

INTERNAL AUDIT

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Version History

Version	Date	Amendments
0.1	July 2013	Initial Version.
1.0	September 2013	No Amendments.
1.1	April 2024	Amended text in section 76K(2) to reflect the commencement of the Credit Union (Amendment) Act 2023.
1.2	November 2025	Amended footnote 10 in Section 2.2 on Outsourcing and sharing arrangements to refer to the Central Bank website for further information on Fitness and Probity.

# 1. Legislation

**Section 76K – Internal audit\***

(1) The board of a credit union shall appoint a person (in this Act referred to as the “internal audit function”)-

(a) to provide for independent internal oversight, and

(b) to evaluate and improve the effectiveness,

of the credit union’s risk management, internal controls and governance processes.

(2) The internal audit function shall prepare, implement and maintain a document (in this Act referred to as the “internal audit charter”) which shall define-

(a) the activities of the internal audit function within the credit union, and

(b) the scope of those activities,

and, relevant to the performance of its audits, shall authorise the access by the internal audit function to records, personnel and physical properties of the credit union. The internal audit charter shall be reviewed and modified in accordance with section 55(8).

(3) There shall be prepared by the internal audit function and approved by the board of a credit union or, where an audit committee exists for the credit union, by the audit committee with the agreement of that board, a written plan (in this Act referred to as an “internal audit plan”) detailing the scope and objectives of audits, setting priorities as regards areas to be audited and determine the necessary resources required to implement the plan. The internal audit plan shall be reviewed and modified in accordance with section 55(8).

(4) The internal audit function shall be separate from other functions and activities of the credit union, and be capable of operating independently of management and without undue influence over its activities.

(5) The internal audit function shall report the results of its evaluations and recommendations to the audit committee, where one exists, or otherwise to the board of directors, on a regular basis, and at least quarterly.

(6) (a) The Bank may prescribe the form and content of the internal audit charter and

internal audit plan, and related matters.<sup>1</sup>

(b) Without prejudice to the generality of paragraph (a), regulations may prescribe–

- (i) the frequency and timing at which an examination of the records of the credit union is to be undertaken by the internal audit function, and
- (ii) the nature of the records to be inspected for the purposes of subparagraph (i).

(7) The internal audit function shall have access, at all times, to the books and documents (including draft documents) of the credit union to enable it to carry out its functions under the Act.

#### **Section 55 – Functions of board of directors\***

*(This Chapter has not reproduced the entirety of section 55 – please consult the Credit Union Act, 1997 for the full provision.)*

...

(8) The board shall regularly review, but at least annually, the performance and effectiveness of the internal audit function, including reviewing and approving the internal audit charter and the internal audit plan and reviewing and approving any modifications to them, ensuring they are updated and that any issues identified in the review are managed and rectified in a timely manner.

## **2. Guidance**

### **2.1 Internal audit function**

The internal audit function should cover the following at a minimum in its evaluation of the effectiveness of the credit union's risk management, internal controls and governance processes:

- evaluating whether the risk management system required to be maintained by a credit union under section 76B of the 1997 Act<sup>2</sup> identifies and assesses significant risks in the credit union including the identification of operational risks, as required under section 76E of the 1997 Act;<sup>3</sup>
- ensuring appropriate risk controls are selected that manage risks within the credit union's risk tolerance;

<sup>1</sup> The Central Bank has not yet prescribed Regulations under this subsection.

<sup>2</sup> See the Chapter on "Risk Management and Compliance".

<sup>3</sup> See the Chapter on "Operational Risk".

- ensuring that relevant risk information is captured and communicated in a timely manner across the credit union, enabling officers of the credit union to carry out their responsibilities;
- evaluating the effectiveness of the credit union's information systems required under section 76G of the 1997 Act;<sup>4</sup>
- evaluating the accuracy, consistency, comprehensiveness, accessibility, timeliness, and security of management information required to be produced under section 76H of the 1997 Act;<sup>5</sup>
- reviewing methods employed by the credit union to safeguard assets (including inspection and verification of cash, passbooks or statements, bank reconciliations, securities, cash accounts and all records relating to loans and investments);
- assessing the effectiveness of the compliance programme required under section 76B of the 1997 Act in ensuring compliance with legal and regulatory requirements and guidance;<sup>6</sup> and
- evaluating the effectiveness of the credit union's governance arrangements required under section 66A of the 1997 Act.<sup>7</sup>

Arising from the above, the internal audit function should make recommendations to the board of directors (or the audit committee where one exists) on improving the effectiveness of the risk management, internal controls and governance processes. The internal audit function should follow up on recommendations made, to ensure that effective remedial action, agreed by the board of directors (or audit committee where one exists), is taken. Recommendations should be ranked and should include proposed timelines for implementation. An overall opinion of the internal audit function on the effectiveness of the credit union's risk management, internal controls and governance processes should also be provided to the board of directors (or the audit committee where one exists).

The board of directors of the credit union should encourage the internal audit function to adhere to internal audit professional standards and benchmarks relating to internal audit. An example of such standards is the standards established by the Institute of Internal Auditors.<sup>8</sup>

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<sup>4</sup> See the Chapter on "Operational Risk".

<sup>5</sup> See the Chapter on "Operational Risk".

<sup>6</sup> See the Chapter on "Risk Management and Compliance".

<sup>7</sup> See the Chapter on "Governance".

<sup>8</sup> The Institute of Internal Auditors (January 2013), *International Standards for the Professional Practice of Internal Auditing (Standards)*, available at <https://na.theiia.org/standards-guidance/Public%20Documents/IPPF%202013%20English.pdf>

The internal audit function should have adequate time and resources to carry out its functions under this section having regard to the nature, scale, complexity and risk profile of the credit union.

## 2.2 Outsourcing and sharing arrangements

It is a matter for the board of directors to determine whether the internal audit function is to be performed in-house, through a sharing arrangement between credit unions, or outsourced to a third party service provider having regard to the nature, scale, complexity and risk profile of the credit union. Whether performed in-house, through a sharing arrangement or through an outsourcing arrangement, the board of directors retains responsibility for the oversight of the internal audit function and for ensuring that the credit union complies with all requirements relating to the internal audit function.

Credit unions are required to comply with section 76J of the 1997 Act<sup>9</sup> where outsourcing the internal audit function to a third party service provider and should also be aware of the fitness and probity requirements surrounding outsourcing.<sup>10</sup> When assessing whether to outsource the internal audit function, the credit union should also consider the independence and objectivity of the third party service provider.

Where the internal audit function is outsourced, credit unions should demonstrate the following at a minimum:

- evidence of review by the credit union, at least annually, to ensure that circumstances have not changed within the credit union to merit the credit union establishing its own internal audit function;
- regular contact between the outsourced internal audit function and the credit union; and
- follow-up on the implementation of audit recommendations.

## 2.3 Relationship with the auditor

The board of directors should not outsource internal audit activities to the credit union's existing auditors as this may impact on the independence of the auditor.

The internal audit function should maintain open communication with the auditor. This should include a clear delineation of responsibilities, plans and procedures for co-operation to ensure effective audit coverage and to minimise duplication of effort.

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<sup>9</sup> See the Chapter on "Outsourcing".

<sup>10</sup> Further information on Fitness and Probity requirements is available at the "Fitness and Probity" section of the Central Bank website at the following [link](#).

## 2.4 Internal audit charter

The internal audit charter should cover the following at a minimum:

- objectives of the internal audit charter;
- organisational arrangements setting out the roles and responsibilities in relation to internal audit;
- activities and the scope of activities of the internal audit function which should be as wide as possible to cover every activity of the credit union;
- basis for the preparation of the internal audit plan, including processes used to assess areas of significant risk;
- safeguards in place to ensure the independence and objectivity of the internal audit function;
- authority of the internal audit function and the procedures and safeguards in place to ensure unrestricted access by the internal audit function to the records, personnel and physical properties of the credit union;
- procedures for the coordination between the internal audit function and the auditor to ensure effective audit coverage and to minimise duplication of effort;
- reporting arrangements for the internal audit function, including the frequency, form and content of reporting to the board of directors (or audit committee where one exists);
- process and timelines for the review of the internal audit function; and
- process and timelines for the review and approval of the internal audit charter by the board of directors and for ensuring the internal audit charter is updated.

## 2.5 Internal audit plan

In advance of preparing the internal audit plan the internal audit function should undertake a risk assessment to identify key risks within the credit union. Activities that are determined to be higher risk should be audited in more depth and more frequently than activities that are determined to be lower risk. However, the internal audit plan should provide for all areas of the credit union's business to be covered over a set period. The internal audit plan should also take account of the audit plans of the auditor.

The internal audit plan should be based on the risk assessment carried out by the internal audit function and should cover the following at a minimum:

- the objectives and scope of the internal audit plan;
- organisational arrangements setting out the roles and responsibilities of key personnel involved in implementing the internal audit plan;
- a detailed work programme including priority areas to be audited and timelines for completion of the work;

- how the work is to be performed, including audit procedures and tests to be performed; and
- the process and timelines for review and approval of the internal audit plan by the board of directors and for ensuring the plan is updated.

The internal audit plan should be dynamic and flexible to allow for changes throughout the year. The internal audit function should communicate any significant deviations from the internal audit plan, the reasons for these deviations and proposed action to address the deviations to the board of directors (or the audit committee where one exists).

## **2.6 Independence of the internal audit function**

In order to ensure that the internal audit function operates with independence, the board of directors should, at a minimum, ensure that the internal audit function:

- is appointed at a senior level to ensure that the internal audit function has appropriate standing and authority within the credit union;
- is separate from other functions and does not engage in any other activity of the credit union, avoids conflicts of interests and is capable of operating independently of management and without undue influence over its activities;
- has unrestricted and timely access to records, personnel and physical property of the credit union;
- is free to report its findings and assessment through clear reporting lines to the board of directors (or audit committee where one exists) and has access to the board of directors (or audit committee where one exists); and
- is not remunerated on the basis of the financial performance of the credit union but on its performance in carrying out its functions.

Notwithstanding the above, the internal audit function may report to the manager/management team as appropriate, for example in relation to administrative issues such as human resource administration.

## **2.7 Internal audit reporting**

The report to be provided by the internal audit function to the board of directors (or audit committee where one exists) should provide objective assurance to the board of directors (or audit committee where one exists) on the effectiveness of the credit union's risk management, internal control and governance processes and should be accurate, objective, clear, concise, constructive, complete and timely. The report should cover the following at a minimum:

- the internal audit objectives, scope and work undertaken;

- an overall opinion on the effectiveness of the credit union's risk management, internal controls and governance processes;
- internal audit findings including any weaknesses identified and the causes of such weaknesses;
- recommendations, ranked by priority, to address identified weaknesses;
- proposed action plans, including timelines, to implement recommendations; and
- an update on the implementation of action plans previously agreed by the board of directors (or audit committee where one exists) including the status of open items.

The board of directors (or audit committee where one exists) should consider and review internal audit reports, ensure due consideration is given to recommendations of the internal audit function and ensure that there is appropriate follow-up on all weaknesses identified.

The internal audit function should establish and maintain a system to monitor the implementation of actions agreed by the board of directors (or audit committee where one exists) which should include a follow-up process to ensure that agreed actions have been effectively implemented.

Where a significant issue is identified in the course of the work of the internal audit function, this should be brought to the attention of the board of directors (or audit committee where one exists) immediately. The board of directors should ensure that any issue identified is addressed in a timely manner.

## **2.8 Review by the board of directors**

The board of directors should give consideration to the requirements and guidance contained in this Chapter when reviewing the performance of the internal audit function.

As part of the review, the board of directors should ensure the internal audit charter and the internal audit plan are updated to reflect any material changes to the following at a minimum:

- the risk management system;
- systems and controls;
- governance arrangements;
- legal and regulatory requirements and guidance; and
- the credit union's strategic plan. This should include any proposals in relation to new products and services, material modifications to existing products and services, outsourcing to service providers and major management initiatives, such as transfers of engagements or amalgamations.