



POSITION PAPER

INTERNAL AUDIT WITHIN A GROUP

ENHANCING GOVERNANCE THROUGH
INTERNAL AUDIT

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. The mission of ECIIA is to be the consolidated voice for the profession of internal auditing in Europe by dealing with the European Union, its Parliament and Commission and any other appropriate institutions of influence.

The primary objective is to further the development of corporate governance and internal audit through knowledge sharing, key relationships and regulatory environment oversight.

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ECIIA Head Office:

c/o IIA Belgium
Koningsstraat 109-111
Bus 5, BE-1000
Brussels, Belgium

Phone: +32 2 217 33 20
Fax: +32 2 217 33 20
TR: 849170014736-52

www.eciia.eu

INTRODUCTION

ECIIA set up a Banking Committee in 2015 with Chief Audit Executives of European Central Bank Supervised Banks¹. See the European Central Bank website for a [full list of supervised entities](#).

The mission of the ECIIA Banking Committee is:

“To be the consolidated voice for the profession of internal auditing in the Banking Sector in Europe by dealing with the European Regulators and any other appropriate institutions of influence and to represent and develop the Internal Audit profession and good Corporate Governance in the Banking Sector in Europe”

The paper describes best practice from the practitioners, but it is important to note that, depending on the culture, size, business and local requirements, other options are possible.

Thesis

The objective of this position paper is to provide guidance to the audit departments of banking groups to assist in delivering 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.

The primary principle outlined within this paper is that the group internal audit function is accountable for overseeing audit activity throughout the group. This view is aligned to that expressed in the Basel Committee’s guidance on internal audit (BCBS 223).

The recommended best practices outlined below should only be applied where there is no conflict with local regulation and/or applicable company law.

¹ Chief Audit Executives from DZ Bank AG, Crédit Agricole SA, ABN AMRO, Grupo Santander, UniCredit S.p.A., KBL European Private Bankers, Nordea, National Bank of Greece.

FUNDAMENTALS

1 Audit Committee governance

Basel Committee guidance on internal audit provides some recommendations on the scope and coverage of internal audit across banking groups. The group Audit Committee must ensure that the bank's audit plan provides sufficient coverage of both the key risks to which the group is exposed as well as fulfilling any local regulatory requirements within the subsidiaries and branches. Together with the boards of subsidiaries, it should ensure that, if required, a local internal audit function is established within the subsidiary. Where no local internal audit is in place, the group Audit Committee² and local board should ensure that proper outsourcing arrangements are in place.

NB: it is expected that ECB pan-European supervision would ease regulatory approval process for intra group audit outsourcing within ECB regulated countries.

2 Internal audit policies group wide

The charter and policies (*planning, recommendation follow-up, review methodology, etc.*) of the group internal audit function, as approved by the group Audit Committee (*and/or other relevant group approval body*), are also expected to be endorsed by Audit Committees of subsidiaries (*or other relevant local bodies*). Should any deviations from the group standards be required (*i.e. due to local regulatory requirements*), these should be submitted to the group Audit Committee and/or group Chief Audit Executive for consideration.

Each subsidiary would usually have a separate audit plan created in line with group audit methodologies. The audits within this plan should be an integral part of the group audit plan falling within the remit of the group Audit Committee. The local board has no authority to change an audit requested by the group internal audit impacting the subsidiary audit plan, without the prior approval of the group Audit Committee.

3 Local internal audit reporting lines

The Basel Committee guidance on internal audit recommends a dual reporting line for the head of the local internal audit to both the local board and to the group Chief Audit Executive in order to ensure an appropriate balance between group accountabilities (*including the roll-out of the group-wide internal audit charter and internal audit policies*) and local accountabilities towards the local board and local regulator.

It is also deemed relevant to ensure that the group internal audit recommends to the local board decisions relating to hiring, firing, transfer, evaluation (*including objective setting*) and compensation of the head of the local internal audit. It is recommended that the head of the local internal audit's annual performance assessment and compensation procedure be steered by the group internal audit.

4 Group internal audit steering duties

The group internal audit has to set up ongoing monitoring and periodic quality assurance review, complying at least with IIA Standards, to ensure internal audit policies are properly rolled out group wide. Any significant issues should be escalated to the local board/group Audit Committee for decision-making purposes.

Should any difficulty arise from the implementation of the above guidance, they should be addressed within the framework of the corporate governance arrangements governing the financial institution.

² Reference to the Audit Committee in the document applies for any sub committee of the board dealing with audit and internal control matters.

OUR MISSION

To be the consolidated voice for the profession of internal auditing in Europe by dealing with the European Union, its Parliament and Commission and any other appropriate institution of influence and to present and develop the internal audit profession and good corporate governance in Europe.

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