

2nd March, 2012

Secretariat of the Basel Committee on Banking Supervision
Bank for International Settlements
CH-4002 Basel, Switzerland

Response e-mailed to baselcommittee@bis.org

Dear Sir/Madam,

**RE: Response to the Basel Committee on Banking Supervision – Consultative Document
– “The Internal Audit Function in Banks”**

Thank you for the opportunity to provide comments on the consultative document entitled “The internal audit function in banks”.

We welcome this consultative document which we find very useful.

Please find below the specific comments of the Institute of Internal Auditors of Cyprus. These comments are in two parts. **Part A** includes comments which we consider important and **Part B** includes comments which we consider less important, but nevertheless worthy of mention.

Part A

1. Page¹ 2 – Principle 7: The internal audit plan should not include only “regulatory matters”. It should also include any other internal control, risk management and governance matters on the basis of a risk based audit plan approach.
2. Page 4 – “1- The internal audit function”- paragraph 10: last sentence “or design and/or implement internal controls” to be replaced by the following “or when advising on the design and/or implementation of internal controls”. Comment: It is important not to be misunderstood that the internal auditors “design and/or implement internal controls”.
3. Page 6 – “3 - The internal audit charter”- paragraph 24: suggestion for the International Professional Practices Framework issued by the Institute of Internal Auditors to be specifically mentioned, where it is written about the “requirement to comply with sound internal auditing standards”.
4. Page 7 – “4 – Scope of activity” – paragraph 27: the obligation to audit all entities and all activities may be desirable, but not necessarily aligned with the risk based audit planning concept. We therefore suggest relevant adjustment.
5. Page 11 – Principle 13 – paragraph 59: We suggest the inclusion of the words “and advice” after the word “assurance”, so as to reinforce the dual role of the internal auditors (assurance and advisory).

¹ Pages refer to the relevant Basel Committee consultative document

6. Page 13 – “B – The relationship of the supervisory authority with the internal audit function” – paragraph 67- the supervisor’s assessment of the internal audit function is OK, but this should not be wrongly perceived as replacing the right or obligation of the Audit Committee (or the Board) for undertaking such an assessment. In addition, it may be better for the Audit Committee to be also notified of such requests.
7. Page 13 – Paragraph 72- Although desirable to have direct communication of the supervisory authority with the internal audit function, it is also desirable to have similar discussions with the Audit Committee.

Part B

1. Page 1 – Introduction: paragraph 3, 4th and 5th line: reference not only to “internal control weaknesses”, but also to Risk Management and Governance processes weaknesses.
2. Page 2 – Introduction: paragraph 7: last sentence: We suggest that an Audit Committee (or equivalent) should be mandatory for all types/sizes of banks.
3. Page 2 - Overview of Principles: principle 1: not only “protecting their organization and its reputation” but also “in achieving the objectives of the organization”.
4. Page 2 - Overview of Principles: principle 9: reference to the “internal control framework” to be extended to include “internal control and risk management framework”.
5. Page 7 – “4 – Scope of activity” –last sentence of paragraph 27: suggestion to add the words “process of” before the words “Safeguarding of assets”.
6. Page 9 – Principle 9 – paragraph 44: reference to the “internal control framework” to be extended to include “internal control risk management framework”.
7. Page 10- Principle 10- paragraph 48: Although as stated above it is better to have the requirement for an audit committee or equivalent as mandatory. In any case the phrase “other banks are encouraged...” is suggested to be replaced with “other banks are strongly encouraged...”.
8. Page 11 – Principle 13- paragraph 59: suggestion for replacing the phrase “internal control” with “internal control and risk management process”.
9. Page 12 – Principle 65 – paragraph 65 - suggestion to replace word “ organisation” with phrase “internal audit function”.

Yours sincerely,

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