**Attachment 1**
to the AUDIT CHARTER of AO Raiffeisenbank
**Приложение 1**
к ПОЛОЖЕНИЮ ОБ УПРАВЛЕНИИ ВНУТРЕННЕГО АУДИТА АО «Райффайзенбанк»

AO Raiffeisenbank

GZ: 23 9501/1-FMA-I/1/05 Bankenaufsicht STAND: 18.02.2005 FMA-Mindeststandards für die interne Revision (FMA-MS-IR) Seite 1 von 19 This English translation of the authentic German text serves merely information purposes. In the event of a dispute the German text shall prevail.
Please note: The term "section" in FMA translations corresponds to "§" in the translation of the Austrian Banking Act (BWG), whereas in the translation of the Securities Supervision Act (WAG) it corresponds to "Article".

# FMA Minimum Standards for Internal Auditing of February 18, 2005 (FMA-MS-IR)

# 1 Preliminary remarks

1. Due to developments and standards in the international arena, the Financial Market Authority (FMA) has decided to present “FMA Minimum Standards for Internal Auditing” to Austrian credit institutions. With reference to section 39 paras 1 and 2 as well as section 42 of the *Bankwesengesetz* (BWG; Austrian Banking Act), the FMA expects credit institutions to adhere to these recommendations with regard to their internal auditing.

2. These FMA Minimum Standards shall not prevent credit institutions from setting higher standards. Other FMA Minimum Standards shall remain unaffected.

3. Internal auditing is not only highly important within a credit institution but also within the entire supervisory structure. This importance results in particular from its constant presence in the credit institution, the ongoing audit of all areas, work flows, procedures and systems and from the know-how gained as a result. As an internal monitoring unit, it can recognise risks, threats and deficiencies at the credit institution even before the bank auditor and the banking supervision authority, which it shall report to the managers as well as the credit institution's supervisory body responsible pursuant to the law or its articles of association.

# 2 Scope of application and definition

4. The FMA recommends that credit institutions adhere to these FMA Minimum Standards as of September 1, 2005. They shall apply to all credit institutions entitled to carry out one or more banking activities as laid down in section 1 para 1 nos. 1 to 21 BWG. They shall also apply to Austrian credit institutions if they are active in other Member States (section 2 no. 5 BWG) under the freedom to provide services and/or the freedom of establishment (section 10 BWG). In the case of groups of credit institutions, they shall also address the group auditing unit. In addition, they shall also apply to external persons if parts of the duties of the internal auditing unit or all of them are outsourced.

5. Internal auditing within the meaning of these FMA Minimum Standards shall mean a unit to be established by the credit institutions pursuant to statutory provisions, which shall be immediately subordinate to the managers, and which shall exclusively serve the purpose of continuously and comprehensively reviewing the legality, propriety and expediency of the entire enterprise.

# 3 Managerial responsibility

6. Credit institutions shall establish an internal audit *which shall be immediately subordinate to the managers* (section 42 para 1 BWG).

7. All managers bear joint responsibility for the establishment and the functioning of the internal auditing unit; this responsibility cannot be delegated. This shall also apply if individual managers are responsible for certain duties within the credit institution.

8. All managers shall permanently ensure that the internal auditing unit is organised appropriately and that it has sufficient staff and technical facilities, both with regard to

numbers and quality, to enable it to perform its duties, and for possible special audits as well.

9. Under the responsibility of all managers, written organisational guidelines for internal auditing shall be prepared, and then approved and enforced by them (for more details, cf. chapter 4.1); these organisational guidelines, as amended, shall be made available to all staff members of the credit institution.

# 4 Internal auditing principles

## *4.1 Organisational guidelines for internal auditing*

10. The activities of the internal audit shall be guided by the organisational guidelines for internal auditing in particular. These organisational guidelines shall be regularly examined on a case-by-case basis and shall be adapted, if necessary. They must not restrict the duties of the internal auditing unit as set out in these FMA Minimum Standards in any way. The organisational guidelines for internal auditing shall be adapted under the responsibility of all managers, if necessary, upon the suggestion of the internal auditing unit.

11. The organisational guidelines shall include in particular:

a. definition, goal and significance of the internal auditing unit;

b. position and organisational incorporation of the internal auditing unit within the credit institution;

c. organisational structure (including distribution of responsibilities) of the internal auditing unit;

d. internal auditing principles and their main features (for more details, cf. chapters 4.2 to 4.5);

e. duties of the internal auditing unit and performance of audits (for more details, cf. chapters 5. and 6.);

f. powers and obligations (in particular rights to obtain information and reporting obligations) of the internal auditing unit (for more details, cf. chapters 6.4 and 6.5).

## *4.2 Permanent activities*

12. Credit institutions shall establish an internal audit which shall exclusively serve the purpose of continuously and *comprehensively reviewing the legality, propriety and expediency* of the entire enterprise (section 42 para 1 BWG).

13. Therefore, the internal audit must be a permanent institution that performs its activities all year round and not only on a case-by-case basis. The intensity of its audit activities shall depend on the size and nature of the credit institution to be audited as well as on the nature, extent, complexity and risk of its business activities.

## *4.3 Exclusivity, independence and impartiality*

14. Credit institutions shall establish an internal audit, which shall exclusively serve the purpose of continuously and *comprehensively reviewing the legality, propriety and expediency of the entire enterprise* (section 42 para 1 BWG).

15. The internal audit shall perform its duties independently, objectively and impartially.

16. When it comes to planning the audit, its performance, reporting and assessing the audit results as well as deciding about the initiation of special audits, it shall not be bound by any instructions. This shall not affect the right to order special audits by at least two managers (for more details, cf. chapter 6.2).

17. The staff of the internal audit shall, on principle, only be in charge of internal auditing at the credit institution to be audited and of performing the duties involved.

18. By no means shall they audit areas where they themselves work (prohibition of self-audit).

19. They must not be part of decision-making or business processes or perform other duties that are not in line with their auditing activities.

## *4.4 Quantitative requirements*

20. Taking the scope of the business into consideration, the internal audit shall *be established in such a manner that it can expediently perform its duties* (section 42 para 1 BWG).

21. Accordingly, the staff and technical facilities of the internal audit must be in line with the size and nature of the credit institution to be audited as well as the nature, extent, complexity and risk of its business activities, and it must be dimensioned in such a way that it can expediently perform its duties. In this context, possible special audits shall also be taken into consideration. In any case, it must be ensured that the internal audit is able to function permanently.

22. A *separate organisational unit within the credit institution* shall be put in charge of internal auditing tasks. However, this shall not apply to credit institutions:

a. whose balance sheet total does not exceed EUR 150 million; or

b. whose number of staff, on an annual average, does not exceed 30 full-time employees; or

c. whose balance sheet total does not exceed EUR 1 billion, and which are affiliated to a central institution or belong to a group of credit institutions if – within the framework of the sectoral organisation or the group – a separate organisational unit exists that is in charge of internal auditing, and which is equipped and organised in compliance with para 2 at all times (section 42 para 6 BWG).

23. A separate organisational unit, in this context, shall mean a unit immediately subordinate to the managers, which has at least one employee who works exclusively for the internal auditing unit.

If a separate organisational unit within the credit institution is required for internal auditing, it shall not be possible to completely outsource internal auditing.

24. If a credit institution meets one of the following three criteria, no separate internal auditing unit within the credit institution shall be required for internal auditing:

a. the balance sheet total of the credit institution does not exceed EUR 150 million;

b. the number of staff of the credit institution, on an annual average, does not exceed 30 full-time employees;

c. a sectoral or group-internal organisational unit for internal auditing exists; and

- the balance sheet total of the credit institution does not exceed EUR 1 billion;
- the credit institution is affiliated to that central institution (sectoral organisation) or belongs to that group of credit institutions (section 30 BWG) in which the sectoral or group-internal organisational unit exists;
- this organisational unit is equipped and organised in compliance with the grounds for disqualification laid down in section 42 para 2 BWG at all times (for more details, cf. chapter 4.5);
- this organisational unit effectively and demonstrably performs internal auditing tasks for the credit institution.

In these cases, the internal auditing tasks can be fully outsourced as well.

### *4.5 Qualitative requirements*

25. Persons for whom *grounds for disqualification* exist must not be put in charge of duties connected with internal audit (section 42 para 1 BWG).

26. Any circumstances which make it seem unlikely that the duties connected with internal auditing will be carried out properly shall be deemed *grounds for disqualification*. Grounds for disqualification shall exist in particular if the persons concerned *lack the necessary know-how and banking experience* (section 42 para 2 no. 1 BWG).

27. This presupposes that the internal auditing staff has adequate theoretical knowledge (necessary know-how) and practical knowledge (necessary banking experience) for auditing a credit institution.

28. Special requirements shall apply to the qualifications of the head of the internal audit. Apart from sound theoretical knowledge of internal auditing, s/he shall have extensive practical knowledge of banking, which s/he acquired while working for the same company or a company engaging in a comparable business for at least three years.

29. Appropriate measures shall be taken to ensure that all staff working for the internal audit have the necessary up-to-date knowledge.

30. *Grounds for disqualification* shall exist in particular also if the objective performance of the function may be impaired, in particular if the persons concerned are appointed *at the same time as bank auditors* for the same credit institution, or if one of the *grounds for disqualification* for being the credit institution’s bank auditors *listed under section 62 nos. 6, 12 and 13* applies to said persons owing to their activities in the internal audit (section 42 para 2 no. 2 BWG).

31. To ensure the objective performance of the internal auditing tasks as well as the bank auditor’s objectivity and independence, it shall be particularly inadmissible to appoint the same person at the same time as bank auditor and internal auditor for the same credit institution. If the bank auditor and the internal auditor belong to the same auditing firm or the same legally competent auditing body, internal precautions shall be taken to separate their functions and ensure that both mandates can be performed independently and to effect a strict separation of bank auditing and internal auditing tasks with regard to staff and organisation.

# 5 Internal auditing tasks

32. Credit institutions shall establish an internal auditing unit, which shall exclusively serve the purpose of continuously and *comprehensively reviewing the legality, propriety and expediency of the entire enterprise* (section 42 para 1 BWG).

## *5.1 Criteria and extent of the statutory audit*

33. The verification of legality shall include the continuous and comprehensive audit of the entire enterprise with regard to applicable laws, regulations and administrative decisions.

34. The verification of propriety shall include in particular the examination of the adequacy of the corporate organisation as well as adherence to bank-internal rules (organisational guidelines, competence rules, internal guidelines, etc.) as well as job instructions.

35. The verification of expediency shall include in particular the examination of the proportionality of the means used and the goals achieved, taking the economy and efficiency of the organisation, the procedures and use of resources into account (in particular with regard to staff and technical facilities).

36. The nature, extent, frequency and methods of the respective audits shall chiefly be guided by the risk entailed in the audit area and ensure that the audit results provide sufficient information on the degree of legality, propriety and expedience within the respective audit area.

## *5.2 Audit areas*

37. The internal audit shall inspect in particular:

a. all areas of operation and business of the credit institution;

b. all operation and business work flows of the credit institution;

c. the bank-internal rules (organisational guidelines, competence rules, guidelines, etc.) and job instructions, also with regard to adherence, topicality and regular updates;

d. all statutory audit areas.

# 6 Performance of audits by the internal audit

## *6.1 Review planning*

38. The internal audit shall draw up a *yearly review schedule* and perform its audits accordingly (section 42 para 5 BWG).

39. All managers shall be demonstrably informed of the review schedule. All managers shall also be demonstrably informed of significant changes in the audit review schedule. The size and nature of the credit institution to be audited as well as the nature, extent, complexity and risk of its business activities shall be appropriately taken into account when planning the review. The review planning shall be sufficiently documented. The review schedule shall be kept for at least seven years.

40. The review schedule shall include in particular the areas to be audited, the audit effort in person days and the kind of audit.

41. The audit frequency on which the review schedule is based shall be determined in the organisational guidelines for internal auditing (for more details, cf. chapter 4.1) as follows:

a. audit areas for which there are explicit orders concerning audit frequency shall be audited according to these orders;

b. all other audit areas shall be audited at appropriate intervals according to the risk they entail; high-risk areas shall, therefore, be audited more frequently, while less frequent audits may be sufficient for low-risk areas, such as ancillary areas.

42. The internal audit shall also draw up an audit map, i.e. an overview which details all audit areas including their audit intervals pursuant to point 41. Said audit map, which is permanently adapted according to current requirements, shall form the basis for review planning.

## *6.2 Special audits*

43. Moreover, the internal audit shall also perform *unplanned audits on a case-by-case basis* (section 42 para 5 BWG).

44. Special audits may be initiated upon the proposal of a manager or by the internal audit itself; if at least two managers order a special audit, it must be instituted.

## *6.3 Working papers*

45. Every audit shall be documented by working papers which should at least detail the audit activities carried out as well as the audit findings, and which third-party experts should be able to reconstruct at any time.

46. Important working papers shall be kept for at least seven years.

## *6.4 Informing the internal audit*

47. The staff of the internal audit shall be entitled to a comprehensive and unlimited right to demand and submission, and a right of inspection and of investigation. These rights shall also be applicable towards third parties active on behalf of the credit institution (provided that no legal impediments exist) as well as towards all credit institutions of the group of credit institutions including superordinate financial holding companies or mixed-activity companies, provided this is necessary to ensure that the internal audit can fulfil its function.

48. The head of the unit shall be informed immediately and without having to ask about instructions and decisions of managers and other bodies of the credit institution which may be of significance to internal auditing. The internal audit shall be informed of significant changes in the audit areas (for more details, cf. chapter 5.2) in a timely manner.

## *6.5 Reporting obligation*

49. The internal audit shall report to *all managers*. *On a quarterly basis,* it shall report significant audit findings based on the audits performed directly to *the chairperson of the supervisory board or another competent supervisory body of the credit institution pursuant to the law or the articles of association* (section 42 para 3 BWG).

50. The heads of the audited organisational units shall be demonstrably informed of the audit findings, principally within the framework of a final conference. They shall be entitled to use this occasion to make comments.

51. Shortly after each audit, a written audit report shall be prepared, which shall be demonstrably submitted to the heads of the audited organisational units as well as their immediate superiors.

52. The audit report shall as a minimum list the audit area and the audit findings (in particular located deficiencies and the necessary and recommended measures taken including an appropriate time limit for their correction or implementation), putting special emphasis on the significant deficiencies, threats or risks. In addition, it details the beginning and end of the audit as well as the kind of audit and the methods employed with the individual audits. The heads of the audited organisational units shall make comments on the deficiencies detected as well as on the necessary and recommended measures, which should already be considered in the audit report, if possible.

53. If not all managers receive all comprehensive audit reports, all managers shall be regularly informed of the audit findings of all audits performed in the reporting period in written summaries, putting special emphasis on the significant deficiencies, threats and risks. The managers shall determine the reporting frequency in the organisational guidelines for internal auditing (for more details, cf. chapter 4.1).

54. Irrespective of these reports, the internal audit shall without delay and demonstrably inform all managers if it believes the continued existence of the credit institution or its ability to function, its development or the performance of its obligations towards its creditors is at risk or significantly impaired.

55. All reports shall be kept for at least seven years.

### *6.6 Reaction to detected deficiencies*

56. The heads of the audited organisational units shall correct the located deficiencies within the time stipulated, take suitable measures to correct the located deficiencies within the time stipulated and inform the internal audit about the implementation of the necessary measures as well as the correction of the located deficiencies.

57. The internal audit shall verify that the located deficiencies have been corrected within the time stipulated and the necessary measures taken within the time stipulated and shall carry out any necessary follow-up inspections.

58. If the located deficiencies are not corrected within the time stipulated and/or the necessary measures are not taken without objectively understandable reasons within the time stipulated, the internal audit shall, without delay, inform the immediate superiors of the heads of the audited organisational units. If the deficiencies are still not corrected or the necessary measures implemented, the competent managers shall, at any rate, be informed of this circumstance.

## 7 Group auditing

59. In case of groups of credit institutions, the internal audit of the superordinate credit institution shall perform the tasks of *internal group auditing* (section 42 para 7 BWG).

60. The managers of the superordinate credit institution shall be in charge of the group audit, which shall audit all companies of the group of credit institutions within the meaning of section 30 BWG.

61. The tasks of the group audit shall comprise in particular:

a. harmonisation of the auditing standards within the group of credit institutions;

b. examination of the expediency of the organisational structure and procedures;

c. examination of compliance with the regulatory provisions; as well as

d. verification of the legality, propriety and expediency with regard to:

- consolidated accounting;

- the ability to function, audit plans and audit reports of the internal audit of subordinate credit institutions; as well as

- group reporting pursuant to section 30 paras 7 to 10 BWG.

# 8 Notifications

62. The credit institutions shall immediately inform the FMA and the *Oesterreichische Nationalbank* (OeNB) in writing about the person(s) responsible for internal audit as well as any changes concerning such person(s) (section 73 para 1 no. 11 and section 79 para 2 BWG).

# Notes

## *General notes*

These FMA Minimum Standards shall constitute a recommendation for structuring the internal auditing unit. Therefore, this is not a regulation.

The FMA points out that it is the responsibility of the individual credit institution to actually design the requirements as set out in section 39 paras 1 and 2, section 42 BWG as well as in the present FMA Minimum Standards, whereby it shall particularly be guided by its size and nature as well as the nature, extent, complexity and risk of its business activities. Therefore, it can in principle be assumed that, if the present FMA Minimum Standards are adhered to, the diligence required pursuant to section 39 paras 1 and 2, section 42 BWG has also been exercised. However, based on the banking law requirements pertaining to the diligence to be exercised by the managers and on the concrete statutory requirements stipulated under section 42 BWG, it may be necessary to exceed the requirements as set out in these FMA Minimum Standards. At any rate, the legal bases shall remain unaffected by these FMA Minimum Standards.

These FMA Minimum Standards shall not regulate the conditions and prerequisites under which the internal auditing unit may be outsourced.

They shall also apply to external persons if parts of the duties of the internal auditing unit or all of them are outsourced.

Internal auditing, alongside the internal control system, is a component of the internal control process of the credit institution (“internal monitoring system”). Unlike internal auditing (as a form of monitoring independent of processes), the internal control system (as a form of monitoring dependent on processes) comprises all forms of monitoring measures that are directly or indirectly integrated into the work flows to be monitored, and which are taken by persons or organisational units that participate in the respective work flows and are frequently themselves in charge of the result of the processes to be monitored and the monitoring results.

With regard to the definition of internal control within a credit institution, compare also point 4, page 8 of the paper by the Basel Committee on Banking Supervision entitled "Framework for Internal Control Systems in Banking Organisations" of September 1998 (available at http://www.bis.org/publ/bcbs40.htm).

## *Special notes*

With regard to point 1 (FMA Minimum Standards, preliminary remarks): International developments and standards were taken into consideration in the preparation of these FMA Minimum Standards. In particular the papers published by the Basel Committee on Banking Supervision entitled "Framework for Internal Control Systems in Banking Organisations" of September 1998 and "Internal audit in banks and the supervisor's relationship with auditors" of August 2001 (both available at http://www.bis.org/publ/bcbs.htm) served as a basis.

With regard to point 4 (scope of application): These FMA Minimum Standards shall not be applied to the operation of the exchange bureau business (section 1 para 1 no. 22 BWG) and the financial transfer business (section 1 para 1 no. 23 BWG), unless the participation in the drawing up of the consolidated accounts of the superordinate credit institution is required (section 3 para 1 no. 9 BWG).

External persons shall particularly mean chartered accountants, accounting firms, legally competent auditing bodies as well as the group audit of a superordinate credit institution.

With regard to point 7 (responsibility): Orders concerning internal audit shall have to be made jointly by at least two managers (section 42 para 3 BWG).

Thus, at least two managers shall principally be responsible for internal auditing at all times. However, due to their special significance, some matters shall be the collective responsibility of the managers.

The issue of organisational guidelines for internal auditing shall also be deemed part of the establishment of the internal audit as well as its ability to function, which means that these tasks cannot be delegated by the managers either.

At any rate, the responsibility for internal auditing shall be borne by the managers of the credit institution, even if the internal auditing has been partly or fully outsourced.

With regard to point 11 (minimum content of the organisational guidelines): The organisational guidelines for internal auditing to be issued may follow the FMA Minimum Standards. Thus, they may contain the structure as set out in point 11, and they may reproduce the individual points of the FMA Minimum Standards in greater detail, adapted to the respective credit institution.

Point 11 lit. c (organisational structure) specifies the organisational structure of the internal auditing unit (such as in the form of an organisational chart), from which the duties and responsibilities of the internal audit should be derived in particular.

With regard to point 13 (permanent activities): Permanent activities of the internal audit shall mean the execution of the audit plan including the possibility to exercise the rights to obtain information and to perform special audits at any time.

With regard to points 15 to 19 (exclusivity, independence and impartiality): The principle that the staff of the internal audit should exclusively work for this unit shall not rule out that, in justified individual cases, other internal or external persons can be used from time to time for internal auditing tasks due to their special know-how.

If staff members of the internal audit have to represent staff interests, they shall in doing so also adhere to the principles of independence, objectivity and impartiality.

As regards the question of the compatibility of internal auditing with the functions of the money laundering representative and the person in charge of compliance, please refer to the FMA circular letter concerning die Vereinbarkeit interne Revision / Geldwäschebeauftragter / Compliance-Verantwortlicher (the compatibility of internal auditing / money laundering representative / person in charge of compliance) of March 30, 2004 (available in German at www.fma.gv.at/de/fma/rechtlic/rundschr/banken/rundschr.htm).

With regard to the question of whether the internal audit is allowed to carry out consulting or project support activities, the following shall be stated:

If the internal audit's independence and ability to function (in particular also with regard to the available capacities) is guaranteed, it may as part of its duties, by way of an exception, perform consulting activities at the credit institution, in particular within the scope of project support. This shall be particularly admissible if the internal audit is thus given the opportunity to show potential problems, threats and risks in advance. In this way it may avert risks, and it may also ensure that its own auditing interests are considered in the projects (such as matters of verification and traceability).

With regard to point 23 (separate organisational unit within the credit institution): It must be noted that even if a separate organisational unit is required, the quantitative requirements within the internal auditing unit (point 21) will also have to be considered and, consequently, more than one separate staff member may be required both below and above the limits as set out in section 42 para 6 BWG.

It shall be inadmissible that the internal auditing tasks for those credit institutions that require a separate organisational unit pursuant to section 42 para 6 BWG are performed exclusively by external experts on the basis of contracts for work and services. However, the additional employment of persons on the basis of a contract for work and services shall be acceptable.

It shall be noted that precautions will have to be taken if the, possibly, only internal auditor is temporarily prevented from working for a prolonged period of time (for instance, due to a holiday extending over several weeks or extended sickness leave) by ensuring, for instance, that external persons can be temporarily employed at short notice (for more details, cf. the comments on point 4) by offering, for instance, a kind of "neighbourhood assistance" or solutions within an organisation on the basis of a contract for work and services. In this context, a possibly necessary, temporary full outsourcing arrangement does not contravene point 23.

With regard to point 24 lit. c (sectoral or group-internal organisational unit): At present, the following institutions shall be deemed central institutions:

a. Erste Bank der österreichischen Sparkassen AG for the savings bank sector;

b. Österreichische Volksbanken AG for the industrial credit cooperative sector;

c. Raiffeisen Zentralbank Österreich AG for the regional credit cooperatives (Raiffeisenlandesbank Burgenland und Revisionsverband reg.Gen.m.b.H., Raiffeisenlandesbank Kärnten - Rechenzentrum und Revisionsverband reg.Gen.m.b.H., Raiffeisenlandesbank Niederösterreich-Wien AG, Raiffeisenlandesbank Oberösterreich AG, Raiffeisenverband Salzburg reg.Gen.m.b.H., Raiffeisenlandesbank Steiermark reg.Gen.m.b.H., Raiffeisen-

Landesbank Tirol AG, Raiffeisenlandesbank Vorarlberg reg.Gen.m.b.H.) and ZVEZA BANK r.z.z o.j. Bank und Revisionsverband reg.Gen.m.b.H.;

d. as well as the regional credit cooperatives and ZVEZA BANK r.z.z o.j. Bank und Revisionsverband reg.Gen.m.b.H. for their affiliated credit institutions in the federal provinces.

It shall be noted that the grounds for disqualification pursuant to section 42 para 2 BWG apply at all times to all persons who are entrusted with internal auditing tasks, and not only to those who perform tasks within the framework of a sectoral or group-internal organisational unit. Moreover, a separate organisational unit within the credit institution (cf. point 23) must be equipped and organised in compliance with section 42 para 2 BWG at all times.

With regard to point 28 (qualifications of the head of the internal audit): Point 28 shall only apply to new heads of the internal audit.

The theoretical knowledge which the head of the internal audit requires shall be presumed in particular if he can prove the successful completion of relevant training in the sector, a university degree or a *Fachhochschule* with a relevant specialisation, internationally recognised auditor training or an examination pursuant to section 13 of the *Genossenschafts-Revisionsgesetz* (GenRevG; Cooperatives Audit Act).

With regard to point 30 (grounds for disqualification for bank auditors): Those grounds for disqualification for bank auditors of the credit institution, which are mentioned under section 42 para 2 no. 2 BWG, shall exist in particular if:

(1) the bank auditor's personal independence from the credit institution to be audited is not guaranteed, in particular because he performs another activity

apart from rendering consulting services to the credit institution to be audited or participates in affairs pertaining to the recording of business transactions in accounting or in the preparation of accounts which he himself shall audit;

(2) the bank auditor employs a person for the audit who, pursuant to section 62 nos. 3 to 6 and 8 to 11, must not be a bank auditor (section 62 no. 12 BWG);

(3) the bank auditor practices his profession together with a person who is disqualified pursuant to section 62 nos. 2 to 12 or with whom he fulfils the conditions of section 62 no. 3 or no. 4 (section 62 no. 13 BWG).

With regard to point 37 (audit areas): The audit areas also refer to the outsourced areas of the credit institution.

The enumeration of the audit areas is not final, which means that further audit areas for internal auditing may come up.

The individual audit areas must not be viewed separately. Collaboration of the individual, specialised staff members of the internal audit is sensible and necessary in particular in the case of interdisciplinary audits (across several organisational units). The head of the internal audit shall ensure structured cooperation within the internal audit.

With regard to lit. a: Areas of operation and business of the credit institution shall mean, for instance, financing, accounting, risk management and portfolio management.

With regard to lit. b: Operation and business work flows of the credit institution shall mean, for instance, loan extension, loan handling, loan processing control and valuation measures.

With regard to lit. c: From point 37 lit. c and the prohibition of self-audit, it can be derived that the internal audit must not draw up any bank-internal rules.

With regard to lit. d: At present, the following audit areas are determined by law:

> (1) administrative, accounting and control procedures that are required to record and evaluate the risks of the credit institution's banking transactions and of operating the credit institutions, to record and evaluate to the farthest possible extent the potential risks resulting from new businesses as well as parallel risks (section 39 para 2 BWG);
>
> (2) administrative, accounting and control procedures that are required to record large exposures and their changes as well as their monitoring also with regard to compliance with the credit institution's lending policy (section 27 para 9 BWG);
>
> (3) the accuracy and completeness of the contents of the notifications and reports submitted to the FMA and the OeNB (section 42 para 4 no. 1 BWG);
>
> (4) the control and disclosure procedures to prevent transactions that serve money-laundering purposes (section 42 para 4 no. 3 in conjunction with section 40 para 4 no. 1 BWG);
>
> (5) the control and security precautions with regard to electronic data processing as well as the rules to be stipulated pertaining to the personal transactions of employees (section 18 of the *Wertpapieraufsichtsgesetz* (WAG; Securities Supervision Act); the internal control procedures to forestall insider dealings – compliance organisation (section 48b in conjunction with section 82 para 5 of the *Börsegesetz* (BörseG; Stock Exchange Act), section 16 WAG and the Standard Compliance Code of the Austrian banking industry);
>
> (6) the compliance with section 42 para 4 no. 2 and 4 BWG as well as section 39 para 4 BWG pertaining to the trading book; and
>
> (7) the risk management process as well as the internal model for the limitation of market risk including the activities of the trading departments and the risk control unit pursuant to section 2 para 12 of the *Modellverordnung* (ModellVO; Regulation on Internal Models for the Limitation of Market Risk).

With regard to (1): The administrative, accounting and control procedures to be set up pursuant to section 39 para 2 BWG shall also include the risk management and the internal control system and shall, consequently, also be examined by the internal audit.

With regard to (4): In this context, please also refer to the FMA circular letter "Kontrollverfahren und Verdachtsmeldungen im Zusammenhang mit Terrorfinanzierung" (control procedures and notifications of suspicions in connection with terrorist financing) of April 23, 2004 (available in German at www.fma.gv.at/de/fma/rechtlic/rundschr/banken/rundschr.htm).

With regard to point 41 (audit frequency):

With regard to lit. a: At present, and due to an express order, the expedience and application of, at any rate, the following audit areas shall be examined by the internal audit at least once a year:

(1) administrative, accounting and control procedures that are required to record and evaluate the risks of the credit institution's banking transactions and of operating the credit institutions, to record and evaluate to the farthest possible extent the potential risks resulting from new businesses as well as parallel risks (section 39 para 2 BWG);

(2) administrative, accounting and control procedures that are required to record large exposures and their changes as well as their monitoring also with regard to compliance with the credit institution's lending policy (section 27 para 9 BWG);

(3) control and security precautions with regard to electronic data processing as well as the rules to be stipulated pertaining to the personal transactions of their employees (section 18 WAG) as well as the internal control procedures to forestall insider dealings – compliance organisation (section 48b in conjunction with section 82 para 5 BörseG, section 16 WAG and the Standard Compliance Code of the Austrian banking industry).

With regard to points 45 and 46 (working papers): The result of all audit activities and findings should be clear from the working papers: The working papers prove which audit activities have been performed and on the basis of which circumstances the audit findings were reached. The working papers may be stored either on paper or electronically or in any other suitable form.

With regard to point 49 (report to the supervisory body): The reporting obligation to the supervisory body shall also be in force if there are no significant audit findings; in this case, at least this shall be communicated ("zero notification").

With regard to points 51 to 53 (audit report): Primary recipients of the audit report shall be the managers (cf. section 42 para 3 BWG). Still, it will be more practicable – in particular where credit institutions with multi-level organisations are concerned – to submit the audit report to the head of the audited organisational unit as well as his/her immediate superior and to comply with the information requirement vis-à-vis the managers by submitting summary reports at a reporting frequency to be determined in advance (cf. point 52).

In the case of audits that affect several organisational units, all heads concerned as well as their superiors shall receive reports. If persons have been put in charge of processes related to business and operation work flows, they and their superiors shall receive reports.

For reasons of efficiency, a final conference may be abandoned in exceptional cases. In this case, the heads of the organisational units shall be demonstrably notified in writing or electronically about the audit findings and given the opportunity to make comments.

The audit effort in person days shall be documented, but not necessarily in the audit report.

With regard to point 54 (special report): In this context, existing statutory reporting obligations shall be pointed out (in particular section 28a para 1 of the *Gesetz über Gesellschaften mit beschränkter Haftung* (GmbHG; Act on Limited Liability Companies): special report of the managers to the supervisory board; section 81 para 1 of the *Aktiengesetz* (AktG; Stock Corporation Act): special report of the management board to the supervisory board; section 16 para 6 of the *Sparkassengesetz* (SpG, Savings Banks Act): report of the management board to the savings bank council; section 29 para 1 of the

*Genossenschaftsgesetz* (GenG; Cooperative Association Law): obligation of the management board to convene the general meeting).

With regard to points 60 and 61 (group audit): In the case of groups of credit institutions pursuant to section 30 para 2a BWG, the central institution shall be the superordinate credit institution (section 30 para 5 BWG). Thus, pursuant to section 42 para 7 BWG, the internal audit of the central institution of groups of credit institutions within the meaning of section 30 para 2a BWG shall perform the group auditing tasks.

The group auditing tasks shall be exclusively performed by the superordinate credit institution. In the case of multi-level groups of credit institutions, it shall, by way of an exception and to ensure the efficient use of resources, be admissible that the internal auditing units of subordinate credit institutions perform the group auditing functions if they themselves are superordinate to other credit institutions.

At any rate, the group auditing unit shall audit all companies of the group of credit institutions within the meaning of section 30 BWG. An extension of the audit by the group auditing unit to consolidated companies that are not part of the group of credit institutions shall be admissible.

With regard to point 61 (tasks of group auditing): The group auditing unit shall focus on other areas than those of the internal auditing unit. The tasks of the group auditing unit shall in particular comprise those listed under point 61.