

TO: Basel Committee (baselcommittee@bis.org)

FROM: David Hawkins, Banking Advisor

DATE: January 25, 2012

SUBJ: Consultative Document – The Internal Audit Function in Banks

Regarding the subject document, wondered if there could be some kind of clarification and recommendation on the audit committees. The document presumes that audit committees will be a specialized committee within the Board and it states in Annex 2 that “the Board of Directors assumes final responsibility.”

In many FSU countries and other countries as well, perhaps, the audit committees are not a subcommittee of the Board of Directors but are elected by shareholders at the annual meeting and have various functions. I have pasted a copy of Article 20 (in part) of Moldova’s Law on Financial Institutions below to provide an example. It is just one example of a practice that I have seen in most countries of the FSU.

I believe that this structure goes against the principle that the Board of Directors has the ultimate legal and fiduciary responsibility to ensure that banks are run properly and in a safe and sound manner. The fact that this is not a function of the Board of Directors could possibly allow it (the Board) to argue that it is the audit committee’s fault when there are deficiencies at a bank, and could also split power between the Board and the audit committee, which could cause disagreements.

It also seems also that, since elected by the shareholders, the Audit Committee members will potentially only have their interests in mind, and not that of other stakeholders, which is not always for the betterment of the bank and other stakeholders.

**Article 20. Audit Committee**

(1) The Audit Committee shall have an uneven number of not less than of three members appointed by the general meeting of shareholders of the bank for a period of 4 years. Members of the board of Directors shall not concurrently serve on the Audit Committee. The majority of members of the Audit Committee shall not be persons employed at the bank.

(2) The Audit Committee shall:

a) establish appropriate accounting procedures and accounting controls for the bank, according to the National Bank regulations, supervise compliance with such procedures, and audit the bank's accounts and records;

b) monitor compliance with the laws and regulations applicable to the bank and report to the Board of Directors thereon;

c) deliver advise on any matters submitted to it by the Board of Directors or that it wishes to address.