HONG KONG MONETARY AUTHORITY
香港金融管理局

Our Ref.: B1/15C
B1/20C

5 July 2012

The Chief Executive
All Authorized Institutions

Dear Sir/Madam,

BCBS Revised Guidance on Internal Audit Function in Banks

As you may be aware, the Basel Committee on Banking Supervision (BCBS) issued, on 28 June 2012, finalized guidance on *The internal audit function in banks* (see http://www.bis.org/publ/bcbs223.pdf). This followed a public consultation to which the industry in Hong Kong responded.

The guidance, which is built around 20 principles, replaces the 2001 document *Internal audit in banks and the supervisor's relationship with auditors*, taking into account subsequent developments in supervisory practices and in banks as well as incorporating lessons drawn from the recent financial crisis. The purpose of the guidance is to promote a strong internal audit function within banks and a sound supervisory assessment of this function. The revised guidance also encourages internal auditors of banks to comply with national and international professional standards on internal auditing and promotes due consideration of prudential issues in the development of internal auditing standards and practices.

The HKMA will be taking the steps necessary to revise its Supervisory Policy Manual module IC-2 "Internal Audit Function" to bring it into line with the revised guidance, in a manner suitable for the local banking sector. In the meantime, all authorized institutions are encouraged to review their internal audit function in the light of the latest guidance from the BCBS and take appropriate action to address any identified material shortfalls or deficiencies.

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Should you have any questions relating to this letter, please feel free to contact Ms Rita Yeung at 2878-1388 or Mr Andy Cheung at 2878-1022.

Yours faithfully,

Karen Kemp
Executive Director (Banking Policy)

c.c. The Chairman, The Hong Kong Association of Banks
The Chairman, The DTC Association
FSTB (Attn: Mr Jackie Liu)