



NEXTLEVELSOLUTIONS

**RISK & REGULATORY
OUTLOOK 2022**

**"Scanning the Risk Horizon
in a Dynamic and Volatile
Environment"**

**The New
Regulatory
Frontier for
Internal
Audit**

**Anishka Collie –CPA, CIA
CEO at ATC Financial
Advisors & Consultants**



What is a New Frontier?

Anything which marks or **indicates the limits of the present state of knowledge, policy, etc., especially as a starting point for new work; a new challenge; a new development.**

https://www.lexico.com/en/definition/new_frontier

Central Bank of
The Bahamas
PUBLIC
CONSULTATION
on the
Internal Audit
Guidelines, 2021

Notice was issued via a Press Release dated December 16, 2021.

Document consist of 19 pages; 16 sections including:

1. Introduction
2. **Purpose**
3. **Applicability**
4. **Scope of internal audit**
5. **The audit committee**
6. Composition and powers of the audit committee
7. The internal audit charter
8. **The audit plan**
9. Internal audit independence and objectivity
10. Internal audit within a group or holding company structure
11. **Duty of care of internal auditors**
12. Outsourcing
13. Requirements for supervised financial institutions
14. Relationship with the central bank
15. **Required disclosures by the internal auditors**
16. Special requirements of the central bank

By 11 February, 2022 comments and questions should be sent to:

- Policy Unit
- Bank Supervision Department
- Email: policy@centralbankbahamas.com

Purpose and Applicability

PURPOSE

These Guidelines set out the **minimum standards** that the Central Bank expects SFIs to adopt in respect of their **internal audit function**. SFIs are required to **ensure that the internal controls in place are adequate to mitigate risks, governance processes are effective and efficient, and organisational goals and objectives are met**.

APPLICABILITY

These Guidelines apply to **all banks, banks and trust companies, credit unions and money transmission businesses incorporated in The Bahamas** (collectively referred to as "supervised financial institutions") **and licensed or registered by The Central Bank of The Bahamas** and restricted entities (unless a specific exemption is granted by the Central Bank), **and to their internal auditors**. These Guidelines do not apply to branches of foreign banks.

Scope of Internal Audit Section #4

- 4.1 Internal auditing is an **independent, objective assurance and consulting activity** designed to **add value and improve** an organisation's **operations**. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to **evaluate and improve the effectiveness of risk management, control and governance processes**. Adapted from the definition by the Institute of Internal Auditors ("IIA").
- 4.2 The principal objective of internal auditing is to **assist the Board via the Audit Committee**, in the effective discharge of their responsibilities. To **provide independent assurance to Senior Management and the Audit Committee** that **significant risks** are appropriately managed, with an emphasis on the **effectiveness of internal controls**.
- 4.4 The **scope of the internal audit function** should be documented in an **Internal Audit Charter**.
- 4.5 The scope, frequency and objectives of internal audit depend upon the structure of the SFI and the **risks inherent in its business**.
- 4.7 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**.

The Audit Committee Section #5

5.1 **An Audit Committee (AC) assists the Board with oversight responsibilities** for financial reporting, internal control, risk management, internal and external audits and compliance with laws and regulations.

- i. The **authority responsibilities and composition of the AC** should be documented in the Internal Audit (**Audit Committee Charter**).
- iii. The Head of IA should attend Audit Committee meetings.
- iv. The Head of IA and the AC should **regularly convene in the absence of senior management**.*
- v. The Head of IA should **report (functionally) to the Chair of the AC/Chair of the Board**, not to an executive. This reporting line should have direct and unrestricted access. (**administratively to the CEO or equivalent**).
The relevant **Chair should carry out the Head of IA's performance reviews** and may take advice from Management.*
- vii. The Head of IA should ensure (**monitor**) **that action is taken on audit findings** and the status of implementation is reported to the CEO and the AC quarterly at a minimum.
- x. The AC should **regularly review resourcing and organisation** of the internal audit function.*

**(At least annually).*

More...

The Audit Committee Section #5

The Audit Committee should be responsible for:

- Reviewing/approving **the internal audit charter, internal audit plan, scope and budget;**
- Reviewing/discussing **internal audit reports;**
- Recommending to the Board **the remuneration, appointment, replacement/removal of the Head of Internal Audit;**
- Arranging for **independent assessment** of the internal audit function, **every five years.**
- **Ensuring that Management, takes actions to address the deficiencies /recommendations of internal/external auditors.**

The Audit Plan Section #8

8.2 The **areas to be audited should be determined by an assessment of the internal control systems. Not all** of the potential scope **areas may be covered every year**, but the relevant activities should be incorporated **based** on the materiality of **the risks identified**.

8.3 The audit plan **should incorporate a comprehensive KYC/AML/CFT review** program to assess the effectiveness of 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.

8.4 The audit plan should be **documented and approved by the Audit Committee** and amended as necessary to account for changing circumstances.

Duty of Care of Internal Auditors Section #11

- 11.1 Internal audits should be performed with **proficiency and due professional care**. The **Head of Internal Audit (IA)** should ensure that the educational background of the internal audit staff are appropriate.
- 11.2 The **Head of IA** should ensure that internal auditors acquire appropriate on-going **training** in order to examine all areas in which the SFI operates. **(Annually)**
- 11.5 **IA should avoid auditing activities** for which **they have had previous responsibility** before a sufficiently long "cooling off" period of **at least one year**.
- 11.6 **IA should adopt** a policy that endorses their commitment to: abide by the **SFI's code of ethics** or the established international code of ethics for internal auditors such as **The Institute of Internal Auditors (IIA)**.

Required disclosures by the internal auditors

Section #15

- 15.1 **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.
- 15.2 **To communicate to the Central Bank any relevant material findings** particularly in the areas of AML/KYC controls, in a timely fashion.
- 15.3 The Central Bank expects that internal auditors **will immediately report any material deficiencies** in the SFI's financial or regulatory reporting or compliance. **No person may obstruct any auditor in reporting** on a timely and accurate basis **to the Central Bank.**
- 15.4 **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.**

Head of Internal Audit's Annual Certification

[Name of Institution]

Head of Internal Audit's Annual Certification to the Central Bank of The Bahamas

[The written certification, required annually, within 120 days of the end of each calendar year, shall contain the following:]

- a. I, _____ Head of Internal Audit of _____ confirm that the Central Bank will be immediately notified of **any scope limitations** requested or imposed by the SFI, or any obstacles to, or **difficulties in obtaining information** necessary to perform an audit.
- b. I, _____ the Head of Internal Audit of _____ confirm that any relevant **material internal audit findings, particularly in the areas of AML/KYC controls**, will be communicated to the Central Bank in a timely fashion.
- c. I, _____ the Head of Internal Audit of _____, confirm internal audit's **satisfaction with the SFI's compliance and its financial and regulatory reporting**.
- d. I, _____ the Head of Internal Audit of _____, confirm that to the best of my knowledge **the Board is performing its functions and fulfilling its responsibilities under these Guidelines**.

Key Take Aways

1. Start with The IIA's International Standards for the Professional Practice of Internal Auditing (Standards).

www.theiia.org

www.bahamasiia.org

2. Read the Proposed Guidelines and Submit your Comments by Feb 11, 2022 to:

Policy Unit

Bank Supervision Department

Email: policy@centralbankbahamas.com

<https://www.centralbankbahamas.com/news/press-releases/internal-audit-guidelines-2021-industry-consultation>

3. Ensure the Internal Auditor, Audit Committee and Management of your CBOB Regulated Entity is aware of the Proposed Guidelines and making the necessary preparations to comply.
4. The Role of Internal Audit is expanding and the need to have guidelines and legislation to support the role is Key.
5. Be Patient with entities that may be new to this type of requirement and in your role assist them with the transition.



**"Scanning the Risk Horizon
in a Dynamic and Volatile
Environment"**

**NEXTLEVELSOLUTIONS
RISK & REGULATORY
OUTLOOK 2022**



**INSURANCE COMMISSION
OF THE BAHAMAS**



Name: Anishka Collie-CPA, CIA
Email: acollie@atcadvisors.com
Website: www.atcadvisors.com
Phone: 1 (242) 376-0411

THE EVENT FOR INDUSTRY LEADERS, PRACTICIONERS & PROFESSIONALS

www.nlsolutionsbahamas.com