

October 9, 2024

Chair Erik Thedéen
Basel Committee on Banking Supervision
Bank for International Settlements
CH-4002 Basel
Switzerland
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Email: baselcommittee@bis.org

RE: The IIA Response regarding Basel Committee on Banking Supervision’s (Basel Committee) consultative draft titled, *Principles for the sound management of third-party risk*.

Dear Chair Thedéen and Members of the Basel Committee on Banking Supervision:

On behalf of The Institute of Internal Auditors (The IIA), the international professional association representing over 245,000 internal auditors across a network of 117 national institutes, I appreciate the opportunity to comment on the Bank for International Settlements’ Basel Committee on Banking Supervision’s consultative draft titled, *Principles for the sound management of third-party risk*.¹ For over 80 years, The IIA has been recognized across the globe as the internal audit profession’s leader in standards, certification, education, research, and technical guidance.

After reviewing the consultative draft, The IIA appreciates the efforts of the Basel Committee to revisit its principles for third-party risk management. However, I am concerned to see that there were no mentions of internal audit in the paper. In the spirit of collaboration, we, at The IIA, would like to recommend ways to strengthen these principles and to partner with you to approach this from a more holistic perspective. The IIA appreciates its longstanding relationship with the Bank for International Settlements’ Basel Committee and how the integral role of internal auditing in good corporate governance is outlined in your publication titled, *Corporate governance principles for banks (2015)*. While the consultative draft acknowledges that its draft Principles should be read in conjunction with the *Corporate governance principles for banks*, the role of internal auditing should be specifically included in several places throughout the consultation paper to clarify and reinforce the importance of internal audit vis-à-vis good governance. Below are some recommendations for areas that could further enhance the principles and expound upon the role of internal audit functions.

The “Audits and assurance” section on page 6 should specify the need for the independent assessment of the effectiveness and adequacy of third-party controls by an internal audit function. This assessment could extend to external audits and any certifications that third-party vendors hold. Furthermore, we recommend that The IIA’s International Professional Practices Framework (IPPF), comprising the Global Internal Audit Standards (Standards), Global Guidance, and the Topical Requirements², as well as the Certified Internal Auditor[®] certification³ be specifically referenced to help provide illustrative examples

¹ <https://www.bis.org/bcbs/publ/d577.pdf>

² <https://www.theiia.org/en/standards/2024-standards/global-internal-audit-standards/>

³ <https://www.theiia.org/en/certifications/cia/>

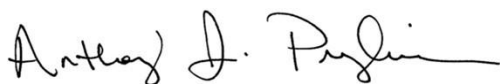
of recognized standards and certifications that your consultative paper mentions. The IIA’s IPPF is critical in equipping internal auditors to assess and report on the adequacy of third-party service provider (TPSP) management, ensuring alignment with an organization’s strategic goals and risk appetite.

The “Governance, risk management, and strategy” section on page 7 outlines the implementation of a third-party risk management framework supported by a strong governance structure led by the board. The board would benefit by a requirement that an internal audit function periodically assesses the effectiveness of the framework and reports its findings to the board. This would ensure alignment with the organization’s strategic goals as it applies sound governance and risk management, as delineated in the Three Lines Model.⁴ This section would also benefit by specifically outlining the role internal audit should play in reviewing the effectiveness of the processes used to assess third-party risks and ensuring compliance with rules and regulations. Internal audit plays a proactive role in supporting the board’s third-party management strategy by identifying existing and emerging risks and trends, providing insights into potential vulnerabilities, and recommending actions to strengthen governance and risk management in third-party relationships.

Furthermore, the Basel Committee’s July 9, 2024 press release on this consultation paper references the 2005 Joint Forum paper *Outsourcing in financial services*, when citing, “banks’ increasing reliance on third parties beyond the scope of traditional outsourcing, coupled with the expansion of supply chains and rising concentration risks.”⁵ The Joint Forum paper specifically describes the important role of internal audit alongside the “regulated entity’s Board of Directors (or equivalent body)” in “ensuring that all ongoing outsourcing decisions taken by the regulated entity, and activities undertaken by the third parties, are in keeping with its outsourcing policy.”⁶

The internal audit function is a central component to upholding proper governance and risk management. We would be happy to discuss any of these recommendations in further detail with you. Thank you for your consideration of our views and recommendations. Should you have any questions about this matter, please contact Kat Seeuws, Vice President of Standards & Guidance (Katleen.Seeuws@theiia.org), and Roberto Rosas, Director of Global Advocacy (Roberto.Rosas@theiia.org).

Sincerely,



Anthony Pugliese, CIA, CPA, CGMA, CITP
President and Chief Executive Officer
The Institute of Internal Auditors, Global Headquarters

⁴ <https://www.theiia.org/globalassets/documents/resources/the-iias-three-lines-model-an-update-of-the-three-lines-of-defense-july-2020/three-lines-model-updated-english.pdf>

⁵ <https://www.bis.org/press/p240709.htm>

⁶ <https://www.bis.org/publ/joint12.pdf>