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ECIIA publishes suite of best practice papers for European banks

Internal audit can provide the boards and senior managers of European banks with distinctive and strategic assurance over their operations, according to a suite of position papers published by ECIIA. The papers cover a range of topics including internal audit's role in good governance, audit planning, auditing a group of institutions, auditing outsourced operations, and follow-up monitoring on audit recommendations.

These five position papers are intended as best practice guides to internal auditors and their organisations in a range of areas. Taken together the recommendations in these documents should enhance the ability of internal auditors to give boards and senior managers independent and objective insights into the overall internal control systems and risk management at their institutions.

The papers have been produced by ECIIA's banking committee, which was set up in 2014 with Chief Audit Executives of European Central Bank Supervised Banks. The documents address issues that require clarification due to recent changes in the way financial institutions are regulated. They are offered as best practice to be adopted or adapted by banks depending on their size, culture and local requirements.

Because of its position as the third line of defence, internal audit is uniquely positioned to act as a trusted advisor to the board because of its clear understanding of the business' organisation, mission, vision, strategy and long-term goals, he adds.

The papers

Internal audit's role in good governance: Internal control is an important cornerstone for banks' long-term sound governance. It should be tailored to the business model, risks and organisational structure. As the third line of defence, reporting to CEOs and the board, internal audit gives an overall assurance on internal control effectiveness including an independent review of risk and control functions as well as insights on efficiency.

Audit planning approach: To manage risks effectively is an essential part of good corporate governance. An important role of each organisation is to identify all business risks and uncertainties which the organisation faces, quickly implementing risk mitigating measures and enhancing the system of internal controls. The Chief Audit Executive must establish a risk-based plan to determine the priorities of the internal audit activity, consistent with the organisation's goals – an approach that can be difficult to combine with traditional, cyclical

auditing methods. The paper outlines strategies to combine a traditional cyclical approach to internal auditing with a risk-based approach.

Internal audit within a group: the audit departments of banking groups need to deliver consistent and adequate levels of assurance across the group, while considering both group and subsidiary regulatory requirements, with the intention of fostering consolidated supervision across the group.

Internal audit oversight of external outsourcing: internal audit function has an important role to play in providing assurance over the effectiveness and security of key processes outsourced from banks to third parties. It is crucial that key stakeholders, including management, the board and the bank's supervisors can place reliance on the work of internal audit in respect of the risk management of third parties, while at the same time maintaining a reasonable expectation of the extent of the internal audit function's responsibilities in this area.

Follow up monitoring: an audit report generally includes the management action defined as a response to the recommendation, together with a due date and an action owner. Every internal audit function should have a process for monitoring follow-up on implementation of management actions. This can be an indicator for the internal audit function's effectiveness.

About ECIIA

The European Confederation of Institutes of Internal Auditing (ECIIA) is the professional representative body of 35 national institutes of internal audit in the wider geographic area of Europe and the Mediterranean basin. ECIIA represents approximately 45.000 internal auditors.

The Association has no profit-making purpose and has as its main objectives the promotion of internal audit and good governance at the European level. In this respect, the Association intends to be the consolidated voice for the profession of internal auditing in Europe and to promote the role of internal audit and good corporate governance by dealing with the European Union, its Parliament and Commission and any other European regulators and associations representing key stakeholders.

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