

**Annex 3****CONTENT OF AN ICS ASSESSMENT REPORT**  
**BY INDEPENDENT EXTERNAL AUDITORS**

A report prepared by independent, from the statutory auditors, certified public accountants' firm on whom the assessment of the credit and financial institution's Internal Control System has been assigned according to the provisions of par. 4.1 – Section B2a – Chapter IV of this Act, shall have the following contents:

**I. SUBJECT OF ASSESSMENT AND MAIN FINDINGS OF THE REPORT**

1. The adequacy of the ICS shall be examined on the basis of the best international practices<sup>1</sup> so as to ensure compliance with the ICS-related provisions of this Act. The assessment engagement shall cover a particular time period and the assessment report shall reflect the assessed institution's situation as at the time of the assessment.
2. The assessment of the ICS adequacy shall include reviews of:
  - (i) the audit environment;
  - (ii) the risk assessment procedure;
  - (iii) the audit controls and safeguards;
  - (iv) the communication and disclosure information systems and
  - (v) the role and responsibilities of the Senior Management, internal auditors and other staff.
2. Prior to the commencement of the ICS assessment engagement, the credit institution's Audit Committee shall determine which units and subsidiaries shall be included in the assessment (scoping). Inclusion in the scope of the assessment of an individual organisational unit or subsidiary shall be determined on the basis of a) the unit's or subsidiary's relative importance and materiality and b) other quality criteria. The Bank of Greece (Department for the Supervision of Credit and Financial Institutions) shall be advised of the scope of the assessment, in time.
3. After the completion of their engagement, the independent external auditor shall submit a report containing his/her opinion on the adequacy of the Internal Control System, where the main findings on the auditing procedures shall be noted down and a general judgement

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<sup>1</sup> Including, but not limited to, the International Standards on Auditing and International Standards of Assurance Engagements, the Standards for Professional Practice of Internal Auditing and the ICS organisation models of the Committee of Sponsoring Organisations of the Treadway Commission (COSO).

on the adequacy of the ICS shall be included. Any “material weaknesses”, as defined in the International Standards on Auditing, shall also be identified.

## **II. SPECIFIC SUBJECTS OF THE ASSESSMENT**

The following shall, inter alia, be examined during the engagement:

### **A. Organisational structure**

- 1.1. The credit institution’s organisational structure (organisational chart, Senior Management, Committees), including observations thereon.
- 1.2. Whether the overall corporate governance framework is lawful and ensures the timely and accurate disclosure of all the important matters that concern the credit institution.
- 1.3. The adequacy of data reporting systems and their compliance with the appropriate institutional framework.
- 1.4. The role of the Board of Directors in ensuring the adequacy of the ICS.
- 1.5. Comments on any conflict of interests or competences, control mechanisms (such as the four eyes principle) and the segregation of front line, from back office functions (review, bookkeeping and control) according to the provisions of the Act;
- 1.6. The procedure of preparation of the annual budget in the context of the credit institution’s strategy and the procedures followed in cases of divergences from targets set.
2. For each individual unit of a credit institution (in accordance to its organizational chart) included in the scope of the assessment, with due regard to the prevailing situation, there shall be a review of the adequacy of the ICS and its documentation.

### **B. Risk Management**

- 1.1. The role of the Risk Management Committee (where such a committee exists).
- 1.2. Whether there are mechanisms for identifying, analysing, controlling and managing all kinds of risks inherent in the credit institution’s operation (both at single credit institution and at group levels according to chapter I par. 3 of this Annex).
- 1.3. The management of liquidity risk in contingencies.
- 1.4. The independence, powers and tasks of the Risk Management Unit and its head.
- 1.5. Where the credit institution is active abroad, whether there are different risk management procedures per country.
- 1.6. With respect to the introduction of new products, whether all risk assessment procedures have been followed prior to the launching of the products.

2.1. During the assessment of organisational units involved in lending procedures: whether objective criteria are followed in the processing of loan applications or requests for credit lines, the credit scoring or credit rating systems, the way collaterals are monitored, whether approved credit lines are not exceeded, the measures taken in cases of non-performing loans, the transfer of NPLs to special purpose accounts as well as the possibility of credit risk monitoring collectively, that is at the entire loan book level.

2.2. The procedures for extending credit to parties related to the credit institution and ensuring non-preferential treatment.

### **C. Accounting System**

An examination of accounting systems shall seek to ensure that IC procedures in place adequately ensure that reliable financial statements are prepared and that financial information made available internally through management information systems for decision making is based on reliable data.

### **D. Information Technology Systems**

The adequacy of IT systems, on the basis of Annex 2 to this Act, notably:

1. IT system organisation and management;
2. IT system development and procurement;
3. IT system operation;
4. Physical and logical security;
5. E-banking.
6. Business continuity and disaster recovery plans.

### **E. Compliance**

1. The independence of the Compliance Unit (or, in the absence of such a unit, the staff assigned with the relevant duties), its access to required information, the timely and valid communication of the units findings and the incorporation of changes that in the regulatory framework in the compliance function.

2. The adequacy of the anti-money laundering and anti-terrorist financing procedures, in particular with respect to classification procedures in terms of ML risk of transactions and/or customers.

## **F. Internal Control**

1. The membership of the Audit Committee, its powers, involvement in the audit procedure, the annual report on the adequacy of the ICS and its communication with the Board of Directors. The functional independence of the Internal Control Unit, given its position in the organisational chart and its relation with both Senior Management and the Audit Committee.
2. The internal control practices and methodology, in comparison with best practices.
3. On a sampling basis, the adequacy of the ICU's audit reports with respect to both the credit institution and its subsidiaries.
4. Monitoring of compliance to recommendations made by internal auditors, on the part of the organisational units examined.

## **G. Group**

The adequacy of the ICS of subsidiary undertakings included in the scope of the engagement ICS, in the same manner as that of the parent credit institution.

## **III. FINDINGS**

In addition to the opinion on the adequacy of the ICS, a detailed report of findings shall also be prepared.

The above opinion and report of findings shall be evaluated by the Audit Committee and such evaluation shall be construed by the Bank of Greece as an indicator as to whether the Audit Committee has fulfilled the requirements set in this Act.