



MCB BANK LIMITED

GLOBAL INTERNAL AUDIT POLICY

**VERSION: 4.0
2021**

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TABLE OF CONTENTS

	Page
1. DOCUMENT CONTROL SHEET.....	2
2. OVERVIEW & PURPOSE	3
3. DEFINITION OF INTERNAL AUDITING	3
4. VISION OF AUDIT & RAR GROUP	3
5. MISSION OF AUDIT & RAR GROUP	4
6. OBJECTIVES OF AUDIT & RAR GROUP	4
7. ORGANIZATION	4
8. SCOPE & RESPONSIBILITIES.....	9
9. AUTHORITY	11
10. ACCOUNTABILITY	11
11. LIMITATIONS	12
12. SKILLS, TRAINING & ALTERNATE ARRANGEMENTS.....	13
13. STANDARDS OF PRACTICE	13
14. FREQUENCY OF TESTING	13
15. REPORTING MECHANISM.....	14
16. FRAUD INVESTIGATIONS.....	15
17. MANAGEMENT RESPONSIBILITIES.....	15
18. CONFIDENTIALITY AND REPORTING PROCEDURES	15
19. REVIEW	16
20. GLOSSARY	17

1. DOCUMENT CONTROL SHEET

Title of the Policy	Global Internal Audit Policy
Owner of the Policy	Audit & Risk Assets Review (RAR) Group
Applicability	MCB Pakistan & Overseas Operations
First Approval Date by Board of Directors	February 20, 2019
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Version of the Policy (Existing / New)	3.0 (Existing) / 4.0 (New)
Prepared By	Quality Assurance & Framework Development Department (QA&FDD), Audit & Risk Assets Review Group
Reviewed By	Chief Internal Auditor (CIA)
Recommended By	Board Audit Committee (BAC)
Approved By	Board of Directors (BoD)

2. OVERVIEW & PURPOSE

- 2.1 The Global Internal Audit Policy Version 4.0 of MCB Bank Limited supersedes the Global Internal Audit Policy Version 3.0 which was approved by the Board of Directors (BoD) of the Bank in their meeting held on August 19, 2020.
- 2.2 In line with State Bank of Pakistan (SBP's) instructions on 'Governance Framework for Banks' Overseas Operations', a universal approach for formulation / alignment of policies has been adopted whereby this Policy / Charter shall be applicable to entire Bank i.e. both domestic and overseas operations.
- 2.3 The Internal Audit Function (IAF), being the third line of defense, is one of the fundamental components of overall governance framework in the Bank that works on behalf of Bank's Board of Directors to provide it an independent assurance on the adequacy and effectiveness of Financial Institution's (FI) system of internal controls. IAF of the Bank is established in accordance with the requirements of the Listed Companies (Code of Corporate Governance) Regulations amended from time to time, which states that there shall be an internal audit function in every listed company. It is the responsibility of the Board of Directors of the Bank to maintain an independent internal audit function to primarily undertake the Internal Audit work throughout the Bank (covering its domestic as well as overseas operations including operations of its subsidiaries where there is no separate internal audit function). In MCB Bank, internal audit function is performed by Audit & Risk Assets Review (Audit & RAR) Group. This Charter for Audit & RAR Group, inter alia, defines the purpose, authority, organization, objective, roles & responsibilities of the Group as well as that of Management as envisaged by the Board in line with the requirements of State Bank of Pakistan (SBP's) Guidelines on Internal Audit Function.¹
- 2.4 In case of difference in the legal / regulatory requirements of Host and Home country (with respect to auditee), stringent of the two requirements will be followed. However, where there is a conflict in these requirements, matter will be referred to the concerned authority (ies) for advice.

3. DEFINITION OF INTERNAL AUDITING

- 3.1 Institute of Internal Auditor's International Professional Practices Framework (IPPF) defines internal auditing as follows:

"Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes".

4. VISION OF AUDIT & RAR GROUP

- 4.1 To be a trusted internal audit service provider that adds value to the overall governance, risk management and control environment of the Bank.

¹ SBP's BPRD Circular No. 2 of 2019 Dated April 03, 2019 "Guidelines on Internal Audit Function".

5. MISSION OF AUDIT & RAR GROUP ^[2]

- 5.1 The mission of Audit & RAR Group is to provide an independent, objective assurance and consulting / advisory services designed to add value and improve operations (both domestic and overseas) of MCB Bank Ltd. by adopting a systematic, disciplined approach to evaluate and further improve the quality, adequacy, effectiveness of risk management, control and governance processes.

6. OBJECTIVES OF AUDIT & RAR GROUP ^[3]

- 6.1 The prime objective of Audit & RAR Group is to examine and evaluate whether the framework for Risk Management, Control and Governance Processes of MCB Bank Ltd. is adequate and functioning in a manner to ensure that:
- a. Risks, including those pertaining to Money Laundering (ML) / Terrorist Financing (TF) / Proliferation Financing (PF), are appropriately identified and managed;
 - b. Financial, managerial and operating information is accurate, reliable and timely;
 - c. Policies, standards, procedures and applicable laws & regulations, including those related to Anti-Money Laundering (AML) / Combatting the Financing of Terrorism (CFT) & Countering Proliferation Financing (CPF), are complied with;;
 - d. Compliance with those policies, plans, procedures, laws & regulations, which could have a significant impact on operations & reporting, is ensured by Bank's systems;
 - e. Assets of MCB Bank Ltd. are adequately safeguarded; and
 - f. Quality and continuous improvement are fostered into control processes.
- 6.2 The objectives of Audit & RAR Group also include advising and recommending improvements in internal controls (including internal controls over financial reporting) and risk management systems to Bank's senior management.

7. ORGANIZATION

Independence & Line of Reporting

- 7.1 All employees within the Audit & RAR Group must maintain independence from the operational management and should not have direct authority over any of the operational activities of the Bank. Personnel in Audit & RAR Group (including those posted at overseas jurisdictions) shall report through the chain of command to the Chief Internal Auditor (CIA). However, the Head(s) of Internal Audit in overseas jurisdictions shall administratively report to the respective Country Head.⁴ The Chief Internal Auditor reports functionally to the Board Audit Committee (BAC) and administratively⁵ to the President / Chief Executive Officer (CEO).

² SBP's Guidelines on Compliance Risk Management issued vide circular no. BPRD Circular No. 7 of 2017, Dated August 09, 2017.

³ SBP's BSD Circular No. 03 of 2007 Dated April 04, 2007 "Policy Framework in Banks".

⁴ SBP's BPRD Circular No. 6 dated August 6, 2018 "Governance Framework for Bank Overseas' Operations".

⁵ Administrative reporting has been defined in SBP's Guidelines on Internal Audit Function as covering "*matters like approval of leave, staff loans, advances and claims as per FI's approved policies. However, for CIA, any exceptions from these policies shall always be approved by the BAC*".

Performance Appraisal

- 7.2 The performance of Chief Internal Auditor shall be evaluated annually by Board Audit Committee against 'Key Performance Indicators' (KPIs) formulated by it. Board Audit Committee will also approve any performance-based bonuses, increments, promotion / demotion, cash awards or other financial and non-financial benefits to be given to Chief Internal Auditor on the basis of his performance evaluation.⁶ However recommendation of Board's Human Resources & Remuneration Committee (HR&RC) may be sought by the Board Audit Committee / Board regarding compensation package of Chief Internal Auditor, keeping in view the institution-wide remuneration policy, formulated in terms of BPRD Circular No. 01 of 2017.
- 7.3 Performance appraisals of all internal audit personnel shall be carried out in line with the Bank's Performance Management Policy.

Organizational Structure

- 7.4 The core audit function covering Branch Audit (both domestic and overseas branches), audit of Bank's subsidiaries (both domestic and overseas where there is no separate internal audit function), Management Audit (both domestic and overseas offices), Investigations and Risk Assets Review shall be managed by Operational Audit Divisions, segmented geographically.
- 7.5 The IT / IS Audit Division shall undertake audit, reviews and investigations of systems, applications, infrastructure and networks etc. (both domestic and overseas operations). The Head of IT / IS Audit Division shall report directly to the Chief Internal Auditor.
- 7.6 The Risk Assets Review (RAR) Department shall primarily review asset portfolio tagged to major lending branches of the Bank as well as Special Assets Management (SAM) function and also undertake related Management Audits and other credit related assignments of Audit & RAR Group (as applicable to both domestic and overseas operations of the Bank). Moreover, the Basel related assignments shall also be conducted by Risk Assets Review Department.
- 7.7 Audit & RAR Group shall be further strengthened by the following Departments:

Quality Assurance & Framework Development Department

- 7.7.1 Quality Assurance & Framework Development (QA&FD) Department shall have two units i.e. Quality Assurance Unit and Framework Development Unit. The Department Head of Quality Assurance & Framework Development shall report directly to Chief Internal Auditor.
- 7.7.2 In order to ensure consistent application of audit approach and documentation of work performed, periodic quality reviews as well as ongoing monitoring for quality assurance (hereinafter referred to as 'Internal Assessments') shall be conducted. The Internal Assessments shall cover the entire audit activity including audits / reviews performed (both domestic as well as overseas) at branches, audits of management functions, IT/IS Audits, investigations, Continuous Auditing activity, activities of Monitoring and Whistleblowing Department etc. The Quality Assurance & Improvement Program under applicable IIA's standard shall be developed and approved by the Chief Internal Auditor to cover different aspects of internal audit activities. The periodic quality reviews shall be carried out by Quality Assurance Unit for selected audit / review engagements as per the Quality Assurance (QA) Plan approved by the Board's Audit Committee. These periodic reviews shall be over and above the process of ongoing monitoring to be carried out for all audit assignments.

⁶ SBP's BPRD Circular No. 2 of 2019 Dated April 03, 2019 "Guidelines on Internal Audit Function".

- 7.7.3 Framework Development Unit shall undertake the development work of Manuals, Guidelines, SOPs, Audit Master Data and regular updates thereof. This Unit shall also perform the reviews of policies / framework documents, as per management's requests, under "Consultative" role of the internal audit function.
- 7.7.4 The Quality Assurance & Framework Development Department shall also be responsible for addressing training needs of personnel in the Audit & RAR Group for ensuring continuous improvement in quality, efficiency and effectiveness of Internal Audit function.

Monitoring & Whistle Blowing Department

- 7.7.5 The Monitoring & Whistleblowing Department shall comprise of following two functions:

7.7.5.1 **Monitoring function** shall ensure a robust compliance follow up including validation of actions with respect to the Internal Audit findings (pertaining to both domestic and overseas operations), external auditor's observations (pertaining to both domestic and overseas operations) and decisions of the Board and all sub committees of the Board. However, in line with the Bank's Policy on Internal Controls, compliance of all the observations / issues related to regulatory bodies shall be taken care of by Compliance & Controls Group (CCG) of the Bank. Further, as per SBP's directives contained in its letter no. OSED/SEU-13/ 030(01) / 032816 /2019 dated August 23, 2019, Audit & RAR Group (through Monitoring function) will also validate compliance status against SBP observations (marked closed by management) prior to submission of their quarterly compliance status to SBP by the Compliance & Controls Group.

7.7.5.2 **Whistle Blowing function** shall address the concerns of Bank's staff and outside parties such as shareholders, vendors, customers etc. (both domestic and overseas operations) for reported wrongdoings, impropriety, irregularities, financial malpractices, fraud & forgeries and improper conduct, as per scope approved by the Board of Directors as well as relevant laws. The Whistle Blowing function shall be governed by a separate Whistle Blowing Program. This Program shall inter alia; address the protection, rights and rewards of the complainant, disciplinary actions & penalties as well as rights & responsibilities of the suspected parties.

- 7.7.5.3 Head of Monitoring & Whistleblowing Department shall report to Chief Internal Auditor.

Continuous Auditing Department

- 7.7.6 Continuous Auditing Department (desktop auditing) shall perform regular and timely system based audit steps for identification of breaches / gaps / weaknesses of the controls (at both domestic and overseas operations) to ensure immediate follow-up and remediation by the management. These selected system based audit steps, reviewed annually (including additions, deletions etc.), shall be recommended by the Chief Internal Auditor and approved by the Board's Audit Committee. The Department Head Continuous Auditing shall report to Division Head IT / IS Audit.

Internal Audit of Overseas Operations

- 7.8 There shall be an Internal Audit Unit in Sri Lanka. The core audit function including Branch Audits, Management Audits, and Risk Assets Reviews shall be managed by Internal Audit Function Pakistan through Unit Head Audit in Sri Lanka. Unit Head Audit shall functionally report to Chief Internal Auditor through his/her line management in Pakistan and administratively report

to Country General Manager – Sri Lanka. However, the operational audit team in Pakistan (including the Risk Assets Review team members and IT/IS Audit team members) may also be engaged in the audit assignments in view of nature and complexity of the assignments. Furthermore, audit assignments pertaining to other overseas locations i.e. Dubai, Bahrain and Azerbaijan will be performed through internal audit team(s) based in Pakistan.

- 7.9 The organizational structure of Audit & RAR shall be reviewed and recommended by the Board Audit Committee to the Board for its approval, as and when required.

Employment

- 7.10 Provisions in respect of employment of Chief Internal Auditor of Audit & RAR Group are as follows:

7.10.1 The appointment (including re-hiring / renewal of contract / continuation⁷ of service as defined in 7.10.3(d) below), remuneration / compensation package and other terms and conditions of employment of the Chief Internal Auditor shall be approved by the Board Audit Committee⁸. However recommendation of Board's Human Resources & Remuneration Committee (HR&RC) may be sought by the Board Audit Committee / Board regarding compensation package of Chief Internal Auditor, keeping in view the institution-wide remuneration policy, formulated in terms of BPRD Circular No. 01 of 2017.

7.10.2 The removal / non-renewal of contract / replacement of Chief Internal Auditor shall be approved by the Board Audit Committee.⁸

7.10.3 Chief Internal Auditor must be a professional with at least 15 years of experience in the field of finance, with at least 5 years of aggregate audit experience in banks/financial institutions at the time of appointment⁸. No person shall be appointed as the Chief Internal Auditor unless:

a) He/she has 3 years of relevant experience in audit or finance or compliance function and is⁹ a member of the Institute of Chartered Accountants of Pakistan or Institute of Cost and Management Accountants of Pakistan or;

b) He/she has five years of relevant experience in audit or finance or compliance function and:

- i. is a Certified Internal Auditor; or
- ii. is a Certified Fraud Examiner; or
- iii. is a Certified Internal Control Auditor; or
- iv. has a post graduate degree in business, finance from a university or equivalent, recognized and approved by the Higher Education Commission of Pakistan (HEC) and is a member of a professional body¹⁰ relevant to such qualification, if applicable; or

⁷ Amendments to the Listed Companies (Code of Corporate Governance), Regulations, 2017 in light of S.R.O. 1475 (I)/2018, Dated 5th December 2018.

⁸ SBP's BPRD Circular No. 2 of 2019 Dated April 03, 2019 "Guidelines on Internal Audit Function". This clause is applicable to all future appointments / renewal of contracts.

⁹ Listed Companies (Code of Corporate Governance) Regulations, 2019.

¹⁰ "Body of professional accountants" means:

a) established in Pakistan, governed under a special enactment of the Federal Government as a self-regulatory organization managed by a representative National Council, and has a prescribed minimum criterion of examination and entitlement of membership of such body.

c) He/ she has at least seven years of managerial experience in field of audit or accounting or in managing financial or corporate affairs functions of a company and has a suitable degree from a university in Pakistan or abroad equivalent to graduate degree, recognized and approved by the Higher Education Commission of Pakistan (HEC). Suitability of such person for appointment as Chief Internal Auditor shall be determined by Securities and Exchange Commission of Pakistan (SECP) based on application submitted in this respect by the Bank.

d) Provided that existing Chief Internal Auditor of bank having at least fifteen years of experience on the same position in that bank is exempt from qualification criteria above¹¹.

7.10.4 Chief Internal Auditor must be suitably qualified, experienced and conversant with the Bank's policies and procedures. Furthermore, director of the Bank cannot be appointed, in any capacity, in the Audit & RAR Group to ensure independence of the internal audit function.

7.11 Provisions in respect of employment of personnel within Audit & RAR Group are as follows¹²:

7.11.1 The CIA should ensure that Audit & RAR Group has the mix of professionally competent, technically sound, knowledgeable and skilled internal auditors capable of auditing all the core and support functions of the Bank.

7.11.2 The BAC in consultation with CIA should ensure that IAF staff is equipped with relevant auditing skills, knowledge, tools, methodologies, technique and competencies to perform their respective roles and responsibilities in an audit assignment/at IAF.

7.12 If required by Audit & RAR Group, staff with required skill set from other functional areas of the Bank may be transferred to Audit & RAR Group on a periodic basis and in a systematic way under Board's approved Transfer / Rotation Policy of the Bank whilst ensuring that such rotation does not have any major negative impact on operations and performance of Audit & RAR Group. Furthermore, Chief Internal Auditor will be exempt from rotation requirements as stipulated in SBP's BPRD Circular No. 5 of 2015.¹²

7.13 The Chief Internal Auditor and all internal auditors must avoid conflict of interests. Accordingly, internally recruited auditors must not engage in auditing activities for which they have had previously involved in / responsibility for before at least one year "cooling off" period has elapsed.

Guest Auditor & Talent Exchange / Secondment Programs

7.14 Guest Auditor Program is a global concept introduced to ameliorate capacity building efforts within the internal audit function. Audit & RAR Group may also run this program to broaden understanding of internal audit's role within the Bank as well as to enhance business/process insight of the internal auditors.

7.15 For better understanding of internal auditors regarding systems / processes as well as to augment internal controls mindset across management functions, a Talent Exchange / Secondment Program shall be implemented whereby certain personnel from internal audit function shall be transferred to management functions / branches and vice versa for a period of at least one year.

b) established outside Pakistan and established under a special enactment in the country of its origin and which is a member of the International Federation of Accountants (IFAC).

¹¹ Amendments to the Listed Companies (Code of Corporate Governance), Regulations, 2017 in light of S.R.O. 1475 (I)/2018, Dated 5th December 2018.

¹² SBP's BPRD Circular No. 2 of 2019 Dated April 03, 2019 "Guidelines on Internal Audit Function".

8. SCOPE¹³ & RESPONSIBILITIES

8.1 Scope and responsibilities of the Audit & RAR Group are as follows:

Scope

8.2 All activities within the Bank (including outsourced activities pertaining to both domestic and overseas operations)¹⁴ are potentially within the scope of internal audit.

The scope of Audit & RAR Group is as follows:

- a. To act as a supervisory function with respect to the review of internal controls.
- b. To evaluate and validate the effectiveness of control systems, monitor control systems, and contribute to ongoing effectiveness of control systems.
- c. To report, on quarterly basis, on internal control system and significant findings to the Audit Committee of the Board.
- d. To comment on design effectiveness of controls in place / to be implemented by management.
- e. To conduct investigations (pertaining to both domestic and overseas operations) e.g. fraud investigations and investigations against complaints received by Whistle Blowing Function regarding any wrongdoings, impropriety, irregularities, financial malpractices, fraud & forgeries, personnel harassment and improper conduct etc.
- f. To internally evaluate the Internal Control over Financial Reporting (ICFR) system, and make timely and practical suggestions to Board Audit Committee for improvement.¹⁵

8.3 The subsidiaries of MCB Bank Ltd. (where there is no separate internal audit function) will also be subject to internal audit (if permissible by applicable laws/regulations) by MCB Bank's Audit & RAR Group as per the frequency of testing outlined in section 13.1 of this document. However, Board / Board Audit Committee may direct internal audit function to conduct audit of a subsidiary even where internal audit function already exists.

Responsibilities¹⁶

8.4 Responsibilities of the Chief Internal Auditor and staff of Audit & RAR Group are given below:

8.4.1 Chief Internal Auditor has responsibility to:

- a. Develop and lead an effective and efficient Internal Audit & RAR function.
- b. Develop and implement a multi-year Internal Audit Strategy for Audit & RAR Group to be approved by the Board on the recommendation of Board Audit Committee, setting out the long-term vision, mission and objectives of the Group.¹⁷

¹³ SBP's BSD Circular No. 03 of 2007 Dated April 04, 2007 "Policy Framework in Banks".

¹⁴ Central Bank of the UAE' Notice No. CBUAE/BSN/2018/3017 Dated October 16, 2018 (Internal Controls, Compliance and Internal Audit Regulation).

¹⁵ SBP's OSED Circular 01 of 2014 "Instructions On Internal Controls Over Financial Reporting (ICFR)" (Annexure – A)

¹⁶ SBP's BSD Circular No. 03 of 2007 Dated April 04, 2007 "Policy Framework in Banks".

¹⁷ SBP's BPRD Circular No. 2 of 2019 Dated April 03, 2019 "Guidelines on Internal Audit Function".

- c. Prepare annual Risk Based Audit Plan (RBAP) of Audit & RAR in line with Internal Audit Framework, while ensuring adequate coverage of all areas of regulatory importance in sufficient detail, for review and approval of the Board Audit Committee. The plan is to be updated for changes in the bank's risk profile, as well as major changes taking place in Bank's institutional / structural / operational / technological setup.¹⁷
- d. Implement Audit & RAR plan, including special assignments such as review of new products / systems, analysis of financial statements etc. as directed by Board Audit Committee or requested by the management.
- e. Ensure that function specific internal audit observations in an overseas jurisdiction are forwarded to concerned departments/functions at Head Office.¹⁸
- f. Ensure that Audit & RAR Group has adequate budget, systems, human resource with sufficient / relevant knowledge, skills, experience, competencies, professional qualifications and other required resources to perform auditing activities and meet the requirements of the Global Internal Audit Policy as well as cover all major heads of accounts maintained by the Bank.¹⁹ Further ensure that there are no unreasonable scope / timeline limitations for audit assignments enabling internal auditors to have complete and comprehensive review of activity/function/process being audited before finalizing their judgment/conclusion.¹⁹
- g. Ensure that the professional training needs of internal auditors are periodically identified & adequately met; the auditors demonstrate highest ethical and professional standards in performance of their duties and perform their work with dedication & diligence.¹⁹
- h. Engage with internal audit teams on regular basis to provide guidance and to ensure that auditors performing the work have relevant technical and social skills, sufficient knowledge of the work being audited and are able to perform their responsibilities diligently.¹⁹
- i. Ensure that independent investigation of suspected / actual fraudulent activities is conducted, its results notified and recommendations / suggestions given to prevent the same, wherever required / necessary.
- j. Keep the Board Audit Committee abreast of developments and trends in internal auditing and give recommendations for necessary revisions in the relevant Internal Audit Policy and Internal Audit Manual.
- k. Liaise and maintain close coordination with SBP Inspection teams and the external auditors to share knowledge and seek their input on the state of internal controls in the Bank. Ensure that internal audit reports are provided for the review of external auditors and SBP Inspection teams, if requested by them.¹⁹
- l. Perform any other assignment as may be assigned by the Audit Committee of the Board.

8.4.2 The staff of Audit & RAR has responsibility to:

- a. Follow the guidelines and methodology given by the Chief Internal Auditor.
- b. Exercise due professional care in carrying out audit & other assignments.

¹⁸ SBP's BPRD Circular 06 of August 06, 2018 "Governance Framework for Banks' Overseas Operations".

¹⁹ SBP's BPRD Circular No.2 of 2019 Dated April 03, 2019 "Guidelines on Internal Audit Function".

- c. Disclose any conflict of interest with the activity being audited, arising either from their professional or personal relationships, prior to commencement of their audit assignments.¹⁹
 - d. Maintain integrity and objectivity.
 - e. Remain objective, constructive and not be influenced by personal, business or other considerations, which may impair impartiality.
- 8.4.3 Independence and objectivity shall be of utmost importance for the staff of Audit & RAR Group. Threats to auditor's objectivity include conflicts arising out of self-interest, self-review, familiarity, bias, and/or undue influence etc. As mentioned in 7.4.2(c), all such conflicts should be disclosed prior to the initiation of audit engagement.

9. AUTHORITY

- 9.1 The Audit & RAR Group is authorized to:
- a. Openly and independently express its opinion on different affairs of the Bank's overall control environment.²⁰
 - b. Have unrestricted access to all information/data (both financial and non-financial), functions, records, files, meetings' minutes, property, and personnel anywhere within the Bank (both domestic and overseas operations as well as Bank's subsidiaries).
 - c. Allocate resources, set frequencies, select subjects, determine scope of work and apply the techniques required to accomplish audit objectives.
 - d. Obtain specialized assistance, wherever required.
 - e. Establish, formal or informal, regular communication channels with management as well as other internal control/governance functions (risk management, compliance, finance etc.) to remain aware of entity's future strategy/activities and allied risks.²⁰

10. ACCOUNTABILITY²¹

- 10.1 Chief Internal Auditor, in the discharge of his duties, shall be accountable to the Board of Directors / Board Audit Committee to:
- a. Submit an independent annual assessment / opinion, without fear or favor, on the state of internal controls in the Bank including adequacy and effectiveness of MCB Bank Ltd.'s (as well as its subsidiaries audited during the year) all processes (manual as well as technology based, including financial reporting, business operations and compliance with relevant laws & regulations) for controlling its activities and managing its risks in all the core areas of the Bank's / its subsidiary's operations. The assessment submitted shall be based on the audits conducted during the audit period supported by specific audit observations / conclusions.²⁰
 - b. Provide periodic reports to the Audit Committee and the management summarizing the results of the audit activities, details of significant issues (including critical control breaches recurring in at least two audit periods) identified, together with recommendations for

²⁰ SBP's BPRD Circular No.2 of 2019 Dated April 03, 2019 "Guidelines on Internal Audit Function".

²¹ SBP's BSD Circular No. 03 of 2007 Dated April 04, 2007 "Policy Framework in Banks".

- improvements. Moreover, provide analysis regarding the themes and trends of internal control breaches observed by IAF during course of audit.²⁰
- c. Provide confirmation to Audit Committee, at least annually (at the time of provision of aforementioned annual assessment / opinion), regarding the organizational independence of Audit & RAR Group.²⁰
 - d. Provide half yearly / biannual report regarding sufficiency of the Audit & RAR Group resources of appropriate skills, experience and qualifications.
 - e. Provide regular information on the status and results of the annual audit plan.
 - f. Co-ordinate with and provide oversight of other control and monitoring functions.
- 10.2 The Board Audit Committee must assess, at least annually, the performance of the internal audit function to ascertain whether Audit & RAR Group and/or Chief Internal Auditor is/are meeting the requirements and/or expectations of stakeholders including the primary responsibility of provision of assurance and value addition to the organization. The evaluation must identify the areas for improvement to enhance Internal Audit Function's efficiency and effectiveness.²² Further, external quality assurance review / assessment must be conducted at least once every three to five years (depending on last external assessment results) by a qualified, independent external professional firm / consultant to ensure compliance with the International Standards for Professional Practice of Internal Auditing published by the Institute of Internal Auditors (IIA).²³

11. LIMITATIONS

- 11.1 The internal audit function must not be involved in designing, selecting, implementing or operating specific internal control measures. Management may, however, engage internal audit function for consultative / advisory services on matters related to risk and internal controls under a clearly communicated and agreed upon scope of such assignments and nature of deliverables, nevertheless, the development and implementation of internal controls remains the responsibility of Management²⁴. Furthermore internal auditors and/or Audit & RAR Group, individually or collectively, shall bear no responsibility of the subsequent implementation and / or consequences of the process/system/activity/product in respect of which advice/feedback was provided to management.²² The Chief Internal Auditor and / or Audit & RAR staff is specifically prohibited from:
- a. Performing any operational duties, however Audit & RAR may comment on policies and procedures at development stage before their implementation (in line with the "Consultative" role as envisaged in the International Standards for Professional Practice of Internal Auditing published by the Institute of Internal Auditors) provided it does not in any way affect their independence;
 - b. Allocating audit resources to consultancy/advisory services in excess of 10% of total audit resources at any given point in time;²²
 - c. Initiating or approving financial or non-financial transactions except those pertaining to Audit & RAR Group; and

²² SBP's BPRD Circular No.2 of 2019 Dated April 03, 2019 "Guidelines on Internal Audit Function"

²³ Central Bank of the UAE Notice No. CBUAE/BSN/2018/3017 Dated October 16, 2018 "Internal Controls, Compliance and Internal Audit Regulation" and SBP's BPRD Circular No. 2 of 2019 Dated April 03, 2019 "Guidelines on Internal Audit Function"

²⁴ Central Bank of the UAE Notice No.CBUAE/BSN/2018/3017 Dated October 16, 2018 "Internal Controls, Compliance and Internal Audit Regulation".

- d. Directing the activities of any member of staff not part of Audit & RAR Group, except to the extent such employee(s) have been appropriately assigned to audit team(s) or to otherwise assist the Audit & RAR Group.

Audit team / staff which provided advisory / consultancy services to management should not be assigned to audit the same auditable activity until completion of one audit cycle.²²

Furthermore, Chief Internal Auditor may attend various Management Committees' meetings, that pertain to risk & control functions like risk management, compliance, internal controls etc., as a guest member / observer. Moreover, he shall also attend Bank's Management Committee (MANCOM) meetings as an observer to remain aware of the shift / changes in organizational goals and objectives.

12. SKILLS, TRAINING & ALTERNATE ARRANGEMENTS²⁵

- 12.1 Audit & RAR staff will need to have sound judgment. This will require them to have appropriate experience and expertise to perform their work with proficiency and due professional care. Audit & RAR staff will engage in continuing professional development through structured training programs. However, if the knowledge, skills and competencies required to perform an engagement are not available within Audit & RAR Group, the Chief Internal Auditor will obtain alternative assistance from specialized professional firms, consultants / experts or others with prior written approval of State Bank of Pakistan (SBP) / respective regulator of the host country and the Board's Audit Committee. Such practices, however, shall be short-term in nature and only limited to such technical areas/risks where in-house expertise is not available. The Chief Internal Auditor shall hire / develop resources in Audit Group to address such risks / audit areas as early as possible. It should be noted that activities of Audit & RAR Group either in whole or any part thereof shall not be outsourced by the Bank.²⁶

13. STANDARDS OF PRACTICE

- 13.1 Audit & RAR staff must comply with Code of Ethics and the International Standards for Professional Practice of Internal Auditing published by the Institute of Internal Auditors (provided that these Standards are not in direct conflict with any regulatory instructions issued either by Host country or Home country).

14. FREQUENCY OF TESTING²⁵

- 14.1 In general, all areas in the bank (including outsourced activities) would be audited once in every two years, however, low risk non-branch entities may be audited / reviewed once in every three years subject to approval by the Board Audit Committee. Further, overseas operations will be covered in the audit plan at least once a year²⁷, however extent of the audits / reviews pertaining, to these operations, will be based on risk assessment carried out by Audit & RAR Group. Moreover, subsidiaries (where there is no separate internal audit function) shall also be audited (subject to permissibility by applicable laws/regulations) at a minimum of once in every two years. However, Board / Board Audit Committee may direct internal audit function to conduct audit of a subsidiary even where internal audit function already exists. Furthermore, high-risk areas would be reviewed more frequently. To determine which areas need more than minimal coverage, the following indicators will be considered:

- a. Analytical review and financial analysis that signal deterioration in a particular area.

²⁵ SBP's BSD Circular No. 03 of 2007 Dated April 04, 2007 "Policy Framework in Banks".

²⁶ SBP's BPRD Circular No.2 of 2019 Dated April 03, 2019 "Guidelines on Internal Audit Function".

²⁷ SBP's BPRD Circular 06 of August 06, 2018 "Governance Framework for Banks' Overseas Operations".

- b. Audit findings that still require close review.
 - c. Instructions/requests by Board of Directors or the Board Audit Committee or the management for special reviews.
 - d. SBP / Regulatory Bodies / External Auditors' Inspection / Audit Report and / or exceptions in other examination reports.
- 14.2 Audit & RAR Group would reassess its audit / review plan and change the priorities as warranted. For example, if an unexpected crisis or demand arises, the internal audit staff should modify its schedule and possibly the scope of its reviews. In that case, it may delay the audit of an efficiently run area or restrict the scope of that audit to accommodate the demands of the more critical area.

15. REPORTING MECHANISM²⁸

15.1 Following will be the mechanism for reporting:

- a. Each audit assignment shall be followed by a report containing summary and details of findings along with root cause for high risk observations, business impact / risk and recommendations sent to the Groups and administrative units or branches or divisions responsible.
- b. The reports shall be based on adequate working papers.
- c. The detail findings of the assignments shall be subject to a preliminary discussion with the auditee, in order to enable its responses to be included in the audit report.
- d. Depending on the criticality / degree / quantum of risk involved, findings of significance shall also be reported to the President as and when highlighted by Audit & RAR Group.
- e. Audit & RAR Group shall periodically follow-up on the implementation of its recommendations.
- f. Audit & RAR Group shall timely escalate significant audit / review findings to appropriate levels of management including the President, if unresolved within a reasonable period (as per the best practices) at levels of those responsible. As per international best practices, all high risk internal audit exceptions should be resolved within 60 days and all other internal audit exceptions should be resolved within 90 days unless there are cogent reasons / justifications for delayed resolution such as dependency on IT systems etc.
- g. Significant Audit / Review findings remaining unresolved within a reasonable time at the level of President's Office shall be reported to the BAC.
- h. Chief Internal Auditor shall promptly report to the Central Bank of the United Arab Emirates (UAE) violations of the Central Bank Law, regulations, instructions and any Matters of Significance (as defined by Internal Controls, Compliance and Internal Audit Regulation of Central Bank of the UAE).²⁹
- i. Chief Internal Auditor shall promptly notify Central Bank of the UAE when he / she become aware of significant deviation from this internal audit policy.²⁹

²⁸ SBP's BSD Circular No. 03 of 2007 Dated April 04, 2007 "Policy Framework in Banks".

²⁹ Central Bank of the UAE, Notice No. CBUAE/BSN/2018/3017 dated October 16, 2018 "Internal Controls, Compliance and Internal Audit Regulation".

16. FRAUD INVESTIGATIONS²⁸

- 16.1 While it is the management's responsibility to design and implement programs and controls to prevent, deter and detect fraud, the Audit & RAR staff should have sufficient knowledge to evaluate the risk of fraud and the manner in which it is managed by the organization.

Fraud Deterrence Programs

- 16.2 Audit & RAR Group shall assist the management in designing programs for deterrence of frauds. These programs include, but are not restricted to the following:
- a. Setting up of a Whistle Blowing Program. The Whistle Blowing Program refers to the deliberate / voluntary disclosure of individual or organizational impropriety by a person who has or had privileged access to data, events or information about an actual, suspected or anticipated wrongdoing within or by an organization that is within its ability to control.
 - b. Assisting the management in identification of internal control deficiencies and suggesting measures for removal thereof.
 - c. Commenting on the design effectiveness of the controls to be implemented by the management.
 - d. Assisting the management in ensuring strict compliance with respect to recommendations to overcome the weaknesses identified in the reports of the Internal & External Audits as well as the State Bank of Pakistan / respective regulator of the host country.

Employee Guidance Where Fraud Is Suspected

- 16.3 Employees are encouraged to report the acts involving fraudulent activities to the Whistle Blowing Function established within the Audit & RAR Group. The Whistle Blowing Program covers in detail the employees' rights, rewards and obligations with respect to making such disclosures.

17. MANAGEMENT RESPONSIBILITIES

- 17.1 The Management should ensure that all information relevant to the discharging of responsibilities by the Audit & RAR Group including those related to investigation of frauds is provided promptly. The information should be complete, correct, reliable, accurate and timely.

18. CONFIDENTIALITY AND REPORTING PROCEDURES

- 18.1 Audit & RAR Group should respect the value and ownership of information they receive. They should not disclose information without appropriate authority unless there is a legal or professional obligation to do so. They shall not use information for any personal gain or in any manner that would be contrary to the law or detrimental to the legitimate and ethical objectives of the Bank.
- 18.2 Whenever the Audit & RAR Group has determined that there is evidence that fraud has occurred, that matter should be brought into the attention of an appropriate level of management. This is appropriate even if the matter might be considered inconsequential, such as a minor defalcation by an employee at a lower level within the Bank. Fraud involving senior management and fraud (whether caused by senior management or other employees) that causes a material

misstatement of the financial statements should be reported directly to the Board Audit Committee. In addition, the Audit & RAR Group should reach an understanding with the Board Audit Committee regarding nature and extent of communication with the Committee about misappropriations perpetrated by lower-level employees.

19. REVIEW

- 19.1 This Charter supersedes the Global Internal Audit Policy Version 3.0 of the Audit & RAR Group approved by the Board in its meeting held on August 19, 2020.
- 19.2 The Board Audit Committee shall review and assess the adequacy of the Global Internal Audit Policy on need basis but at least annually recommending changes, if necessary, to the Board of Directors for approval.

20. GLOSSARY

Audit & RAR	Audit & Risk Assets Review
BAC	Board Audit Committee
CIA	Chief Internal Auditor
CEO	Chief Executive Officer
CBUAE	Central Bank of United Arab Emirates
IIA	Institute of Internal Auditors
IPPF	International Professional Practices Framework
HEC	Higher Education Commission of Pakistan
KPIs	Key Performance Indicators
RBAP	Risk Based Annual Audit Plan
SAM	Special Assets Management
SBP	State Bank of Pakistan
SECP	Securities and Exchange Commission of Pakistan
HR&RC	Human Resource & Remuneration Committee
UAE	United Arab Emirates