

# Analysis of the adequacy of the internal audit function in EMIs and PIs



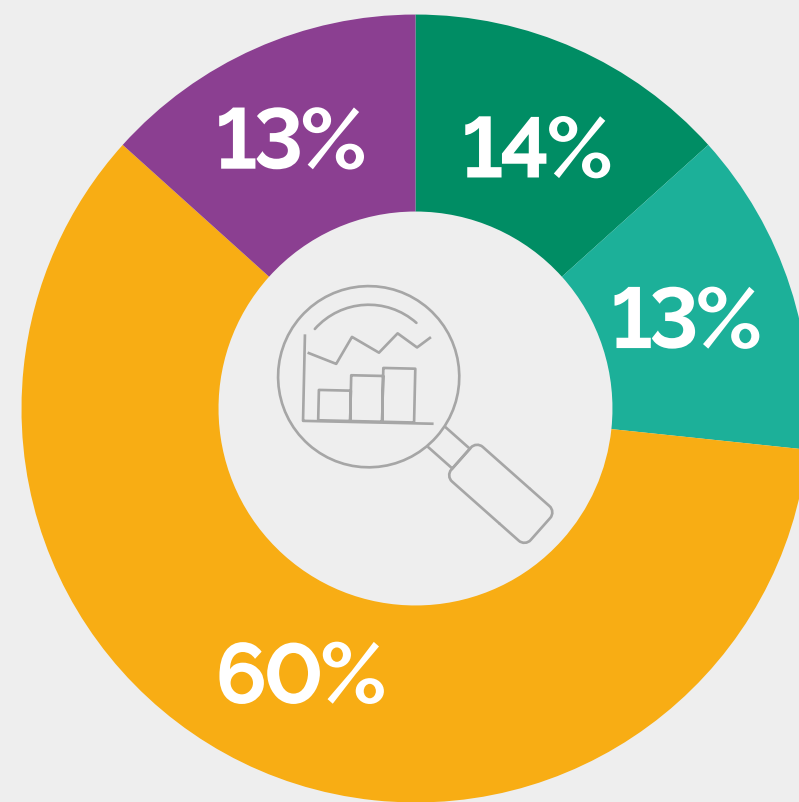
**15** participants in the analysis

**11 EMIs**

**4 PIs**

Documentary analysis, 2020- H1 2022

Adequacy of implementation of the internal audit function was assessed (requirements of Resolution No 03-106 of the Board of the Bank of Lithuania of 23/07/2020)

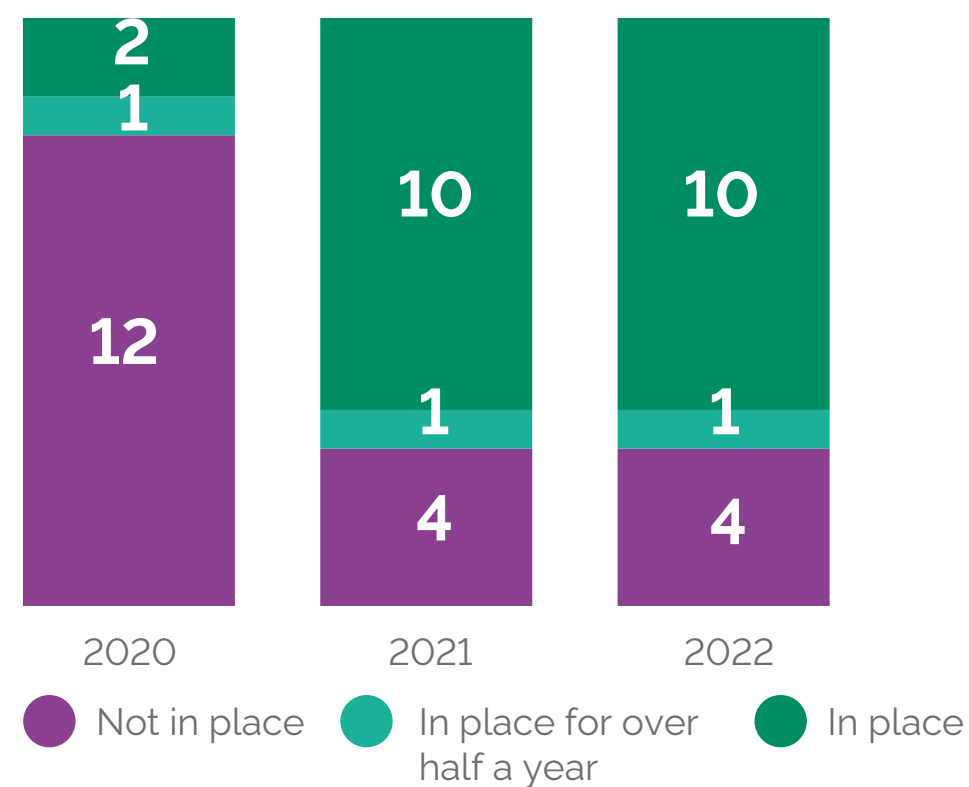


- High (comply with the requirements)
- Average (mainly comply with the requirements)
- Low (partly comply with the requirements)
- Very low (do not comply with the requirements)

### General findings

- 13% of the analysed EMIs/PIs did not have the internal audit function in place until the end of the 1st half of 2022.
- More than half of the participants of the analysis performed the internal audit function with significant shortcomings, therefore, the internal audit objectives may remain unachieved.
- Adequate internal audit function is an important factor in strengthening the governance of EMIs/PIs, the effectiveness of operational risk management and internal control processes, therefore it is important to:
  - 1) adequately regulate the performance of the internal audit function;
  - 2) properly incorporate it into the organisational structure of EMIs/PIs;
  - 3) ensure adequately implemented procedures in their entirety;
  - 4) refrain from violating the fundamental principles of internal audit.

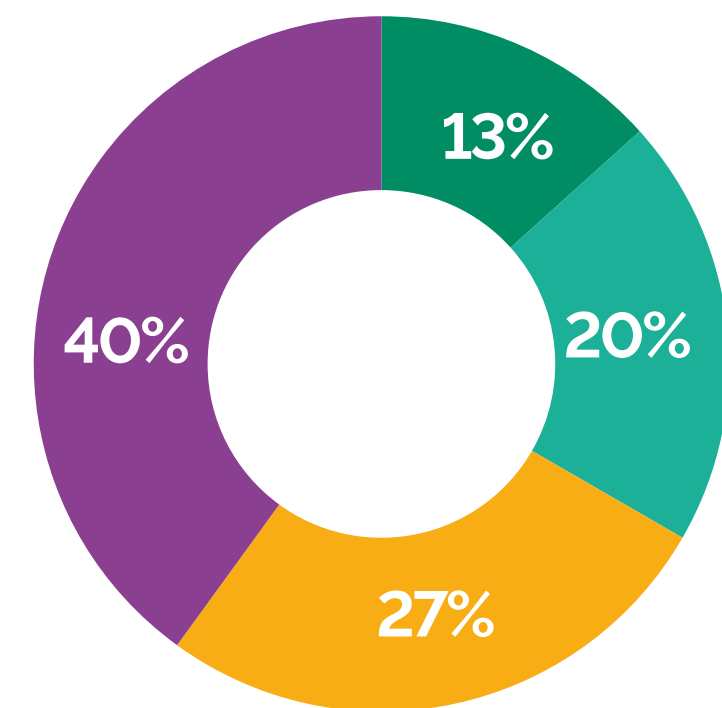
## Performing the internal audit function, 2020-H1 2022



✓ The internal audit function is introduced at the beginning of operations (immediately after obtaining the license).

⚠ The general trend of putting internal audit in place was positive until 2021, however positive developments are no longer observed in 2022.

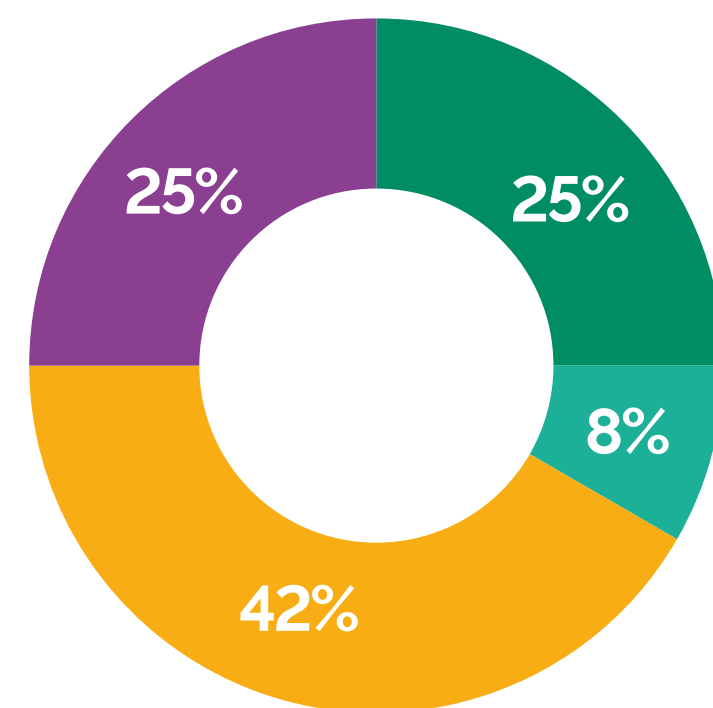
## Ensuring internal governance



✓ The set of necessary procedures is regulated, and the procedure for implementation thereof is specified. Internal procedures are approved by the decision of the institution's supervisory body as well as periodically reviewed and updated.

⚠ In many cases, the procedure for drawing up and submitting the annual auditor's report to the supervisory body is not regulated.

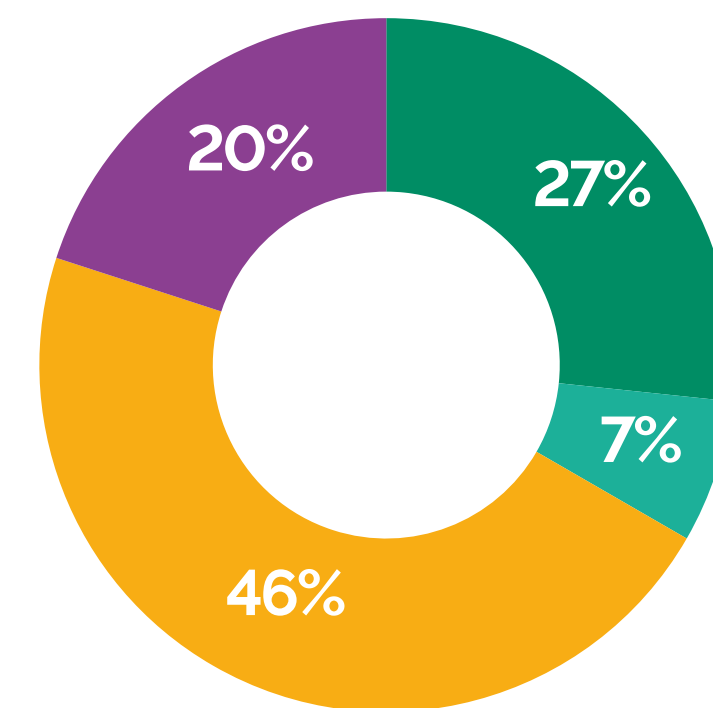
## Maintaining the fundamental principles of internal audit



✓ The fundamental principles of internal audit are maintained: independence, objectivity and professionalism.

⚠ Unjustified assignment of supervisory functions to the management body leads to violations of the internal auditor's independence.

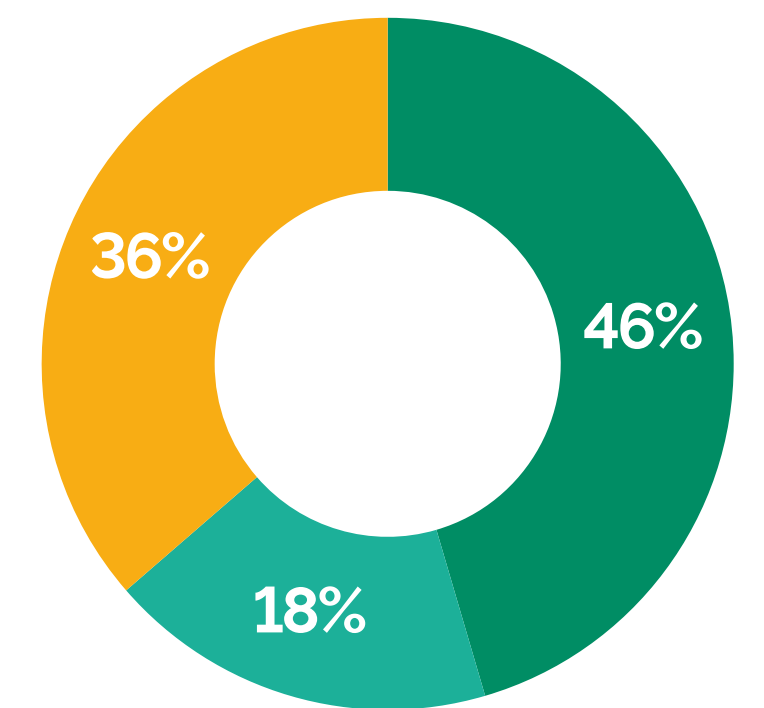
## Planning procedure



✓ The internal audit plan is drawn up taking into account the risks of a specific EMI/PI. A preliminary plan for several reporting periods is drawn up, which may be adjusted at a later stage to take account of changing risk profiles.

⚠ The auditor's independence is not maintained throughout the planning process. The plan is not implemented in full scope.

## Implementation of recommendations



✓ Plans for implementation of internal audit recommendations are drafted, coordinated and implemented in full scope.

⚠ The small number of recommendations implemented leads to inefficient performance of the internal audit function and does not bring the expected benefits.