



DIRECTIVE ON INTERNAL AUDIT REQUIREMENT FOR LABUAN MANAGED TRUST COMPANIES

1.0 PREAMBLE

1.1 This directive is issued under section 4B of the Labuan Financial Services Authority Act 1996 (LFSAA) and applicable to all Labuan managed trust companies (LMTCs) licensed under section 71 of Labuan Financial Services and Securities Act 2010 (LFSSA).

2.0 INTERNAL AUDIT

2.1 All LMTCs shall conduct an internal audit annually at the minimum. The internal audit function can be undertaken by any of the following persons:

- (i) Its own internal auditor;
- (ii) The internal auditor of the head office or holding company¹ or any related corporation² of the LMTC;
- (iii) The Labuan managed trust manager³ of the LMTC; or
- (iv) Third party which is not the current external auditor of the LMTC.

2.2 Where the internal audit function is performed by the internal auditor of the LMTC's holding company, related corporation or outsourced to the Labuan managed trust manager or a third party, clearly prescribed terms of reference are developed which sets out the scope, objectives, approach, reporting

¹ As defined under section 3 of the Labuan Companies Act 1990 (LCA).

² As defined under section 4 of the LCA.

³ This refers to the Labuan trust company that has been appointed as the Labuan managed trust manager of the LMTC pursuant to section 72(1) of LFSSA. The Labuan managed trust manager must have an internal audit department, independent from its operations and is required to prepare a separate assessment report for the LMTC.

requirements and the working relationship between management and the external party. Labuan FSA may request for the terms of reference and other relevant documents to be made available for review and direct the LMTC to undertake action pertaining to such outsourcing arrangements as deemed necessary.

2.3 The Management must ensure that the person responsible to perform the internal audit function is independent, which would enable him to exercise judgment, express opinions and present recommendations with impartiality, and possess the necessary technical competence.

2.4 The LMTC may adopt any appropriate approach to suit its risk management policy and to ensure its operations are sound on ongoing basis. The scope of the internal audit would need to take into account the following critical areas and the frequency and intensiveness of the auditable areas may be determined by the LMTC in line with its risk management policy and sound governance practices:

- (i) Evaluation and appraisal of internal control system which include:
 - (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.
- (ii) Adequacy of policies and procedures;
- (iii) Compliance with laws and regulations, policies, directives, guidelines and the LMTC's own policies and procedures to complement the compliance function within the company. It is necessary for the internal audit function to work closely with the compliance function, as the latter operates to minimise the risk of non-compliance on a proactive basis;
- (iv) Adequacy and effectiveness of risk management measures; and
- (v) Accomplishment of established objectives and goals.

- 2.5 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.
- 2.6 The internal auditor is required to arrange for an exit meeting with Labuan FSA immediately upon completion of the internal audit exercise to highlight preliminary significant audit findings and ensures that the internal audit report is submitted within three (3) months from the completion of the internal audit to:

Director
Supervision and Monitoring Department
Labuan Financial Services Authority (Labuan FSA)
Level 17, Main Office Tower,
Financial Park Complex
87000 Federal Territory of Labuan, Malaysia
Telephone no: 087 591 200
Facsimile no: 087 453 442 / 413 328
Email: *sed@labuanfsa.gov.my*

- 2.7 The internal audit report shall contain the internal auditor's assessments on the adequacy and effectiveness of the LMTC'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. A summary of the actions taken on the significant findings from the previous audit review must also be included in the internal audit report.
- 2.8 Internal audit reports must be tabled to the Board within three (3) months of the completion of the audit.

3.0 COMPLIANCE

- 3.1 Failure to adhere to the requirements of the 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.

3.2 Labuan FSA wishes to reiterate that failure to comply with the requirements under the directive is an offence under section 4B of the LFSAA 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

4.1 This directive shall come into effect on 1 January 2017 and would remain effective and applicable unless amended and revoked otherwise.

Director General
Labuan Financial Services Authority
28 September 2016

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