

September 29, 2020
Circular N° SBP-DR-0301-2020

General Manager

Subject: Internal audit Questionnaire

Dear General Manager:

In June 2012, the Basel Committee on Banking Supervision (hereinafter referred to BCBS) published the document *The Internal Audit Function in Banks*. This is a revised guide for evaluating the effectiveness of internal audit function in banks, which is part of BCBS efforts to improve supervision through guides that promote best practices in banks.

A robust internal control system, which includes an independent and effective internal audit function, is part of good corporate governance practices, for which banks must ensure that they establish minimum parameters that guarantee the professional and appropriate exercise of internal audit, in accordance with international standards and best practices, which will allow them to apply a systematic and disciplined approach to evaluate and improve the effectiveness of risk, control and governance processes. It is the function of bank supervisors to satisfy themselves about the effectiveness of the internal audit function, as the third line of defense in the organization.

In order to strengthen the process of evaluating the effectiveness of the internal audit function that, as a regulatory body we have been carrying out for several years and standardize the reporting from banks, we have prepared the attached Internal audit Questionnaire (*Cuestionario de Auditoría Interna*, in Spanish), which contains a series of questions developed based on the principles and expectations of the supervisor regarding the internal audit function, according to the BCBS document mentioned in the first paragraph.

This questionnaire must be prepared on an annual basis by the person responsible for the Internal Audit function and must be endorsed by the Chairman of the Audit Committee, on a cutoff date of September 30 of every year. The questionnaire must be submitted to the Superintendency of Banks of Panama by the first ten (10) business days following the aforementioned cutoff date. For one time only, the first questionnaire must be submitted with a cutoff date September 30, 2020, by November 20, 2020.

This document is not intended to be a self-assessment questionnaire or to replace the periodic evaluation the Audit Committee of the Board of Directors must conduct on the performance of the Internal Audit function. Its purpose is that the regulator may have additional elements to assess the procedures and controls the entity has in place to perform this function.

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Within the process of evaluating the effectiveness and performance of the internal audit function, in addition to reviewing the answers to the aforementioned questionnaire, our inspectors will conduct additional tests during the supervision process that may include, among others, (a) meetings with directors, Top Management, the person responsible for the [internal audit] function and the external auditors; (b) review of the Audit Committee meeting minutes on matters related to the [internal audit] function; and (c) a selective review of specific works focused on quality of evidence of working papers and reports issued.

The questionnaire in Excel format and its attachments must be digitally submitted through the “*Sistema de Transferencia de Información Digital para los Sujetos Obligados*” (TIDSO – Reporting Entity Digital Information Transfer System) inside the “*Supervisión*” (Supervision) section and access the “*Requerimientos de Cumplimiento*” (Compliance Requirements).

In the event that the person responsible for the internal audit function is separated, the Chairman of the Bank’s Audit Committee must inform the Superintendency within ten (10) business days of the grounds for such. Once the bank has appointed a person in charge of the function, the General Manager must inform the new hiring of the person responsible for the internal audit function, including his/her professional résumé, within ten (10) business days following the day he/she took office.

In connection with the above, communications must be sent via e-mail: gdocumental@superbancos.gob.pa, including “Internal Audit Function” on the subject.

We would greatly appreciate your providing the necessary instructions to your staff for compliance with these provisions.

Best regards,

*Digitally signed by [S]
NAME CASTILLO CHANG,
AMAURI ARIEL – ID 8-238-386
Date: 2020.09.30 15:34:37 - 05'00'*

Amauri A. Castillo
Superintendent

Enc.: Questionnaire (in Spanish)

ARV/vb