

June 4, 2010

Secretariat of the Basel Committee on Banking Supervision
Bank for International Settlements
CH-4002 Basel, Switzerland

Response e-mailed to baselcommittee@bis.org

Re: Request for Comment on Consultative Document - *Principles for Enhancing Corporate Governance* issued by Basel Committee on Banking Supervision on 16 March 2010

Dear Sir/Madam:

The Institute of Internal Auditors (IIA) welcomes the opportunity to comment on the set of principles for enhancing sound corporate governance practices at banking organizations issued for consultation by the Basel Committee on 16 March 2010. Our comments are based on a thorough analysis and discussion, utilizing a core team of audit experts who serve on The IIA's Professional Issues Committee. These individuals consist of experienced Certified Public Accountants and Certified Internal Auditors who have worked in public accounting and in audit management positions in small, medium, and large multinational companies.

These principles are extremely important to The IIA. As defined in The IIA's International Professional Practices Framework (IPPF): "Internal auditing helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes." The IIA Standards Section 2110 addresses Internal Audit's specific responsibilities related to corporate governance processes. As internal audit professionals, we are well-positioned to understand the implications and impact of these principles on audit, risk management, control, and governance practices within companies.

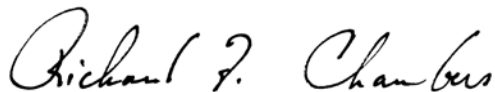
We applaud the revisions to the 2006 governance principles issued for comment by the Basel Committee. We believe these revised principles to be relevant and timely given recent changes in the world economy and in particular the governance lapses that brought about this unprecedented turmoil. The Basel Committee is to be commended for being responsive to changing conditions in the global business environment.

The following are our principal comments and observations. More detailed responses to the exposure document are included in Attachment A.

1. Overall, the document is very well written. The principles are particularly relevant for enhancing corporate governance for all industries, not just banking. The principles cited by the Basel Committee are also very consistent with those recommended by other organizations that promote good corporate governance.
2. While this document focuses significantly and appropriately on risk management, there are several opportunities throughout the document to include references to internal audit, a key component of a good corporate governance structure. Thus, we have included several recommendations for specific reference to internal audit in attachment A.
3. Given the recent corporate governance failures some of our audit experts who reviewed this document suggested adding principles on “ethics” and “stewardship.” While these would be good additions to the list, they could also be incorporated into the existing principles throughout the document.
4. The definition of corporate governance is provided on page five. Since this document is about enhancing corporate governance, consideration should be given to including the definition earlier in the document, for example, on the first page of the document.

The IIA welcomes the opportunity to discuss any and all of these recommendations with you. We offer our assistance to the Basel Committee in the continued development of this guidance.

Best Regards,

A handwritten signature in black ink that reads "Richard F. Chambers". The signature is written in a cursive, flowing style.

Richard F. Chambers, CIA, CGAP, CCSA
President and Chief Executive Officer

About The Institute of Internal Auditors

The IIA is the global voice, acknowledged leader, principal educator, and recognized authority of the internal audit profession and maintains the *International Standards for the Professional Practice of Internal Auditing (Standards)*. These principles-based standards are recognized globally and are available in 29 languages. The IIA represents more than 170,000 members across the globe and has 103 affiliates in 165 countries that serve members at the local level.

Attachment A

Comments on Principles for Enhancing Corporate Governance Issued by Basel Committee on Banking Supervision on 16 March 2010

1. In paragraph 5, under “Board practices,” we suggest modifying the third sub-bullet to read as follows: “be supported by competent, robust and independent risk, control *and internal audit* functions, for which the board provides effective oversight.”
2. In paragraph 5, under “Risk management and internal controls,” we suggest the following modification: “A bank should have independent *internal audit* and risk management functions (including chief risk and chief audit executives) with sufficient authority...”
3. In paragraph 31, we suggest adding internal audit as a party that could be chosen to conduct an investigation under the oversight of the board.
4. In paragraph 35, we suggest adding the following sentence at the end of the paragraph: “*A primary criteria for an effective board is to have members that are collectively viewed, internally and externally, as financially literate.*”
5. Paragraph 94, directs risks to be considered on an aggregated basis, not only disaggregated. In addition, risks should be evaluated for intercorrelation.
6. In paragraph 97, we suggest modifying the wording as follows: “The board and senior management can enhance the ability of the internal audit function to identify problems with a bank’s *corporate governance*, risk management and internal controls systems by:”
7. In paragraph 97, under the first bullet, we suggest adding a reference to a footnote that would read as follows: “*See The Institute of Internal Auditors International Professional Practices Framework, Standard 2110 Governance, and Practice Advisories 2110-1 Governance: Definition, 2110-2 Governance: Relationship with Risk and Control, and 2110-3 Governance: Assessments.*”
8. In paragraph 97, we suggest adding a sixth bullet to read as follows: “*engaging internal auditors to assess the design and operating effectiveness of the organization’s governance processes and make appropriate recommendations for improving these processes.*”

9. In paragraph 97, additional bullets that would be appropriate are as follows:
- a. *promoting professional certification and continuing professional education for internal auditors;*
 - b. *encouraging the reporting of suspected fraud and abuse to internal auditing;*
 - c. *encouraging internal audit to provide training on establishing and maintaining effective internal controls.*
10. In paragraph 120, under the fifth bullet, we suggest adding the following: “... is appropriately reported to *risk management, internal audit*, the board and supervisors...”
11. In paragraph 142, we suggest adding a new bullet following the third bullet to read as follows: *internal auditors - through a well-established and qualified audit profession, professional audit standards and code of ethics, a competent, robust, independent and adequately resourced audit function, and timely communications to boards and senior management.*”