



BANGKO SENTRAL NG PILIPINAS

CIRCULAR NO. 1141 Series of 2022

OFFICE OF THE GOVERNOR

Subject: Amendments to the Regulations on the Internal Audit Function of a Trust Corporation

The Monetary Board, in its Resolution No. 373 dated 17 March 2022, approved the following amendments to Section 130-T of the Manual of Regulations for Non-Bank Financial Institutions (MORNBFI) allowing the internal audit function of a trust corporation (TC) belonging to a group structure to be covered by the group internal audit unit.

Section 1. Section 130-T is hereby amended to read, as follows:

130-T INTERNAL AUDIT FUNCTION

Internal audit is an independent, objective assurance and consulting function established to examine, evaluate and improve the effectiveness of the risk management, internal control, and governance processes of an organization. The internal audit function shall both assess and complement the operational management, risk management, compliance, and other control functions of a TC.

The board of directors, in a resolution entered in the minutes of its meeting, may require internal audit to adopt a suitable continuous audit system to supplement and/or replace the performance of an annual audit. The audit may be conducted in intervals commensurate with the assessed levels of risk in trust and investment management operations: *Provided*, That such intervals shall be supported and reassessed regularly to ensure their appropriateness given the current risk and volume of the trust and investment management operations.

In any case, the audit shall ascertain whether the institution's trust and other fiduciary business and investment management activities have been administered in accordance with laws, Bangko Sentral rules and regulations, and sound trust or fiduciary principles. The report of the audit, together with the actions thereon, shall be noted in the minutes of a meeting of the TC's board of directors.

- a. *Permanency of the internal audit function.* A TC shall have a permanent internal audit function. If the TC belongs to a group structure, the internal audit function shall be established either in the TC or centrally by the immediate or ultimate parent bank/non-bank financial institution (NBFI).

In any case, the ultimate responsibility for the conduct of an effective internal audit for the TC shall reside in its board of the directors. The TC's board of directors shall ensure that the scope of internal audit activities is adequate considering the TC's size and risk profile, and the complexity of its operations. The internal audit function, whether internal or external to the TC, shall be accountable to the TC's board of directors and report the results of the internal audit to the TC's board of directors or audit committee.

- b. *Internal audit function in group structures.* A TC with an immediate or ultimate parent bank/NBFI that is under the supervision of an appropriate regulatory authority for banks, insurance companies, investment companies, investment houses, or financing companies, as applicable, may have its internal audit activities performed by the group internal audit function without being subject to the outsourcing framework set forth in Section 112-T of the MORNBF.

In this regard, the head of the group internal audit function may define the internal audit strategies, methodology, scope and quality assurance measures for the entire group: *Provided*, That this shall be done in periodic consultation and coordination with the TC's board of directors or audit committee.

Internal audit arrangements with parties external to the TC that do not meet the conditions above shall be treated as outsourced activities.

- c. *Outsourcing of internal audit activities.* A TC may outsource internal audit activities covering all areas of its operations in accordance with existing Bangko Sentral regulations on outsourcing: *Provided*, That the internal audit activities shall not be outsourced to the TC's own external auditor/audit firm nor to an internal audit service provider that was previously engaged by the TC in the same area intended to be covered by the internal audit activity that will be outsourced without a one-year "cooling off" period.

The provisions under Section 163-Q on the Qualifications of the head of the internal audit function, Duties and responsibilities of the head of the internal audit function or the chief audit executive, Professional competence and ethics of the internal audit function, Independence and objectivity of the internal audit function, Internal audit charter, and Scope shall apply to TCs.

Section 2. Effectivity. This Circular shall take effect fifteen (15) calendar days following its publication in the Official Gazette or in any newspaper of general circulation in the Philippines.

FOR THE MONETARY BOARD:



BENJAMIN E. DIOKNO

Governor

29 March 2022