

DIRECTIVE ON INTERNAL AUDIT REQUIREMENT FOR LABUAN TRUST COMPANIES

1.0 PREAMBLE

- 1.1 This directive is issued under section 4B of the Labuan Financial Services Authority Act 1996 and applicable to all Labuan trust companies and Labuan managed trust companies licensed pursuant to section 61 and 71 of Labuan Financial Services and Securities Act 2010 respectively.
- 1.2 This directive serves to reinforce the requirements of internal audit as stipulated in the Guidelines for a Trust Company issued on 11 January 2005 and duties imposed on all licensed trust companies in Labuan International Business and Financial Centre.

2.0 INTERNAL AUDIT

- 2.1 All Labuan trust companies and Labuan managed trust companies shall conduct internal audit at least once in 18 months. The internal audit can be conducted by:
- a. Own internal auditors; or
 - b. Internal auditors of head office or holding company or any related corporation; or
 - c. Outsourced to external party.
- 2.1.1 Labuan trust company may carry out internal audit on its managed trust company. Nevertheless, the Labuan trust company must have an internal audit department, independent from the operations of the Labuan trust company; and a separate report of assessments, as elaborated under item 2.5 below, should be prepared for the Labuan managed trust company.
- 2.2 The Management must ensure that the person responsible to perform the internal audit function is independent, which would enable him/her to exercise judgement, express opinions and present recommendations with impartiality, and possess the necessary technical competence.

- 2.3 Labuan FSA expects the scope of the internal audit of a Labuan trust company to cover at least the following areas:
- 2.3.1 Evaluation and appraisal of system of internal control;
 - a. Effectiveness of system of internal control;
 - b. Reliability and integrity of information, including the accuracy and timeliness of information submitted to Labuan FSA;
 - c. Safeguarding of assets; and
 - d. Detection of frauds, errors, omissions and other irregularities.
 - 2.3.2 Adequacy of policies and procedures;
 - 2.3.3 Compliance with laws and regulations, rules, directives, guidelines and own policies and procedures;
 - 2.3.4 Adequacy and effectiveness of risk management measures; and
 - 2.3.5 Accomplishment of established objectives and goals.
- 2.4 The internal auditor should be functionally responsible to the Board. All internal audit functions, including but not limited to the appointment, audit planning, audit scope and audit report, shall be reported to the Board.
- 2.5 The management shall ensure that an exit meeting between the internal auditor and Labuan FSA is held immediately after the completion of the internal audit fieldwork and an audit report is submitted to Labuan FSA within three months from the date of the exit meeting.
- 2.6 The report shall contain the internal auditor's assessments on the adequacy and effectiveness of the trust company's system of internal control, adequacy of policies and procedures, level of compliance to external and internal requirements, adequacy and effectiveness of risk management measures and accomplishment of established objectives and goals. The report shall be submitted to:

Director
Supervision and Compliance Department
Labuan FSA
17th Floor, Main Office Tower
Financial Park Complex
Jalan Merdeka
87000 F.T. Labuan

3.0 IMPLEMENTATION AND COMPLIANCE

- 3.1 Labuan trust companies that have yet to undertake any internal audit exercise are given until **30 June 2012** to conduct the internal audit and submit the report to Labuan FSA accordingly. Trust companies that have adopted more stringent internal audit standards should continue with their existing practices.
- 3.2 Failure to adhere to the requirements of this directive will reflect adversely on the trust company's governance standards, management and controls, adequacy of overall supervision and the fitness and properness of its officers.
- 3.3 Labuan FSA wishes to reiterate that failure to comply with the requirements under this directive is an offence under section 4B of the Labuan Financial Services Authority Act 1996 and shall be liable on conviction to a fine not exceeding two hundred and fifty thousand ringgit in the case of an individual person and in the case of a body corporate or partnership to a fine not exceeding five hundred thousand ringgit.

4.0 EFFECTIVE DATE

This directive shall come into force with immediate effect and remain applicable unless amended and revoked otherwise.

Labuan Financial Services Authority
20 April 2011