



# INTERNAL AUDIT CHARTER

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## 1. CHARTER

This Charter defines the Group Internal Audit (GIA) organisational position, purpose, authority, scope of work and responsibility. Group Chief of Internal Audit (GCIA) shall review the internal audit charter annually, to ensure accuracy and continuing relevance, and confirm this annually to the Board Audit Committee (BAC). Any proposed amendments to the GIA mandate or charter are subject to BAC formal approval.

## 2. GROUP INTERNAL AUDIT MISSION AND PURPOSE

- 2.1. GIA is established by DIB's Board of Directors (Board) with the role and responsibilities as defined in this charter, DIB's Code of Corporate Governance and as part of BAC's direct oversight role.
- 2.2. GIA's **mission** is to enhance and protect the organizational value by providing risk-based and objective assurance, advice and insight.
- 2.3. GIA's **purpose** is to strengthen the bank's ability to create, protect and sustain value by providing the board and management with independent, risk-based and objective assurance, advice, insight and foresight.
- 2.4. GIA supports the achievement of the corporate objectives through a systematic and disciplined approach in periodically and systematically evaluating, and reporting on the effectiveness of DIB's risk management, internal controls and governance processes.

## 3. COMMITMENT TO ADHERING TO THE GLOBAL INTERNAL AUDIT STANDARDS

- 3.1. GIA will govern itself by adherence to the specific regulations related to Internal Audit as issued by the Central Bank of the United Arab Emirates, the Securities and Commodities Authority and the Institute of Internal Auditors' Global Internal Audit Standards and Topical Requirements including the adoption of the GIAS glossary and the profession's commitment to the public interest.
- 3.2. GIA will adhere to DIB's relevant policies and procedures. The work of GIA will be performed in conformance to the standards mentioned above, and as documented in the Internal Audit Manual which will be reflective of industry best practices.
- 3.3. GCIA will report annually to the board and senior management regarding the GIA's conformance with the standards, which will be assessed through a quality assurance and improvement program.

## 4. AUTHORITY

- 4.1. GIA authority is created by its direct reporting relationship to the board providing GCIA unrestricted access to the board. GIA is headed by the GCIA who is accountable to BAC. To ensure organizational independence is achieved, GIA reports functionally to BAC and administratively to GCEO.
- 4.2. BAC shall ensure that the internal audit activity has sufficient authority to fulfil its duties by:
  - a. Providing unrestricted access to the GCIA who will communicate and interact directly with the BAC, including in executive sessions and between BAC meetings as appropriate.
  - b. Ensuring GIA has full access to all information, records and documents within the functional areas listed in its operational scope.
  - c. If access is required to any high level confidential or sensitive information, the GCIA shall liaise with senior management as appropriate for access. If, in the GCIA's opinion, any restriction on access shall limit GIA's ability to discharge its duties effectively, this will be escalated to senior management and thereafter to the BAC.

## 5. SCOPE AND TYPES OF INTERNAL AUDIT SERVICES

- 5.1. The internal audit scope covers the entire breadth of the bank. It encompasses, but is not limited to, objective examinations of evidence to provide independent "assurance" and "advisory" audit services to the board (through the BAC) and management on:
  - a. Adequacy and effectiveness of governance, risk management, compliance systems and control processes.
  - b. Effectiveness and efficiency of internal control, risk management, and compliance systems.



- c. Reliability and integrity of management information systems and processes.
  - d. Compliance with laws, regulations, standards and the instructions of the CBUAE.
  - e. Safeguarding of assets.
- 5.2. All activities of DIB and its subsidiaries fall within the scope of the GIA. GIA's role for audit coverage responsibilities in relation to DIB and its subsidiaries, associates and joint ventures is as directed and approved from time to time by the BAC.
- 5.3. GIA's scope will also extend to suitable audit coverage of outsourced functions, as per approved and signed outsourced agreements, wherever applicable.
- 5.4. Any restrictions placed on GIA authority may be construed as a scope limitation. Any such restrictions shall be recorded in relevant audit reports and shall be communicated by the GCIA to the BAC.
- 5.5. The nature and scope of advisory services may be agreed with the party requesting the service, provided GIA does not assume management responsibility or compromise its independence and objectivity.

## **6. GIA STRUCTURE AND ORGANISATION**

- 6.1. The GCIA will be positioned at a level in the organization that enables internal audit responsibilities to be performed without interference from management, thereby establishing the independence of the internal audit function. The function shall not be combined with any other function within DIB.
- 6.2. GIA's headcount and organisational structure is the GCIA's responsibility, in accordance with DIB's approved HR policies and guidelines, and subject to the guidance and approval of the BAC.
- 6.3. GIA staff are organisationally independent of all other functions in DIB. To maintain this independence in the discharge of their responsibilities, GIA staff members are neither assigned to, nor are they expected to engage in, activities which are related to day-to-day management, operational or control functions of DIB. GCIA reports functionally to the BAC, and administratively to GCEO.
- 6.4. GCIA shall ensure that GIA resources possess collectively the right mix of knowledge and skills and are effectively deployed to ensure the accomplishment of the audit plan. Where necessary, specialist co-sourcing may be engaged to support the approved internal audit plan.
- 6.5. GCIA shall ensure that any GIA staff recruited internally do not engage in auditing activities for which they have had previous responsibility, observing a cooling off-period of at least one financial year. Staff rotations within the internal audit function as well as to and from the internal audit function must be governed by and conducted in accordance with a written policy. The policy should be designed to avoid conflicts of interest, including the observance of an appropriate "cooling-off" period following an individual's return to the internal audit staff, before those individual audits activities in the functional area of the bank where his/her rotation had been served.
- 6.6. In the event a conflict arises, established procedures set out in the IA Manual shall be followed.

## **7. INDEPENDENCE**

- 7.1. GIA is most effective when it is independently positioned in direct accountability to the board and when the internal auditors are free from undue influence and committed to making objective assessments.
- 7.2. GCIA communicates and interacts directly with BAC and ensures that GIA is independent and free from interference in determining the internal auditing scope, performing the work and communicating the results. GCIA shall disclose any interference to BAC and discuss the implications.
- 7.3. Internal auditors will have no direct operational responsibility or authority over any of the activities audited. Accordingly, they will not implement internal controls, develop procedures, install systems, prepare records, or engage in any other activity that may impair their objective judgment. Internal auditors will exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors will make a balanced assessment of all the relevant circumstances and not be unduly influenced by their own interests or by others in forming judgments.
- 7.4. To safeguard independence, the compensation of GIA employees shall be determined independently of DIB's performance, where performance measures and incentives shall be based on achievement of their



own objectives.

- 7.5. The GCIA will confirm to the BAC, at least annually, the organisational independence of GIA. If GCIA determines that independence or objectivity may be impaired in fact or appearance, the details of impairment will be disclosed to the BAC or the appropriate parties.
- 7.6. Where GCIA has or is expected to have roles or responsibilities outside of GIA, safeguards will be put in place to limit any impairment to independence or objectivity and will be subject to BAC approval.

## 8. BOARD OVERSIGHT

To establish, maintain and ensure that the GCIA has sufficient authority to fulfil his/her duties:

### 8.1 The BAC shall:

- a. Discuss with the GCIA and senior management the appropriate authority, role, responsibilities, scope and services of the internal audit function.
- b. Ensure the GCIA has unrestricted access to and communicates and interacts directly with the BAC, including in private meetings without senior management presence.
- c. Review and approve the charter, which includes the internal audit mandate, the scope and types of internal audit services.
- d. Review the internal audit charter to consider the changes affecting the organization taking into consideration any changes affecting DIB.
- e. Approve the risk-based internal audit plan.
- f. Approve GIA's human resources administration and budget.
- g. Approve the appointment, removal and objectives of the GCIA and evaluate the GCIA's performance on an annual basis ensuring that:
  - The incumbent is well qualified, academically or through a professional qualification, with a working experience of not less than 5 years in auditing of banking or financial business.
  - CBUAE is promptly notified in case of GCIA resignation and the reasons thereof.
  - The no-objection of the CBUAE is obtained prior to dismissing or replacing the GCIA.
- h. Receive communications and reports from the chief audit executive about the internal audit function performance relative to its plan.
- i. Ensure a quality assurance and improvement program (QAIP) has been established and review the results annually.
- j. Make appropriate inquiries of senior management and the GCIA to determine whether scope or resource limitations are inappropriate.

### 8.2 The BAC shall propose the remuneration and rewards of the GCIA to Board Nomination and Remuneration Committee (BNRC) for final approval.

## 9. ROLES AND RESPONSIBILITIES

### 9.1 CHIEF AUDIT EXECUTIVE'S ROLE AND RESPONSIBILITY

#### 9.1.1 **Ethics and Professionalism:** GCIA shall ensure managing GIA appropriately to fulfil its mandate, while ensuring that internal auditors:

- a. Conform with the Global Internal Audit Standards, including the principles of Ethics and Professionalism: integrity, objectivity, competency, due professional care and confidentiality.
- b. Understand, respect, meet and contribute to the ethical expectations of DIB and are able to recognize conduct that is contrary to the expectations.
- c. Encourage and promote an ethics-based culture in DIB.
- d. Report organizational behaviour that is inconsistent with DIB's ethical expectations as described in applicable policies and procedures.

#### 9.1.2 **Objectivity:** GCIA will ensure that:

- a. GIA remains free from all conditions that threaten the ability of internal auditors to carry out their responsibilities in an unbiased manner. If GCIA determines that objectivity may be impaired in fact or appearance, the details of the impairment will be disclosed to appropriate parties.



- b. The internal auditors:
  - Maintain an unbiased attitude that allows them to perform engagements objectively without compromising quality and subordinating their judgement on audit matters in fact or appearance.
  - Exhibit professional objectivity in gathering, evaluating and communicating information.
  - Make balanced assessments of all available and relevant facts and circumstances.
  - Take necessary precautions to avoid conflicts of interest, bias and undue influence.
  - Have no direct responsibility or authority over any activities they review. Accordingly, internal auditors will not implement internal controls, develop procedures, instal systems, or engage in other activities that may impair their judgement, including:
    - Assessing specific operations for which they had responsibility within the previous year.
    - Performing operational duties for DIB or its affiliates.
    - Initiating or approving transactions external to the internal audit function.
  - Disclose impairments of independence or objectivity, in fact or appearance.

**9.1.3 Managing the internal audit function:** GCIA has the responsibility to:

- a. Maintain a multi-year internal audit strategy that aligns with DIB's strategic objectives and BAC expectations; defines roadmaps and sets KPIs for the internal audit performance that are reported at least annually to BAC.
- b. At least annually, develop a risk-based internal audit plan that considers the input from BAC and senior management. Discuss the plan with BAC and senior management and submit the plan for BAC's approval.
- c. Communicate the impact of resource limitations on the audit plan to BAC and senior management.
- d. Review and adjust the internal audit plan, as necessary, in response to changes in DIB's business, risks, operations, systems and controls.
- e. Communicate with BAC and senior management if there are significant interim changes to the IA plan.
- f. Ensure internal audit engagements are performed, documented and communicated in accordance with Global Internal Audit Standards.
- g. Follow-up on engagement findings and confirm the implementation of recommendations or action plans and communicate the results of internal audit services to the BAC and senior management periodically.
- h. Ensure the internal audit function collectively possesses or obtains the knowledge, skills and other competencies needed to meet the requirements of the CBUAE and Global Internal Audit Standards and fulfil the internal audit mandate.
- i. Ensure that the IA staff acquire appropriate ongoing training in order to meet the growing technical complexity of DIB's activities, and the increasing diversity of tasks that need to be undertaken as a result of the introduction of new products and processes and other developments in the financial sector.
- j. Identify and consider trends and emerging issues that could impact the bank and communicate to the BAC as appropriate.
- k. Consider emerging trends and successful practices in internal auditing.
- l. Establish and ensure adherence to methodologies designed to guide the internal audit function.
- m. Ensure adherence to DIB's relevant policies and procedures.
- n. Coordinate activities and consider relying upon other internal and external providers of assurance and advisory services. If an appropriate level of coordination is not possible to achieve, GCIA shall communicate this to senior management and if necessary escalated to the board.

**9.1.4** GCIA shall ensure that GIA's primary objectives are achieved through the performance of a comprehensive and systematic program of independent audits designed to:

- a. Evaluate whether risks relating to the achievement of the strategic objectives are appropriately identified and managed. Provide assurance that risks to which DIB's business are exposed to have been identified, quantified and are monitored.
- b. Evaluate whether the results of operations are consistent with established goals and objectives; and whether resources and assets are acquired economically, used efficiently and sustainably and protected adequately.



- c. Recommend operating enhancements and provide independent assurance as to the adequacy, efficiency and effectiveness of DIB's Compliance, Governance, Risk Management and Internal Control processes, in carrying out assigned responsibilities to achieve the stated objectives.
  - d. Review the Credit and Investment Portfolio, and related end-to-end processes, along with the risk management processes and the adequacy of required provisions for potential losses.
  - e. Evaluate the reliability and integrity of Management Information Systems and the means used to identify, measure, classify, and report such information, based on which business decisions are made by DIB's management.
  - f. Evaluate the degree of compliance with DIB's policies and procedures, applicable laws, regulations, and governance standards.
  - g. Evaluate the means of safeguarding DIB's assets, both physical and virtual, and as appropriate verifying the existence of such assets.
  - h. Track all outstanding audit issues and action plans and escalate matters requiring further attention.
  - i. Consider reports issued by DIB's external auditors, Central Bank examiners and Financial Audit Authority auditors, Securities and Commodities Authority (SCA) and other regulatory bodies, for the purpose of providing optimal audit coverage and assurance to the BAC and senior management.
- 9.1.5 GCIA shall prepare periodic MIS reports on the results of GIA work and following up on the agreed-to corrective actions. GCIA shall provide BAC and senior management with a comprehensive view of all the internal audit and regulators findings with an expected date by which the corrective action should be implemented, classified by the level of criticality. This shall provide BAC with a good view of the management commitment to those deadlines and thus, to the improvement of the risk level in the identified areas.
- 9.1.6 GCIA shall share information, coordinate activities and consider relying upon the work of other internal/external assurance providers to ensure proper coverage and minimize duplication of efforts.
- 9.1.7 GCIA may update and approve GIA procedure / processes where it is applicable to ensure compliance with GIA charter, regulations and relevant standards.
- 9.1.8 GIA will coordinate with the Group Internal Sharia Audit Department (GISAD) in:
- a. Exchanging findings and reports issued.
  - b. Fulfilling BAC's responsibilities related to the internal sharia audit function, as detailed in BAC TOR.
- 9.1.9 GIA's core oversight responsibilities over applicable group subsidiaries and affiliates are as follows:
- a. GCIA shall support BAC's oversight by ensuring adequate and timely flow of information.
  - b. GCIA shall maintain an interactive line of communication with group entities in order to ensure that audit best practices are implemented across the group. Provide guidance to group entities in managing Internal Audit's governance in accordance with applicable laws and regulations.
  - c. GCIA shall review and ensure alignment of the internal audit charters adopted by applicable group entities with GIA DIBUAE charter, assess any deviations and update the BAC.
  - d. GCIA shall monitor the audit plan of applicable group entities, audit results and management action. GCIA is required to submit to BAC periodic subsidiaries MIS reports on any material fines, fraud cases, regulatory reviews, critical issues facing the bank, progress against the annual audit plan, status update on the overall audit issues follow-up, high level summary of the audit reports.
- 9.1.10 GCIA shall, in accordance with the CBUAE expectations and in good faith, be required to promptly report to the CBUAE:
- a. when they become aware of a significant deviation from the Charter; and
  - b. violations of the CBUAE law, regulations, instructions and any matters of significance.

## 9.2 INTERNAL AUDITORS' ROLE AND RESPONSIBILITY

- 9.2.1 Internal auditors are accountable for the confidentiality and safeguarding of records and information.
- 9.2.2 Internal auditors shall:
- a. Apply the care and skills expected of a reasonably prudent and competent professional.
  - b. Maintain an unbiased mental attitude that allows them to perform engagements objectively



- without compromising quality and subordinating their judgement on audit matters either in fact or appearance.
- c. Disclose impairments of independence or objectivity, in fact or appearance.
  - d. Exhibit professional objectivity in gathering, evaluating and communicating information.
  - e. Make balanced assessments of all available and relevant facts and circumstances.
  - f. Take necessary precautions to avoid conflicts of interest, bias and undue influence.
  - g. Have no direct responsibility or authority over any activities they review. Accordingly, internal auditors shall not implement internal controls, develop procedures, install systems, or engage in other activities that may impair their judgement, including:
    - Assessing specific operations for which they had responsibility within the previous one year.
    - Performing operational duties for DIB or its subsidiaries or affiliates.
    - Initiating or approving transactions external to the internal audit function.

### 9.3 SENIOR MANAGEMENT'S ROLE AND RESPONSIBILITY

Senior Management shall be responsible to:

- a. Inform GIA on a timely basis of new developments, initiatives, projects, products and operational changes, and ensure that all associated risks, known and anticipated, are identified and communicated.
- b. Ensure that timely and appropriate actions are taken on all internal audit findings and recommendations.

## 10. REPORTING AND MONITORING

- 10.1. GCIA shall report periodically to senior management and BAC regarding:
  - a. The GIA's mandate.
  - b. Independence of the internal audit activity.
  - c. Conformance with the Code of Ethics and Standards and potential impairment to independence.
  - d. The internal audit plan and performance relative to the plan.
  - e. The internal audit budget.
  - f. Significant revisions to the internal audit plan and budget.
  - g. Results of the audit activities.
  - h. Results from the QAIP and action plan to address the opportunities for improvement.
  - i. The resource requirements.
  - j. Management's response to risk that, in the GCIA's judgment, may be unacceptable.
- 10.2. A written report will be prepared and issued to the Head of an auditee department following the conclusion of each audit engagement, with copies distributed as appropriate. Internal audit reports will include the management's response, corrective actions to be taken along with a target completion date responsible body for implementation. If not accepted by the auditee, a justifiable reason with supporting evidence must be provided for the finding's re-consideration during an escalation procedure. The status of the audit findings will be tracked by GIA as "Open" or "Overdue" until implementation. Any extension of the target date shall be approved as per the Target Date Extension Approval Matrix.
- 10.3. In the event any audit finding is disagreed with by the auditee, the issue will be escalated to GCIA for further discussion at the Chief/GCEO/BAC level. The status of the issue will continue to be reported as 'Open' until reaching a positive outcome.

## 11. INTERNAL AUDIT PLAN

- 11.1. GCIA shall establish a risk-based audit plan to determine GIA priorities, consistent with DIB's goals. The internal audit plan must be based on documented risk assessment undertaken at least annually, informed by the enterprise risk assessment, leveraging integrated assurance and relying on other assurance providers' work where quality criteria are met. The input of senior management and Board shall be considered in this process. GCIA shall submit the risk-based annual plan to BAC for approval.



- 11.2. GCIA shall consider accepting proposed consulting engagements based on the potential to improve management of risks, add value and improve DIB's operations. Accepted consulting engagement shall be added to the plan.
- 11.3. GCIA will communicate the impact of resource limitations and significant interim changes to senior management and the BAC.
- 11.4. Performance against the approved audit plan will be tabled periodically at BAC meetings. GCIA will review and adjust the internal audit plan, as necessary, in response to changes in DIB's business, risks, operations, programs, systems, and controls. Shifting any audit assignment from the current year's audit plan, to be conducted in subsequent year(s), will be communicated to BAC and subject to their approval.

## **12. QUALITY ASSURANCE AND IMPROVEMENT PROGRAM (QAIP)**

- 12.1. GIA shall develop, implement and maintain a quality assurance and improvement program that covers all aspects of the internal audit activity including its evaluation of conformance to the IIA's Global Internal Audit standards as well as performance assessment to assess the internal audit function's progress towards achieving its objectives and promotion of continuous improvement. The QAIP shall include both:
  - Internal assessment: Ongoing monitoring and periodic self-assessments
  - External assessment to be conducted at least once every 5 years by a qualified, independent assessor.
- 12.2. GCIA shall report annually to senior management and BAC on the results of the QAIP internal and external assessments and the plans to address the internal audit function's deficiencies and opportunities for improvement.

## **13. OUTSOURCING/CO-SOURCING**

- 13.1. It is intended that GIA shall perform the internal audit activities. However, outsourcing/co-sourcing of internal audit activities, on a limited and targeted basis may be used to provide access to specialized expertise and knowledge for an internal audit engagement where the expertise is not available in-house, or due to resource constraints. Any such arrangement shall be subject to the following conditions:
  - a. The supplier shall not be the bank's external audit firm.
  - b. The supplier has not been previously engaged in a consulting engagement in the same area within the bank, unless at least one full financial year has lapsed.
  - c. BAC's prior approval is obtained.
- 13.2. Notwithstanding any outsourcing that may be undertaken, the BAC shall remain ultimately responsible for the internal audit function regardless of whether internal audit activities are outsourced.

## **14. CHANGES TO THE MANDATE AND CHARTER**

- Circumstances may justify a follow-up discussion between the GCIA, BAC and senior management on the audit mandate or other aspects of the charter. Such circumstances may include but are not limited to:
- a. Significant change in the Global Internal Audit Standards.
  - b. Significant acquisition or reorganization within DIB.
  - c. Significant changes in the GCIA, BAC and/or senior management.
  - d. Significant changes to DIB's strategies, objectives, risk profile or environment in which DIB operates.
  - e. New laws or regulations that may affect the nature and/or scope of the internal audit services.