

Pursuant to Article 74 paragraphs 1 and 5 of the Central Bank of Montenegro Law (OGM 40/10, 6/13, 70/17, 125/17), the Council of the Central Bank of Montenegro, at its meeting held on 31 May 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. Use of gender sensitive language

The terms used of this Charter used for natural persons in masculine gender shall imply the same terms in feminine gender.

3. Internal audit purpose and mission

The purpose of the Internal Audit shall be, by performing a continuous and comprehensive monitoring of operations of the Central Bank of Montenegro (hereinafter: Central Bank), to provide independent, objective, and reasonable assurance and advisory activity aimed at adding value and improving the Central Bank's operations.

Internal Audit mission shall be to improve and protect the Central Bank's values by providing objective assurance, advice and risk-based insights.

4. Independence and objectivity

Internal Audit shall be independent in its activity, which particularly relates to determining the frequency and the subject of activity, objectives and the scope of internal audit, work procedures and methods, and reporting on the results of internal audit.

The independence of the Internal Audit shall be ensured in the following manner:

- Internal Audit shall be functionally independent and organisationally separated from other organisational units in the Central Bank;
- the chief internal auditor shall be directly responsible to the governor (administrative reporting line), as well as to the Audit Committee and the Council of the Central Bank (functional reporting line);
- the chief internal auditor and internal auditors shall not have the powers, nor shall be responsible for the activities that are the subject of the audit, and the chief internal auditor and internal auditors must avoid conflicts of interest in performing their work.

The Internal Audit activity must be free from the influence of other persons when determining the scope of the audit, performing the audit and reporting on the results of the internal audit.

The chief internal auditor shall confirm the organisational independence annually in the report on the work of the Internal Audit to the Audit Committee and the Council of the Central Bank.

Internal audit represents the third line of defense within the management of the Central Bank.

Operational management, which is responsible for establishing an internal controls system represents the first line of defense. Risk management, controls, compliance and controlling functions established in the Central Bank represent the second line of defense.

5. Professionalism and due professional care

Internal audit shall be conducted in accordance with the law, mandatory elements of the International Professional Practice Framework for Internal Auditing issued by the Institute of Internal Auditors (IIA, Global) including Core principles for the professional practices of internal auditing, Code of Ethics, Standards and definition, the Central Bank's document on internal organisation, Rulebook on internal auditing of the Central Bank and this Charter.

The chief internal auditor shall perform the work professionally with due professional care and ensure that the employees in the internal audit have and maintain the skills and knowledge necessary for the performance of their duties.

Internal auditors must possess the knowledge, skills, and other competences necessary for performing the internal audit activity, and they shall have the right to and the obligation of training for the purpose of improving their knowledge and competences.

6. Internal Audit powers

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

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.

7. Responsibility

Internal Audit shall be responsible for professional and expert performance of its activity.

The chief internal auditor shall:

- draw up a proposal for the internal audit strategic plan and the internal audit annual plan;
- monitor the changes in Central Bank activity, risks, operations, programs, systems, and controls, and, as appropriate, initiate alterations to the annual plan;
- ensure that the planned activities from the annual plan are executed (assurance activities and advisory activities), including the set objectives and scope;
- approve the audit work programme;
- approve and sign the Audit Report, and make sure that the internal audit results with the conclusions, findings, and recommendations are delivered to the parties to which the recommendations relate;
- report to the Governor, Audit Committee, and the Council of the Central Bank in the case of a lack of resources necessary for auditing;
- report to the Governor, Audit Committee, and the Council of the Central Bank on each significant change in the realisation of the internal audit plan;
- submit work reports with special emphasis on critical or high-risk issues that have been identified and that require immediate attention;
- monitor the implementation of Internal Audit recommendations and periodically report to the Governor and the Audit Committee on the activities, i.e. recommendations that were not implemented within the set time limits and in a manner of implementation specified in the action plan;
- make sure that Internal Audit employees collectively possess or acquire knowledge, skills, and other competences required for performing Internal Audit activity in accordance with this Rulebook;
- develop a programme for securing and improving the quality of Internal Audit activity and monitor its efficiency;
- ensure that the principles of integrity, objectivity, confidentiality, and professionalism are applied and supported;
- obtain expert opinion and assistance in cases where internal auditors lack knowledge, skills or other competences needed for conducting the whole or a part of the auditing process;
- establish procedures for directing the Internal Audit functioning;
- ensure the internal audit's compliance with the Standards.

8. Internal audit scope and subject

The scope of the audit shall include the collection and objective examination of evidence for the purpose of providing an independent assessment of the adequacy, efficiency, and effectiveness of the governance process, risk management, and controls.

The subject of the audit may include systems, work processes, projects, and activities performed and/or introduced in the Central Bank, as well as the manner of their organisation.

Internal Audit may perform advisory activities in order to assess the adequacy and the possibility of improving the internal controls system and the efficiency and effectiveness of business processes.

9. 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.

10. Quality assurance and improvement programme

Internal Audit shall continuously work on improving the quality of its activity.

The chief internal auditor shall draw up and update the Internal Audit Quality Assurance and Improvement Programme, which shall include all aspects of the Internal Audit work and include an assessment of the efficiency and effectiveness of the internal audit, as well as identify opportunities for its improvement.

11. Signing of the Charter 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.

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

COUNCIL OF THE CENTRAL BANK OF MONTENEGRO

Chief internal auditor

Ana Krsmanović

CHAIRPERSON

GOVERNOR

Irena Radović, PhD

Decision number: 0101-4288-06/2024

Podgorica, 31 May 2024