

BSTDB Internal Audit Charter

General

The Internal Audit Charter is suggested as best practice by the Standards for the Professional Practice of Internal Auditing of the Institute of Internal Auditors, which state that “the purpose, authority and responsibility of the internal audit activity should be formally defined in a charter, consistent with the Standards, and approved by the board” (or audit committee).

The Internal Audit Department should periodically assess the charter to determine whether the purpose, the authority and responsibility defined in the charter continue to be consistent with the Standards, and adequate to enable the Internal Audit Department to accomplish its objectives.

Establishment of the Internal Audit Function

It is the policy of the Black Sea Trade and Development Bank (BSTDB) to support Internal Audit as an independent objective, assurance, and consulting activity to examine and evaluate the activities of the Bank as a service to management and the Board of Directors (through its Audit Committee).

Reporting Relationships

Internal Audit reports functionally to the President. The Audit Committee has the responsibility, inter alia, of satisfying itself that the internal audit process is adequate and efficient through reviewing the policy, the scope, the work programme and the reporting relating to the Bank's internal audit.

Authority Granted to Internal Audit

Internal Audit has full, free, and unrestricted access to all levels of management, the records (manual and electronic), property, and personnel of BSTDB. Documents and information given to internal auditors are handled in the same prudent manner as by those employees normally accountable for them.

All activities of the organisation are to be subject to regular internal audit examination and Internal Audit is free to plan and direct the work in consultation with management.

On every internal audit assignment, the accountable management is expected to allow unrestricted right of access: to interview staff, to observe operations, to examine records and other documents.

Management is responsible for controls and risks and for action to correct deficiencies in systems of control.

Internal Audit has no authority to determine policy, make executive decisions, manage risks, change staff, systems or methods of work; its role is to examine, evaluate and make recommendations to the accountable management.

Objectives of the Internal Audit Activity

The primary objective of the Internal Audit activity is to help management and the Board of Directors of BSTDB discharge their responsibilities and accomplish the objectives of the Bank by bringing a systematic, disciplined approach to evaluate and improve effectiveness of risk management, control, and governance processes. Internal Audit furnishes them with analyses, recommendations, counsel, and information concerning the activities reviewed.

Internal Audit's mission is to foster an environment of continuous improvement in controls and risk awareness; a continuous self-checking control environment by working in partnership with senior management and its clients within business units to identify opportunities to ensure the adequacy as well as to enhance the effectiveness of risk management and internal control processes. Internal Audit's primary objective is to identify emerging issues, detect deviations from established controls, and to track management's corrective actions.

Scope of Work of Internal Audit

Internal Audit will review the Bank's divisions and business units at appropriate intervals to determine whether the functions of planning, organizing, directing, and controlling are efficiently and effectively carried out according to management instructions, policies, procedures, best practices and in a manner consistent with the objectives of the Bank. To this end, the Internal Audit Team shall:

- Assess the reliability and integrity of all information and the means to identify, measure, classify, and report such information.
- Assess the adequacy of and compliance with the management controls used to account for and safeguard from losses the Bank's assets, and as appropriate, verify the existence of assets.
- Evaluate the internal control systems established to ensure compliance with the Bank's policies, procedures, and guidelines, and assess the degree of compliance of the bank's divisions and business units with such systems.
- Assess the economy and efficiency with which the Bank's resources are employed pursuant to the internal control systems in place.
- Review the operations and programs of BSTDB to ascertain whether from the viewpoint of internal control systems, results are consistent with established

objectives and goals, and whether the operations and programs are being (or have been) carried out as planned.

Internal Audit will carry out any specific audit requests or investigation upon the request of management and the Board of Directors.

Assurance Services Tasks

- Perform financial and operational audit of all functions as well as of loans and other transactions of the Bank.
- Evaluate the validity, accuracy and completeness of documentation and other information as regards financial, accounting, administrative, managerial and operational functions of the Bank.
- Evaluate the compliance with the Bank's Establishing Agreement, rules, regulations, policies and Code of Conduct.
- Coordinate the work of Internal Auditors with the Bank's External Auditors, in order overlapping to be avoided, through periodical meetings with them.
- Participate in the preparation and execution of the international tender for the selection of external Auditors.
- Contribute the work of the Audit Committee
- Meet the President formally on a periodic basis to discuss issues arising from audit assignments.
- Freely plan and direct the work in consultation with management through a constructive working relationship with them. Considerations of the Audit Committee and the Board of Directors should be taken into account.
- To challenge processes and act as a catalyst for management to identify, assess and rank the risks to which the units are exposed.
- Identify and report to the accountable management actual and potential weakness in the systems of internal control where it exists, and recommend feasible ways to remedy it.
- Advise the President and the Departments on any matter relating to above, including recommendations for improvements on policies, procedures, manuals and systems and the exploitation of the Bank's resources.
- Comply with the Code of Ethics of the Institute of Internal Auditors.

Internal Audit will carry out its work according to the Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors.

Responsibility of Internal Audit

Internal Audit is responsible for developing and maintaining an efficient and effective program of internal auditing to enhance the Bank's capacity to manage risk. As the Bank's independent assurance function, it is accountable for providing the Audit Committee of the Board of Directors, the Office of the President and senior management with independent assurance that the system of internal control and the management of key business risks, as designed, achieves its objectives.

Internal Audit will develop an annual internal audit plan for the review of the senior management and the Audit Committee. The audit plan shall:

- Be developed for the audit cycle using an accepted risk assessment process that is based on an evaluation of the risks associated with each business unit.
- Update the audit plan annually and submit it to the Audit Committee for review.
- Provide a segment of special requests by management.
- Require written approval of the Audit Committee on any major changes in the audit plan.
- Respond and react to business needs and priorities as and when necessary.

Internal Audit will prepare reports on results of projects and provide recommendations for improvement, comment on whether appropriate action has been taken on audit findings, and follow up on audit findings, including the timing for corrective action to be taken on reported weaknesses.

Internal Audit is responsible for maintaining a team that collectively possesses the necessary knowledge, skills, and disciplines for the achievement of the Internal Audit activities.

Under normal conditions, Internal Audit work is to be carried out by the Internal Audit Team. In cases of special need, Internal Audit resources may be implemented by: (a) assistance of other suitable staff within BSTDB, and (b) the engagement of consulting services.

Internal Audit will coordinate efforts with the external auditors of BSTDB.