



What lessons Banking Internal Audit has learned from the crisis?

Presentation of the outstanding work performed by the Banking Advisory Group of the ECIIA





- **Introduction**
- **Current situation of Banking Internal Audit**
- **Lessons driven from the crisis**
- **Conclusion**



ECIIA Conference 2009



Introduction

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- **We enjoy to have the opportunity to present the work of the Banking Advisory Group (BAG) of ECIIA.**
- **The members of the BAG are :**
 - Valérie Aubert, KBL European Private Bankers SA, Luxembourg
 - Igljka Evtimova, Bulgarian National Bank, Bulgaria
 - Florence Fradin, BNP Paribas, France
 - Patrice Josnin, BNP Paribas, France (President of the BAG)
 - Piotr Kosmala, AIG Bank, Poland
 - Kim-Andrée Potvin, BNP Paribas, Luxembourg
 - Roberto Russo, Poste Italiane, Italy
 - Michael Schiwietz, Hypovereinsbank, Germany.





- **The BAG has issued in 2008 a document entitled “*Overview of Banking Internal Audit in Europe*”**
- **This document is a practical guidebook which aims at giving an overview of :**
 - European banking regulations and their impacts on the internal audit function.
 - the organisation and role of internal audit in the Europe banking sector, with a particular emphasis on the competencies and skills required for internal audit.





- **This paper highlights topics that are currently the focus of European and national attention, and that are still presently under active discussions in various national and European committees and commissions, such as :**
 - cooperation between national supervisors (seen by some as the first step towards European banking supervision),
 - corporate Governance,
 - the role of the Audit Committee and,
 - the positioning of Internal Audit within the Organisation.



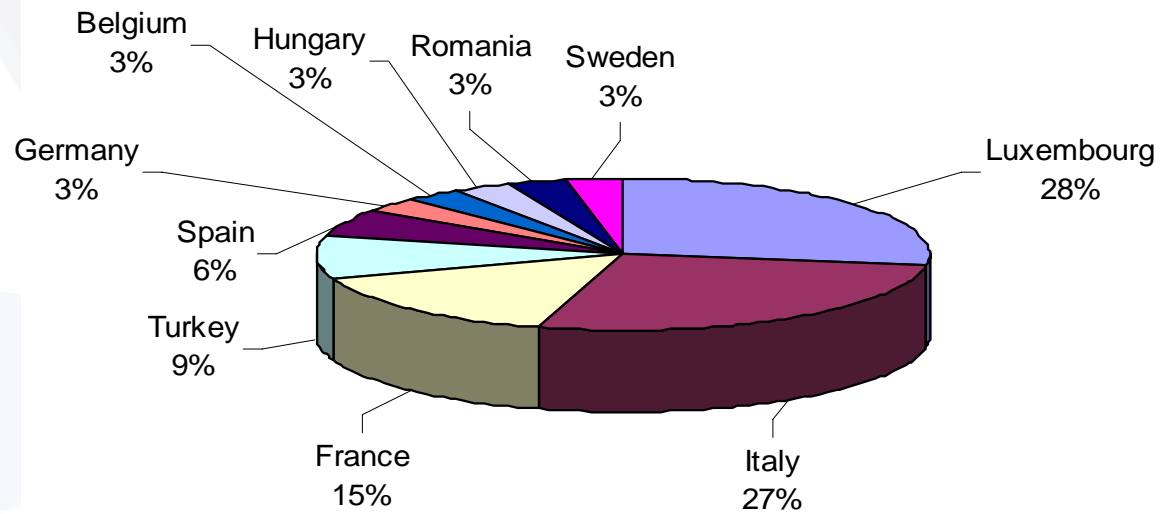


- **The works that are presented today will be part of a second booklet of the ECIIA BAG which will elaborate around the effectiveness of the Internal Audit Function and around the leverages on which Internal Audit could have played to prevent the crisis.**
- **It is based on a questionnaire sent to representatives of banking internal audit in 10 European countries.**





- **The breakdown of the responses by countries is the following :**





Current situation of Internal Audit

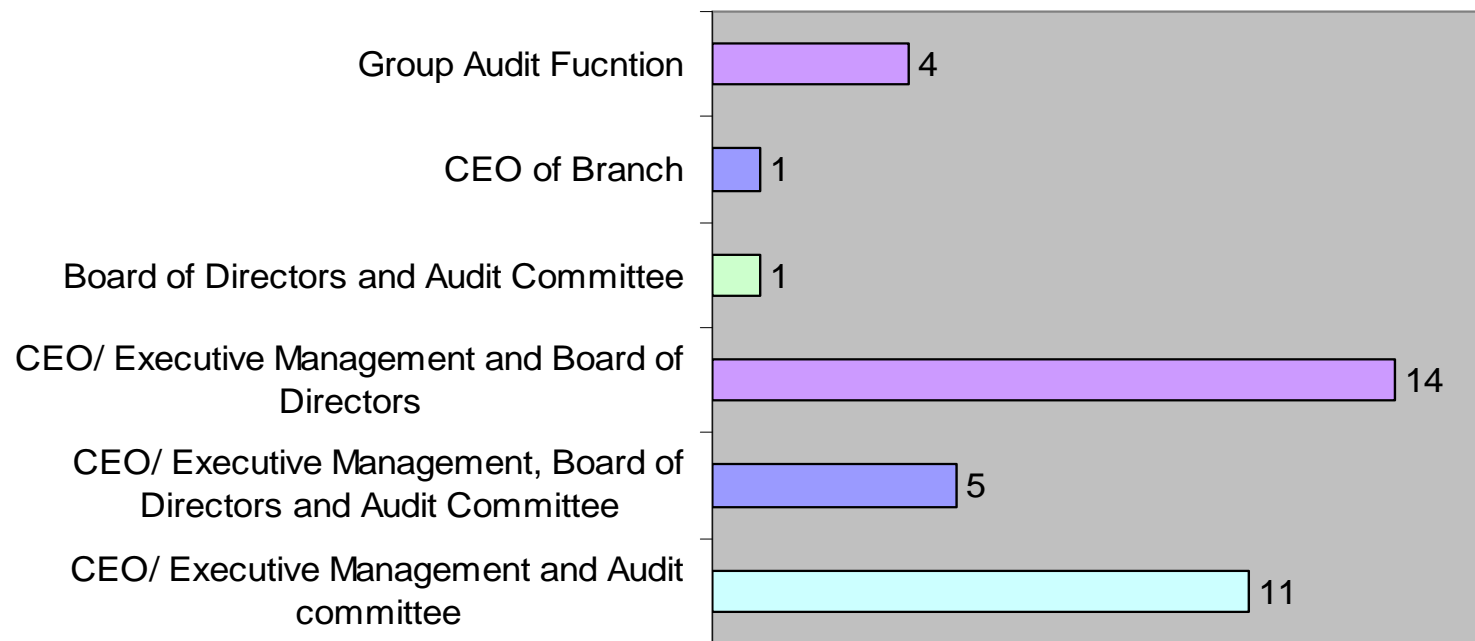
- **Internal Audit and Corporate Governance**
 - **Independence of Internal Audit**
 - **Risk Assessment and audit plan**
 - **Skills of the auditors**
- **Coordination with other control functions**





Internal Audit and Corporate Governance

- The reporting line of Internal Audit is mainly to the CEO / Executive Management and to the Board of Directors or the Audit Committee :





Corporate Governance

- The information reported to Governance Bodies are as follows :
 - Audit plan and report on audit activities,
 - Conclusions and recommendations of audit assignments with highlight of the risks run by the organization,
 - Open audit issues.
- Even if reporting to the governance body is considered as satisfactory in most of the cases (76%), some countries have pointed out some room for improvement :
 - Insufficient involvement from some Heads of Audit Committees who never directly contacts the CAE apart from the Audit Committee meetings,
 - Some Senior managements do not support audit and corrective actions are not implemented.





Corporate Governance

- There is still no audit committee for 45% of the respondents :
- However, the BAG consider that whatever the size of the institution, an Audit Committee should be compulsory. Its existence reinforces the independence of the internal audit department





Independence of Internal Audit

- 97% of the respondents consider that they are sufficiently independent. The others consider notably that their independence is limited to the fact that :
 - They are paid and promoted by the Senior management,
 - They report to a function with operational activities.





Independence of Internal Audit

- However, in the other hand, 11% of the respondents have not access to all the universe of the organization. Restricted areas being governance and Human resources (HR) and especially remuneration.

As a consequence, we can conclude that if the respondents feels that they are independent, it is not always the case.

- Moreover, 36% of the respondents consider that they have already faced situation of conflict of interests. These situations, when existing, concern the remunerations and the decisions taken by Governance Bodies.





Risk assessment and Audit plan

- 42% of the respondents include a **risk based approach** in their methodology to build the Audit Universe. In 55% of the cases, they even combine it with a control approach.
- The BAG highly considers that a combined approach should be enhanced in order to prevent any gap in the Audit interventions.





Skills of the auditors

- 79% of the respondents consider that they have sufficient skills. However, there are some specific domains where lack of skills like tax, Financial Engineering and capital market, can be noticed.





Coordination with other entities:

- 85% of Internal audit department perform the ultimate assessment of the internal control system (including the assessment of the Internal control functions as risk management)
- But in a majority of entities (76%), Audit never coordinates the internal control functions.
- **The BAG considers that a coordination of internal control actors must exist (including internal audit department). This coordination must be performed at the top level of the organization.**





Lessons driven from the crisis





Lessons driven from the crisis

- 57% of the participants evaluate the losses due to the crisis to more than 20% which means that there was a material impact in the majority of the cases.
- As we saw in the previous part, when asking if the Corporate Governance and the organization of Audit was functioning, globally, the respondents answered yes. However, we have highlighted some contradictions.





Lessons driven from the crisis

- Indeed, according to Internal audit departments, the impact of the crisis could have been reduced if:
 - Corporate bodies have taken more into account the findings and recommendations of Internal Audit function (45%),
 - The Internal Audit function would have received right and proper information (participation in Executive committee, Board of directors, Audit Committee meetings) (42%),
 - Internal audit would have better coordinated its work with the other control functions (39%),
 - Internal audit would have developed better relationships with heads of business lines (36%)





Lessons driven from the crisis

- The majority of respondents (64%) considered that they had provided enough transparency and assurance on the issues driving the crisis.
- Nevertheless, they consider that better risk management could have better prevented the risks (42%).
- They also think that the impact of the crisis could have been reduced if the internal audit function :
 - had performed different types of missions (33%)
 - should have been more involved in new products / business activities committees (33%).
 - Should have better understood business and their related risks (33%)





New perspectives for audit function

- To the question “what kind of improvement Internal Audit departments would make in order to be more effective? “, the respondents answered :
 - Strengthening of the internal audit function in term of quantity (more auditors) but also in terms of quality (Continuing training/ development of the auditors skills),
 - Developing relationships and cooperation with Governance Bodies (Boards and Audit committees),
 - Upgrading the risk assessment and adjust the audit plan in consequence.





Conclusion

