



CENTRAL BANK OF CYPRUS

EUROSYSTEM

CBC-RESTRICTED

27 October, 2014

as amended on 11/6/2018, 24/07/2020

CENTRAL BANK OF CYPRUS AUDIT CHARTER

With this Audit Charter, the Board of Directors and the Governor of the Central Bank of Cyprus (**CBC**) define the purpose, authority and responsibility of the Internal Audit Department (**IAD**) and its contribution to the governance of the CBC.

The scope of the IAD audit work covers the performance of the CBC tasks and activities as defined in the CBC Laws, including their enabling processes and risks associated with them, and/or activities decided by the Board of Directors or the Governor, hereafter referred to as “CBC decision making bodies”.

1. Objective and role

The IAD is the internal audit function for the CBC. It is composed of the staff members of the IAD and its head fulfils the role of the Chief Audit Executive (**CAE**) of the CBC. The CAE is appointed by the CBC Governor based on a proposal of the CBC Audit Committee to the Personnel Committee¹.

The objective of the IAD is to act as the third, independent line of defence within the CBC. It is the responsibility of the operational management to establish appropriate systems of internal controls. Thus, operational management acts as the first line of defence. The risk management, control, compliance and oversight functions established and deployed by management represent the second line.

The IAD provides independent, objective assurance and consulting services designed to add value and to improve the performance of CBC tasks and activities. In doing so, it assists the CBC in accomplishing its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. **To safeguard its independence**, the IAD functions under the supervision of the Audit Committee, to which it directly reports in accordance with Article 60A of the CBC laws. The IAD also reports to the Governor in accordance with Article 119(3) of the Constitution. (Amendment 11/6/2018)

2. Organisation

The CBC shall maintain an internal audit function within the organisation that is positioned to exhibit the highest level of independence and objectivity. The CBC internal audit function shall have adequate resources to fulfil its responsibilities in line with this Audit Charter.

¹ In accordance with a decision of the CBC Board of Directors dated 16/9/13

The IAD audit assurance is based on the audits performed in the CBC, as well as the audit work of the Internal Auditors Committee (**IAC**) of the Eurosystem and the European System of Central Banks (**ESCB**). The IAD assumes full responsibility for the management, performance and independent reporting of its audit work. The IAC is responsible for planning, structuring, performing, coordinating and supervising the audit work at Eurosystem/ESCB level. Through joint audit work, the IAC fosters consistency and convergence of the audit functions of the CBs of the Eurosystem and the ESCB.

3. Independence and objectivity

The IAD shall remain free from interference, including in matters of audit selection, scope, procedures, frequency, timing, and the content of its reports to permit and maintain the necessary independent and objective attitude. To ensure its independence the IAD performs its tasks under the direct responsibility of the CBC decision-making bodies.

The IAD shall not have authority over, or direct responsibility for the activities audited and shall avoid conflicts of interest in performing its tasks.

The IAD shall without delay report any impairment to its independence or objectivity to the CBC decision-making bodies and the CBC Audit Committee and shall annually confirm its organisational independence to the IAC and the CBC decision-making bodies. Impairments to the independence or objectivity of the IAD are reported to the decision-making bodies of the European Central Bank by the IAC.

4. Authority

The IAD shall have access to all auditee personnel, records, information, systems and property as deemed necessary to carry out its responsibilities. In this context, the IAD may also require ongoing access to information systems and data. All requested information is to be provided in a truthful and complete manner within a reasonable period of time. The IAD shall respect the value and ownership of information it receives and shall not disclose information without appropriate authority unless there is a legal or professional obligation to do so.

The IAD shall inform the CBC decision-making bodies of any attempt to hinder it in the performance of its duties.

5. Responsibilities

The responsibilities of the IAD are to:

- define within the framework of this Audit Charter the operational principles for the performance of its work in an Internal Audit Manual which is binding;

- prepare the CBC audit plan, using a risk methodology and submit it to the CBC Audit Committee for review² before its approval by the CBC Board of Directors. The proposed internal audit plan package presented by IAD to the Audit Committee needs to include the following key aspects:
 - all the risk rated audit objects clearly distinguishing the ones proposed for inclusion in the specific year plan from those that are not included,
 - the non-audit related activities,
 - the human resources required and,
 - the financial resources required.

Additionally and in order to ensure an effective basis for resolving any potential resource limitations, the human resources, the training budget and other financial resources available to the Internal Audit Department will be determined annually by the Board after a consultation of the Audit Committee with the head of IAD in order to ensure that there will be no resource limitations. Any interim necessary changes during the year should also be dealt with in the same way. (Amendment 11/6/2018). The approved plan is communicated to all auditees and may be subject to review and modification;

- implement the CBC audit plan by conducting assurance and consulting activities as well as investigations;
- communicate the results of the assurance and consulting activities as well as of the investigations as appropriate to the auditees concerned and to the CBC decision making bodies;
- monitor, assess and report on the implementation status of audit recommendations to the auditees concerned and to the CBC decision making bodies;
- comply with appropriate standards for the audit work adopted by the Eurosystem / ESCB, and exchange best practices and technical expertise within the Eurosystem / ESCB audit community and with other appropriate bodies and organisations;
- report periodically to the CBC decision making bodies on the fulfilment of the CBC audit plan and other activities; and
- contribute to the audit work of the Eurosystem and the ESCB in accordance with the decisions of the decision-making bodies of the European Central Bank and the Eurosystem / ESCB Audit Charter.

The IAD may undertake ad-hoc audits and other activities authorised or requested by the CBC Audit Committee or the Governor³. The IAD may exceptionally launch such ad-hoc engagements at its own initiative and inform the CBC decision making bodies thereon without undue delay.

² In accordance with the CBC Audit Committee Charter as revised by the decision of the BoD on 24/7/2020

³ provided the allocated resources in the year concerned for such ad-hoc assignments, do not exceed 20% of total audit resources in accordance with decisions of the CBC Board of Directors dated 17/2/14 and 27/10/14 (with 10% of the resources at the discretion of the Audit Committee and 10% at the discretion of the Governor).

6. Proficiency and due professional care

The IAD abides by the Institute of Internal Auditors' (IIA) International Standards for the Professional Practice of Internal Auditing and the IIA's Code of Ethics. It shall perform its tasks with proficiency and due professional care. In doing so, the IAD shall ensure that it possesses and develops the skills and knowledge necessary for the performance of its responsibilities.

The IAD shall take advantage of the opportunities for the exchange of expertise, training and development of auditors provided by the Eurosystem, the ESCB and other appropriate bodies and organisations.

7. Implementation of actions plans to address audit findings (Amendment 11/6/2018)

Senior Directors ensure the timely implementation of corrective action plans in accordance with their responsibilities in the Schemes of Service for effective performance of CBC's tasks⁴ as follows:

- Senior Directors approve and ensure the implementation by their Divisions and departments of corrective action plans within one year of the Governor reaching a decision on the necessary action, unless otherwise explicitly defined in Governor's written instructions. The Governor may be assisted in this respect by the Executive Directors as provided in article 17A(1) of CBC laws⁵
- If there are differences of opinion between IAD and the Senior Directors, the different views are submitted to the Governor, who may decide to call a meeting to discuss the issue before deciding on the appropriate course of action.
- Senior Directors proactively seek approval by the Governor for the revision or rescheduling of a previously approved by the Governor action plan before defaulting on its implementation.
- Senior Directors use key performance indicators in the form of implementation rates to measure the implementation of action plans and report them to the Governor twice a year.

In the case of organisational units reporting directly to Governor, the heads or coordinators of such units are responsible for the aforementioned actions to address audit findings.

8. Review of this Charter

The IAD shall review the CBC Audit Charter at least once every three years and report thereon to the CBC decision making bodies.

9. Publication of this Charter

The CBC Audit Charter shall be published on CBC's website.

⁴ As per paragraph 3.1.2. of the Schemes of Service -Οι περί Υπαλλήλων της Κεντρικής Τράπεζας της Κύπρου (Όροι Υπηρεσίας) Οδηγίες: «αποτελεσματική διεξαγωγή των εργασιών»

⁵ As per article 17A(1) of CBC laws: « Το Συμβούλιο αναθέτει στους εκτελεστικούς συμβούλους ειδικά καθήκοντα για να υποβοηθούν τον Διοικητή στη διεύθυνση, εποπτεία και έλεγχο των εργασιών της Τράπεζας, εκτός των θεμάτων που εμπίπτουν στο πεδίο αρμοδιοτήτων του Ευρωπαϊκού Συστήματος Κεντρικών Τραπεζών».