

**DEPOSIT INSURANCE
AGENCY**

- Managing Board -

Pursuant to Article 17, paragraph 1, item 1) of the Law on Deposit Insurance Agency (“Official Gazette of the RoS”, Nos. 61/05, 116/08 and 91/10), Article 9, item 1) of the Statutes of the Deposit Insurance Agency (“Official Gazette of the RoS”, Nos. 84/05 and 28/13), Article 82 of the Budget System Law (“Official Gazette of the RoS”, Nos. 54/09, 73/10, 101/10, 101/11, 93/12, 62/13, 63/13 – corr. and 108/13) and Article 2, paragraph 1, item 22) and Article 17, paragraph 1, item 1) of the Rules of the Joint Criteria for Organisation and Standards and Methodological Instructions for the Internal Audit Implementation and Reporting in the Public Sector (“Official Gazette of the RoS”, Nos. 99/11 and 106/13), at the proposal of the Internal Auditor of the Deposit Insurance Agency, the Managing Board of the Deposit Insurance Agency, at the _____ meeting held on _____ 2014, hereby approved

INTERNAL AUDIT CHARTER

I General Provisions

Internal audit is an independent, objective assurance and consulting activity designed to add value and improve the operations of the Deposit Insurance Agency (hereinafter: the DIA).

It helps the DIA to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of processes and corporate governance.

The success of audits largely depends on the existence and functioning of the internal control mechanisms, which is why it is called “the ex-post control”.

Internal Audit Charter sets forth the roles of the internal audit at the DIA and describes the necessary environment for the internal audit to add value to the organisation and function effectively.

Internal Audit Charter regulates:

- establishment of internal audit,
- roles and objectives of internal audit,
- scope of internal audit,
- independence,
- authority and duties of Internal Auditor,
- responsibilities of the DIA’s Director,
- duties of the DIA’s Managing Board,
- reporting and communication,
- cooperation with other entities.

II Establishment of Internal Audit

Internal audit function shall be established by setting up the Internal Audit Unit as a separate, functionally independent organisational part within the DIA, whereas the operations of the Internal Audit Unit shall be conducted by the Internal Auditor, in accordance with Article 3, paragraph 2 of the Rules of the Joint Criteria for Organisation and Standards and Methodological Instructions for the Internal Audit Implementation and Reporting in the Public Sector.

Internal Auditor is the person responsible for carrying out the internal audit procedures, while ensuring their accuracy and objectivity.

III Roles and Objectives of Internal Audit

Role of the internal audit is to report to the DIA's Managing Board and DIA's Director on adequacy of the internal control systems.

Objective of the internal audit is to improve and make more effective all DIA's operations by using a systematic and disciplined approach to evaluating and boosting the efficiency of the processes of risk management, control and responsible governance.

To achieve this objective, the Internal Auditor shall do the following:

- determine the level of conformance with policies and procedures;
- verify the adherence to laws and regulations;
- evaluate the risk management procedures;
- estimate the economy, efficiency and effectiveness of activities;
- determine the completeness and accuracy of financial and other information; and
- verify that proper safeguards are maintained to ensure that the assets and information are safely kept.

IV Scope of Work

The scope of work of the internal audit is unrestricted and includes all programmes, activities and procedures. It also includes the audit of all resources provided by other entities and institutions.

Internal audit evaluates economy, efficiency and effectiveness of controls, procedures and activities by implementing basic audits such as those of the system, performance, finances, regulatory compliance, contracts and information technologies.

V Independence

Independence means the absence of any circumstances and influences which may compromise the objectivity of the internal audit. In order to perform objectively and conduct the audits without any restrictions and in the most proper manner, the internal audit within the DIA should function as an independent activity.

To ensure independence of the internal audit, the following requirements should be met:

- based on a comprehensive risk assessment, the Internal Auditor shall independently develop strategic and annual operational plans;
- Internal Auditor is not responsible for managing the procedures or activities outside the internal audit;
- Internal Auditor cannot be assigned any duty or activity other than internal audit;
- Internal Auditor is required to give a statement concerning the potential conflict of interest for each audit he/she conducts and is not allowed to audit an activity or procedure he/she was involved in during the previous 12 months;
- Internal Auditor cannot be removed or transferred to another position for exposing facts and providing recommendations in relation to the internal audit.

VI Authority and Duties of Internal Auditor

Authority and duties of the Internal Auditor stem from: the law and by-laws governing the set-up and operations of the internal audit in the Republic of Serbia, as well as the Standards and Code of Ethics endorsed by the Institute of Internal Auditors.

Internal Auditor shall:

- have free and unrestricted access to all the activities, managers and their employees, records, assets and electronic and other data, and seek written opinions or any other information related to internal audit from responsible persons;
- attend the meetings of the DIA Managing Board when the agenda items related to internal audit are to be adopted;
- have the authority to conduct the follow-up audits to review the implementation of the audit recommendations;
- propose to hire qualified internal audit staff, with appropriate training and work experience to ensure an efficient internal audit function;
- propose to engage experts with specific knowledge and skills required for the audits;

Internal Auditor has a duty to:

- develop internal audit strategic plan in line with the objectives and scope encompassing all DIA's activities, and based on the objective understanding and assessment of risks faced by the DIA;
- prepare the internal audit annual operational plan based on the strategic operational plan by paying due attention to the matters (issues) the DIA management considers important;
- discuss and agree the strategic and annual plans with the DIA's Director, by paying due attention to the Director's opinion on the issues and factors deemed highly risky;
- submit the strategic and annual plans to the DIA's Managing Board for approval;
- make sure that all audits are efficient and effective, and the annual plans are implemented;
- develop audit reports and submit them to the DIA's Director for review and to the DIA's Managing Board for approval;
- report to the DIA's Director on all instances when the Internal Auditor activities encountered restrictions;
- keep confidential all data and information disclosed to him/her during the internal audits, treating them in line with their assigned confidentiality levels.
- cooperate and coordinate its activities with the external auditors.

VII Responsibilities of the DIA Director

DIA Director shall:

- establish and ensure adequate functioning of the internal audit;
- at the request of the Internal Auditor, secure the resources (staff, financing, equipment) necessary for the internal audit to fulfil its duties;
- ensure independence of the internal audit function, especially in terms of the Internal Auditor's access rights and reporting;
- make sure the Internal Auditor's recommendations are implemented;
- submit the internal audit annual reports to the Central Harmonisation Unit by the prescribed deadline.

VIII Duties of the DIA Managing Board

DIA Managing Board shall:

- discuss and approve internal audit's strategic and annual operational plans;
- discuss and approve audit reports and instruct the DIA's Director to act upon the Internal Auditor's recommendations;
- in the case of opposite opinions between the Internal Auditor and organizational unit subject to audit, or DIA Director, the Managing Board shall take final decision on the subject matter.

IX Reporting and Communication

Internal Auditor is involved in all key activities related to reporting and communication. More specifically, the Internal Auditor shall:

- agree and update the strategic and annual operational plans and especially, the issues and factors deemed highly risky with the DIA's Director;
- compile reports on the Internal Auditor's activities, discuss them with the DIA's Director and submit them to the DIA's Managing Board for approval;
- meet on an ad hoc basis with the DIA's Director and, when needed, with the DIA's senior management to discuss issues arising out of audits, suspected criminal activities, access problems, etc.;
- attend regular management meetings.

X Collaboration with Other Institutions

Internal Auditor shall cooperate with the Central Harmonisation Unit of the Ministry of Finance. Internal Auditor shall also establish cooperation with the State Audit Authority and other bodies in order to improve its activities and professional development.

XI Final Provisions

This Charter shall become effective on the eighth day from the day of its approval and be posted on the DIA's website.

Ref. No. PS-____/14

Internal Auditor
Vladimir Mitrović

Chairman of the Managing Board
prof. Nenad Vunjak, PhD