

**Comments from ECIIA on European Banking Authority
Consultation Paper EBA/CP/2015/17**

Draft Guidelines

on communication between competent authorities supervising credit institutions and statutory auditor(s) and audit firm(s) carrying out the statutory audits of credit institutions

The ECIIA (the European Confederation of Institutes of Internal Auditing) would like to thank you for offering the opportunity to comment on the

**Draft Guidelines on the
communication between competent authorities supervising credit institutions and statutory
auditor(s) and audit firm(s) carrying out the statutory audits of credit institutions (EBA/CP/2015/17)**

The European Confederation of Institutes of Internal Auditing (ECIIA) is a confederation of national associations of internal auditors speaking for the profession in the wider geographic area of Europe and the Mediterranean basin. It represents a membership base of over 40,000 internal audit professionals. The ECIIA is an associated organisation of the global Institute of Internal Auditors (The IIA), a professional body with more than 181,000 members in some 190 countries. Throughout the world, The IIA is recognised as the internal audit profession's leader in certification, education and research regarding internal auditing. The IIA also maintains the International Professional Practices Framework (IPPF) which includes the *International Standards for the Professional Practice of Internal Auditing*, the definition of internal auditing, the code of ethics, practice advisories and other guidance. (<http://www.theiia.org/guidance/standards-and-guidance/interactive-ippf/>.)

For the entirely understandable reasons outlined in the EBA's consultation document, the draft guidelines focus on the relationship between the supervisors and the statutory auditors of credit institutions. Nevertheless, the role of internal auditors in those institutions, as the providers of independent assurance, advice and insight to the Audit Committee and the board on risk and internal controls, is an important part of the overall picture; and for that reason, we would like to comment on some of the consultation questions. Our colleagues in the Chartered Institute of Internal Auditors for the UK and Ireland raised these points, in summary form, on our behalf at the public hearing held by the EBA on 5 January.

Our detailed comments are included in the appendix to this letter .

The ECIIA would like to thank you for the opportunity to participate in the policy debate on this critical issue.

We would be happy to discuss them with you in more depth at a meeting and stand ready to provide any more information that you might find helpful, and to participate in relevant future consultations.

Sincerely,

Thierry Thouvenot
Board member

Henrik Stein
President

Appendix 1 : Reactions on the questions raised

Point 2.4 Definitions

It is worth defining the terms of auditors .Auditors in the guideline refer exclusively to statutory auditors and audit firms carrying out the statutory audit of credit institutions.

Question 5 :

We recommend that the guidelines should make clear that any relevant information in relation to a credit institution that is shared between the statutory auditor and the competent authorities, or between different competent authorities, should also be shared with the audit committee of that institution. Paragraphs 30 and 32 offer some helpful examples of information that should be shared: however, we recommend adding something along the lines of ‘each party’s views and perspectives on relevant risks of the credit institution, in addition to the previously mentioned corporate governance and internal controls’.

Question 7 :

We think that it is important to differentiate between internal auditors, as the independent ‘3rd line of defence’ in the credit institution, and other ‘experts on relevant key control functions’ which constitute the ‘2nd line of defence’ in the organisation, reporting to the management team; and to provide that **both** should be invited to participate in trilateral meetings. So in paragraph 40 we suggest adding, after ‘members of the audit committee’ the words ‘members of the internal audit function’.

Question 8 :

In relation to paragraphs 44-47, we think that the planning of the range of audit and supervisory activity in a credit institution, as well as the confidence the competent authority can derive from the activities of internal audit within an institution, will be improved if internal auditors are included in the communication process. So we suggest a new sentence between paragraphs 46 and 47 along the following lines: ‘Communication between competent authorities and statutory auditors, as deemed prudent at any phase of the supervisory or audit processes, may be enhanced by the inclusion of the internal auditors of the credit institution’

Question 9 :

We recommend that the Institute of Internal Auditors should be invited to the collective meetings to hear the outcome of the discussions with the statutory auditors, in order to ensure the most effective and efficient control of the operations of the credit institutions. This could be foreseen by inserting in paragraph 52 after ‘associations representing the banking industry’ the words ‘or the internal audit profession’.

Annex I :

We recommend that the competent authorities and the statutory auditors should also share information about the quality of the internal audit function within the credit institution, and in particular whether it complies with the internationally recognised standards. So we suggest the inclusion of a new item between items d and e of the section on corporate governance and internal controls, along the following lines: 'The assesment of the capability, competence and quality of the credit institution's internal audit function, including whether the function is operating to internationally recognised standards, such as the International Professional Practices Framework'