in accordance with the IPPF and IIA standards, there should be an external review of the Department every five years. Where necessary this can include a benchmarking exercise against other Internal Audit Departments.

The Head of Internal Audit will communicate to the BAC the results of such reviews, including findings from other internal and external assessments, and any areas for development.

Effective Date

This Charter comprises part of these Key Operating Procedures and was reviewed by the BAC, and recommended to the Board for approval, and will be effective **9th November 2021**

- ✓ This charter will be reviewed and approved annually by the BAC