Pursuant to Article 74 paragraphs 1 and 5 of the Central Bank of Montenegro Law (OGM 40/10, 6/13, 70/17, 125/23), the Council of the Central Bank of Montenegro, at its meeting held on 27 December 2024, passed the following

INTERNAL AUDIT CHARTER

1 Subject Matter

This Charter shall define the purpose, powers and responsibilities of the internal audit and chief internal auditor.

2 Internal Audit Purpose

The purpose of the Internal Audit shall be to strengthen the ability of the Central Bank of Montenegro (hereinafter: the Central Bank) to create, protect and sustain the value by providing the Governor of the Central Bank and the Council of the Central Bank with independent, objective, and risk-based assurance, advice, insight, and foresight.

Internal audit helps improve the Central Bank in terms of:

- successfully achieving the objectives and performing the functions of the Central Bank;
- governance, risk management, and internal control processes;
- decision-making within the Central Bank;
- reputation and credibility of the Central Bank, and
- ability of the Central Bank to serve the public interest.

3 Application of International Standards on Internal Auditing

Internal Audit of the Central Bank shall be performed also in accordance with the international standards including the binding elements of the International Professional Practices Framework issued by the Institute of Internal Auditors - Global Internal Audit Standards and Topical Requirements.

The chief internal auditor shall report to the Governor of the Central Bank, Audit Committee and the Council of the Central Bank once a year of the compliance of internal audit with the international standards, which is assessed within the implementation of the Internal Audit Quality Assurance and Improvement Programme.

4 Internal Audit Scope of Work

Internal audit shall perform ongoing and comprehensive oversight of the Central Bank's operations.

5 Internal Audit Powers

The Internal Audit shall be empowered to perform the audit of systems, business processes, projects, and activities in the Central Bank.

The Internal Audit shall have the right to an unlimited and free access to all employees, data, information, documents, assets, and applications of the Central Bank, required for performing the audit and other activities within its scope.

The Internal Audit may, as appropriate, use the assistance, support, and cooperation of the employees in the organisational unit being audited, the employees of other organisational units, and it may propose to the Governor to hire experts whose special knowledge and skills are needed during the auditing process.

6 Independence, Organisational Position and Reporting

The chief internal auditor shall report directly to the Governor of the Central Bank (administrative reporting), and to the Audit Committee and the Council of the Central Bank (functional reporting).

In the annual activity report, the chief internal auditor shall confirm the organisational independence of the internal audit function to the Council of the Central Bank.

If the governing structure does not support organisational independence, the chief internal auditor must document the circumstances limiting independence. and any safeguards that may be employed to achieve the principle of independence.

The chief internal auditor shall disclose to the Council of the Central Bank any circumstances that may lead to the impairment of independence.

7 Amendments to the Internal Audit Charter

The Internal Audit Charter may be subject to re-consideration between the chief internal auditor, the Governor of the Central Bank and the Council of the Central Bank particularly in the case of:

- notable changes in international standards on internal auditing;
- significant changes in organisation, governance and management of the Central Bank;
- significant changes in strategies, objectives, risk profiles or environment in which the Central Bank operates, and
- new laws or other regulations that may affect the nature and/or scope of internal audit.

8 Role of Council of the Central Bank

With a view to establishing, maintaining and ensuring that the internal audit has sufficient powers to meet its mandate, the Council of the Central Bank shall:

- communicate with the chief internal auditor on their powers, role, responsibilities, scope and engagements (assurance and/or advisory activities) of the Internal Audit;
- pass the Internal Audit Charter and an act governing the internal auditing and reporting;
- pass the Internal Audit Strategic Plan and Annual Internal Audit Plan;
- pass the Internal Audit Activity Report.

9 Roles and Responsibilities of the Chief Internal Auditor

9.1 Ethics and Professionalism

The chief internal auditor shall ensure that internal auditors:

- act in accordance with the International Standards on Internal Auditing, including principles of ethics and professionalism: integrity, objectivity, competence, due professional care, and confidentiality.
- understand, respect, fulfil, and contribute to the values and expectations of the Central Bank, and recognise behaviour that contradicts the established values and expectations.

9.2 Objectivity

The chief internal auditor shall ensure that the Internal Audit is free from any influences that may impair the ability of internal auditors to perform their responsibilities impartially, including the implementation of the annual internal audit plan.

The internal auditors shall maintain an impartial and unbiased attitude that allows them to perform their work objectively, trust the outcome of their work, uphold the quality, and not subordinate their judgment on audit matters to other persons, whether real or perceived.

9.3 Responsibility of Chief Internal Auditor

The chief internal auditor shall be responsible for:

- preparing a proposal for the strategic and annual risk-based internal audit plan;

- monitoring the changes in the Central Bank's activities, risks, operations, programmes, systems, and controls, and, if necessary, initiating changes to the annual internal audit plan;
- ensuring that the internal audit engagements are carried out, documented, and communicated in accordance with the law, the International Standards on Internal Auditing, the Rulebook on Internal Auditing of the Central Bank, and the annual internal audit plan;
- approving the Internal Audit Engagement Work Programme;
- approving and signing the Engagement Report (hereinafter: the Report) and ensuring that the results of the internal audit, including conclusions, suggestions, findings, and recommendations, are delivered to the relevant parties;
- reporting to the Governor of the Central Bank, the Audit Committee, and the Council of the Central Bank in case of a lack of resources necessary to conduct engagements;
- reporting to the Governor of the Central Bank, the Audit Committee, and the Council of the Central Bank on any significant changes in the execution of the internal audit plan;
- submitting periodic and annual internal audit activity reports with a special focus on critical risks and areas where risks have increased and require special attention;
- monitoring the implementation of Internal Audit recommendations and quarterly reporting to the Governor of the Central Bank and the Audit Committee on recommendations not implemented within the established time limits and in the manner determined by the action plan for their implementation;
- ensuring that the Internal Audit collectively possesses or acquires the knowledge, skills, and other competencies, qualifications, and technologies necessary to support the internal audit process and meet the requirements of the International Standards on Internal Auditing and the scope of work of internal audit;
- establishing a methodology for performing internal audits in accordance with the international standards;
- ensuring compliance with relevant policies and procedures of the Central Bank, unless such policies and procedures contradict the Internal Audit Charter or the International Standards on Internal Auditing;
- preparing and updating the Internal Audit Quality Assurance and Improvement Programme and reporting on its implementation to the Governor of the Central Bank and the Council of the Central Bank through the annual report;
- ensuring that the principles of integrity, objectivity, competence, due professional care, and confidentiality are applied and supported;
- proposing the engagement of experts whose specific knowledge and skills are necessary for conducting an engagement when internal auditors lack the knowledge, skills, or other abilities required to conduct the entire engagement or a part of it;
- establishing procedures to guide the functioning of the internal audit;
- ensuring the alignment of the Internal Audit with the International Standards on Internal Auditing.

10 Reporting to the Governor, Audit Committee and the Council of the Central Bank

The chief internal auditor shall submit periodic and annual reports to the Governor of the Central Bank, the Audit Committee and the Council of the Central Bank in accordance with the international standards and the Rulebook on Internal Auditing of the Central Bank.

11 Relationship with the Audit Committee

The effectiveness and efficiency of the work of the Internal Audit shall be monitored by the Audit Committee in accordance with the law and regulations governing the work of the Audit Committee.

12 Internal Audit Quality Assurance and Improvement Programme

The chief internal auditor shall draw up, implement and update the Internal Audit Quality Assurance and Improvement Programme, which shall include all aspects of the Internal Audit function.

13 Signing of the Charter, Repeal and Entry into Force

This Charter shall be signed by the Governor as the chairperson at the sessions of the Council of the Central Bank of Montenegro and by the chief internal auditor.

As of the effective date of this Charter, the Internal Audit Charter, number 0101-4288-06/2024 of 31 May 2024 shall be repealed.

This Charter shall enter into force on the day following that of its publication on the bulletin board and intranet of the Central Bank.

THE COUNCIL OF THE CENTRAL BANK OF MONTENEGRO

Chief Internal Auditor

Ana Krsmanović, m.p.

CHAIRPERSON

GOVERNOR

Irena Radović, m.p.

No. 0101-10081-5/2024

Podgorica, 27 December 2024