

# Internal Audit Charter



Valid from April 28, 2021.

This document was approved by the Audit Committee on April 28, 2021.

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# Abbreviations

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<b>AC</b>	Audit Committee
<b>BoD</b>	Board of Directors
<b>BR</b>	Business Review
<b>CSG</b>	Credit Suisse Group
<b>ExB</b>	Executive Board
<b>IA</b>	Internal Audit
<b>IAMC</b>	Internal Audit Management Committee
<b>MICOS</b>	Monitoring of Internal Controls System
<b>OGR</b>	Regulations Governing the Conduct of Business
<b>RC</b>	Risk Committee
<b>ShS</b>	Shared Services

The titles and functions used in this document apply to both genders.

# I. General

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## 1. Responsibility of Internal Audit

Internal Audit (IA) is responsible for carrying out the internal audit function for all majority-owned or otherwise controlled companies of Credit Suisse Group (CSG). IA has full and unconditional access to all records, files, data and physical properties of the bank. This includes access to management information systems and records, and the minutes of all consultative and decision-making bodies.

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## 2. Purpose of Internal Audit charter

- The IA Charter (Charter) provides for the uniform regulation of the overall responsibilities and high-level working methods of IA.
- The Charter is approved by the Audit Committee (AC) of CSG.
- The separate Audit Policies and Procedures detail various topics described in the Charter and, in particular, provide the required detailed procedures for the working methods and tasks of IA.

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## 3. Basis of charter

This Charter is based on the Regulations Governing the Conduct of Business (OGR) of CSG and Credit Suisse and the AC Charter of CSG, applicable regulatory requirements, and generally accepted industry standards.

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#### **4. General responsibilities**

IA is an integral part of the Group's corporate governance and risk management framework. The primary role of IA is to assist the AC, the Board of Directors (BoD) and Senior Management in their task to enforce, implement and monitor the Bank's guiding principles, policies and directives, thereby protecting the assets, reputation and sustainability of the organization. IA does this by providing a continuing objective and independent assessment of the associated risks, and an evaluation of the effectiveness of the Group's global system of internal controls and governance processes.

For the avoidance of doubt and without being exhaustive, Internal Audit includes within its scope the following areas:

- Internal governance;
- Information presented to the BoD and Executive Board (ExB) for strategic and operational decision making;
- The setting of, and adherence to, risk appetite;
- The risk and control culture of the organization;
- The adequacy and effectiveness of the Risk Management, Compliance and Finance functions;
- Risks of poor customer treatment, giving rise to conduct or reputational risk;
- Capital and liquidity risks;
- Key corporate events;
- Outcomes of processes.

IA may also perform special audits, or take other appropriate action, when requested so by members of the BoD, the Group CEO or members of the ExB. Requests from the Group CEO or ExB members require the approval of the Chairman of the AC (or in his absence, the Chairman of the BoD). IA does not perform consulting services.

IA co-ordinates its activities with those of the AC, the external auditors, and other relevant functions, if appropriate, to provide adequate audit coverage and to minimize duplicate efforts. IA exercises informed judgment as to when to place reliance on the work of others, including the work of Risk Management, Compliance or Finance.

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#### **5. Independence and objectivity**

The Global Head of IA reports directly to the AC to maintain independence from management in determining the scope of internal auditing, performing work, communicating results and objective reporting. Administratively, IA is part of Shared Services (ShS).

Auditors recruited from other areas of the Group will not provide audit assurance on specific operations for which they were previously responsible for an appropriate period of time after joining IA.

IA will report any instances where independence or objectivity of IA is impaired to the AC immediately.

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## **6. Proficiency and due professional care**

- Audits are performed with proficiency and due professional care in accordance with best practice auditing processes.
- IA applies best professional and ethical practices, such as the International Professional Practices Framework (“IPPF”) issued by the Institute of Internal Auditors. All Internal Audit staff are expected to understand and comply with the mandatory elements of the IPPF which are: (i) the Core Principles for the Professional Practice of Internal Auditing; (ii) the Definition of Internal Auditing; (iii) the Code of Ethics; and (iv) the International Standards for the Professional Practice of Internal Auditing. Further, IA monitors compliance with all legal and regulatory requirements applicable to Internal Audit functions in all relevant jurisdictions.
- IA management monitors that individuals assigned to each audit collectively possess the necessary knowledge, competencies and skills. The engagement of specialist resources from a third party supplier enables IA to extend its independent assurance coverage to areas where IA does not maintain sufficient specialist resources.
- IA provides and maintains adequate processes and tools to monitor its activities.
- Continuing professional development is achieved through the provision of in-house and external specialist training for management and staff.

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## **7. Quality assurance and improvement program**

IA maintains a quality assurance and improvement program that covers all aspects of the internal audit activity and continuously monitors its effectiveness. External assessments of IA are conducted regularly, at least every five years.

# II. Organization

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## 8. Functional levels

IA has defined the following functional levels:

- Global Head of IA is accountable for the performance of IA's function and responsibilities under this Charter;
- Chief Auditors are accountable for developing IA's audit plan to cover a specific Division, Region or Specialist Area. Each Chief Auditor manages IA's relationship with one or more members of the ExB and oversees the maintenance of IA's technical competence in their area of accountability. In addition, the Chief Auditors are collectively responsible for overseeing the day to day operations of the department;
- Chief Auditor for Methodology & Quality Assurance is accountable for maintaining the quality assurance and improvement program as well as the IA audit methodology;
- Heads of Audit and Audit Directors are responsible for developing and overseeing delivery of IA's audit plan covering their area of responsibility. Each Head of Audit manages IA's relationship with a number of senior business stakeholders and manages IA's technical competence in their field of expertise. Overall responsibility for the scoping and execution of each audit resides with a single Head of Audit or Audit Director;
- Global COO, reporting to and supporting the Global Head of IA to perform determined central tasks;
- Chief of Staff, reporting to and supporting the Global Head of IA to perform determined central people related tasks;
- Audit Managers, Subject Matter Experts and Auditors support the Heads of Audit and Audit Directors in Continuous Risk Monitoring, creating and delivering the audit plan; and
- Support Staff and Secretaries.

The Global Head of IA appoints the Chief Auditors, Global COO and the Chief of Staff.

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## 9. Governance structure

Governance of IA's activities is performed through one committee: the Internal Audit Management Committee (IAMC). The IAMC is responsible for determining the Annual Audit Objectives, the IA Plan of Work, the content and form of IA's periodic reporting to ExB and the Audit Committee, and for overseeing the day to day operations of the Internal Audit department.

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## 10. Titles and compensation

IA applies the title structure of the Bank and adopts its promotion and compensation procedures. Promotions and compensation proposals are ultimately endorsed by the Chairman of the AC.



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## **11. Signatory power**

In matters relating to IA, Directors and above have external signatory power collectively by two, unless local statutory requirements request differing signatory authorizations. Other members of IA are not granted any signatory power vis-à-vis third parties.

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## **12. External directorships and secondary occupations**

With respect to external directorships and secondary occupations, pertinent Group and Bank policies apply. External directorships and secondary occupations are generally granted on an exceptional basis only and need to be approved by the Chairman of the AC.

# III. Auditing procedures

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## 13. Risk assessment/audit plan

The audit plan is prepared on the basis of a robust, bottom-up assessment of “Risk Assessment Units” that make up the audit universe, combined with a regular top-down assessment of the key risks and controls in the businesses that enables IA to focus and adjust its plan dynamically throughout the year. The Risk Assessment Units cover all of the activities of the Group and the bottom-up assessment is the initial driver of the units to be included in our plan.

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## 14. Business reviews/changes to audit plan

Regular Business Reviews are conducted by each Chief Auditor for their area of accountability and are informed by audit results, assessments from control functions and other assurance providers and continuous monitoring of the business strategy, operating environment, performance and governance. These reviews determine the units to be included in the IA plan and the focus of IA's audit work in those units. On a regular basis the results of these reviews are combined to produce IA's assessment of the key risk themes in the Group. At the same time, the combined IA leadership team challenges the overall audit plan to check that it is appropriately aligned to the Group's business and risks.

Additions and changes to the IA plan are presented to the AC.

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## 15. Continuous Risk Monitoring

Continuous Risk Monitoring (CRM) is the IA department's approach to maintaining a thorough understanding of the business on an ongoing basis to drive appropriate focus on identifying and responding to emerging risks.

Results of the CRM activities inform IA's risk assessment of the Bank's activities, as well as related audit coverage of the underlying businesses and functions. CRM also supports the conclusions of the top down risk assessments and Business Reviews (BRs).

Issues arising from CRM activities are reported in a Continuous Risk Monitoring Memorandum and are entered into MICOS for further tracking and potential verification.

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## 16. Audit resources

The Global Head of IA is responsible for monitoring that IA has adequate resources to meet the defined Risk Assessment and Audit Strategy.

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## 17. Audit Cycle

A standard Audit Cycle outlining the requirements and procedures for each phase of an audit is adopted for all types of audits. The Audit Cycle and supporting guidance documents are reflected in detail in the Audit Policies and Procedures.

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## 18. Working documents

Standard working papers are used to document walkthroughs, testing and exceptions noted from performed fieldwork. The documentation enables managers to assess the scope and quality of the work carried out. It refers back at any audits conducted in the past. In addition, these documents may serve as the basis for assessment by the AC and the external auditors of the appropriateness and reliability of the working methods of IA. Documents are retained in accordance with local laws and requirements.

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## 19. Types of reports

The reports established by IA include:

### 19.1

#### **Audit Reports**

Audit issues and agreed actions for each audit are presented in individual Audit Reports. The full Audit Report including all appendices is distributed to the responsible management, their superiors up to the responsible ExB member, and selected representatives of support departments. The Business Division, Region CEOs and Heads of Shared Services Areas receive an Executive Summary being part of the audit reports relevant to their Business Division, Region or Shared Services Area.

Audit Reports include issues arising from the current audit as well as actions from previous audits that have not yet been appropriately addressed. Issues and agreed actions as well as timelines for remediation, together with an issue risk rating, are outlined for each individual issue.

A report rating highlighting the status of the control environment of the areas reviewed and the Potential Impact, representing the impact on the Bank should the risks covered by the audit crystallize, is assigned to each Audit Report to support management in prioritizing their efforts in improving the overall control environment. An additional rating is assigned to each Audit Report, where applicable, reflecting IA assessment of the Management's Risk and Control Culture. Finally, for C and D rated Audit Reports, a Remediation Period rating is assigned to the audit report indicating an estimate of the time required to return the audited area to a B-rated control environment – for A and B rated reports this is not applicable.

In a subsequent audit or as part of Action Verification, IA verifies agreed actions completed by management with respect to the audit issues raised in the previous audit.

Reports of special audits and their distribution are tailored as appropriate to the individual situation and generally not rated.

### 19.2

#### **Targeted Audit reports**

A Targeted Audit is used to respond quickly to current concerns or issues faced by the Bank. Targeted Audits have a narrow scope focused on specific processes and/or controls and, accordingly, are not intended to provide assurance on the effectiveness of the internal control environment over the entire Business or Function.

Targeted Audit Reports adopt the same format as regular Audit Reports.

### 19.3

#### **Change Assurance Review reports**

Change Assurance Review results are intended to improve the Bank's governance, project management disciplines and related risk management and control processes.

## 19.4

### **Periodic reports**

#### *Monthly/Quarterly Divisional/Regional/Legal Entity Summary*

Monthly/quarterly data summarizing significant audit results and other key statistical information related to reports issued during the month/quarter, including a list of reports issued for the division, region, legal entity, is prepared and made available for distribution to key stakeholders (including selected representatives of support departments and Risk Committees) by the Global Head of IA, Chief Auditors, Heads of Audit and COOs.

#### *Quarterly Report*

The Quarterly Report includes a summary of key audit themes with significance for CSG, an assessment of the control environment and the overall results of the action tracking verification review results. High level recommendations to the AC and ExB are raised where appropriate. It also includes key audit issues raised in the divisions. The Quarterly Report is presented to executive management and distributed to the members of the AC.

#### *Risk Assessment and Audit Strategy*

The "Risk Assessment and Audit Strategy" document, submitted to the AC prior to the end of the year, includes information about the external environment and internal developments, the risks by divisions and themes, and the audit plan by business/function/risk theme and by region. Information regarding resource planning and allocation is also provided.

#### *Annual Activity Report*

The "Annual Activity Report" is submitted to the AC the following year. It includes an assessment on the achievement of the "Risk Assessment and Audit Strategy" (primarily called Audit Objectives), an assessment of the control framework, and our conclusions on the risk themes. Further the report contains key audit results for each of the divisions, statistical data and information about departmental developments. The Annual Activity Report is distributed to the ExB, the members of the AC and the Chairman of the BoD.

## 19.5

### **Audit verification**

IA verifies a sample of agreed actions completed by management in MICOS with respect to issues raised during previous audit activity. The exceptions of these verification reviews are reported to business management, the responsible ExB members, and selected key stakeholders and are entered into MICOS for further tracking and potential verification.



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