



**Central Bank of The Bahamas**

**PUBLIC CONSULTATION**

on the

**Internal Audit Guidelines, 2021**

## I. INTRODUCTION

1.1 This Consultation Paper invites comments on the Central Bank of The Bahamas' ("the Central Bank") proposed supervisory guidance for assessing the effectiveness of the Internal Audit function in Supervised Financial Institutions ("SFIs"), which forms part of the Bank's ongoing efforts to address supervisory issues and enhance supervision through guidance that encourages sound practice within its SFIs. The Central Bank endorses the Basel Committee's paper entitled The Internal Audit Function in Banks issued in June 2012. These Guidelines set out the minimum standards that the Central Bank expects SFIs to adopt in respect of their internal audit function. SFIs are required to ensure that the internal controls in place are adequate to mitigate risks, governance processes are effective and efficient, and organisational goals and objectives are met.

## II. THE CENTRAL BANK'S APPROACH

2.1 A strong internal control framework including an independent, effective internal audit function is part of sound corporate governance. Further, an effective internal audit function provides vital assurance to a SFI's Board of Directors, senior management and the Central Bank as to the quality of the SFI's internal control system. In doing so, the function helps to reduce the risk of loss and reputational damage to the bank.

2.2 This Guideline addresses supervisory expectations for the Internal Audit function. It refers to a management structure comprised of a Board of Directors and senior management. For larger SFIs and internationally active banks, an audit committee (or its equivalent) is typically responsible for providing oversight of the SFIs internal auditors. Such a committee is established within the board of directors. This document provides more details about the responsibilities of the audit committees.

## III. CONSULTATION PERIOD AND NEXT STEPS

The Central Bank welcomes comments and other feedback from any interested party on the proposed guidelines. Comments should be submitted by 11 February, 2022 and should be directed via email to the following:

Policy Unit  
Bank Supervision Department  
Central Bank of The Bahamas  
Email: [Policy@centralbankbahamas.com](mailto:Policy@centralbankbahamas.com)

Upon receiving feedback from interested parties, the Central Bank intends to finalise the Internal Audit Guidelines by 28 February, 2022, to become effective by 1 March 2022. The Bank reserves the right to vary this timeline based upon information received through consultation on this Guideline.



**SUPERVISORY AND REGULATORY GUIDELINES: 2021**  
**Internal Audit Guidelines**  
**ISSUED: 202X**

**GUIDELINES FOR INTERNAL AUDITORS AND AUDIT COMMITTEES**

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## 1. INTRODUCTION

- 1.1 The Central Bank of The Bahamas (“the Central Bank”) is responsible for the licensing, registration, regulation and supervision of Supervised Financial Institutions (“SFIs”) operating in and from within The Bahamas pursuant to the Central Bank of The Bahamas Act, 2020 (“the CBA”), the Banks and Trust Companies Regulation Act, 2020, (“the BTCRA”) and the Bahamas Cooperative Credit Unions Act, 2015 (“the BCCUA”).
- 1.2 All SFIs are expected to adhere to the Central Bank’s licensing, registration and prudential requirements and ongoing supervisory programmes, including periodic on-site examinations, and required regulatory reporting. SFIs are also expected to conduct their affairs in conformity with all other Bahamian legal requirements.

## 2. PURPOSE

- 2.1 These Guidelines set out the minimum standards that the Central Bank expects SFIs to adopt in respect of their internal audit function. SFIs are required to ensure that the internal controls in place are adequate to mitigate risks, governance processes are effective and efficient, and organisational goals and objectives are met.

## 3. APPLICABILITY

- 3.1 These Guidelines apply to all banks, banks and trust companies, credit unions and money transmission businesses incorporated in The Bahamas (collectively referred to as “supervised financial institutions”) and licensed or registered by The Central Bank of The Bahamas and restricted entities (unless a specific exemption is granted by the Central Bank), and to their internal auditors. These Guidelines do not apply to branches of foreign banks.

## 4. SCOPE OF INTERNAL AUDIT<sup>1</sup>

- 4.1 Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.<sup>2</sup>
- 4.2 The principal objective of internal auditing is to assist the Board of Directors (“the Board”), via the Audit Committee, in the effective discharge of their responsibilities as follows:

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<sup>1</sup> Internal audit’s scope should be unrestricted. There should be no aspect of the organization which internal audit should be restricted from examining as it delivers on its mandate.

<sup>2</sup> According to the Definition of Internal Auditing in The Institute of Internal Auditor’s International Professional Practices Framework.

- a. To ensure that internal controls, governance and risk management systems are reviewed, improved and optimised in response to the environment within which the SFI operates;
  - b. To provide independent assurance to senior management and the Audit Committee that significant risks in the SFI are appropriately managed, with an emphasis on the effectiveness of internal controls; and
  - c. To monitor the accomplishment of the SFI's goals and objectives.
- 4.3 Internal audit is an integral part of the internal control system. It should not simply test for compliance with Board approved policies and procedures, but should also evaluate whether such policies and procedures meet the SFI's needs and supervisory expectations. The Internal Audit Department should regularly review all material business units and functions of an SFI.
- 4.4 The scope of the internal audit function should be documented in an Internal Audit Charter.
- 4.5 The scope, frequency and objectives of internal audit depend upon the structure of the SFI and the risks inherent in its business. To promote effective and efficient internal auditing, SFIs must ensure that the resourcing of the internal audit function is commensurate with the size, complexity and risk profile of the institution.
- 4.6 The scope of the internal audit function should include reviews of the SFI's system for assessing the adequacy of its capital in relation to estimated risk. This is to ensure that SFIs maintain a level of capital, which is consistent with the risks to which they are exposed arising from their business.
- 4.7 The scope of the internal audit function should include the SFI's outsourced activities. The Internal Audit Department should review the performance and control mechanisms for outsourced functions. This would include competency and quality assurance assessments of the contracted party prior to the signing and implementation of any outsourced function.
- 4.8 The Central Bank endorses the Basel Committee's paper entitled The Internal Audit Function in Banks issued in June 2012. SFIs may contract with related parties for internal audit services, which is not considered outsourcing.<sup>3</sup>
- 4.9 The scope of internal audit should also include:

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<sup>3</sup> Outsourcing is the engagement of experts from outside the banking organization to perform internal audit activities to support the internal audit function.

- a) The examination and evaluation of the adequacy and effectiveness of internal control systems, including information technology controls, and the impact on annual and interim financial reporting. This should include:
  - i. The reliability and integrity of financial and operational information systems;
  - ii. The accuracy and timeliness of data and document reporting requirements to the Central Bank;
  - iii. The effectiveness and efficiency of operations;
  - iv. Safeguarding of assets; and
  - v. Compliance with policies, procedures, applicable laws, regulations and controls.
- b) Appraising the efficiency and effectiveness of operations in the context of the operating environment;
- c) Testing transactions and internal control procedures, including providing assurance that material products are operating within their contractual terms;
- d) Analysing the systems established to ensure compliance with legal, regulatory and supervisory requirements, codes of conduct, codes of best practices, international standards and the SFI's policies and procedures;
- e) Testing the record-keeping mechanism to ensure that records are kept in storage and reasonably available for the statutorily prescribed timeframes;
- f) Assessing the SFI's business continuity plans in the event of business disruption; and
- g) Conducting special investigations.

## **5. THE AUDIT COMMITTEE**

- 5.1 An Audit Committee is a specialised committee of the Board and is a fundamental component of good corporate governance. The Audit Committee assists the Board with its oversight responsibilities in areas such as the financial reporting process, internal control and risk management systems, internal and external audit functions and compliance with laws and regulations. If an SFI has, or is required to have an Audit Committee, the following should apply:

- i. The authority responsibilities and composition of the Audit Committee should be documented in the Internal Audit Charter.
- ii. The Audit Committee should report to the Board on a regular basis on areas for which it has designated responsibility and provide advice and recommendations to the Board within the scope of its Internal Audit Charter.
- iii. The Audit Committee may invite the Head of Internal Audit, the Head of Compliance and other senior management (e.g. the Chief Executive Officer, Chief Operating Officer, President, Vice President, Chief Risk Officer, Chief Financial Officer) deemed relevant for fulfilling its responsibilities, to attend meetings of the Committee. The Head of Internal Audit should attend Audit Committee meetings.
- iv. However, the Head of Internal Audit and members of the Audit Committee should regularly convene in the absence of senior management to discuss critical matters.
- v. The Head of Internal Audit should report to the Chair of the Audit Committee or the Chair of the Board, not to an executive. The reporting line should have direct, unrestricted access to the Audit Committee and the Board. The relevant Chair should carry out the Head of Internal Audit's performance reviews, in which capacity the Chair may elect to take advice from other sources, including executive management.
- vi. The Head of Internal Audit must have the authority to communicate directly, and on his/her own initiative, to the Board, the members of the Audit Committee or the external auditors, in accordance with policies and procedures established by the SFI.
- vii. The Head of Internal Audit should ensure that action is taken on reported audit findings within the set timeframes. The Head of Internal Audit should also determine whether the action taken has the expected results. The validation of recommendations and status of implementation should be reported to the Chief Executive Officer and the Audit Committee at regular intervals, quarterly at a minimum. The report should also capture the status of the implementation of recommendations from the External Auditor. Senior management should ensure that internal audit's concerns are appropriately addressed, in a timely manner.
- viii. The Board assumes ultimate responsibility for the Internal Audit Department as well as the decisions, performance and outcomes of the Audit Committee, and should therefore continually monitor the Committee's activities.

- ix. The Audit Committee should be responsible for the appointment and oversight of the work of external auditors. External auditors should report directly to the Audit Committee, not management, and should meet separately with the Committee to discuss matters that the external auditors or the Committee believes should be discussed privately.
- x. The Audit Committee should regularly review resourcing and organisation of the internal audit function.

### **Responsibilities of the Audit Committee**

The Audit Committee can expect to review significant accounting and reporting issues and professional and regulatory issues to understand the potential impact on financial statements. Members of the Audit Committee should have an understanding of how management develops internal interim financial information in order to assess whether reports are complete and accurate.

The Audit Committee should, inter alia, be responsible for:

**a) Financial Reporting, including:**

- i. Monitoring the financial reporting process;
- ii. Overseeing the establishment of accounting policies and practices by the SFI institution and review of the significant qualitative aspects of the SFI's accounting practices;
- iii. Monitoring the integrity of the SFI's financial statements;
- iv. Reviewing significant financial reporting judgements contained in the financial statements;
- v. Reviewing arrangements by which staff may confidentially raise concerns about any possible improprieties;
- vi. Reviewing semi-annual, annual and, if applicable, quarterly financial statements; and
- vii. Reviewing the External Auditor's opinion with respect to such financial statements, including reviewing the nature and extent of any significant changes in accounting principles or the application thereof.



**b) Regulatory Reporting, including:**

- i. Data returns filed with the Central Bank; and
- ii. Documents filed with the Central Bank.

**c) Internal Control:**

- i. Senior management should ensure that an adequate and effective internal control system and process is established. The system and processes should be designed to provide assurance in areas including reporting (financial, operational, risk, etc.), monitoring compliance with laws, regulations and internal policies and procedures, efficiency and effectiveness of operations and safeguarding of assets.

**d) Internal Audit, including:**

- i. Monitoring and reviewing the effectiveness of the SFI's internal audit function, including its strategic focus;
- ii. Reviewing and approving the internal audit plan, scope and budget;
- iii. Reviewing and discussing internal audit reports;
- iv. Ensuring that the internal audit function maintains open communication with the Audit Committee, senior management, external auditors and other relevant supervisory authorities;
- v. Reviewing violations of laws and regulations as reported by the Head of Internal Audit;
- vi. Approving the Internal Audit Charter and code of ethics of the internal audit function;
- vii. Recommending to the Board for its approval, the remuneration of the Head of Internal Audit and internal audit staff;
- viii. Assessing the performance of the Head of Internal Audit;
- ix. Recommending to the Board for its approval, the appointment, replacement or removal of the Head of Internal Audit;

- x. Promoting the independence of the internal audit function by ensuring that the Head of Internal Audit has direct access to the Board and/or the Audit Committee; and
- xi. Arranging for assessments of the internal audit function, which must be conducted, at minimum, once every five years by a qualified, independent reviewer or review team from outside the organisation.

**e) Engagement of the External Auditor, including:**

- i. Recommending a set of objective criteria for approving the external audit firm of the SFI;
- ii. Implementing a policy on the engagement of an external audit firm for the supply of non-audit services, taking into account relevant ethical guidelines on the provision of non-audit services by the external firm;
- iii. Recommending to the Board for approval, the total fees charged for the audit of the financial statements and for non-audit services provided by the external audit firm;
- iv. Discussing with the external auditors key matters arising from the external audit and in particular, any identified material weaknesses in internal control in relation to the financial reporting process; and
- v. Ensuring that the external auditor attends the annual general meeting or is available to answer questions from the shareholders regarding the audit.

**f) Remedial Actions, including:**

- i. Ensuring that senior management, in a timely manner, take the necessary corrective actions to address the deficiencies identified and the recommendations of internal and external auditors and that progress of the necessary corrective actions are reported to the Board; and
- ii. Addressing control weaknesses, non-compliance with policies, laws and regulations and other problems identified by the internal and external auditors.

## **6. COMPOSITION AND POWERS OF THE AUDIT COMMITTEE**

- 6.1 The Audit Committee can more effectively fulfil its oversight responsibilities when a majority of the members are independent. The size of the Committee should vary according to the size, complexity and risk profile of the SFI, but should ideally comprise a

minimum of three directors, with independent directors forming the majority. The Board should review the composition of the Audit Committee annually.

- 6.2 As is good practice, an Independent Non-Executive Director with relevant experience must chair the Audit Committee. The Chairperson, with the assistance of the Corporate Secretary, is responsible for developing the Committee's agenda, directing the flow of business at Committee meetings, and maintaining open lines of communication between members of the Committee, senior management and internal and external auditors.
- 6.3 The Committee must maintain and approve the minutes of all meetings.
- 6.4 Each member of the Audit Committee should have the competency to interpret and analyse financial statements and reports, and therefore, should have experience in Banking, Finance, Accounting or other related field at a management level. At least one member must have a background in finance, auditing, accounting or related financial management expertise.
- 6.5 There should be continuous professional development for members of the Audit Committee to keep abreast with developments in the industry, in particular, control and reporting requirements.
- 6.6 The Audit Committee, via the internal auditor, must have access to all data, personnel, systems and records and may order an investigation into irregularities disclosed in accounts, audits or other data generated by the activity.
- 6.7 To ensure efficiency and transparency of the Audit Committee, the Head of Internal Audit, senior management and the external auditor should not attend regular meetings of the Committee. Attendance of those persons should only be by invitation from the Audit Committee.
- 6.8 The Audit Committee should meet at least once each quarter.

## **7. THE INTERNAL AUDIT CHARTER**

- 7.1 SFIs must have an Internal Audit Charter that documents the purpose, scope, authority and responsibilities of the internal audit function.
- 7.2 The Charter should be approved by the Board via the Audit Committee and reviewed at least annually by the Head of Internal Audit to ensure that the Committee is operating effectively and fulfilling its functions. The Charter should be available to all internal audit stakeholders of the SFI.
- 7.3 At a minimum, the Internal Audit Charter should establish:

- i. The obligation of the internal auditors to communicate the results of their findings and a description of how and to whom this should be done (reporting line). The reporting lines should promote independence and objectivity;
  - ii. The criteria for when and how the internal audit function may outsource some of its engagements to external experts;
  - iii. The terms and conditions for which the internal audit function can be called upon to provide consulting or advisory services or carry out other special tasks;
  - iv. The responsibility of the Head of Internal Audit;
  - v. A requirement to comply with international standards for the professional practice of internal auditing; and
  - vi. Procedures for the coordination of the internal audit function with the external auditor.
- 7.4 The Charter should empower the internal auditor, in the performance of his/her duties, to establish direct communication with any member of staff, to examine any activity of the SFI and to have full and unfettered access to records, files, data, personnel and physical property of the SFI. This includes access to management information systems and records, human resources records and the minutes of all consultative and decision-making bodies.

## **8. THE AUDIT PLAN**

- 8.1 The Head of Internal Audit should prepare the audit plan annually, which outlines the areas to be audited within the SFI. The plan should establish priorities, set objectives and ensure the efficient and effective use of audit resources.
- 8.2 The areas to be audited by the internal auditors should be determined by a risk assessment of the internal control systems and the results of this assessment should guide the internal audit planning process. Not all of the potential scope areas may be covered every year, but the relevant activities should be incorporated based on the materiality of the risks identified.
- 8.3 The audit plan should incorporate a comprehensive KYC/AML/CFT review program to assess the effectiveness of an SFI's ongoing compliance with the Central Bank's *Guidelines for Supervised Financial Institutions on the Prevention of Money Laundering, Countering the Financing of Terrorism & Proliferation Financing and the relevant legislation*.

8.4 The audit plan should be documented and approved by the Audit Committee and amended as necessary to take into account changing circumstances. Amendments to the audit plan should be approved by the Audit Committee.

## **9. INTERNAL AUDIT INDEPENDENCE AND OBJECTIVITY<sup>4</sup>**

9.1 Independence and objectivity are two vital components of an effective internal audit function. Internal auditors are independent when they render impartial and unbiased judgment in the conduct of their engagement. In the performance of his/her duties, the internal auditor should be free from managerial or other interference in determining the scope of an internal audit, performance of related audit tasks and direction of communication. In addition, an SFI's internal audit activities should be independent of its daily operations and internal control processes.

9.2 To ensure independence, the Head of Internal Audit must possess unfettered direct communication with the Audit Committee, which enables full support and unrestricted access to organisational resources and ensures that there is no impairment to independence.

9.3 To enhance the independence of the internal audit function, the Head of Internal Audit must: (1) report to the Audit Committee on the planning, execution, and results of audit activities; and (2) periodically review the Internal Audit Charter. The Head of Internal Audit must report to the Board, at least annually, on the organisational independence of the internal audit activity

9.4 To maintain objectivity, internal auditors should have no personal or professional involvement with the area being audited. Objectivity is presumed to be impaired if an internal auditor provides assurance services for an activity for which he/she had responsibility within the previous audit year or a period significant enough to influence their judgment or opinion. Internal auditors may however, provide advisory services relating to operations for which they had previous responsibilities. In cases where there is an assurance engagement for a function over which the Head of Internal Audit has responsibility, a party outside the internal audit activity must oversee it.

9.5 The Head of Internal Audit must disclose to the Audit Committee or the Board any situation that is likely to affect or might be perceived as affecting his/her impartiality and be removed or re-assigned in response to any perceived, actual, or future bias.

9.6 Whenever practicable, staff assignment of internal auditors should be periodically rotated.

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<sup>4</sup> Internal audit should be free from conditions that threaten the ability to carry out its responsibilities in an unbiased manner. The internal audit activity should also be independent of an institution's corporate governance structure, i.e. Risk Management, Compliance and Finance.

## **10. INTERNAL AUDIT WITHIN A GROUP OR HOLDING COMPANY STRUCTURE**

- 10.1 To facilitate a consistent approach to internal audit across all SFIs within a group or holding company structure, the Board of each SFI should ensure that either:
- i. The SFI has its own internal audit function, which should be accountable to the Board and report to the group or holding company's Head of Internal Audit; or
  - ii. The group or holding company's internal audit unit performs internal audit activities of sufficient scope to enable the Board to satisfy its fiduciary and legal responsibilities.
- 10.2 The Board of each SFI in a group or holding company structure remains responsible for ensuring that the institution's senior management establish and maintain an adequate, effective and efficient internal control system and processes.
- 10.3 The group or holding company's internal audit unit should determine the audit scope for the SFI and report functionally to the institution's Audit Committee and to the group or holding company's Head of Internal Audit.
- 10.4 The Head of Internal Audit at the level of the parent company should define the group or holding company's internal audit strategy. Additionally, they should determine the organisation of the internal audit function, both at the parent and subsidiary levels (in consultation with the respective entities' Board and in accordance with any applicable laws), and formulate the internal audit principles, which include the audit methodology and quality assurance measures.
- 10.5 The Board and senior management of the parent company has the overall responsibility for ensuring that an adequate and effective internal audit function is established across the group or holding company structure. They are also responsible for ensuring that internal audit policies and mechanisms are appropriate to the structure, business activities and risk of all of the components of the group or holding company.

## **11. DUTY OF CARE OF INTERNAL AUDITORS**

- 11.1 Internal audits should be performed with proficiency and due professional care. The Head of Internal Audit should ensure that the educational background of the internal audit staff are appropriate.
- 11.2 The Head of the Internal Audit unit should ensure that internal auditors acquire appropriate on-going training in order to examine all areas in which the SFI operates.

- 11.3 Internal auditors must exercise diligence in protecting confidential information acquired in the course of their duties and must not use that information for personal gain or malicious actions.
- 11.4 Compensation arrangements should not provide incentives for internal auditors to act contrary to the attribute and objectives of the internal audit function.
- 11.5 Internal auditors should avoid engaging in auditing activities for which they have had previous responsibility before a sufficiently long “cooling off” period of at least one year.
- 11.6 Internal auditors should adopt a policy that endorses their commitment to:
- i. abide by the SFI’s code of ethics or the established international code of ethics for internal auditors such as The Institute of Internal Auditors (IIA);
  - ii. avoid conflicts of interest; and
  - iii. disclose any activity that could result in a possible conflict of interest.

## 12. **OUTSOURCING<sup>5</sup>**

- 12.1 Where an internal audit activity is performed by external experts, it is the responsibility of the Head of Internal Audit to maintain adequate oversight and to ensure adequate transfer of knowledge from the external experts to the SFI’s internal audit staff. The Head of Internal Audit should ensure that use of those experts would not compromise the independence and objectivity of the internal audit function.
- 12.2 In addition, it is the responsibility of the SFI to ensure that all associated risks are addressed to the same extent as they would be if the activity were performed in-house.
- 12.3 The Board and senior management should ensure that internal audit activities undertaken by external experts are performed in accordance with the Central Bank’s revised Guidelines on Minimum Standards for the Outsourcing of Material Functions.
- 12.4 The Board (in the case of subsidiaries and stand-alone entities) and the SFI’s management are ultimately responsible for the internal audit activity if performed by external experts.
- 12.5 Where an audit firm is used, the Board and senior management should ensure that it is not the existing external auditor of the SFI.

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<sup>5</sup> Refer to Section IV(8)

### **13. REQUIREMENTS FOR SUPERVISED FINANCIAL INSTITUTIONS**

- 13.1 The Board of an SFI has ultimate responsibility for the application of an appropriate and effective system of internal control. The Board is also responsible for risk governance and culture, assuring suitable internal control mechanisms and for monitoring their adequacy and effectiveness.
- 13.2 Internal audit should maintain an up-to-date set of policies, procedures and performance and effectiveness measures for the internal audit function. Internal audit should continuously improve these in light of industry developments.
- 13.3 All banks and trust companies, money transmission businesses and credit unions should conduct internal audits annually, with the exception of restricted trust companies whose operations are limited to conducting business on behalf of one client or clients who are members of the same family. Restricted SFIs should conduct an internal audit of operations at minimum, every three years.
- 13.4 Full internal audit review of ML/TF risks should occur, at minimum, on a three-year cycle. The Central Bank should be informed of the scope and frequency of such reviews and receive a copy of the most recent internal audit report covering reputation risk.
- 13.5 The internal audit report must present the objectives and scope of the audit and include the internal audit findings and recommendations, as well as senior management's responses. The report should also acknowledge when satisfactory performance is determined.
- 13.6 SFI's must submit internal audit reports within 14 business days after the audit report has been formally issued.
- 13.7 Follow-up internal audit reports on the weaknesses in procedures or processes identified in previous internal audit reports should be submitted quarterly until all of the deficiencies identified have been satisfactorily addressed in accordance with management's response. Additionally, internal audit staff should also follow up on any recommendations issued by external auditors as needed.
- 13.8 SFIs must notify the Central Bank in writing, within 14 business days, of the appointment, replacement or removal of the Head of Internal Audit. Where the Head of Internal Audit is removed, the SFI should communicate the reason for the removal to the Central Bank.



## **14. RELATIONSHIP WITH THE CENTRAL BANK**

- 14.1 Resident internal auditors must notify the Central Bank of all planned internal audit reviews and provide the Central Bank with the audit plan and audit scope on an annual basis.
- 14.2 Group internal audit must notify the Central Bank, in writing, prior to visiting The Bahamas to conduct an audit of operations. The Auditor should provide a brief overview of the Audit Department, its accountabilities, staffing, organisation, and the scope of the proposed audit.
- 14.3 Group and resident internal auditors must arrange a meeting with the Central Bank at the conclusion of the audit to discuss the methodology and preliminary findings.
- 14.4 All audit reports, working papers and supporting documentation must be available to the Central Bank upon request and during the conduct of onsite examinations.
- 14.5 SFIs are required to submit to the Central Bank, the results of the independent assessment of the internal audit function within 14 business days of receipt.<sup>6</sup>

## **15. REQUIRED DISCLOSURES BY THE INTERNAL AUDITORS**

- 15.1 An internal auditor should notify the Central Bank of any scope limitations requested or imposed by the SFI, or any obstacles to, or difficulties in obtaining information necessary to perform an audit. The notification should be immediate, particularly if the circumstances indicate that the submission of the audit or other report would be delayed.
- 15.2 To communicate to the Central Bank any relevant material<sup>7</sup> internal audit findings, particularly in the areas of AML/KYC controls, in a timely fashion.
- 15.3 The Central Bank expects that internal auditors will immediately report any material deficiencies in the SFI's financial or regulatory reporting or compliance. No person may obstruct any auditor in reporting on a timely and accurate basis to the Central Bank.
- 15.4 Annually, within 120 days of the end of each calendar year, the Head of Internal Audit will be required to provide a certification<sup>8</sup> to the Central Bank relative to the required disclosures.

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<sup>6</sup> Refer to Section V(13)(d)(xi)

<sup>7</sup> Material issues are issues, which in the opinion of the Internal Auditor, represents or could lead to a significant weakening of the system of internal controls.

<sup>8</sup> An example of an Annual Certification is provided in the Appendix.

## 16. SPECIAL REQUIREMENTS OF THE CENTRAL BANK

16.1 Notwithstanding the Central Bank's assessment of an SFI's internal audit function, the Central Bank may query the work of the internal auditors through the continuous supervision process, including on-site supervision, and may require an SFI's internal auditor to:

- i. Submit any additional information in relation to the audit that the Central Bank considers necessary;
- ii. Perform special procedures, audits or examinations of SFIs; and
- iii. Submit special reports on any matter(s).

16.2 The Central Bank may issue instructions on the form and content of the reports.

## Appendix

[Name of Institution]

### Head of Internal Audit's Annual Certification to the Central Bank of The Bahamas

*[The written certification, required annually, within 120 days of the end of each calendar year, shall contain the following:]*

- a. I, \_\_\_\_\_, Head of Internal Audit of \_\_\_\_\_, confirm that the Central Bank will be immediately notified of any scope limitations requested or imposed by the SFI, or any obstacles to, or difficulties in obtaining information necessary to perform an audit.
- b. I, the Head of Internal Audit of \_\_\_\_\_, confirm that any relevant material internal audit findings, particularly in the areas of AML/KYC controls, will be communicated to the Central Bank in a timely fashion.
- c. I, the Head of Internal Audit of \_\_\_\_\_, confirm internal audit's satisfaction with the SFI's compliance and its financial and regulatory reporting.
- d. I, the Head of Internal Audit of \_\_\_\_\_, confirm that to the best of my knowledge the Board is performing its functions and fulfilling its responsibilities under these Guidelines.