

IA 2015.03.001 -

## Internal Audit Charter

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VERSION 06

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## Table of Contents

1. PURPOSE AND SCOPE .....	3
2. PROFESSIONAL STANDARDS .....	3
3. INDEPENDENCE .....	4
4. STANDING WITHIN BOC .....	4
5. AUTHORITY .....	5
6. KEY FEATURES AND RESPONSIBILITIES .....	5
7. RESPONSIBILITY AND ACCOUNTABILITY OF THE IA DIRECTOR .....	7
8. OVERSIGHT FRAMEWORK WITH SUBSIDIARIES AND REP OFFICES .....	8
9. RELATIONS WITH OTHER CONTROL FUNCTIONS .....	8
10. REPORTING LINES .....	9
11. SUPPORT FROM EXTERNAL SERVICE PROVIDERS .....	10
12. COORDINATIONS OF THE IA DIRECTOR WITH THE EXTERNAL AUDITORS .....	11
13. QUALITY ASSURANCE AND IMPROVEMENT PROGRAM .....	11
APPENDIX A - DOCUMENT HISTORY .....	13
APPENDIX B - DOCUMENT ADMINISTRATION .....	14

### List of Abbreviations

Abbreviation	Explanation
Bank	Bank of Cyprus Group
BOC	Bank of Cyprus Group
CBC	Central Bank of Cyprus
Charter	Internal Audit Charter
ECB	European Central Bank
IAD	Internal Audit Director
IA	Internal Audit
Standards	International Standards for the Professional Practice of Internal Auditing
SSM	Single Supervisory Mechanism of ECB Banking Supervision

## 1. PURPOSE AND SCOPE

The IA Charter is formed in accordance with the International Standards for the Professional Practice of Internal Auditing. The Charter complies also with the minimum requirements of the Central Bank of Cyprus Directive on Governance and Management Arrangements in Credit Institutions.

The purpose of the Charter is to define the standing, authority and responsibility of IA and of the IA Director of the Bank of Cyprus Group, as well as, their reporting lines, compliance with professional standards, relations with other Internal Audit functions within the Group and coordination with the external auditors.

The primary scope of IA is the examination and evaluation of the adequacy and effectiveness of BOC's system of internal controls, corporate governance and risk management processes.

## 2. PROFESSIONAL STANDARDS

The International Standards for the Professional Practice of Internal Auditing are principles-focused, mandatory requirements consisting of statements of basic requirements for the professional practice of internal auditing and for evaluating the effectiveness of performance. These Standards provide a framework for performing and promoting a broad range of value-added internal auditing.

IA staff members should adhere to the Core Principles for the Professional Practice of Internal Auditing, the International Standards for the Professional Practice of Internal Auditing, including the Definition of Internal Auditing and the Code of Ethics.

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

### 3. INDEPENDENCE

Independence is interpreted as “the freedom from conditions that threaten the ability of the Internal Audit to carry out internal audit responsibilities in an unbiased manner”<sup>1</sup>. In order to achieve independence, the following have been established:

- Organisational independence of IA from the activities assigned to be audited by the Internal Audit.
- Remuneration of internal auditors is not linked to the performance of the activities IA audits.
- IAD reports directly to the Audit Committee.
- IAD reports functionally to the Board of Directors through the Audit Committee, and administratively to the Chairman of the Audit Committee.
- IAD is authorised to have direct and unrestricted access to senior management and the Board of Directors, through the Audit Committee.
- Whenever practicable and without jeopardising the competence and expertise of IA, staff are periodically rotated within IA or from other units of the Bank, to ensure that an individual’s capacity for critical judgement is not called into question because of possible loss of objectivity from continuously performing similar tasks or routine jobs.

### 4. STANDING WITHIN BOC

BOC has established the Three Lines of Defense model as a framework for effective risk management and control. In this model management, which is the first line of defense, is responsible for managing risks. The second line of defense, being the risk management units of the Bank (i.e. the Risk Management Division and the Compliance Division), is responsible for developing and maintaining an effective risk and compliance framework to support management in the delivery of its business and strategic objectives. Internal Audit, as the third line of defense, provides independent assurance over the effectiveness of the risk management framework and governance.

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<sup>1</sup> Interpretation provided by the Standard 1100 – Independence and Objectivity.

## 5. AUTHORITY

Internal Audit derives its authority from the Board of Directors of the Bank through the Group Audit Committee. The IAD, whenever relevant to the performance of his assignments, is authorised to perform the following:

- Initiate direct communication with any member of staff and any external service provider of the Bank, provided that the relevant SLA allows for such communication.
- Examine any activity or entity of the following:
  - The Group, including other control functions;
  - The external service providers of the Bank, provided that a relevant SLA exists; and
  - The Bank of Cyprus Oncology Centre, provided that a relevant SLA exists.
- Have full and unconditional access to any records, files, data and physical properties of the institution including access to management information systems and records and the minutes of all consultative and decision-making bodies.
- Attend and observe all or part of executive committee meetings and any other key management decision-making fora, thus enabling the IAD to understand better the strategy of the Group, key business issues and decisions and to adjust internal audit priorities, where appropriate.
- Freely express and report the IAD's findings to the Group Audit Committee and the Board of Directors without the presence of executive members of the Board of Directors.

IA staff are not authorised to:

- Perform any operational duties for BOC.
- Initiate or approve transactions (financial or accounting).
- Direct the activities of any BOC staff not employed within the Internal Audit, except to the extent that such staff members have been appropriately assigned to the auditing team or to otherwise assist IA.

## 6. KEY FEATURES AND RESPONSIBILITIES

Internal Audit key features include periodic reporting to the Group Audit Committee on its purpose, authority, responsibility, and performance relative to its Annual Audit Plan. Furthermore, reporting includes significant risk exposures and control issues identified

during the audits, including fraud risks, governance issues, cultural issues and other matters requested by the Board of Directors.

IA main responsibilities include, but are not limited to, the following:

- Assessing the design and operational effectiveness of internal governance structures and processes of the Group.
- Appraising the means by which the Group manages and mitigates risks to preserve its assets, and seeks to prevent fraud, misappropriation or misapplication of assets.
- Assessing whether the risk appetite of the Group is established and reviewed through the active involvement of the Board and Executive management and whether this is embedded within the activities, limits and reporting of the Group.
- Evaluating the reliability, integrity and completeness of the accounting, financial reporting, management information and information technology systems.
- In relation to key corporate events, evaluating whether key risks are being adequately addressed and reported, as well as whether the information being used in such key corporate decision making is fair, balanced and reasonable and whether the related procedures and controls have been followed.
- Conducting investigations to examine and determine the veracity of allegations or suspicions of misconduct and/or fraud involving personnel as well as shareholders, consultants, vendors, contractors and/or any other parties with a business relationship with the Group.
- Leveraging data and analytics to provide additional value to the Group through meaningful insights and recommendations to enhance the internal control framework and also to assist in the optimisation of the Bank's operating model and financial services offered (Operational Excellence).
- Assessing the risk and control culture of the Bank. In particular, assessing whether the processes, actions, tone at the top and observed behaviours across the Group, are in line with the espoused values, ethics, risk appetite and policies of the Group.
- Review and assess the organisational culture of the Group in order to ensure that it adequately supports its Strategy and Objectives, providing relevant feedback to Group AC and executive management.
- Performing consulting and advisory services related to governance, risk management and control as appropriate for the organization. Also evaluating specific operations at the request of the Board of Directors or Management, as appropriate.
- Providing feedback on risks and controls on new product / services / delivery channel of the Bank or on significant changes / modifications to existing products or services.

- Drafting policies and procedures in relation to the work of Internal Audit and duly receiving approval of the Group Audit Committee for these policies.

## 7. RESPONSIBILITY AND ACCOUNTABILITY OF THE IA DIRECTOR

Responsibilities of the IAD are set out in accordance with the CBC Directive on Governance and Management Arrangements in Credit Institutions. The IAD is responsible for:

- Ensuring the independence and objectivity of Internal Audit;
- Acquiring human resources with sufficient qualifications and skills to ensure the competence of the Internal Audit to carry out its tasks and responsibilities;
- Continually assessing and monitoring the skills necessary to carry out Internal Audit's duties to the required level;
- Ensuring the appropriate ongoing training of Internal Audit staff in order to carry out the increasing diversity of tasks that need to be undertaken as a result of the introduction of new products and processes within the institution, changes in regulations or professional standards and other developments in the financial sector;
- Promptly informing the heads of other Internal Audit functions for any findings relating to them;
- Submitting reports to the Board of Directors through the Group Audit Committee and attending the latter's meetings in order to present the said reports and provide additional information and/or clarification or assistance on managing the issues raised;
- Preserving continuous communication with the Group Audit Committee by informing its members about major areas of concern and seeking, where necessary, their approval for initiating special investigations.
- Preparing and delivering to newly appointed members of the Board of Directors, an induction seminar adequately covering the respective areas of responsibilities of the Internal Audit with references to the responsibilities of the Board of Directors and the requirements of the regulatory framework;
- Expressing an opinion on the selection as well as the fitness of the persons in charge of the respective internal audit functions of subsidiaries in Cyprus and abroad;
- Updating the Central Bank of Cyprus and European Central Bank (SSM) on any significant findings or developments that come to his/her attention and which have material impact on BOC's risk profile;

- Holding meetings with the Central Bank of Cyprus and European Central Bank (SSM) at least annually or at any other interval the Central Bank of Cyprus may require, in order to discuss the scope and coverage of the work of the Internal Audit, its risk analysis, findings and recommendations, and
- Communicating with the Regulators, following the approval of the Group Audit Committee, keeping also in mind all current laws and regulations.
- Establishing a follow-up process to monitor and ensure that management actions have been effectively implemented or that senior management has accepted the risk of not taking action.
- Leveraging data and analytics to enhance the ability of the Internal Audit Department to meet its strategic objectives.

## **8. OVERSIGHT FRAMEWORK WITH SUBSIDIARIES AND REP OFFICES**

The framework under which IA exercises its oversight to the various subsidiaries ( GIC, EuroLife, CISCO etc.), is governed by the various Bank policies and procedures in place and the established Service Level Agreements (SLAs).

## **9. RELATIONS WITH OTHER CONTROL FUNCTIONS**

The other control functions within BOC Group, as defined in the July 2014 CBC Directive, are the Risk Management Function, Compliance Function and the Information Security Function.

Internal auditors are not to accept responsibility for operations of other control functions. IA may, however, review the effectiveness of risk management processes of these functions, as well as their monitoring activities.

IA may rely on or use the work of other control functions, mainly due to: addressing areas that fall outside of the competence of IA, transferring knowledge from more specialized experts and efficiently enhancing coverage of risk beyond the internal audit plan.

In reaching the decision of whether to rely on or use their work, the following will be considered:

- Independence and objectivity of other control functions.
- Competencies and qualifications of the officers of these functions.



- Whether there is reasonable assurance that the findings are based on sufficient, reliable, relevant, and useful information. Based on this assessment, additional work or test procedures may be needed to gain appropriate and sufficient audit evidence.
- Whether the work of these functions is appropriately planned, supervised, documented, and reviewed.

Control functions meet at regular intervals in order to assess and propose areas for further enhancement of co-operation and communication amongst them, as well as for taking advantage of synergies and avoiding duplication of work.

## 10. REPORTING LINES

The IAD reports to the Board of Directors of the Bank through its Group Audit Committee on a regular basis. The duties of the Group Audit Committee include, amongst other, the following:

- Assessment of the adequacy and effectiveness of internal control and information systems, based on reports from the Internal Audit;
- Assessment of the independence of Internal Audit;
- Appointment and removal of the IAD;
- Appraisal of the IAD;
- Approval of the Annual Audit Plan of the Internal Audit;
- Approval of all Internal Audit policies which provide the nature, extent and timing of the work undertaken by IA.
- Approval of the budgets of the Internal Audit;
- Oversight that senior management takes the necessary corrective actions in a timely manner to address control weaknesses, non-compliance with policies, laws and regulations and other weaknesses identified by Internal or External Audit or any other internal or external body;

Furthermore, the IAD submits to the Board of Directors and the Central Bank of Cyprus an annual report on the internal control framework of the Bank.

## 11. SUPPORT FROM EXTERNAL SERVICE PROVIDERS

An external service provider may be engaged by the Board of Directors, Senior Management or the IAD.

Based on the Practice Advisory 1210.A1-1 of the IIA Standards; an external service provider is defined as “*a person or firm, independent of the organization, who has special knowledge, skill, and experience in a particular discipline. External service providers include actuaries, accountants, appraisers, culture or language experts, environmental specialists, fraud investigators, lawyers, engineers, geologists, security specialists, statisticians, information technology specialists, the organization’s external auditors, and other audit organizations*”.

IA will seek to obtain competent advice and assistance from external service providers in the following cases:

- Lack of knowledge, skills or other competencies needed to perform all or part of the engagement;
- Time and/or resource constraints in executing the approved Annual Audit Plan;
- Time and/or resource constraints in performing non-scheduled engagements, such as fraud/misconduct investigations.

When the IAD intends to use and rely on the work of an external service provider, the following needs to be considered as it relates to the particular assignment to be performed:

- Competence of the external service provider. This depends on the qualifications, appropriate professional experience, reputation for competency and integrity in the sector.
- Independence and objectivity of the external service provider. This depends on whether there are any financial, organizational, or personal relationships that will prevent the external service provider from rendering impartial and unbiased judgments and opinions when performing or reporting on the engagement.
- Adequacy of scope of work, including deliverables, methods/techniques and time frames.
- Ownership and custody of engagement working papers.
- Confidentiality and restrictions on information obtained during the engagement.
- Adequacy of work performed, considering the sufficiency of information obtained to afford a reasonable basis for the conclusions reached and ensuring that the work of the external service provider is appropriately planned, supervised, documented, and reviewed. Based on this assessment, additional work or test procedures may be needed to gain appropriate and sufficient audit evidence.

Each time IA will seek the services of external providers, the established procedure must be followed in relation to whether these services constitute outsourcing or not, as well as the expert opinions of Bank's Group Outsourcing Officer and Group Legal when deemed appropriate.

If such services are defined as Outsourcing, as per CBC Governance Directive, the established Bank's Outsourcing Policy must be again adhered to in order to verify whether it is considered 'Critical' or 'Not Critical'; upon which the Bank's relative internal procedures will be followed, in adherence to the CBC Directive.

## **12. COORDINATIONS OF THE IA DIRECTOR WITH THE EXTERNAL AUDITORS**

The IAD can add value to shareholders by coordinating with the external auditor. The combined different strengths of internal and external auditors increase the effectiveness and efficiency of audits by minimising duplication of audit effort, through sharing information of perceived risk areas. As a result, communication and coordination between the IAD and external auditors on matters of mutual interest raise the possibilities of fraud detection and increase trust between them.

The scope of coordination between the IAD and external auditors encompasses, without being limited to, the consideration by the IAD of the external auditor's Management Letter findings and deviations when setting the priorities of the Annual Audit Plan, as well as, ensuring that relevant follow-up and corrective actions have been taken by the responsible divisions.

The IAD will proactively communicate throughout the year and engage with the external auditor on a regular basis through formal meetings as well as informal discussions.

## **13. QUALITY ASSURANCE AND IMPROVEMENT PROGRAM**

IA will maintain a Quality Assurance and Improvement Program that covers all aspects of its activities. The program will include an evaluation of the IA activity's conformity with the Definition of Internal Auditing and the Standards and an evaluation of whether internal auditors apply the Code of Ethics. The program will also assess the efficiency and effectiveness of IA, ensure the timely and effective implementation of any recommendations (internal and external) in relation to IA activities and identify opportunities for improvement.

The IAD is responsible for providing periodically a self-assessment on IA activity as regards its consistency with the Charter (purpose, authority, responsibility) and performance in relation to the completion of its annual audit plan.

The IAD will communicate to the Board of Directors, through the Group Audit Committee and the CEO on an annual basis the IA's QAIP, including results of ongoing internal assessments and external assessments conducted at least every 5 years.

## APPENDIX A - DOCUMENT HISTORY

Tracing Table

Version	Approval Date	Distribution Date	Implementation Date	Initiator	Changes with Reference to Paragraphs
1.0	4/5/2015	7/5/2015	4/5/2015	Internal Audit	
2.0	25/2/2016	3/3/2016	25/2/2016	Internal Audit	Paragraphs 7 (last bullet point added), 9, 11
3.0	29/05/2017	02/05/2017	29/05/2017	Internal Audit	Paragraphs 2, 3, 6, 8, 9, 13
4.0	26/03/2018	26/03/2018	26/03/2018	Internal Audit	Paragraph 5
5.0	27/03/2019	29/03/2019	29/03/2019	Internal Audit	Paragraphs 7, 8
6.0	25/05/2020	25/05/2020	25/05/2020	Internal Audit	Paragraphs 3, 5, 6, 7, 10

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## APPENDIX B - DOCUMENT ADMINISTRATION

### Last Document Maintenance

Document Responsible Person/Department:	Internal Audit
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Confirmed by	Internal Audit Director
Date	25/05/2020

Approved by	Group Audit Committee
Date	25/05/2020