



Bangko Sentral ng Pilipinas

MAYNILA, PILIPINAS

OFFICE OF THE GOVERNOR

Circular No. 499
Series of 2005

Subject: **Audit Committee and Internal Audit Function**

Pursuant to Monetary Board Resolution No. 1447 dated 10 November 2005, the Manual of Regulations for Banks (MORB) and the Manual of Regulations for Non-Bank Financial Institutions (MORNBFI) are hereby amended, as follows:

Section 1. Section X164 and its subsections are hereby amended to read, as follows:

"Section X164. Internal Audit Function. Internal audit is an independent, objective assurance and consulting function established to examine, evaluate and improve the effectiveness of risk management, internal control, and governance processes of an organization.

Subsec. X164.1 Status. The internal audit function must be independent of the activities audited and from day-to-day internal control process. It must be free to report audit results, findings, opinions, appraisals and other information to the appropriate level of management. It shall have authority to directly access and communicate with any officer or employee, to examine any activity or entity of the institution, as well as to access any records, files or data whenever relevant to the exercise of its assignment. The Audit Committee or senior management should take all necessary measures to provide the appropriate resources and staffing that would enable internal audit to achieve its objectives.

Subsec. X164.2 Scope. The scope of internal audit shall include:

- a) Examination and evaluation of the adequacy and effectiveness of the internal control systems;
- b) Review of the application and effectiveness of risk management procedures and risk assessment methodologies;

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- c) Review of the management and financial information systems, including the electronic information system and electronic banking services;
- d) Assessment of the accuracy and reliability of the accounting system and of the resulting financial reports;
- e) Review of the systems and procedures of safeguarding assets;
- f) Review of the system of assessing capital in relation to the estimate of organizational risk;
- g) Transaction testing and assessment of specific internal control procedures; and
- h) Review of the compliance system and the implementation of established policies and procedures.

Subsec. X164.3 Qualification Standards of the Internal Auditor

The internal auditor of a universal bank or a commercial bank must be a Certified Public Accountant (CPA) and must have at least five (5) years experience in the regular audit (internal or external) of a universal or commercial bank as auditor-in-charge, senior auditor or audit manager. He must possess the knowledge, skills, and other competencies to examine all areas in which the institution operates. Professional competence as well as continuing training and education shall be required to face up to the increasing complexity and diversity of the institution's operations.

The internal auditor of a thrift bank, quasi-bank, trust entity or national cooperative bank must be a CPA with at least five (5) years experience in the regular audit (internal or external) of a thrift bank, quasi-bank, trust entity or national cooperative bank as auditor-in-charge, senior auditor or audit manager or, in lieu thereof, at least three (3) years experience in the regular audit (internal or external) of a universal bank or commercial bank as auditor-in-charge, senior auditor or audit manager.

The internal auditor of a rural bank, NSSLA or local cooperative bank must be at least an Accounting graduate with two (2) years experience in external audit or in the regular audit of a rural bank, NSSLA or local cooperative bank or, in lieu thereof, at least one (1) year experience in the regular audit (internal or external) of a universal bank, commercial bank, thrift bank, quasi-bank, trust entity or national cooperative bank as auditor-in-charge, senior auditor or audit manager.

A qualified internal auditor of a universal bank or a commercial bank shall be qualified to audit thrift banks, quasi-banks, trust entities, national cooperative banks, rural banks, non-stock savings and loan associations (NSSLAs), local cooperative banks, subsidiaries and affiliates engaged in allied activities, and other financial institutions under BSP supervision.

A qualified internal auditor of a thrift bank or national cooperative bank shall likewise be qualified to audit quasi-banks, trust entities, rural banks, NSSLAs, local cooperative banks, subsidiaries and affiliates engaged in allied activities, and other financial institutions under BSP supervision.

Subsec. X164.4 Code of Ethics and Internal Auditing Standards

The internal auditor should conform with the Code of Professional Ethics for Certified Public Accountants and ensure compliance with sound internal auditing standards, such as the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing* (e-mail: standards@theiia.org; Web: <http://www.theiia.org>.) and other supplemental standards issued by regulatory authorities/government agencies. The Standards address independence and objectivity; professional proficiency, scope of work, performance of audit work, management of internal audit, quality assurance reviews, communication and monitoring of results.

Section 2. Another paragraph is hereby added to Subsec. X141.3.c(9)(a) of the MORB and Subsec. 4141Q.3.c(9)(a) of the MORNBF on **Audit Committee** to read, as follows:

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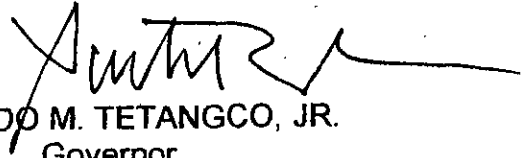
The Audit Committee shall establish and maintain mechanisms by which officers and staff may, in confidence, raise concerns about possible improprieties or malpractices in matters of financial reporting, internal control, auditing or other issues to persons or entities that have the power to take corrective action. It shall ensure that arrangements are in place for the independent investigation, appropriate follow-up action, and subsequent resolution of complaints.

Section 3. Section X164 on **Audited Financial Statements of Banks** is hereby renumbered as Section X166; Section X165 on **Bank Protection** is hereby renumbered as Section X171; Section X180 on **Selection, Appointment, and Reporting Requirements for External Auditors; Sanction; Effectivity** is hereby renumbered Section X165 and Section X166 on **Place of Board of Directors' Meeting** is hereby renumbered as Subsec. X141.5.

Section 4. The foregoing amendments under Section 1 are hereby adopted as amendments to the Q-Regulations, N-Regulations and S-Regulations of the MORNBF.

This Circular shall take effect fifteen (15) days following its publication either in the Official Gazette or in a newspaper of general circulation.

FOR THE MONETARY BOARD:


AMANDO M. TETANGCO, JR.
Governor

25 November 2005