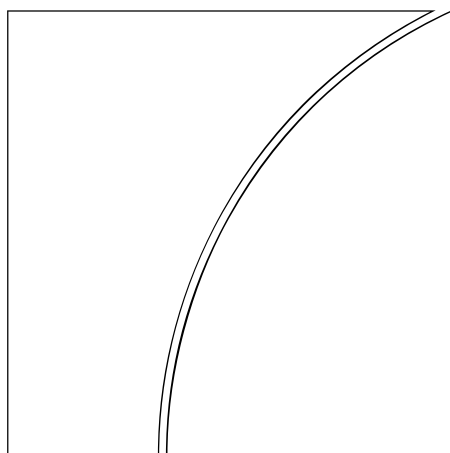




BANK FOR INTERNATIONAL SETTLEMENTS

Internal Audit Charter



Version 1.0

Internal Audit

20 March 2003

This charter describes the mission, independence and objectivity, scope and responsibilities, authority, accountability and standards of the Internal Audit function.

Mission

The mission of Internal Audit is to ensure that the Bank's operations are conducted according to the highest standards by providing an independent, objective assurance function and by advising on best practice. Through a systematic and disciplined approach, Internal Audit helps the Bank accomplish its objectives by evaluating and improving the effectiveness of risk management, control and governance processes.

Independence and objectivity

To ensure independence, Internal Audit is directly responsible to the General Manager and the Deputy General Manager. In addition, it reports regularly to the Audit Committee appointed by the Board.

To maintain objectivity, Internal Audit is not involved in day-to-day control procedures. Instead, each business unit is responsible for its own internal control and efficiency.

Scope and responsibilities

The scope of internal audit work includes the review of risk management procedures, internal control systems, information systems and governance processes. This work also involves periodic testing of transactions, best practice reviews, special investigations, appraisals of regulatory requirements, and measures to help prevent and detect fraud.

To fulfil its responsibilities, Internal Audit shall:

- Identify and assess potential risks to the Bank's operations.
- Review the adequacy of controls established to ensure compliance with policies, plans, procedures, and business objectives.
- Assess the reliability and security of financial and management information and the systems and operations (in-house or outsourced) that produce this information.
- Assess the means of safeguarding assets.
- Review established procedures and systems and propose improvements.
- Appraise the use of resources with regard to economy, efficiency and effectiveness.
- Contribute to the development of projects, selected according to the risk involved, by confirming that the Bank's project methodology is followed and that, in particular, adequate controls are incorporated.
- Follow up recommendations to make sure that effective remedial action is taken.
- Carry out ad hoc appraisals, investigations, or reviews requested by the Management.

Authority

Internal Audit aims to promote effective controls at reasonable cost. To achieve this, Internal Audit is authorised, in the course of its activities, to:

- Enter all areas of the Bank and have access to any documents and records considered necessary for the performance of its functions.
- Require all members of staff and Management to supply such information and explanations as may be needed within a reasonable period of time.

Heads of Department should inform Internal Audit without delay of any significant incident concerning security and/or compliance with regulations and procedures.

Accountability

Internal Audit shall prepare, in liaison with the General Manager and the Deputy General Manager, an annual audit plan. The plan is based on a risk model that identifies business risks, and on input from line managers. It provides information about the risk assessment, the current order of priority of audit projects and how they are to be carried out.

The plan shall be presented to the General Manager, the Deputy General Manager and the Audit Committee for approval. In case of need, adjustments could be made to the plan during the year. They would be approved by the General Manager and the Deputy General Manager and communicated to the Audit Committee.

Internal Audit is responsible for planning, conducting, reporting and following up on audit projects included in the audit plan, and decides on the scope and timing of audits. The details of these processes are defined in the Internal Audit Manual.

Audit fieldwork shall be conducted in a professional and timely manner. Reporting of results will include an open process to agree on the facts and the validity of audit recommendations. A detailed audit report and a letter to Management will summarise the objectives and scope of the audit as well as observations and recommendations. In all cases, follow-up work will be undertaken to ensure adequate response to audit recommendations.

Internal Audit will submit an annual report to Management and to the Audit Committee on the results of the audit work including significant risk exposures and control issues.

The section shall coordinate with external audit to ensure proper coverage and avoid duplication of effort.

Standards

Internal Audit adheres to the standards of best professional practice, such as those published by the Institute of Internal Auditors and the Information Systems Audit and Control Association, and the relevant reports and recommendations of the Basel Committee on Banking Supervision.