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## 1. INTRODUCTION

This Internal Audit Charter provides a comprehensive framework for the conduct of Internal Audit within BRAC. It has been meticulously prepared in accordance with the Guidelines of the Institute of Internal Auditors (IIA) and the ISACA Audit & Assurance Standards 1001 and Guideline 2001. The primary aim of this Charter is to define and establish:

- The role of the Internal Audit Function.
- The objectives and scope of the Internal Audit Function.
- A clear mandate to perform audit functions.
- The Internal Audit Department's position, its access to various records, departments, and activities, as well as its responsibility and accountability.

The Director of Internal Audit at BRAC assumes the role of oversight, managing crucial duties in alignment with the standards outlined for a Chief Audit Executive by the Institute of Internal Auditors (IIA).

This Internal Audit Charter is hereby approved by the Board Finance, Audit and Risk Committee (hereafter referred to as "the FARC"), reinforcing our commitment to robust internal auditing practices.

## 2. DEFINITION OF INTERNAL AUDIT

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

## 3. PURPOSE OF INTERNAL AUDIT

The purpose of the internal audit department of BRAC is to strengthen the organization's ability to create, protect, and sustain value by providing the FARC and management with independent, risk-based, and objective assurance, advice, insight and foresight.

Internal auditing enhances the BRAC's:

- Successful achievement of its objectives.
- Governance, risk management, and control processes.
- Decision-making and oversight.
- Reputation and credibility with its stakeholders.
- Ability to serve the stakeholders' interest.

BRAC's internal audit function is most effective when:

- Internal auditing is performed by competent professionals in conformance with the IIA's Global Internal Audit Standards.
- The internal audit function is independently positioned with direct accountability to the FARC.
- Internal auditors are free from undue influence and committed to making objective assessments.



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

The BRAC's internal audit function will adhere to the mandatory elements of The Institute of Internal Auditors' International Professional Practices Framework, which are the Global Internal Audit Standards and Topical Requirements. The Director of Internal Audit will report to the FARC, Executive Director and Managing Director regarding the internal audit function's conformance with the Standards periodically, which will be assessed through a quality assurance and improvement program.

#### 5. INTERNAL AUDIT MANDATE

The Internal Audit function of BRAC operates in alignment with the International Professional Practices Framework (IPPF), the laws and regulations of Bangladesh, the requirement of Donors and the specific mandates of BRAC. Our audit activities encompass a thorough examination of processes, systems, and controls to provide assurance on governance, risk management, compliance and control processes. Additionally, we adhere to ISACA regulations for information systems to ensure the integrity and security of our technological infrastructure.

##### 5.1 AUTHORITY

The FARC grants the internal audit function the mandate to provide the FARC and Senior Management with objective assurance, advice, insight, and foresight.

The internal audit function's authority is created by its direct reporting relationship to the FARC. Such authority allows for unrestricted access to the FARC.

The FARC authorizes the internal audit function to:

- Have full and unrestricted access to all functions, data, records, information, physical property, and personnel pertinent to carrying out internal audit responsibilities. Internal auditors are accountable for confidentiality and safeguarding records and information.
- Allocate resources, set frequencies, select subjects, determine scopes of work, apply techniques, and issue communications to accomplish the function's objectives.
- Obtain assistance from the necessary personnel of BRAC and other specialized services from within or outside BRAC to complete internal audit services.

##### 5.2 INDEPENDENCE, ORGANIZATIONAL POSITION, AND REPORTING RELATIONSHIPS

The Director, Internal Audit shall report administratively to the Executive Director and Managing Director and functionally to the FARC, however the Executive Director will finalize the annual performance appraisal and remuneration of the Director, Internal Audit with the consent of the Chair of the FARC. The Director of Internal Audit will confirm to the FARC, at least annually, the organizational independence of the internal audit function. The Director of Internal Audit will disclose to the FARC any interference internal auditors encounter related to the scope, performance, or communication of internal audit work and results. The disclosure will include communicating the implications of such interference on the internal audit function's effectiveness and ability to fulfill its mandate.



### 5.3 CHANGES TO THE MANDATE AND CHARTER

Circumstances may justify a follow-up discussion between the Director of Internal Audit, the FARC and Senior Management on the internal audit mandate or other aspects of the internal audit charter. Such circumstances may include but are not limited to:

- A significant change in the Global Internal Audit Standards.
- A significant acquisition or reorganization within the organization.
- Significant changes in the Director of Internal Audit, the FARC, and/or Senior Management.
- Significant changes to the organization's strategies, objectives, risk profile, or the environment in which the organization operates.
- New laws or regulations that may affect the nature and/or scope of internal audit services.

## 6. THE FINANCE, AUDIT AND RISK COMMITTEE OVERSIGHT

To establish, maintain, and ensure that BRAC's internal audit function has sufficient authority to fulfill its duties, the FARC will:

- Discuss with the Director of Internal Audit and Senior Management the appropriate authority, role, responsibilities, scope, and services (assurance and/or advisory) of the internal audit function.
- Ensure the Director of Internal Audit has unrestricted access to, communicates and interacts directly with the FARC, including in private meetings without Senior Management present.
- Discuss with the Director of Internal Audit and Senior Management other topics that should be included in the internal audit charter.
- Participate in discussions with the Director of Internal Audit and Senior Management about the "essential conditions," described in the Global Internal Audit Standards, which establish the foundation that enables an effective internal audit function.
- Approve the internal audit function's charter, which includes the internal audit mandate and the scope and types of internal audit services.
- Review the internal audit charter periodically with the Director of Internal Audit to consider changes affecting the organization, such as the employment of a new Director of Internal Audit or changes in the type, severity, and interdependencies of risks to the organization; and approve the internal audit charter periodically.
- Approve the internal audit manual.
- Approve the risk based internal audit plan.
- Approve the internal audit budget and resource plan.
- Make appropriate inquiries of management and to determine whether there is inappropriate scope or resource limitations.
- The appointment, dismissal or replacement of top executives of the Internal Audit Department will be done in consultation with the Chairperson and approval from the FARC.
- Review the performance of the Director of Internal Audit.
- Receive communications from the Director of Internal Audit about the internal audit function including its performance relative to its plan.
- Ensure a quality assurance and improvement program has been established.
- Review of the results of the quality assurance and improvement program annually.

## 7. THE DIRECTOR, INTERNAL AUDIT ROLES AND RESPONSIBILITIES

### 7.1 ETHICS AND PROFESSIONALISM

The Director of Internal Audit will ensure that internal auditors:

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

### 7.2 OBJECTIVITY

The Director of Internal Audit will ensure that the internal audit function remains free from all conditions that threaten the ability of internal auditors to carry out their responsibilities in an unbiased manner, including matters of engagement selection, scope, procedures, frequency, timing, and communication. If the Director of Internal Audit determines that objectivity may be impaired in fact or appearance, the details of the impairment will be disclosed to appropriate parties.

Internal auditors will maintain an unbiased mental attitude that allows them to perform engagements objectively such that they believe in their work product, do not compromise quality, and do not subordinate their judgment on audit matters to others, either in fact or appearance.

Internal auditors will have no direct operational responsibility or authority over any of the activities they review. Accordingly, internal auditors will not implement internal controls, develop procedures, install systems, or engage in other activities that may impair their judgment, including:

- Assessing specific operations for which they had responsibility within the previous year.
- Performing operational duties for BRAC or its affiliates.
- Initiating or approving transactions external to the internal audit function.
- Directing the activities of any BRAC employee that is not employed by the internal audit function, except to the extent that such employees have been appropriately assigned to internal audit teams or to assist internal auditors.
- Internal Auditors shall have no direct operational responsibility or authority over any of the activities audited. Accordingly, they shall not develop nor install systems or procedures, prepare records, or engage in any other activity which would normally be audited.
- Internal Audit Department shall be independent of the activities audited. The department must also be independent from the regular internal control process.
- The Internal Audit Department shall exercise its assignment on its own initiative in all Departments, Programmes, Enterprises, all offices and activities of BRAC.
- Director, Internal Audit shall be authorized to communicate directly, and on his/her own initiative, to the Chairperson, the members of the FARC.
- Internal Auditors will report to the Director of Internal Audit for any situation in which a conflict of interest or bias is present or may be reasonably inferred.

- Director, Internal Audit will confirm to the FARC, at least annually, the organizational independence of internal audit activity.
- Must discuss with the FARC, Executive Director and Managing Director any current or proposed roles and responsibilities that have the potential to impair the internal audit function's independence, either in fact or appearance.
- Must get the consent of the FARC in case of any roles or responsibilities beyond the internal auditing.

Internal auditors will:

- Disclose impairments of independence or objectivity, in fact or appearance, to appropriate parties and at least annually, such as the Director of Internal Audit, the FARC, Management, or others.
- 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.

### 7.3 MANAGING THE INTERNAL AUDIT FUNCTION

The Director of Internal Audit has the responsibility to:

- At least annually, submit a risk-based internal audit plan to the FARC, for review and approval. The plan is developed through collaborative consultation with management, aligning it with the strategic objectives of BRAC.
- Execute the Annual Internal Audit Plan, as well as any special tasks or projects as requested by the FARC and Senior Management as appropriate.
- Assist in investigations and examinations of significant suspected fraudulent activities, reporting the results to the FARC and Senior Management as appropriate.
- Communicate the impact of resource limitations on the internal audit plan to the FARC and Senior Management as appropriate
- Review and adjust the internal audit plan, as necessary, in response to changes in BRAC's organizational, risks, operations, programs, systems, and controls.
- Develop the internal audit manual and submit to the FARC for approval.
- Develop the internal audit Standard Operating Procedures (SOP's) as appropriate.
- Communicate with the FARC and Senior Management as appropriate if there are significant interim changes to the internal audit plan.
- Ensure internal audit engagements are performed, documented, and communicated in accordance with the Global Internal Audit Standards.
- Follow up on engagement findings and confirm the implementation of recommendations or action plans and communicate the results of internal audit services to the FARC and Senior Management periodically and for each engagement as appropriate.
- Ensure the internal audit function collectively possesses or obtains the knowledge, skills, and other competencies needed to meet the requirements of the Global Internal Audit Standards and fulfill the internal audit mandate.
- Identify and consider trends and emerging issues that could impact BRAC and communicate to the FARC, and Senior Management as appropriate.



- Consider emerging trends and successful practices in internal auditing.
- Establish and ensure adherence to methodologies designed to guide the internal audit function.
- Ensure adherence to BRAC's relevant policies and procedures unless such policies and procedures conflict with the internal audit charter or the Global Internal Audit Standards. Any such conflicts will be resolved or documented and communicated to the FARC and Senior Management as appropriate.
- Coordinate activities and consider relying upon the work of other internal and external providers of assurance and advisory services. If the Director of Internal Audit cannot achieve an appropriate level of coordination, the issue must be communicated to Senior Management and if necessary escalated to the FARC.

#### **7.4 COMMUNICATION WITH THE FINANCE, AUDIT AND RISK COMMITTEE**

The Director of Internal Audit will report periodically to the FARC, Executive Director, Managing Director and Senior Management as appropriate regarding:

- The internal audit function's mandate.
- The internal audit plan and performance relative to its plan.
- Internal audit budget.
- Significant revisions to the internal audit plan and budget.
- Potential impairments to independence, including relevant disclosures as applicable.
- Results from the quality assurance and improvement program, which include the internal audit function's conformance with The IIA's Global Internal Audit Standards and action plans to address the internal audit function's deficiencies and opportunities for improvement.
- Significant risk exposures and governance issues, control issues, including fraud risks, and other areas of focus for the FARC, Executive Director, Managing Director and Senior Management as appropriate.
- Results of assurance and advisory services.
- Resource requirements.
- Management's responses to risk that the internal audit function determines may be unacceptable or acceptance of a risk that is beyond BRAC's risk appetite.

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

The Director of Internal Audit will develop, implement, and maintain a quality assurance and improvement program that covers all aspects of the internal audit function. The program will include external and internal assessments of the internal audit function's conformance with the Global Internal Audit Standards, as well as performance measurement to assess the internal audit function's progress toward the achievement of its objectives and promotion of continuous improvement. The program also will assess, if applicable, compliance with laws and/or regulations relevant to internal auditing. Also, if applicable, the assessment will include plans to address the internal audit function's deficiencies and opportunities for improvement.



Annually, the Director of Internal Audit will communicate with the FARC, Executive Director and Managing Director about the internal audit function's quality assurance and improvement program, including the results of internal assessments (ongoing monitoring and periodic self-assessments) and external assessments. External assessments will be conducted at least once every five years by a qualified, independent assessor or assessment team from outside BRAC; qualifications must include at least one assessor holding an active Certified Internal Auditor credential.

## 9. SCOPE AND TYPES OF INTERNAL AUDIT SERVICES

### 9.1 SCOPE OF INTERNAL AUDIT

The scope of internal audit activities also encompasses but is not limited to objective examinations of evidence to provide independent assurance and advisory services to the FARC and management on the adequacy and effectiveness of governance, risk management, and control processes aligned with organizational strategy and the quality of performance in carrying out assigned responsibilities to achieve the organization's stated goals and objectives. The details of the scope are as follows:

- Objective examinations of evidence for the purpose of providing independent assessments on the adequacy and effectiveness of governance, risk management, and control processes.
- Risks relating to the achievement of BRAC's strategic objectives are appropriately identified and managed.
- The actions of BRAC's management, directors, employees, and contractors comply with BRAC's policies, procedures, and applicable laws, regulations, and governance standards.
- Operations and programs are being carried out effectively and efficiently.
- Reviewing the reliability and integrity of financial and operating information and the means used to identify measures, classify, and report such information.
- Reviewing the systems established to ensure compliance with those policies, plans, procedures, laws, and regulations which could have a significant impact on operations and reports and whether the organization is in compliance.
- Resources and assets are acquired economically, used efficiently and sustainably, and protected adequately.
- Reviewing operations or Programmes to ascertain whether results are consistent with established objectives and goals and whether the operations or Programmes are being carried out as planned.
- Reviewing specific operations at the request of the FARC or Senior Management, as appropriate.
- Monitoring and evaluating the effectiveness of the organisation's governance, risk management and control processes.
- Ensure the coordination and collaboration with external audit.
- Carrying out special investigations assigned by the FARC, Executive Director, Managing Director and Senior Management as appropriate.
- Ensuring all Programmes and financial activity fall within the scope of the internal audit for independent appraisal. The Director, Internal Audit and Officials of audit department are, however, not allowed to:
  - Initiate or approve accounting transactions external to Internal Audit Department.
  - Direct the activities of employees not employed by the Internal Audit Department, except to the extent such employees have been appropriately assigned to auditing teams or to otherwise assist the internal auditors.

## 9.2 INTERNAL AUDIT SERVICES

The internal audit department of BRAC provides assurance, advisory & advocacy and insight and foresight services.

### I. Assurance

Under the assurance services internal audit provides independent assessment of governance, internal control, and risk management.

#### ❖ Internal audit services

- Branch audit
- Process audit
- Information systems audit
- Surprise audit
- Physical verification
- Special audit
- Investigation

### II. Compliance review

- Regulatory, Legal & Donor compliances
- Internal control assessment
- Policy and procedure compliance

### III. Advisory and advocacy

Internal audit is also engaged in providing advisory and advocacy services using its skill set and expertise as guided by IIA standards. However, the Internal Audit Department will strictly maintain its independence during such engagement to the management.

### IV. Insight and foresight

Internal audit provides insight and foresight which helps stakeholders in developing a clear and in-depth understanding of a particular subject or situation that enables them to solve problems.

## 10. INTERNAL AUDIT REVIEW MANAGEMENT COMMITTEE

Internal Audit Review Management Committee (IARMC) is a sub-committee of the Finance, Audit and Risk Committee formed with a view to taking prompt action and for the sake of greater transparency.

After going through the internal audit report and reply, the Internal Audit Department selects the report and organizes IARMC Meeting.

IARMC review the major findings brought by the Internal Audit Department and settle them through discussion with programme management.

A separate ToR has been issued for describing the activities of IARMC.



## 11. CO-ORDINATION AND CO-OPERATION WITH EXTERNAL AUDITOR

- The Director, Internal Audit must coordinate with internal and external providers of assurance services and consider relying upon their work. Coordination of services minimizes duplication of efforts, highlights gaps in coverage of key risks, and enhances the overall value added by providers.
- If unable to achieve an appropriate level of coordination, the Director, internal audit must raise any concerns with Senior Management as appropriate and, if necessary, the FARC.
- When the internal audit function relies on the work of other assurance service providers, the Director must document the basis for that reliance and is still responsible for the conclusions reached by the internal audit function.

## 12. RELATIONSHIP WITH THE RISK MANAGEMENT DEPARTMENT

- The Internal Audit Department will employ the risk management framework developed by the Risk Management Department to conduct the risk-based audits meticulously.
- The Risk Management function trains and mentors the management to support them in their functions through the identification of risks, consequently, the Internal Audit Department will aid as a facilitator to design the risk workshops and provide feedback. The Internal Audit Department shall also imbue areas of concern identified during the audits to solicit the workshops appropriately.
- The Risk Management Department shall share the results of the risk assessment and Prioritization. These results can be used for input into Internal Audit's upcoming Audit Plans or prompt the programmatic area to solicit Internal Audit's feedback on respective recommendations.

## 13. SAFEGUARDING

Safeguarding has always been a commitment of BRAC. Since its inception this principle has been embedded in different organizational and programmatic interventions. BRAC believes every one of its employees, suppliers, downstream partners, visitors, beneficiaries & community including children, young & vulnerable adults who come into contact, has the right to be protected from all forms of harm, abuse, such as sexual harassment, intimidation, violence, bullying, humiliation, discrimination, neglect and exploitation. BRAC commits to "Putting People First" in all activities & address safeguarding throughout its work.

Since 2018, BRAC started the process of strengthening its safeguarding compliance, and has committed to ensure safeguarding measures are incorporated across different aspects of the organisation including governance, human resources, partnership, recruitment, safe programme design, complaint mechanism and capacity development.

The Internal Audit Departments aim is to abet managements drive to protect its greater stakeholders, and the department shall achieve this by imbedding identification of noncompliance of safeguarding policies as an essence of all of the audits. Furthermore, the Internal Audit Department shall conduct specific Safeguarding Audits as per the Annual Internal Audit Plan. This involved the close monitoring of the Safeguarding issues as per the Safeguarding Register and periodical Internal Control Questionnaire of key staff in the BRAC.

Safeguarding audit process:

- The IAD will develop checklist and questionnaire jointly with the Safeguarding Unit and design a methodology to find out safeguarding non-compliance and gaps.

- IAD will do periodic audits of branch offices and interview relevant staff and programme participants with the audit tools.
- The findings will be compiled, and the report will be generated with qualitative and quantitative findings on a quarterly basis.
- Based on the findings a specific recommendation will be formulated and shared with the Safeguarding Unit
- The Safeguarding Unit will formulate an action plan to address the recommendations in collaboration with the respective programmes, departments and enterprises.
- The audit tool, questionnaire, can be reviewed after some period based on needs and context.

#### **14. INTERNAL AUDIT FUNCTIONS DURING CRISIS SITUATION**

During crisis situation, internal audit department shall focus on updating risk assessment and risk-based audit plan based considering the situation, focusing on new or updated processes with higher risk profiles

##### **I. Audit Methodology during crisis situation**

The Department shall devise a methodology to continue to provide its service under crisis scenarios emphasizing an agile audit approach and virtual auditing by leveraging technology. The expectations and relationship with management shall be improved by creating more contact and alignment moments and increasing the involvement of team members within the audit team.

##### **II. Safety and Wellbeing of Internal Audit Staff**

Service delivery of the Department shall be performed in compliance with BRAC safeguarding and other core policies ensuring safety, security and wellbeing of the internal audit staff.

##### **III. Providing insights on crisis management**

During crisis, the Department shall provide real time advisory services to management and insights to top management over the recovery efforts and situation specific responsive activities of the organisation.

#### **15. EFFECTIVE DATE OF THE CHARTER**

This revised charter is effective for all engagements beginning on or after July 30, 2024.

#### **16. APPROVAL OF THE INTERNAL AUDIT CHARTER**

This Internal Audit Charter has been approved by the authority of the Finance, Audit and Risk Committee of the Governing Body of the BRAC during its 52<sup>nd</sup> meeting held on July 30, 2024.



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