

Internal Audit

The Internal Audit (IA) provides independent, risk-based, and objective assurance, advice, insight and foresight to create, protect and sustain the values of the Central Bank and assists the Bank to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of governance, risk management, and control processes. While functioning as the third line of the Risk Management Framework, IA provides future-focused recommendations to add value and improve the operations of the Central Bank. The Chief Internal Auditor (CIA), Head of IA, reports functionally to the Audit Committee and administratively to the Governor, to ensure the independence of the IA function of the Central Bank. The significance of the IA function is duly acknowledged in Section 102 of the CBA, which defines the appointment and the removal of CIA, while ensuring the unrestricted access to information by CIA to uphold the governance, independence and objectivity of the function.

In line with the Section 102 (5) of CBA, the scope, authority, terms and conditions of IA including independence, organisational position, reporting responsibilities together with the roles and responsibilities of CIA have been defined in the Governing Board approved Audit Charter of the Central Bank.

Further, in 2025 IA adopted the new Global Internal Audit Standards (GIAS) of the Institute of Internal Auditors (IIA), reinforcing its longstanding commitment to compliance with IIA standards, which were adopted since 2009.

Conduct of Audits

During the year 2025, the Risk-Based Annual Audit Plan was executed ensuring the coverage of critical functions of the Bank and provided audit recommendations to improve the Bank's operations to achieve its strategic objectives covering policy, compliance, operational, information and cyber

security, legal and other related risk areas. Further, risk related information sharing between IA function and risk management function of the Bank was continued during the year.

Reporting Audit progress and Conduct Follow-ups on Implementation Status of the Audit Recommendations

The progress of the audit assignments conducted during the year, and progress of the implementation of the audit recommendations were reported to the Audit Committee during the year. Further, the progress of the implementation of the Audit Committee's decisions and the actions taken on the observations of the External Auditor which were highlighted in their Management Letter, were also periodically reported to the AC.

Preparation of the Risk-Based Annual Audit Plan

IA continued to use the value chain approach adopted in 2024 in developing the Risk-Based Annual Audit Plan to strengthen the alignment of the Risk-Based Annual Audit Plan with the Bank's organisational strategies and objectives. In this regard, IA conducted one-on-one meetings with departments of the Bank when updating the Audit Universe to enhance the awareness on the identification of auditable activities and to validate such activities directly with the respective process owners. Accordingly, the Risk-Based Annual Audit Plan for the year 2026 was prepared by using the updated Audit Universe, applying a comprehensive risk assessment methodology.

Stakeholder Collaboration

Demonstrating its professional excellence and strong alignment with the GIAS of IIA, IA facilitated a Special Training Programme on Risk-Based Internal Audit, organised by Centre for Banking Studies, for the officers of Nepal Rastra Bank in May 2025.

Further, IA conducted its annual Internal Audit Client Feedback Survey to assess the quality of the internal audit service delivered by IA, and the results of the same were communicated to the Audit Committee.

Quality Assurance and Improvement Program (QAIP)

QAIP established at IA, includes external and internal assessments of the IA function's conformance with the GIAS, as well as performance measurement to assess the IA function's progress toward the achievement of its objectives and promotion of continuous improvement.

Promoting quality within the IA function and implementing the QAIP, IA conducted internal assessments which included periodic self-assessment and ongoing monitoring of the performance of the IA function in 2025.