



2 August 2012

To all Chief Executive Officers (or equivalent) of locally incorporated Authorised Deposit-taking Institutions

THE INTERNAL AUDIT FUNCTION

Last month, the Basel Committee on Banking Supervision issued *The internal audit function in banks*, which provided revised supervisory guidance for assessing the effectiveness of the internal audit function in banks.¹ The document replaces the 2001 document *Internal audit in banks and the supervisor's relationship with auditors*. It takes into account developments in supervisory practices and in banking organisations and incorporates lessons drawn from the recent financial crisis.

The document builds on the Committee's *Principles for Enhancing Corporate Governance* that require banks to have an internal audit function with sufficient authority, stature, independence, resources and access to the board of directors. Independent, competent and qualified internal auditors are central to sound corporate governance. APRA sees the internal audit function as playing a crucial role in the ongoing maintenance and assessment of a regulated institution's internal control, risk management and governance systems and processes.

APRA's intention in writing is to draw industry's attention to the Committee's revised guidance. APRA will consider how to incorporate this guidance into its prudential standards in due course.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Charles Littrell'.

Charles Littrell
Executive General Manager
Policy, Research and Statistics Division

¹The document is available at: <http://www.bis.org/publ/bcbs223.htm>.