

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



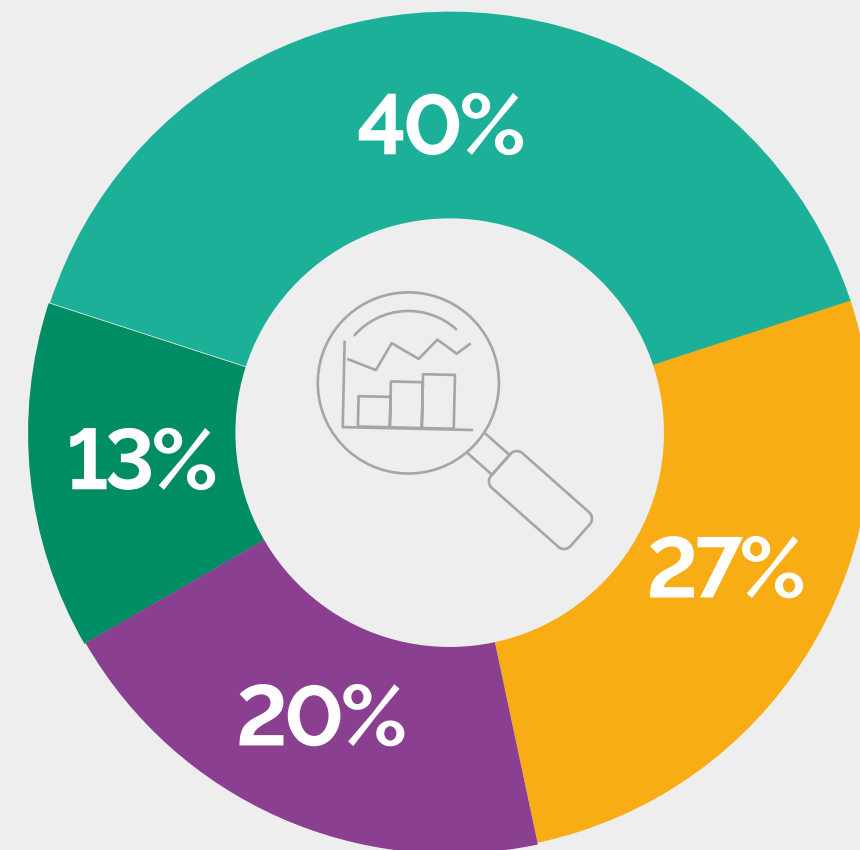
**15** participants in the analysis

**11 EMIs**

**4 PIs**

Documentary analysis, 2019-2021

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)

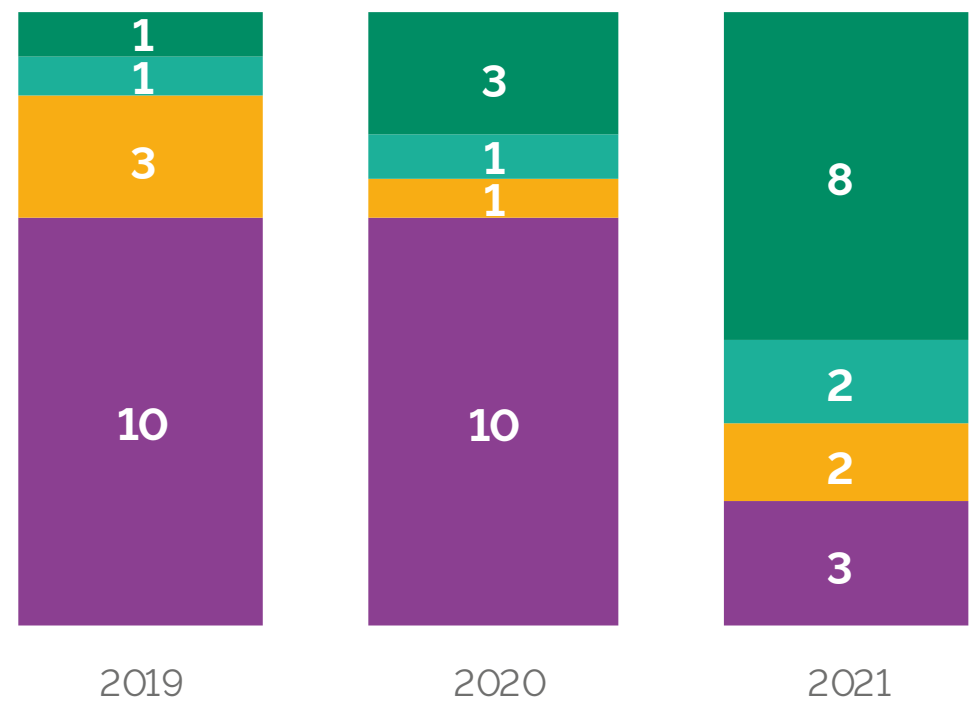


- High (comply with the requirements)
- Medium (mainly comply with the requirements)
- Low (partly comply with the requirements)
- Very low (do not comply with the requirements)

**General findings**

- More than half of the participants in the analysis ensure that the internal audit function is performed adequately or with minor shortcomings.
- 27% of EMIs/PIs perform the function with significant shortcomings, which may result in the internal audit objectives not being achieved.
- Until the end of the first half of 2021, 20% of EMIs/PIs did not have an internal audit function in place.
- Adequate internal audit function is an important factor in strengthening the governance, operational risk management and effectiveness of the internal control processes in EMIs/PIs.
- EMIs/PIs that adequately perform their internal audit function are 2 times less likely to be subject to sanctions than those that do not have the internal audit function in place/have not introduced it effectively.

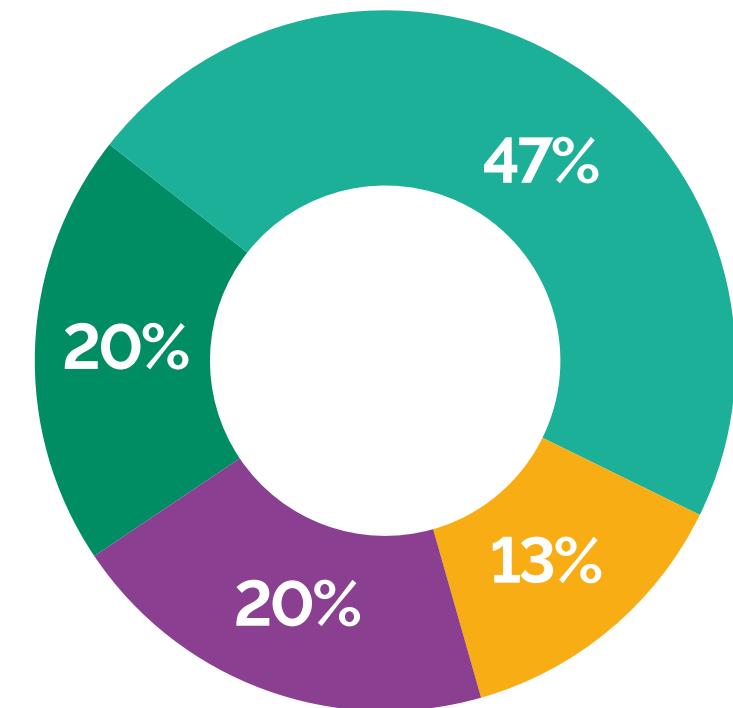
## Performing the internal audit function in 2019-2021



✓ The internal audit function is introduced at the start of operations.

⚠ The overall trend in the implementation of the internal audit function is improving, compared to 2019-2020, but remains unsatisfactory.

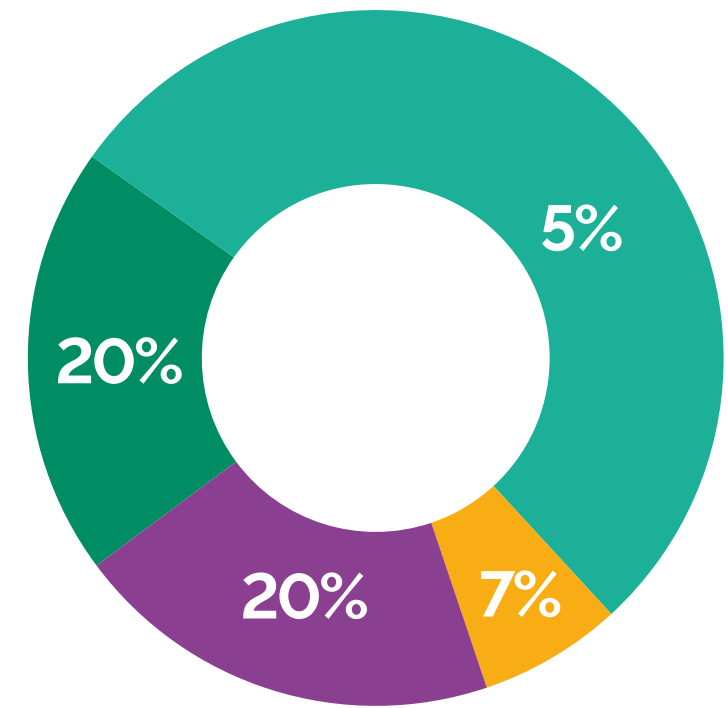
## Ensuring internal governance



✓ Internal procedures are periodically updated and approved; internal audit performance strategy is regulated, and procedures are detailed.

⚠ EMIs/PIs must have internal regulations that govern the performance of internal audits even in the event where a third party is engaged in performing the internal audit function.

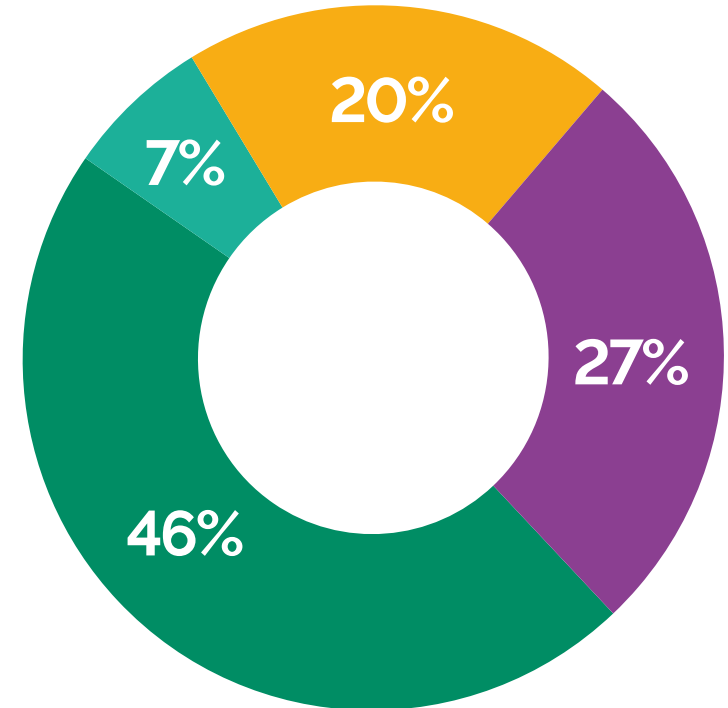
## Allocated resources



✓ EMIs/PIs secure sufficient resources for the performance of all the required internal audit procedures, 2-4 areas are audited over the year, and if necessary, additional measures, such as external assessments, are used.

⚠ Where the internal audit function is performed inadequately, even the amount of resources sufficiently allocated will not produce the expected result: the internal audit objectives may remain unachieved, and the use of resources may prove to be inefficient.

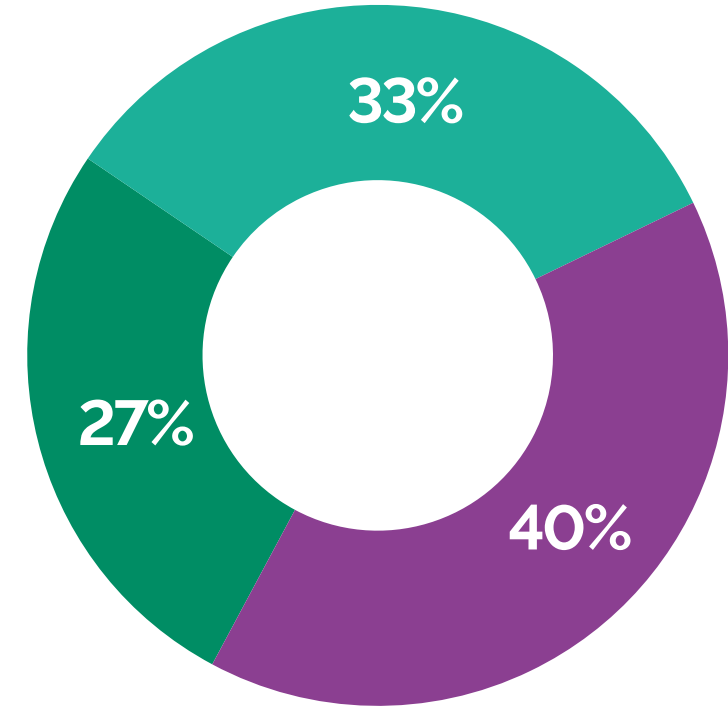
## Planning procedure



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

⚠ Failure to ensure that risk management in the institutions is carried out, reviewed and updated regularly.

## Implementation of recommendations



✓ Informing the employees about the risk assessment procedure and its changes in order to ensure that they understand the process, its steps and their own functions.

⚠ Risk assessment processes are not well established: regulation of risk management methods, development of new risk tools, etc.