



FEEDBACK FROM THE INDUSTRY CONSULTATION

INTERNAL AUDIT GUIDELINES

6 DECEMBER 2022

POLICY UNIT

BANK SUPERVISION DEPARTMENT

EMAIL: POLICY@CENTRALBANKBAHAMAS.COM

Feedback from the Industry Consultation: Internal Audit Guidelines, 2022

Section	Questions/Comments Received	Central Bank's Response
The Introduction mentions, "For larger SFIs and internationally active banks, an audit committee (or its equivalent) is typically responsible for providing oversight of the SFIs internal auditors."	What is considered a larger SFI? Are larger SFIs and internationally active banks required to have an audit committee?	Larger SFIs include local firms with assets of 100 billion or more and foreign banking institutions with combined assets of 100 billion or more. Yes, larger SFIs and internationally active banks will be required to have an audit committee, as this is best practice.
Audit Committee and Composition and Power of the Audit Committee.	If the SFI do not have an audit committee, would the sections pertaining to the Audit Committee and the Composition and Powers of the Audit Committee not be applicable?	Yes, the Sections that refers to the Audit Committee and the Composition and Power of the Audit Committee will not be applicable if the SFI is not required to have an Audit Committee. The Audit Committee is a specialised committee of the Board and is a fundamental component of good corporate governance. The size of the Committee will vary according to the size, complexity and risk profile of the SFI and SFIs are encouraged to ensure there is appropriate oversight of the ERM framework, including internal controls.
According to Section 27, the Audit Charter should be approved by the Board and reviewed at least annually by the Head of Internal Audit.	Should the Audit Charter be approved by the Board annually or only if there is any update?	The Charter should be approved by the Board and reviewed periodically ¹ and where circumstances warrant change, by the Head of Internal Audit to ensure that the Committee is operating effective and fulfilling its functions.
	If the SFI is within a group or holding company structure, should the audit plan be one for the entire company structure or is it necessary to have a specific audit plan for the SFI?	The Guidelines provides that "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 organization 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". Communication and approval remain mandatory.

¹ Best practice is every three years.

Feedback from the Industry Consultation: Internal Audit Guidelines, 2022

Section	Questions/Comments Received	Central Bank's Response
<p>Section 32 - 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.</p> <p>Section 59 - 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.</p>	<p>Can you kindly specify what is the distinct difference, if any, between the KYC/AML/CFT review program and the ML/TF risks?</p> <p>In addition, we recently received a CBOB point (Report of Examination) regarding the requirement, in accordance with FTRA, to conduct regular, periodic assessments, to be in line with our Letter of Compliance, which is submitted annually. However, this guideline speaks to a three-year cycle. Can you kindly clarify the required timing for these reviews?</p>	<p>The distinction between KYC/AML/CFT and ML/TF review programs: KYC/AML/CFT's review possible and "specific gaps" in KYC requirements, systems and procedures that may contribute to ML/CFT activity; <i>whereas</i> the ML/TF program reviews a "broader scope of potential gaps" of the institution's requirements, systems, platforms, procedures and policies to prevent ML/CFT.</p> <p>Examinations are specific to each institution. Examination recommendations or directives are given based on the risk profile, complexity and scale of the institution, and as such, a proportionate annual cycle is applied. The required timing for reviews are based on each institutions' risk, however there is minimum requirement of a three-year-cycle for reviews.</p>
<p>Section 64 - 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.</p>	<p>Planned internal audit reviews" and "audit plan" are separate items noted above.</p> <p>a) Can you kindly advise what is CBOB's interpretation of the difference in these documents?</p> <p>b) Currently, our Audit Plan outlines the planned reviews, and their scope. Would this document be sufficient to address this guideline?</p>	<p>a) An "audit plan" is a risk-based document prepared annually that outlines the areas to be audited within the SFI. The plan should establish priorities, set objectives and ensure efficient and effective used of audit resources.</p> <p>An "audit review" is an exercise conducted on the plan, at minimum annually, in response to changes in the SFI's business, risk, operations, programmes, systems and controls.</p> <p>b) If the current Audit plan meet the requirements as provided in Section 8 of the draft Guidelines, it would be sufficient to address the Guidelines.</p>

Feedback from the Industry Consultation: Internal Audit Guidelines, 2022

Section	Questions/Comments Received	Central Bank's Response
<p>Section 15 (f) - 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.</p>	<p>Based upon the volume of recommendations, and the position of the CEO/Managing Director, it may not be feasible for the CEO to validate all recommendations. However, the Bank does have a process in place whereby the Risk Department validates all implemented recommendations, and it is reviewed the Internal Audit Department. We believe this approach is adequate to determine whether the recommendation has been addressed satisfactorily and implemented to address the applicable risk(s). We do, however, advise the CEO/Managing Director and Audit Committee of the status of implemented points, via quarterly meetings.</p> <p>Kindly advise if the current approach would be sufficient to address this guideline.</p>	<p>Your comment has been noted. The internal audit function should independently assess the effectiveness and efficiency of the internal control, risk management and governance systems and processes created by the business units and support functions and provide assurance on these systems and processes.</p> <p>The approach provided would be sufficient, as Executive Management' approval of remediation plans or risk acceptance is good practice.</p>
<p>Section 66 - 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.</p>	<p>We appreciate the need for oversight and supervision; however, given our Department's current resources, this may not be feasible. We note the requirement, in these guidelines, to provide quarterly Follow-Up Internal Audit Reports. These reports will capture all outstanding points, including all points raised in the most recent audit. Kindly advise if this would be sufficient to address this guideline, as it will capture the findings.</p> <p>In addition, it is our hope that the results of our Independent Assessment will speak to our Department's methodology and alignment with IPPF Standards.</p>	<p>The Bank has an interest in engaging in a constructive and formalized dialogue with the internal audit function. This dialogue could be a valuable source of information on the quality of the internal control system. The frequency of these meeting and other communication will be commensurate with the SFI's size, the nature and risks of its operations and the complexity of the organization.</p> <p>By requesting the internal audit reports and having the meetings, the analysis of these internal audit reports and information may contribute to the supervisor's assessment of the internal control system of the bank.</p>

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<p>APPLICABILITY These Guidelines do not apply to branches of foreign banks.</p>	<p>Please clarify whether the above exclusion is applicable to both local and international commercial and private banks licensed with the Central Bank.</p>	<p>The exclusion applies to branches of foreign banks.</p>
<p>COMPOSITION AND POWERS OF THE AUDIT COMMITTEE Section 24 - 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</p>	<p>One of the responsibilities of the head of internal audit is to present observations or findings to the committee and monitor compliance with the Annual Audit Plan. By mentioning that the auditor should not participate regularly in, the audit committee seems somehow contradictory, because the function of the head of internal audit is to have an efficient communication with the audit committee about the weaknesses of the internal control. Please clarify the intention of requirement regarding Head of IA. This also seem to contradict 15(b), which states that The Head of Internal Audit should attend Audit Committee meetings.</p>	<p>The restriction is on regular meetings. In line with the IPPF standards, the restriction is placed on the relationship with the Head of Internal Audit and Senior/Executive Management.</p>
<p>REQUIRED DISCLOSURES BY THE INTERNAL AUDITORS Section 72 - Annually, within 120 days of the end of each calendar year, the Head of Internal Audit will be required to provide a certification to the Central Bank relative to the required disclosures.</p>	<p>After the meetings that were held in November, it was mentioned that meetings would be held in May and November of this 2022 period. Providing a further certification can seem duplicitous if at the end Internal Audit is also required to present the progress of all internal audit matters during the meetings. Please clarify whether only the certification or the meeting that we schedule in May and November would be required.</p>	<p>Your comment has been noted. The May and November meetings are with External Auditors who are a part of the Central Bank's Auditors Advisory Committee.</p>

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Section	Questions/Comments Received	Central Bank's Response
<p>Section 25 - The Audit Committee should meet at least once each quarter.</p>	<p>The period requested to meet for the audit committee should be also <i>based on the complexity and risk profile of the SFI.</i></p> <p>For SFI with minimum risk and without any major issues or concerns and depending of comments from Internal Audits, External Audits or Regulatory audits, might not have any pending recommendations to review or follow up and no meeting is needed.</p>	<p>The guidelines states “should” rather than “must” meet at least once each quarter. This gives the SFI the flexibility to adjust where necessary.</p>
<p>Section 30 - The Head of Internal Audit should prepare the audit plan annually.</p>	<p>However, the periodicity of the Audit depends on complexity and risk profile and might not be annually. Refer to point 9 for frequency.</p>	<p>Your comment is noted. SFIs should be mindful of the structure and operations of the SFI and the frequency of preparation of an Audit Plan should be formally documented and approved by the Audit Committee.</p>
<p>Section 36 - The Head of Internal Audit must report to the Board, at least annually, on the organizational independence of the internal audit activity.</p>	<p>In reference to the point mentioned before the Annual report of the Head of Internal Audit to the Board might not be necessary, but periodically or when an Internal Audit was performed.</p>	<p>Organizational independence is effectively achieved when the head of audit reports functionality to the board. There must be continuous communication (at least annually at a minimum) between the Head of Internal Audit and the Board to confirm the SFI's independence of the internal audit activity.</p>

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Section	Questions/Comments Received	Central Bank's Response
<p>Section 58 - 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 a minimum, every three years.</p>	<p>After saying in point 9 that the frequency of audits is dependent of the complexity and risk profile of the SFI in this point now it says that the companies should conduct audits annually.</p> <p>I understand that is not mandatory, then I do not know the purpose of this section when each SFI can determine the frequency based on their complexity and risk profile. I say this because as part of a large Group and our complexity and risk profile the Group determine the periodicity of the Internal Audits, which are performed by our Internal Audit Team from Head Office. At this moment, we are in an Internal Audit rotation plan every 4 years.</p>	<p>Where ongoing financial activity/transactions exist, there is imminent risks. Where the risk is low, an annual audit should be conducted at a minimum.</p> <p>An annual internal audit is a proactive measure for SFIs; in addition to addressing evident risk, the audit should also be carried out to solidify that the institution has no significant emerging risk.</p> <p>Where the Central Bank has approved a relaxed cycle, the SFI can proceed to conduct cycles accordingly.</p>
<p>Section 59 - Full internal audit review of ML/TF risk 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.</p>	<p>Again refers to a minimum three-year cycle.</p>	<p>The three-year cycle (at a minimum) refers ML/TF reviews only.</p>
<p>Section 61 - SFI must submit internal audit reports within 14 business days after the audit report has been formally issued.</p>	<p>Should say "submit to the regulator" the report. Maybe 14 business days is not enough for Big Groups where the report has to pass different committees before deliver to SFI.</p>	<p>Both recommendations are noted.</p>

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Section	Questions/Comments Received	Central Bank's Response
<p>Section 63 - SFI's 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.</p>	<p>I guess should say that apply only to in-house Internal Audit and not for Group.</p>	<p>This point is applicable to all internal audit functions. The Central Bank will regularly assess whether the internal audit function has sufficient standing and authority within the SFI and is operating according to the guidance. The appointment, replacement, or removal of the head of the internal audit function is relevant to the Bank's assessment of the SFI.</p>
	<p>Maybe in a separate point the Guideline can allow SFI to request Central Bank exceptions to apply different cycles for Internal Audit to be performed. That way a lot of things a resolved.</p>	<p>Your comments has been noted.</p>
<p>Section 12 - 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.</p>	<p>Kindly review this paragraph which contradicts Section 12 'Outsourcing' of this document. International Standards and the Central Bank's Outsourcing Guidelines (see Annex I) allow for the outsourcing of the internal audit function. Internal auditing services is considered 'outsourcing'.</p>	<p>We do not think there is a contradiction between the documents. As per footnote 3, Outsourcing is the engagement of experts from outside the banking organization to perform internal audit activities to support the internal audit function.</p>

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Section 13 - The scope of internal audit.	<p>As part of the Central Bank's broader strategy for SFI's to regularly assess SFIs internal control and risk management systems (e.g. through self-assessments, ERWAs, AML/CFT Risk Assessments etc.). I suggest including, as part of the internal audit scope at sub-paragraph (a) ...an evaluation of risk management processes and systems.</p> <p>Further, I note that the internal auditor's role with respect to <i>Risk Management</i> processes is not heavily featured within the document. This is important. There should be a short section within the Guidelines that speaks to the internal audit's scope and review relative to key risk management functions within a SFI (refer to paragraph 33 of the Basel Paper – Internal Audit Function in Banks 2012).</p>	<p>The evaluation of risk management is noted at section 6(i) of these guidelines, and states that the scope of the Internal Audit is to “ensure that internal controls, governance and risk management systems are reviewed, improved and optimized in response to the environment within which the SFI operates”.</p> <p>Your suggestion has been noted.</p>
	<p>Should we consider giving a timeframe within which the board of directors must mandate an independent external quality assurance review of the internal audit function (whether internal or outsourced)? I suggest at least once <i>every five years</i> as a timeframe or cycle within which a 3rd party (i.e. independent) review and assessment of the internal audit function is conducted. However, this can be benchmarked.</p>	<p>Your suggestion has been noted.</p>
Section 4 - “These Guidelines apply to all banks, banks and trust companies, credit unions and money transmission businesses incorporated in The Bahamas...”	<p>We request inclusion of electronic money service providers.</p>	<p>Your request has been noted.</p>

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<p>Section 11 - "The scope of the internal audit function should include the SFIs 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."</p>	<p>To ensure Internal Audit remains independent, we recommend that the evaluation of the competency and quality assurance of outsourced functions prior to signing remain with management. Internal Auditors may serve in a consultative role, while management acts as the decision maker.</p> <p>We are of the opinion that if given this initial responsibility, this may impact the independence of future assessments of the outsourced activity.</p>	<p>Your recommendation has been noted.</p>
<p>Section 13(c) - "Testing transactions and internal control procedures, including providing assurance that material products are operating within their contractual terms."</p>	<p>We request further clarity be provided on what constitutes a "material product".</p>	<p>A material product is any a product that has a significant impact on reported profits, or specific line items noted in financial statements.</p>
<p>Section 15 -"The authority responsibilities and composition of the Audit Committee should be documented in the Internal Audit Charter."</p>	<p>While we acknowledge there may be some inclusion of authority and composition of the Audit Committee in the Internal Audit Charter, we note that this is more adequately documented in the Audit Committee Charter. We recommend that the authority responsibilities and composition of the Audit Committee be documented in the Audit Committee Charter. The same can be reviewed in conjunction with the Internal Audit Charter.</p>	<p>Your recommendation has noted.</p>
<p>Section 15(a) - "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."</p>	<p>See the comments above. We recommend that the authority responsibilities and composition of the Audit Committee be documented in the Audit Committee Charter. The same can be reviewed in conjunction with the Internal Audit Charter.</p>	<p>See above comment.</p>

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Section 15(c) - "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."	We recommend the inclusion of a requirement for the Head of Internal Audit to convene with the Audit Committee in the absence of senior management at least on an annual basis.	Your recommendation has noted.
Section 15(d) - "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."	We realize that the reporting line of Internal Audit is a common concern and requests further clarity around the administrative and functional roles reporting roles. The International Professional Practice Framework states that ideally, the Internal Auditor should report to the Audit Committee functionally and to the President/CEO administratively.	The internal audit function should be accountable to the board or its audit committee. The internal audit function should also promptly inform senior management about its findings. The internal audit function should inform senior management of all significant findings so that timely corrective actions can be taken (administratively) . The head of the Internal Audit function should report to the board or its audit committee (functionally) , the status of findings that have not (yet) been rectified by senior management.
Section 15(f) - "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."	<p>In accordance with the IPPF's Practice Advisory 2500. A1-1 "The internal auditor determines whether the desired results were achieved or if senior management or the board has assumed the risk of not taking action or implementing the recommendation."</p> <p>We believe the language should be updated to reflect the role of Senior Management. It is imperative that the risk management function remain with management to maintain the independence of Internal Audit.</p> <p>Further, we are open to collaboration with the External Auditor and request further updates to the language that enables the Internal Audit function with the authorities to do the same. In many instances, this may be done currently on a discretionary basis.</p>	<p>Your comments has been noted.</p> <p>Please refer to section e) Engagement of the External Auditor, which speaks to the collaboration with External Auditors.</p>

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Section 15(i) - "The Audit Committee should regularly review resourcing and organization of the internal audit function."	We recommend the inclusion of a requirement to review resourcing and organization of the internal audit function at least on an annual basis and as significant changes occur which may impact the same.	Your recommendation has been noted.
Section 24 - "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."	We believe the language used here may contradict section 15(b). Further clarity may also be provided as it relates to the expectation of Internal Audit participation in Audit Committee meetings.	Your comments has been noted. Both sections speak to senior management et. al attending Audit Committee meetings as <i>invitees</i> .
Duty of Care of Internal Auditors	Internal auditors should be encouraged to pursue membership and certification with the local chapter of the Institute of Internal Auditors and obtain a certification that allows them to perform their required duties. There are still many persons performing internal audits who are not aware or trained in internal audit standards. This may be considered a minimum criterion as membership provides access and training on internal audit standards.	Your comments has been noted.
Section 47 - "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."	We recommend the inclusion of a requirement for training, including both the Head of the Internal Audit function and staff auditors on at least an annual basis.	Your recommendation has been noted.
Section 62 - "SFI's must submit internal audit reports within 14 business days after the audit report has been formally issued."	More clarity on how the internal audit reports will be submitted is requested. We recommend use of a portal similar to ORIMS portal for ease of submission and tracking purposes.	Your recommendation has been noted.

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<p>Section 63 - "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."</p>	<p>We request that the quarterly filing of follow-up internal audit reports be revisited. The IIA's Practice Advisory Guide 2500.A1-1 recommends the following:</p> <p>"Scheduling of follow-up is based on the risk and exposure involved, as well as the degree of difficulty and the significance of timing in implementing corrective action."</p> <p>We recommend that Internal audit provide a quarterly status report to the Audit Committee on "open" internal audit findings. The same follow-up status reporting can be submitted to the Central Bank, which later is validated in an annual follow-up audit.</p>	<p>Your recommendation has been noted.</p>
<p>Section 66 - "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, organization, and the scope of the proposed audit."</p>	<p>We request consideration of reducing reporting requirements to submission of reports with significant findings only or where Central Bank deems a meeting necessary after reviewing the report submitted.</p>	<p>Your comment has been noted.</p> <p>To facilitate a consistent approach to internal audit across a banking group, the Central Bank will benefit from effective communication about topics of mutual interest. By being notified, in writing, prior to visiting the Bahamas and conducting an audit, the Bank will be better placed to ensure effectiveness of the internal audit function and make recommendations for strengthening the function. The relationship between supervisors and internal auditors is two-way.</p>
<p>Section 69 - "SFI's 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.6".</p>	<p>The footnote reference here appears inaccurate.</p>	<p>Yes. Same has been corrected.</p>

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<p>Section 73 - "Annually, within 120 days of the end of each calendar year, the Head of Internal Audit will be required to provide a certification⁸ to the Central Bank relative to the required disclosures."</p>	<p>We request a review of the language in the annual certification due to the following:</p> <p>Point C – Due to resource limitations, Internal Audit is incapable of reviewing all the relevant areas on an annual basis, we request an update to the language to limit the certification to only those areas Internal Audit has assessed in the reporting period.</p> <p>Point D - Scope limitations may impact Internal Audit's ability to affirm this, as annual reviews of Corporate Governance are not mandated. Further, in most instances Internal Audit only attends Audit Committee and may not be invited to general board meetings or be privy to the meeting minutes. This may be done on a more discretionary basis.</p> <p>Consequently, we request further updates to the internal audit draft guidelines to mandate Corporate Governance reviews on an annual basis as well as a requirement of some involvement in Board meetings to ensure Internal Audit has the authority to effectively assess these areas.</p>	<p>Your comments has been noted.</p> <p>The audit plan, which is expected to be planned annually, will outline which area will be audited within the SFI. The plan should establish priorities, set objectives and ensure the efficient and effective use of audit resources. Not all of the potential scope areas may be covered every year, but the relevant activities should be incorporated on the materiality of the risks identified. The annual certification will be based on the audit activities conducted within the reporting year.</p>

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Internal Audit Within a Group or Holding Company Structure.	Can the Audit Committee of our Parent Company perform and act as the internal audit committee? Taking into consideration the size of certain SFIs.	Yes.
Responsibilities of the Audit Committee. v. Reviewing arrangements by which staff may confidentially raise concerns about any possible improprieties.	This requirement does not appear to align with other financial reporting functions; consideration should be given to moving it to a risk management requirement. Additionally, consideration should be given to outlining the Audit Committee's responsibilities specifically related to enterprise risk management and fraud in this section.	Your comments for consideration has been noted. The requirement here is in line with the responsibilities of the Audit Committee in relation to the internal audit function .
Section 18(b) - Regulatory Reporting Including: i. Data returns filed with the Central Bank; and ii. Documents filed with the Central Bank.	Consider adding more details to this section. What is the expectation of the Audit Committee in relation to the filings (oversight, regular monitoring, review?)	Section 16 notes that the "Audit Committee assists the Board with its oversight responsibilities in areas such as the financial reporting process...". Further, the Audit Committee can expect to review significant accounting and reporting issues and professional and regulatory issues to under the potential impact on financial statements.
Section 18(d)(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 organization.	Consideration should be given to aligning with the Securities Commission, which requires a review every three years.	Your comment has been noted. We note that the International Standard for the Professional Practice of Internal Auditing Framework recommends external assessments must be conducted at least once every five years.

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Section 50 - 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.	Stronger language should be used here. Consider aligning with the language in the IPPF, which states auditors "should refrain".	Your suggestion has been noted.
Section 58 - 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.	In line with best practice, an annual review should be the requirement for IA policies and procedures.	Your comment has been noted.
Section 60 - 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.	<p>The IIA Practice Guide on Developing A Risk Based Audit Plan states that:</p> <p>The audit frequency is based upon the level of residual risk determined in the risk assessment. For example, auditable units ranked high-risk may be audited at least annually (or once every 12 to 18 months), those rated with a moderate level of risk scheduled may be reviewed every 19 to 24 months, and those rated low-risk might be audited only once every 25 to 36 months (or not at all).</p> <p>Given the focus and level of risk associated with ML/TF functions, it is recommended that the minimum mandatory frequency be reduced to every 12 to 18 months, with a mandatory full scope over the three-year audit cycle.</p>	<p>As per Section 25.3.5 of the Guidelines for Supervised Financial Institutions of the Prevention of Money Laundering, Countering the Financing of Terrorism and Proliferation Financing, where appropriate, having regard to the size and nature of their business, SFIs must engage an independent audit function to test the internal AML/CFT policies, controls and procedures.</p> <p>As per the IA Guidelines, Section 60 requires a full internal audit review of ML/TF risk, at a minimum, on a three-year cycle; as per your recommendation.</p>
Section 62 - SFI's must submit internal audit reports within 14 business days after the audit report has been formally issued.	This should be clarified. Reports should be issued only after formal submission to the Audit Committee.	Your comment has been noted.

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Section	Questions/Comments Received	Central Bank's Response
Section 65 - 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.	Reference should be made to submissions when there are changes to the IA Plan as well.	Your comment has been noted.
Section 69 - 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.	The results must be presented to the Audit Committee and Board. The 14-day requirement may not be practical considering the various levels of reporting required before sending to CBOB. Perhaps the requirement should be 14 days after presentation to the Audit Committee/Board.	Your recommendation has been noted.
Section 70 - 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.	There may be a need to address protections for whistle blowers/blowing added to the document.	Your recommendation has been noted.
<p>APPLICABILITY</p> <p>These Guidelines do not apply to branches of foreign banks.</p>	Please clarify whether the above exclusion is applicable to both local and international commercial and private banks licensed with the Central Bank.	Yes. Section 4 refers to all “supervised financial institutions” licensed with the Central Bank. The key to applicability is to be licensed and operating in and from within the Central Bank.

Feedback from the Industry Consultation: Internal Audit Guidelines, 2022

Section	Questions/Comments Received	Central Bank's Response
<p>AUDIT COMMITTEE</p> <p>Section 15 - An Audit Committee is a specialized 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:</p>	<p>In the "Purpose" of the guideline, it is defined that it sets out the minimum standards to adopt in respect of the internal audit function. However, the requirements are more comprehensive than just the internal audit function.</p> <p>In "Applicability" it is mentioned that it applies for all banks and trust companies, credit unions and money transmission business and licensed or registered by the Central bank of the Bahamas (CBB), however the guidelines do not make a distinction between a listed or public company or the size of the business or recognize that some of the requirements could be difficult to implement for small companies. In lit 5.1) certain condition for having an Audit Committee seems to be implicit (IF an SFI has or is required to have an Audit Committee.") However, that requirement -meaning the condition to set and Audit Committee- is not clearly established.</p> <p>In addition, it is our understanding that the defined "oversight responsibility" for the Audit Committee could overlap with the responsibilities of other BOD sub-committees and could generate conflict with the inherent function of Audit as an independent third line of defense. The Audit should not have direct responsibilities but should assess the control framework and risk management of the institution – across the Board.</p>	<p>The requirements for the Internal Audit function are comprehensive to provide for a holistic and strategic framework; and good corporate governance.</p> <p>There is no distinction required for listed or public companies, as applicability to the IA Guideline is not based on how shares are managed by the institution, but rather whether the SFI operates in and from within The Bahamas and licensed by the Central Bank.</p> <p>Where there is a potential conflict with inherent functions of the Audit Committee, the SFI should ensure that the Committee and other Board sub-committees have clear and explicit responsibilities/duties outlined for each, inclusive of an approval regime for implementing recommendation.</p>

Feedback from the Industry Consultation: Internal Audit Guidelines, 2022

Section	Questions/Comments Received	Central Bank's Response
<p>Audit Committee Responsibilities EXTERNAL AUDITORS REPORTING</p> <p>Section 16 – Audit Committee – paragraph (h) establishes that:</p> <p>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.</p>	<p>The requirement for External auditors to report directly to the Committee and not to management must be clarified. We understand that this matter should not include the day-to-day tasks conducted as part of the fieldwork when conducting the audit. The Audit Committee should exercise an oversight of the External Auditor's work but should not be involved in daily operations.</p>	<p>It is imperative that External Auditors report directly to the Audit Committee and not management; this allows the Audit Committee to meet separately with External Auditors to discuss matters that should be discussed privately, such as independent observations on management's ability to maintain strong internal controls.</p>
<p>Audit Committee Responsibilities FINANCIAL REPORTING</p> <p>The Audit Committee should, inter alia, be responsible for:</p> <p>a) Financial Reporting, including:</p> <ul style="list-style-type: none"> 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; 	<p>The activities listed from i-vii are standard practices usually mandatory for publicly traded companies or listed companies. We understand that the level of detail specified within a) above does not correspond to an oversight of the financial reporting process but to a more exhaustive approach requesting expertise in accounting matters difficult to obtain in practice. In addition, some of the items, such as vi) are carried out directly at the Board level and not delegated to the Committee.</p>	<p>The Audit Committee's role and responsibilities call for a higher level of oversight and will not correspond to the regular or standard process/practices.</p> <p>Where there is a need for expertise in accounting matters, it would benefit the SFI to ensure that a member of the Audit Committee has a financial or accounting background.</p> <p>The issuance of these guidelines will require the SFI to allow the Audit Committee review financial statements. This will allow the Audit Committee to make recommendations to the Board about the financial statements.</p>

Feedback from the Industry Consultation: Internal Audit Guidelines, 2022

<ul style="list-style-type: none"> 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 <p>Responsibilities of the Audit Committee:</p> <p>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.</p>		
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Feedback from the Industry Consultation: Internal Audit Guidelines, 2022

Section	Questions/Comments Received	Central Bank's Response
<p>Section 19 - 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 of a minimum of three directors, with independent directors forming the majority. The Board should review the composition of the Audit Committee annually.</p> <p>Section 20 - 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.</p> <p>Section 22 - 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.</p>	<p>It is general standard practice for the Audit Committee's members to collectively have sufficient knowledge and expertise and specific industry experience to carry out its role. We note that there is an inconsistency in paragraph 6.4) as it requests for "each member" to have the competencies requested by the guideline and at the same time establishes that at "least one member" must have a background in finance, auditing, or related financial management expertise.</p>	<p>The guideline at Section 22 does require each member of the Audit Committee to collectively have certain competencies, while also considering that at "least one member" must have a background in finance.</p>

Feedback from the Industry Consultation: Internal Audit Guidelines, 2022

Section	Questions/Comments Received	Central Bank's Response
<p>Section 17(f) - Remedial Actions, including:</p> <p>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</p> <p>ii. Addressing control weaknesses, non-compliance with policies, laws and regulations and other problems identified by the internal and external auditors.</p>	<p>It is our understanding that addressing control weaknesses is a management function and not an Audit Committee function. The audit committee should monitor on global basis that actions are taken but is not responsible for its implementation.</p>	<p>Agreed. Section f (i) does specify that the Audit Committee should “ensure that senior management, in a timely manner, take the necessary corrective actions to address the deficiencies”. The Audit Committee shall be responsible for flagging the recommendations and ensuring that recommendations are carried out by management, and report management’s progress to the Board. The guideline at point f (i) specifies management’s function accordingly.</p>
<p>Section 25 - 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.</p>	<p>One of the responsibilities of the head of internal audit is to present observations or findings to the committee and monitor compliance with the Annual Audit Plan. By mentioning that the auditor should not participate regularly in, the audit committee seems contradictory, in that the function of the head of internal audit is to have efficient communication with the audit committee about requirements of the Internal control framework and observed weaknesses. Please clarify the intention of the requirement regarding Head of Internal Audit. This also seems to contradict 16 (b) which states that The Head of Internal Audit should attend Audit Committee meetings.</p>	<p>Observations and findings of Head of Internal Audit can be presented in a separate forum/meeting with the Audit Committee. This will allow the Head of Internal Audit to fulfill its duties relating to the Audit Committee.</p> <p>The two paragraphs are aligned as it provides in both sections that the Head of Internal Audit can meet with the Audit Committee by invitation.</p>

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Section	Questions/Comments Received	Central Bank's Response
<p>Section 25 - 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.</p>	<p>We consider that lit. 25 is applicable from a theoretical point of view and is indeed part of the academic discussion on the Audit committee composition but is not applicable from a practical perspective, as it would impose managerial responsibilities on the Audit Committee (not involved on daily operations).</p>	<p>Section 16(f) allows the Audit Committee to meet separately from the Head of Internal Audit, senior management and the external auditor, the practical perspective is to achieve independent observations on areas of concern (without undue influence).</p> <p>The absence of senior management at regular meetings of the Committee will not impose responsibilities on the Audit Committee, as separation of duties provides guidance for both functions.</p>
<p>REQUIREMENTS FOR SUPERVISED FINANCIAL INSTITUTIONS</p> <p>Section 62 - SFI's must submit internal audit reports within 14 business days after the audit report has been formally issued.</p>	<p>Does 62 refer to the AML/CFT cycle (taken into account in 60) or follow up reports (per 61)?</p>	<p>Section 62 does consider Section 60, as the AML/CFT cycle should occur at a minimum of a three-year cycle. The AML/CFT cycle provides a wide timeframe to allow SFIs to meet other Central Bank obligations.</p>
<p>Section 73 - Annually, within 120 days of the end of each calendar year, the Head of Internal Audit will be required to provide a certification to the Central Bank relative to the required disclosures.</p>	<p>After the meetings that were held in November, it was mentioned that meetings would be held in May and November of the 2022 period. Providing a further certification seems a duplication if Internal Audit is also required to present the progress of all internal audit matters during the meetings. Please clarify whether the certification would replace the meetings that we schedule in May and November going forward.</p>	<p>See above. The May and November meetings are with External Auditors who are a part of the Central Bank's Auditors Advisory Committee.</p>

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Section	Questions/Comments Received	Central Bank's Response
<p>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.</p>	<p>Pure trust companies should be added after banks and trust companies, as the current wording does not make it clear that the Guidelines apply to pure trust companies.</p>	<p>Your observation is noted.</p>
<p>Section 16(b) - 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.</p> <p>Section 25 - 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.</p>	<p>Section 16(b) states that the Head of Internal Audit should attend Audit Committee meetings, yet paragraph 25 suggests that the Head of Internal Audit should only attend by invitation of the committee. The points seem to contradict each other.</p> <p>Can you clarify whether the Head of Internal Audit should attend each Audit Committee meeting or whether they should only attend by invitation?</p>	<p>Section 16(b) gives the Head of Internal Audit permission to attend Audit Committee meetings, however Section 25 states the grounds in which the Head of Internal Audit should attend those meetings, which is by invitation only.</p>

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Section	Questions/Comments Received	Central Bank's Response
<p>Page 2 Consultation Document: Last sentence - the function helps to reduce the risk of loss and reputational damage to the bank.</p>	<p>Reference is made to banks and not SFIs.</p>	<p>Your observation is noted.</p>
<p>Section 16 - The Audit Committee assists the Board with its oversight responsibilities in areas such as ... external audit functions.</p>	<p>The Audit Committee or its Credit Union equivalent, Supervisory Committee does not assist the Board with its oversight responsibilities for the external audit. Section 79 of the Bahamas Co-operative Credit Union Act, 2015 ("the Act") outlines the duties of the Supervisory Committee which are as follows:</p> <ul style="list-style-type: none"> • examine the books of the co-operative credit union. • confirm the cash instruments, property and securities of the co-operative credit union. • confirm the deposits of the members • perform such other duties under the Act and in the bye laws • meet at least every two months, and where no auditor has been appointed pursuant to section 86, shall meet monthly and shall at each such meeting examine the affairs of the co-operative credit union • meet with the Board quarterly • keep minutes of its meetings • lodge the minutes of such meetings with the co-operative credit union • within seven days of each meeting, report the results thereof in writing to the Board: and • Submit a written report to the annual general meeting of the members of the co-operative credit union. <p>The Audit Committee or its Credit Union equivalent, Supervisory Committee does not assist the Board with its oversight responsibilities for the external audit. Section 79 of the</p>	<p>To comply with the guidelines, SFIs will be required to incorporate and attach such duties to the Audit Committee (or equivalent). The benefit of this duty of assisting the Board with its oversight responsibilities of external audit is to provide the Committee with a broader view of issues to be addressed, along with providing the Committee with the platform to present risk-mitigating recommendations.</p>

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	<p>Bahamas Co-operative Credit Union Act, 2015 ("the Act") outlines the duties of the Supervisory Committee which are as follows:</p> <ul style="list-style-type: none"> • examine the books of the co-operative credit union. • confirm the cash instruments, property and securities of the co-operative credit union. • confirm the deposits of the members. • perform such other duties under the Act and in the byelaws. • meet at least every two months, and where no auditor has been appointed pursuant to section 86, shall meet monthly and shall at each such meeting examine the affairs of the co-operative credit union • meet with the Board quarterly • keep minutes of its meetings • lodge the minutes of such meetings with the co-operative credit union • within seven days of each meeting, report the results thereof in writing to the Board: and • Submit a written report to the annual general meeting of the members of the co-operative credit union. 	
<p>Section 16(b) - states that the Audit Committee may invite the Head of Internal Audit to attend meetings of the Committee.</p>	<p>Typically, credit unions may only have a single Internal Auditor and as per the Credit Union Act, the Internal Auditor reports to the Supervisory Committee. As a result, it is critical for the Internal Auditor to attend the meetings of the Supervisory Committee.</p>	<p>Under the guidelines, the Audit Committee is allowed to meet separately from the Head of Internal Audit, senior management and the external auditor, the practical perspective is to achieve independent observations on areas of concern (without undue influence).</p>

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Section	Questions/Comments Received	Central Bank's Response
Section 16(b) - states that the Audit Committee may invite the Head of Internal Audit to attend meetings of the Committee.	However, the last sentence of the same paragraph in contradiction, states that the Head of internal Audit should attend Audit Committee meetings.	Under the guidelines, the Head of Internal Audit has permission to attend Audit Committee meetings. However, it is stated that the grounds in which the Head of Internal Audit should attend such meetings, which is by invitation only.
Section 16(d) -The Head of Internal Audit should report to the Chair of the Audit Committee or the chair of the Board.	<p>Pursuant to Section 82 (4) of the Act, the Internal Auditor shall report to the Supervisory Committee, not the Chair. Per the Uniform Byelaws of credit unions, the duties of the Chairman of any Board or Committee is as follows:</p> <ul style="list-style-type: none"> • to preside at meetings • to sign jointly with the Secretary • perform such other duties as customarily appertain to the office of the Chairman or as may be directed to perform by resolution of the Board, not inconsistent with the Act, the Regulations and Byelaws. 	To comply with this requirement, the credit unions will be required to make adjustments to adhere to ongoing supervisory programs, such as requiring the Head of Internal Audit to report to the Chair of the Audit Committee or the chair of the Board.
<p>Section 18 (e) - Engagement of the External Auditor</p> <p>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.</p>	<p>As it relates to the External Auditors, it is not customary in any financial institution for the Audit Committee to appoint them, be involved with engaging them, having oversight of their work of, or having them report to the Committee.</p> <p>Section 86 of the Act states that the Board shall at its own expense, cause the accounts of the co- operative credit union to be audited at the end of each financial year by an auditor appointed by the Board; and within fourteen days of the appointment of the auditor, notify the Central Bank of the appointment. Additionally, Section 86 (5) states that the auditor shall submit a report to the Board.</p>	Your comments has been noted.
Section 3.1	Pure trust companies should be added after banks and trust companies, as the current wording does not make it clear that the Guidelines apply to pure trust companies.	As per Section 4 of the final Guidelines, they apply to all SFIs, including restricted entities (unless a specific exemption is granted by the Central Bank) incorporated in The Bahamas, and to their auditors. This includes pure trust companies.

Feedback from the Industry Consultation: Internal Audit Guidelines, 2022

Section	Questions/Comments Received	Central Bank's Response
Section 5.1 (iii) and 6.7	<p>Point 5.1 (iii) states that the Head of Internal Audit should attend Audit Committee meetings, yet paragraph 6.7 suggests that the Head of Internal Audit should only attend by invitation of the committee. The points seem to contradict each other.</p> <p>Can you clarify whether the Head of Internal Audit should attend each Audit Committee meeting or whether they should only attend by invitation?</p>	<p>As per Section 25 of the final Guidelines, “to ensure efficiency and transparency of the Audit Committee, the Head of Internal Audit, senior management and the external auditor should not attend all meetings of the Committee. Attendance of those persons should only be by invitation from the Audit Committee”.</p>
Section 5. 1. b	<p>Specific details regarding which regulatory reports should be reviewed by the Audit Committee or an example of the types of data returns and documents should be added to this section for clarity.</p>	<p>As per Section 17 of the final Guidelines, “the Audit Committee can expect to review significant account and reporting issues and professional and regulatory issues to understand the potential impact on financial statements”.</p> <p>Significant reports, such as data returns and documents filed with the Central Bank are the Statutory/Regulatory Filing Requirements that are submitted to the Bank as per the above schedule.</p>
Section 9.3	<p>This section indicates that The Head of Internal Audit must report to the Board, at least annually.....</p> <p>If this function is outsourced to a third party, should the outsourced third-party Internal Auditor attend at least one Board meeting annually?</p>	<p>As per Section 13 of the final Guidelines, SFIs may contract with related parties for internal audit services, which is not considered outsourcing.</p> <p>Please note that outsourcing is the engagement of experts from outside the banking organization to perform audit activities to support the internal audit function.</p>

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Section	Questions/Comments Received	Central Bank's Response
Section 12	<p>Section 12 deals with outsourcing of Internal Audit activities where an Internal Audit function exists within an organization, however it does not address what should happen if the entire Internal Audit function is outsourced i.e., there is no Internal Audit team within the organization.</p> <p>Can some guidance be provided as to the Central Bank's expectations when the entire Internal Audit function is outsourced?</p>	<p>See above response. The expectation is that the activities outsourced for the engagement of experts from outside the banking organization to perform audit activities is to support the internal audit function.</p>
Section 15.4	<p>If the function is outsourced, should the Internal Audit Annual Certification be completed by the outsourced Internal Auditor?</p>	<p>See response immediately above. The internal audit function should have sufficient standing and authority within the SFI and is operating according to the guidance. Further, SFIs must ensure that the resourcing of the internal audit function is commensurate with the size, complexity and risk profile of the institution. The function cannot be outsourced but rather activities.</p>
General Query	<p>The guidance is very applicable to larger institutions (e.g., banks) which may have an established internal audit function. Have considerations been made for small offices in relation to the extent that the guidance can be varied depending on the size and complexity of the firm? If so, how would a small office evidence which parts of the guidelines they have followed?</p>	<p>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.</p> <p>The Guidelines set out the minimum standards that the Central Bank expects SFIs to adopt in respect of the internal audit activities.</p>