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Basel Committee on Banking Supervision
Bank for International Settlements
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Department
CAS PPM
Location
ALP A 04.022
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BR1572

Subject
response to Basel consultation on the
internal audit function in banks

Date
February 23, 2012

Dear Sir/Madame,

General comments

We very much appreciate the opportunity to comment on the BCBS consultation “the internal audit function in banks”.

Whilst we recognize the principles as a good reflection of current practice in the internal audit environment, we would like to highlight that current trends also show that the soft control & cultural part of the organization is being recognized as part of the audit scope (audit response towards human capital related risks). The working relationship with both the regulators and external auditors can in my view be more extended in the document. Currently this is just referred to as ‘communication channels’ in Annex 1. We suggest considering taking both aforementioned elements on board in your paper.

Other comments:

With regard to the ‘Introduction’:

1. Reconsider in second 2 the wording ‘an internal audit function with sufficient authority...’ into: “....an internal audit function with dedicated authority...;”
 2. In third point add ‘and timely’ in the sentence ‘..that management takes appropriate and timely corrective action..’;
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1. The Quality Assurance and Improvement Program and the external Quality Assessment foreseen by IIA Professional Standards should be referred to in several principles of the Basel Committee document:
 - Principle 5 Instead of ‘standing’ it is stronger to replace this by ‘responsibility’. In article 24 (audit charter) Reference to the IIA Standards on QAIP (Quality Assurance and Improvement Program) should be added.

- Principle 9 Responsibilities of board of directors and senior management:
 - ❖ Point 43, the guidelines include “From time to time, the board of directors should consider commissioning an independent review of internal audit function”: reference to the IIA Standard on Quality Assessment to be added;
 - ❖ Point 45; add to this point that senior management should also inform the internal audit function regularly on strategy, objectives and related risks.
- 2. Principle 6
In article 27 is stated that the internal audit function should (amongst others) evaluate: ‘Effectiveness and efficiency of operations’. Please rephrase this in ‘Effectiveness with respect to the risk and control structure in and around the operations’. In line with the content presented in article 26 (focus on effectiveness) we suggest to leave out in article 27 the reference to ‘efficiency ‘.
- 3. Principle 7 The internal audit function should ensure adequate coverage of regulatory matters within the audit plan.
The Internal audit function is meant to provide assurance regarding the design and operating effectiveness of controls related to the internal control environment, including risk and control framework and structures as regards all governance objectives. This principle is currently too much focused, therefore the scope should be enhanced. In article 23 we suggest to add ‘design and operating effectiveness’ resulting in: ‘the adequacy of the design and operating effectiveness of risk management systems..’
- 4. Principal 13: adding a reference to IIA’s endorsement of the “3 lines of defense” theory and practice in this principal may be useful. To avoid misunderstanding, the word “complement” in the current text can be skipped since this can be interpreted differently.
- 5. Principle 14: Internal audit within a group or holding company structure. We recommend to strengthen the position of the group audit function, e.g. by adding in article 61 ‘which include the audit methodology and quality assurance measures of the group audit function’ after the wording ‘formulate the internal audit principles’.

Yours sincerely,

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