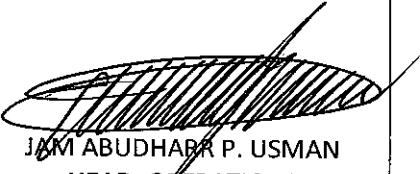



| QUALITY MANAGEMENT SYSTEM PROCEDURE | | | |
|-------------------------------------|-------------------|-------------------------------|-----------------|
| INTERNAL QUALITY AUDIT | | | |
| Code: QMs-QP-05 | Original Document | Effectivity: January 13, 2017 | Page 1 of 6 |
| | | | Revision No. 00 |

REVISION HISTORY

| Rev No. | Change Description | DCF No. | Effectivity Date | Originator |
|---------|--------------------|---------|------------------|------------------------|
| 00 | Initial Release | - | January 13, 2017 | Jam Abu Dharr P. Usman |
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| PREPARED BY | REVIEWED BY | APPROVED BY |
|---|---|--|
|  JAM ABUDHARR P. USMAN HEAD, OPERATIONS 01/13/2017 <hr/> Date |  DIR. LILIA G. BAUN Officer-in-Charge 01/13/2017 <hr/> Date | AAIIBP BOARD PER RESOLUTION NO. 015-2017 Dated 01/13/2017 |

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|--|-------------------|-------------------------------|-----------------|
| QUALITY MANAGEMENT SYSTEM PROCEDURE | | | |
| INTERNAL QUALITY AUDIT | | | |
| Code: QMs-QP-05 | Original Document | Effectivity: January 13, 2017 | Page 2 of 6 |
| | | | Revision No. 00 |

1.0 OBJECTIVE

- 1.1 An Internal Quality Audit shall be conducted to provide independent assessment of the quality of the Bank's internal control and administrative processes and provide recommendations for continuous improvement.

It shall evaluate at least annually risk exposures to the Bank's governance, operations and information systems, as identified in the annual audit plan based on the risk assessment of the audit universe, in relation to Effectiveness and efficiency of operations; Reliability and integrity of financial and operational information; Safeguarding of assets and Compliance with laws, regulations, and contracts.

2.0 SCOPE

- 2.1 The scope of work of internal audit includes the review of risk management procedures, internal control 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 detect and prevent fraud. In order to fulfill its responsibilities, Internal Audit shall:

- 2.1.1 Identify and assess potential risks to the Bank's operations.
- 2.1.2 Review the adequacy, application and effectiveness of controls established to ensure compliance with policies, plans, procedures, and business objectives.
- 2.1.3 Assess the accuracy and reliability of the accounting system and of the resulting financial results as well as the reliability and security of financial and management information systems.
- 2.1.4 Appraise and assure that resources are acquired economically, used efficiently, and safeguarded adequately.
- 2.1.5 Contribute to the development of projects, selected according to the risk involved, by assuring that the bank's project methodology is followed and that adequate controls are in place.
- 2.1.6 Review the application and effectiveness of risk management procedures and risk assessment methodologies.
- 2.1.7 Review the system of assessing capital in relation to the estimate of organizational risk.
- 2.1.8 Carry out ad hoc appraisals, investigations, or reviews requested by the Board, the Audit and Compliance Committee or Senior Management.

| | | | |
|--|-------------------|-------------------------------|-----------------|
| QUALITY MANAGEMENT SYSTEM PROCEDURE | | | |
| INTERNAL QUALITY AUDIT | | | |
| Code: QMs-QP-05 | Original Document | Effectivity: January 13, 2017 | Page 3 of 6 |
| | | | Revision No. 00 |

2.1.9 Carry-out adequate follow-up to ensure action is taken to correct reported conditions. The plans or actions taken to correct reported conditions will be evaluated to determine that the corrective action taken is achieving desired results.

3.0 DEFINITION OF TERMS

- 3.1 Internal Audit Department is the department mandated to carry out the functions prescribed in this process
- 3.2 Internal Audit is the examination, monitoring and analysis of activities related to a company's operations, including its business structure, employee behavior and information systems.
- 3.3 Audit Plan is the guideline to be followed in the conduct of audit
- 3.4 Audit Planning Process audit planning process encompasses all activities related to the development of the internal audit plan.

4.0 REFERENCE DOCUMENT

- 4.1 AAIBP Internal Audit Manual

5.0 RESPONSIBILITY AND AUTHORITY

- 5.01 Internal Audit Department is responsible in the accomplishment of this process

6.0 PROCEDURE

6.1 GENERAL PLANNING PROCESS

Internal Audit conducts a yearly planning process to map out its business plan for the year (or a rolling plan) using the approved risk assessment process and including all other management directives.

6.1.1 THE AUDIT PLAN

The overall audit plan aims to attain the desired objectives of the Audit and Compliance Committee (ACC). It includes the timing and frequency of planned internal audit work and is based on a methodical control risk assessment

6.1.2 RISK ASSESSMENT

From an internal control perspective, a risk assessment process identifies and evaluates the internal and external factors that could adversely affect the achievement of the organization's operational & information.

6.1.2.1 Risk Assessment and Risk Management

| QUALITY MANAGEMENT SYSTEM PROCEDURE | | | |
|-------------------------------------|-------------------|-------------------------------|-----------------|
| INTERNAL QUALITY AUDIT | | | |
| Code: QMs-QP-05 | Original Document | Effectivity: January 13, 2017 | Page 4 of 6 |
| | | | Revision No. 00 |

There is a significant difference between risk assessment in the context of the internal control process and the broader concept of the "risk management" of the Bank's overall business.

6.1.2.2 Linking the Audit Plan to Risk and Exposures

IA aims to incorporate the organization's risk strategy in the design of the Internal Audit activity's plan. A coordinated approach will be applied to leverage synergies between the organization's risk management and internal audit processes.

6.1.3 RISK ASSESSMENT PROCEDURES – RISK BASED APPROACH

Evaluation of the effectiveness and efficiency of the internal controls and risk management systems implemented by the various units of the Bank is done by allocating limited resources to audit areas of highest relative risk.

This shall be accomplished via the formulation of a risk ranking methodology of the identified audit universe which shall be consistent with the parameters set forth in the IA Charter, and with the general objectives of the Bank.

6.2 PLANNING THE ENGAGEMENT

6.2.1 UNDERSTANDING THE AUDIT AREA

The objective of understanding the audit area is to gain sufficient knowledge of the unit being reviewed so the auditor can plan the approach of the audit to accomplish the assigned objectives. The review will help the auditor to determine if the assigned objectives are attainable with the allocated resources and what audit procedures should be performed, based on assessed risks and exposures.

6.2.2 AUDIT INTRODUCTION MEETING

Approximately one to two weeks before an audit is scheduled to begin, the Head of Internal Audit or the in-charge auditor shall inform the auditee management through an audit introduction letter of the audit to be conducted and begin the exchange of information that will be needed during the audit. (For surprise cash counts or potential frauds, it may be necessary to delay this initial contact to preserve the effectiveness of the review.)

6.2.3 PRELIMINARY SURVEY

The nature of the assignment will determine which items should be considered during the preliminary survey. Examples of information that may be reviewed during the preliminary phase of an audit are:

6.2.4 REVIEW OF WORK FLOWS AND INTERNAL CONTROL

6.3 DEVELOPING THE AUDIT WORK PROGRAM

| | | | |
|--|-------------------|-------------------------------|-----------------|
| QUALITY MANAGEMENT SYSTEM PROCEDURE | | | |
| INTERNAL QUALITY AUDIT | | | |
| Code: QMs-QP-05 | Original Document | Effectivity: January 13, 2017 | Page 5 of 6 |
| | | | Revision No. 00 |

The result of the preliminary survey and research is translated into an audit work program. The work program contains a clear, concise description of the objectives, the scope of the review, the audit procedures to be employed and the schedule of the review.

6.3.1 AUDIT SCOPE AND OBJECTIVES

Engagement Objectives and Scope

6.3.1.1 Final audit objectives are established for each engagement and stated in the audit work program. Engagement objectives define what the engagement intends to accomplish using engagement procedures that address the risks associated with the activity under review.

6.3.1.2 The scope of the review is also detailed in the audit work program. The scope of the engagement is determined to ensure that agreed-upon objectives will be addressed.

6.3.1.3 The audit work program may also include:

6.3.1.4 The internal auditor's procedures for collecting, analyzing, interpreting, and documenting information during the engagement.

6.3.1.5 The degree of testing to be done to achieve the engagement objectives in each phase of the engagement.

6.3.1.6 Identifying technical aspects, activity risks, processes, and transactions that will be examined.

6.3.1.7 The nature and extent of testing required.

6.3.2 AUDIT PROCEDURES

The auditor obtains audit evidence by one or more of the following procedures: inspection, observation, inquiry and confirmation, computation and analytical procedures. The timing of such procedures will be dependent, in part, upon the periods of time during which the audit evidence sought is available.

6.3.3 TEAMING AND SCHEDULING

6.3.3.1 The audit skills required for the engagement and the available staff is identified for the conduct of the review. The timetable and tentative deadlines is also determined and included in the audit program.

6.4 CONDUCTING THE ENGAGEMENT

6.4.1 AUDIT SAMPLING

When using statistical or non-statistical sampling methods, the auditor designs and selects an audit sample, perform audit procedures and evaluate sample results to obtain sufficient, reliable, relevant and useful audit evidence.

6.4.2 TYPES OF TESTS PERFORMED

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|-------------------------------------|-------------------|-------------------------------|-----------------|
| QUALITY MANAGEMENT SYSTEM PROCEDURE | | | |
| INTERNAL QUALITY AUDIT | | | |
| Code: QMs-QP-05 | Original Document | Effectivity: January 13, 2017 | Page 6 of 6 |
| | | | Revision No. 00 |

Two types of tests are generally performed during an internal audit: tests of controls and substantive tests.

6.4.2.1 Tests of Controls

6.4.2.2 Substantive Tests

6.4.3 Identifying Information

Information is collected on all matters related to the engagement objectives and scope of work.

6.4.4 Analysis and Evaluation

Internal auditors base conclusions and engagement results on appropriate analyses and evaluations.

6.4.5 Preliminary Audit Findings Report

A preliminary audit findings report (half sheet) is be submitted by the audit team to the auditee unit/department/ branch head to apprise them of the results of the ongoing audit.

6.4.6 Reporting/Communicating Results

6.4.6.1 *Recipients of Engagement Results*

The chief audit executive/head of internal audit communicates the final results to the appropriate parties who can ensure that the results are given due consideration.

6.5 Audit Findings Monitoring (Follow-up Process)