



## Islamic Emirate of Afghanistan Da Afghanistan Bank

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### Terms of Reference (TOR) for Assessing the Internal Audit Department of Da Afghanistan Bank

Country	Islamic Emirate of Afghanistan
Entity Name:	Da Afghanistan Bank (Central Bank)
Consultant Service	Assessing the Internal Audit Department of Da Afghanistan Bank
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#### 1. Introduction.

This Terms of Reference (TOR) aims to explain the goals, scope, and approach for assessing the Internal Audit Department of the Da Afghanistan Bank. The assessment is designed to enhance public trust, promote financial stability, and foster organizational transparency. By evaluating the Internal Audit function's independence, objectivity, and performance, this initiative ensures compliance with required regulations and identifies opportunities for improvement.

The assessment also seeks to align the Internal Audit Department with the Bank's broader strategic objectives, such as financial inclusion and monetary policy support. Additionally, it consolidates overlapping objectives, including evaluating independence and objectivity mechanisms. By addressing these goals, the assessment will strengthen the Bank's governance framework, risk management processes, and overall contribution to economic stability and resilience.

Furthermore, from an economic perspective, the assessment emphasizes resource efficiency and the department's alignment with the Bank's overarching economic goals, including risk mitigation and financial stability. A comprehensive review of the department's strategic alignment, particularly in emerging areas like climate finance and cybersecurity, ensures its continued relevance and effectiveness in a dynamic operational environment.

#### 2. Legal Basis

The assessment is rooted in the DA Afghanistan Bank Law (2003) and guided by international best practices established by the Institute of Internal Auditors (IIA).

Moreover, this assessment has been formally approved by the **Executive Board under Approval No. 32 dated 10/05/1403**, in compliance with the governance requirements outlined in the Bank's legal framework.

## **2.1. Da Afghanistan Bank Law (2003)**

### **2.1.1. Article 21: (Comptroller General of Da Afghanistan Bank):**

This article establishes the Audit Department and tasks it with risk management, compliance audits, and regular financial reporting. The department's assessment ensures it fulfills its duties in alignment with these legal requirements, thereby safeguarding DAB's integrity.

## **2.2. Institute of Internal Auditors (IIA) Standards (IPPF)**

**2.2.1. Standard 1000 (Purpose, Authority, and Responsibility):** While not a national law, these international standards, developed by the Institute of Internal Auditors (IIA), guide Da Afghanistan Bank's Internal Audit Department. These standards stress the importance of maintaining the independence of internal audit functions and ensuring that the department works to evaluate and improve the Bank's governance, risk management, and control processes.

## **2.3. Da Afghanistan Bank's Internal Audit Procedure**

**2.3.1.** This internal document sets out the specific roles, authority, and responsibilities of the Internal Audit Department. It confirms that the department is independent, has clear reporting lines, and plays an essential part in upholding the Bank's governance standards.

## **3. Objectives of the Assessment**

The key objectives of this assessment are to:

### **3.1. Evaluate the Effectiveness of the Internal Audit Function**

- 3.1.1.** Assess how well the department aligns with the Bank's strategic goals and supports its operations.
- 3.1.2.** Review the quality and impact of audits in identifying key risks and ensuring controls are in place to manage those risks.
- 3.1.3.** Ensure that the Internal Audit function follows international best practices and adheres to professional standards, such as those set by the Institute of Internal Auditors (IIA).

### **3.2. Assess Independence and Objectivity**

- 3.2.1.** Examine the department's position within Da Afghanistan Bank's organizational structure to confirm its independence from day-to-day management in adherence to local regulatory requirements.
- 3.2.2.** Evaluate whether the Chief Internal Auditor and the audit team are free to carry out their work without undue influence.

### **3.3. Assess Resource Adequacy**

- 3.3.1.** Review staffing levels and competencies to ensure the audit team has the skills and capacity to meet its responsibilities.
- 3.3.2.** Assess whether adequate resources, such as training and technology, are available to support the department's work.
- 3.3.3.**

### **3.4. Evaluate Audit Methodology and Practices**

- 3.4.1.** Review the planning process for audits, including the risk assessment framework, audit scope, and resource allocation.
- 3.4.2.** Evaluate the effectiveness of the department's audit procedures and its ability to track and follow up on audit findings and recommendations.

### **3.5. Evaluate Communication and Reporting**

- 3.5.1.** Review how the Internal Audit Department communicates its findings to senior management, the Board Audit Committee, and other stakeholders.
- 3.5.2.** Assess whether audit reports are clear, actionable, and timely.

### **3.6. Ensure Compliance with Standards and Regulations**

- 3.6.1.** Confirm that the department is compliant with relevant internal policies and external regulations.
- 3.6.2.** Assess how the department contributes to the broader governance and risk management framework of the Bank.

### **3.7. Identify Opportunities for Improvement**

- 3.7.1.** Identify areas where the department can strengthen its processes or enhance its effectiveness.
- 3.7.2.** Provide practical recommendations to improve efficiency and impact.

## **4. Scope of the Assessment**

This assessment will cover several key areas to ensure a thorough evaluation of the Internal Audit Department's operations:

### **4.1. Organizational Structure and Governance**

Review the department's structure, its independence from management, and its relationship with the Board Audit Committee and senior management.

### **4.2. Audit Planning and Risk Assessment**

Evaluate how the department plans its audits and assesses the risks within the Bank, ensuring that audits focus on the most critical areas.

### **4.3. Audit Execution**

Review the audit methodology, including how audits are conducted, the tools and techniques used, and the effectiveness of the audit team in detecting risks.

### **4.4. Quality Assurance and Improvement**

Assess the department's internal and external quality assurance processes to ensure audits are conducted to high standards and improve over time.

### **4.5. Communication and Reporting**

Evaluate the clarity, timeliness, and effectiveness of audit reports and the communication between auditors and senior management.

### **4.6. Compliance and Regulatory Adherence**

Ensure the department adheres to relevant national and international auditing standards, as well as internal policies and procedures.

### **4.7. Staffing and Development**

Assess the department's staffing levels and the training and professional development programs provided to internal auditors.

### **4.8. Audit Follow-up**

Evaluate the department's processes for tracking audit findings and ensuring that management implements corrective actions.

### **4.9. IT and Emerging Risks Assessment**

#### **4.9.1. Cybersecurity**

- 4.9.1.1.** Assess the internal audit's role in identifying, monitoring, and mitigating cybersecurity threats.
- 4.9.1.2.** Evaluate controls over data protection, network security, and incident response mechanisms.
- 4.9.1.3.** Ensure alignment with cybersecurity standards such as ISO 27001, NIST, or other relevant frameworks.

#### **4.9.2. Climate Finance**

**4.9.2.1.** Analyze the organization's preparedness to address risks and opportunities associated with climate finance.

**4.9.2.2.** Review audit processes related to environmental, social, and governance (ESG) factors.

**4.9.2.3.** Evaluate the internal audit's role in monitoring compliance with climate-related financial disclosures (e.g., TCFD, EU Taxonomy).

**4.9.2.4.** Assess controls over climate risk assessment, carbon reporting, and sustainability-linked financing activities.

#### **4.10. Integration with Broader Risk Management**

**4.10.1.** Examine how cybersecurity and climate finance risks are integrated into the organization's overall risk management framework.

**4.10.2.** Assess internal audit's collaboration with other departments to address these emerging risks effectively.

## **5. Methodology**

To conduct a comprehensive and objective assessment, the following methods will be used:

- 5.1. Document Review:** Shall review internal audit policies, annual audit plans, audit reports, and records of meetings with the Board Audit Committee and senior management.
- 5.2. Interviews and Discussions:** Shall engage with key stakeholders, including the Chief Internal Auditor, audit team members, senior management, and members of the Board Audit Committee, to gather insights on the department's operations and performance.
- 5.3. Surveys and Questionnaires:** Shall distribute surveys to a select group of stakeholders (e.g., department heads, senior managers) to gather their perspectives on the effectiveness of the Internal Audit Department.
- 5.4. Benchmarking:** Shall compare the Internal Audit Department's practices with those of other central banks and financial institutions to identify opportunities for improvement and align with industry best practices.
- 5.5. Site Visits:** Shall conduct visits to audit teams and relevant departments to observe the work in action and assess operational effectiveness.
- 5.6. Data Analysis:** Shall analyze audit reports, follow-up data, and performance metrics to assess the quality and impact of audit work.
- 5.7. Advanced Data Analytics:** Utilize advanced tools such as predictive analytics, machine learning algorithms, and data visualization to uncover trends, identify anomalies, and forecast potential risks. These tools enhance precision, streamline the assessment process, and provide deeper insights into audit processes.
- 5.8. Audit Automation Tools:** Leverage audit management software to review workflows and ensure efficiency in audit planning and execution.
- 5.9. Key Performance Indicators (KPIs):** Define and measure KPIs such as audit coverage, findings resolution rate, and stakeholder satisfaction to evaluate the effectiveness of the audit function.
- 5.10. Stakeholder Feedback Mechanisms:** Implement structured surveys and interviews to capture stakeholder perceptions, identify gaps, and ensure alignment with organizational expectations.
- 5.11. Analysis and Reporting:** Compile findings and recommendations in a detailed report, supported by data-driven insights and visualizations.
- 5.12. Anticipated Challenges**
  - 5.12.1. Delays in Stakeholder Responses:** Difficulty in obtaining timely feedback from key stakeholders.

- 5.12.2. Data Access Limitations:** Restricted or incomplete access to necessary documents or systems.
- 5.12.3. Resource Constraints:** Insufficient availability of personnel or tools to support the assessment.
- 5.12.4. Emerging Risks:** Difficulty in assessing evolving areas such as cybersecurity and climate finance with limited benchmarks or historical data.

#### **5.13. Mitigation Strategies**

- 5.13.1. Timely Communication:** Establish clear timelines and regular reminders to stakeholders to ensure timely responses.
- 5.13.2. Data Access Agreements:** Secure pre-approval for access to necessary documents and systems before the commencement of audits.
- 5.13.3. Resource Allocation:** Collaborate with the Audit Committee to ensure adequate resources, including temporary personnel or external expertise, if required

## **6. Qualifications of Assessors**

The assessment team shall consist of experienced professionals with a deep understanding of internal auditing, governance, risk management, and regulatory compliance. Specifically, the team members shall have the following qualifications and expertise:

### **6.1. Professional Experience**

- 6.1.1.** A minimum of **10 years** of experience in internal auditing, with at least **5 years** in senior roles such as Chief Audit Executive, Head of Internal Audit, or Audit Manager.
- 6.1.2.** In-depth knowledge of audit practices within central banks or financial institutions, ideally having worked in or closely with similar institutions.
- 6.1.3.** Experience with leading audit assessments, especially in regulatory environments similar to that of Da Afghanistan Bank.

### **6.2. Certifications**

- 6.2.1.** Certified Internal Auditor (CIA) or equivalent qualifications (e.g., Certified Public Accountant (CPA), Chartered Accountant (CA), Certified Information Systems Auditor (CISA)).
- 6.2.2.** Additional certifications or qualifications in governance, risk management, or compliance (e.g., Certified in Risk Management Assurance (CRMA), Certified Fraud Examiner (CFE)).

### **6.3. Knowledge of Standards and Best Practices**

- 6.3.1.** Expertise in international auditing standards such as those set by the Institute of Internal Auditors (IIA), International Standards for the Professional Practice of Internal Auditing (IPPF), and other relevant regulatory frameworks.
- 6.3.2.** Familiarity with relevant local and global regulations impacting the operation of Da Afghanistan Bank, including financial regulations, governance practices, and risk management frameworks.

### **6.4. Independence and Objectivity**

- 6.4.1.** Assessors will maintain independence and objectivity throughout the assessment process, ensuring their findings and recommendations are impartial and unbiased.

### **6.5. Experience in Organizational Reviews**

- 6.5.1.** Demonstrated experience in assessing the organizational structure, resource allocation, and operational effectiveness of internal audit departments or similar functions.

### **6.6. Communication and Reporting Skills**

- 6.6.1.** Strong skills in communicating complex findings clearly and effectively to senior management and boards.

- 6.6.2. Experience in preparing comprehensive reports with actionable recommendations for improvement, as well as presenting findings to key stakeholders.

## 7. Key Deliverables

At the conclusion of the assessment, the following deliverables will be provided:

### 7.1. Assessment Report

A detailed report that outlines our findings, highlights strengths and areas for improvement, and includes specific recommendations for enhancing the Internal Audit function.

### 7.2. Executive Summary

A concise summary of key findings and actionable recommendations that senior management and the Board Audit Committee can quickly review.

### 7.3. Action Plan

A clear action plan, with suggested timelines, for addressing identified gaps and implementing improvements.

### 7.4. Presentation

A presentation of the findings and recommendations to the Board Audit Committee and senior management, followed by a discussion and feedback session.

## 8. Key Performance Indicators (KPIs)

### 8.1. Audit Effectiveness

- 8.1.1. Percentage of audit plan completed within the scheduled timeframe.
- 8.1.2. Resolution rate of audit findings within the agreed timelines.
- 8.1.3. Number of repeat findings in successive audits.
- 8.1.4. Percentage of high-risk areas audited annually.

### 8.2. Stakeholder Satisfaction

- 8.2.1. Feedback scores from structured stakeholder surveys.
- 8.2.2. Perception gap analysis based on interviews and surveys.

### 8.3. Process Efficiency

- 8.3.1. Average cycle time for completing audits.
- 8.3.2. Percentage of audits utilizing advanced analytics and automation.

### 8.4. Compliance and Standards

- 8.4.1. Adherence to International Professional Practices Framework (IPPF).
- 8.4.2. Rate of compliance with regulatory requirements.

### 8.5. Value Addition

- 8.5.1. Number of actionable recommendations provided.
- 8.5.2. Stakeholder perception of audit's contribution to risk mitigation and governance improvement.

### 8.6. Capacity Building

- 8.6.1. Average training hours completed per auditor annually.
- 8.6.2. Adoption rate of advanced technology tools within audit processes.

## 9. Timeline

The assessment will take approximately **4-7 weeks**, broken down as follows:

### **9.1. Phase 1: Initial Review and Data Collection – [1-2 weeks]**

Document review, stakeholder interviews, and surveys.

### **9.2. Phase 2: Fieldwork and Analysis – [1-3 weeks]**

On-site assessments, benchmarking, and data analysis.

### **9.3. Phase 3: Reporting and Recommendations – [1 week]**

Preparation of draft reports, executive summary, and action plan.

### **9.4. Phase 4: Presentation and Finalization – [1 week]**

Presentation of findings to the Board Audit Committee and senior management, followed by final report submission.

## **10. Resources and Budget**

The assessment will be conducted by a team of experts with experience in internal auditing, governance, risk management, and regulatory compliance. The estimated budget for the assessment will cover:

- Fees for external auditors or consultants.
- Any travel or administrative costs.
- Survey tools and materials.

## **11. Confidentiality and Reporting**

All findings from the assessment will be treated as confidential and shared only with authorized personnel. The team conducting the review is committed to maintaining the highest level of professionalism and confidentiality throughout the process.

### **Confidentiality Provisions**

#### **11.1. Scope of Confidentiality**

**11.1.1.** All information, documents, and data obtained or reviewed during the assessment are considered confidential and proprietary to the organization.

**11.1.2.** This includes, but is not limited to, audit reports, financial records, risk assessments, compliance documents, internal policies, and personnel data.

#### **11.2. Obligations of Assessors**

**11.2.1.** The assessor(s), whether internal or external, must sign a **Non-Disclosure Agreement (NDA)** before commencing the assessment.

**11.2.2.** The assessor(s) must ensure that all information is used solely for the purpose of conducting the internal audit assessment and not for any other purpose.

#### **11.3. Access Control**

**11.3.1.** The organization will grant access to necessary information on a **need-to-know basis** to maintain confidentiality.

**11.3.2.** Sensitive documents will only be shared under secure and controlled conditions, such as through encrypted file sharing or in a secure physical location.

#### **11.4. Handling and Storage of Information**

**11.4.1.** All physical documents and digital files related to the assessment must be stored securely.

**11.4.2.** Digital files should be encrypted, and access to them should require strong passwords or multi-factor authentication.

**11.4.3.** Physical documents must be kept in a locked and secure location.

**11.5. Return or Destruction of Information**

**11.5.1.** Upon completion of the assessment, the assessor(s) must return all physical documents and delete or securely destroy all digital copies, unless retention is specifically authorized in writing by the organization.

**11.5.2.** A certificate of destruction may be required for compliance purposes.

**11.6. Disclosure of Findings**

**11.6.1.** The findings and recommendations from the assessment will only be shared with designated stakeholders (e.g., Audit Committee, Board of Directors, Senior Management).

**11.6.2.** Any external disclosure of the findings requires prior written approval from the organization.

**11.7. Breach of Confidentiality**

**11.7.1.** Any breach of confidentiality will result in legal and/or contractual penalties as outlined in the NDA or engagement contract.

**11.7.2.** The organization reserves the right to pursue damages or other remedies as permitted by law.

**11.8. Regulatory and Legal Compliance**

The assessor(s) must ensure all activities align with applicable laws and regulations governing data privacy and confidentiality within the jurisdiction.

**11.9. Third-Party Involvement**

**11.9.1.** If third-party support is required (e.g., consultants, translators), they must also sign an NDA and adhere to these confidentiality provisions.

**11.9.2.** The assessor(s) must seek written approval before engaging any third party.

**11.10. Periodic Review and Monitoring**

**11.10.1.** The organization reserves the right to audit the assessor(s)' adherence to confidentiality provisions during and after the assessment.

**11.10.2.** Regular updates on data handling practices may be required throughout the