

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

by email: baselcommittee@bis.org

Zurich, March 2, 2012

**Consultative Document *The Internal Audit Function in Banks:*
Comments from IIA Switzerland**

Dear Madam, dear Sir

We appreciate the opportunity to comment on your Consultative Document *The internal audit function in banks*, issued December 2011.

IIA Switzerland is the official Swiss National Institute of the Institute of Internal Auditors (IIA), with its headquarters in Altamonte Spring, USA. Besides all major firms of the external and internal audit service industry, we represent many publicly and privately held corporations being based in Switzerland. Many of these are multinationals, with significant capitalization and influence on the global market. In particular to the banking sector, 44 banks are members of the IIA Switzerland, some amongst the biggest banks worldwide. A listing of all our members by sector or branch, i.e. banking sector, can be found on our homepage: <http://www.iaa.ch>

In general, we believe that the Consultative Document shows a good basis for the final Guidance Document to help supervisors assess the effectiveness of a bank's Internal Audit function.

The following principal comments are for your consideration:

Introduction Section:

As you certainly know, the International Professional Practices Framework (IPPF), promulgated by The IIA and its more than 100 National Institutes around the globe, is a globally accepted conceptual framework that organizes authoritative guidance to the Internal Audit profession.

We appreciate that you already make reference to our Code of Ethics and several Standards of the IPPF in the Consultative Document.

However, we recommend to add in the Introduction Section an additional separate paragraph, with explicit reference to the entire International Professional Practices

Framework (IPPF) of the IIA and making the recommendation to implement and adhere to this framework.

We further recommend to make reference to the well accepted Three Lines of Defense Model (mentioned in paragraph 55) also in a separate paragraph of the Introduction Section.

We strongly believe that the IPPF as well as the Three Lines of Defense Model are most important elements for a well functioning Internal Audit function and recommend to make this clear at the beginning of the new Guidance.

Principles:

Principle 2, paragraph 13

“The internal audit function should not be involved in designing, selecting, implementing or operating specific internal control measures. However, the independence of the internal audit function should not prevent senior management from requesting input from internal audit on matters related to risk and internal controls.”

This is somewhat confusing as Internal Audit should not be involved in designing, selecting, implementing or operating measures but, at the same time, should be able to provide advice to senior management in this regard. Internal Audit should have the possibility to support the design and the selection of adequate measures but should clearly not be involved in the final decision taking and implementation process.

Principle 6, paragraph 29

“...The head of internal audit should ensure that all entities and all activities of the bank are audited at least once within an appropriate period of time (audit cycle)...”

We agree on that all activities and entities should be in the scope of the risk assessment process. However, we do not agree on that all entities and/or activities should be audited in an appropriate period of time. E.g., there is a number of entities which may be used as SPEs “special purpose entities” and which do not entail a risk at all and others may be used just for administration purposes.

We would welcome to discuss our comments and recommendations with you at your offices in Basel.

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