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Skills & Rotation

ECIA Banking Committee



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Introduction

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Thesis

Thesis

The objective of this position paper is to provide a guidance to the Internal Audit departments of financial institutions to address the key aspects concerning:

- skills inventory, assessment, development - to acquire and maintain technical skills on traditional and new professional practices (cyber risks, data analytics, etc.);
- staff rotation - within Internal Audit, within control functions of the financial institution and across other areas of the financial institution, among business and control functions and turnover of key resources as an enabler of skills, independence and objectivity;
- talent management - to develop auditors and/or talents from other areas of the bank people leveraging on managerial feedback and investments in dedicated training activities and professional experiences.

Staffing related aspects are key elements to determine the success of an Internal Audit Function (IAF). Some of these aspects must be assessed and managed at an individual level, and others at a more global higher level (team, function or organization). Furthermore integrating the Internal Audit Function in the talent development of

the financial institution underlines audit's importance and contributes to the standing of the Internal Audit Function ■

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Introduction

1.2

Background

Background

Ensuring and supporting the competence of the internal audit staff is so important that it is one of four Principles of The IIA Global's Code of Ethics (Core principles).

According to the Code of Ethics, “internal auditors apply the knowledge, skills, and expertise needed in the performance of internal audit services”.

This means that internal auditors “shall engage only in those services for which they have the necessary knowledge, skills, and experience; shall perform Internal Audit Services in accordance with the Standards; and shall continually improve their proficiency and the effectiveness and quality of their services.”

Furthermore, the fast and vast changes in today's business environment — and its risks — contribute to an increased need for competent internal audit staff. The banking industry as a whole will be significantly disrupted; hence the tools and skill sets to provide such services will be different too¹.

Considering how important this topic is, several international regulations for the practice of Internal Audit take this

into account. In this regard, it is worth highlighting the International Standards for the Professional Practice of Internal Auditing² which refer to competencies and adequate resources. These principles have been explained in the following regulations: Standards 1200 onwards regarding Proficiency (1210), Due Professional Care (1220), Continuing Professional Development (1230), Quality Assurance and Improvements Program (1300) and, finally regulations 2030 on general Resource Management and 2230 on Engagement Resource Allocation ■

¹ ECIIA position paper — The future of Internal Audit in Banking: new skills requirements are amongst others: data analytics, innovative methodologies, technology, models...

² IIA Global: IPPFs

02

Fundamentals

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- Skills Inventory
- Skills Assessment
- Skills Development
- Staff Rotation
- Talent Mangement

Skills inventory

From the global point of view of the Internal Audit function, regarding personnel, the key aspect is IA's capacity to satisfactorily add value to the organisation and, to realize that, fulfil the Audit plan. In this regard it is necessary to have the following:

- An adequate number of resources.
- Sufficient resource quality.

The internal audit teams are expected to possess a number of core competencies to properly perform a broad spectrum of internal audit work, using knowledge and a set of defined skills and behaviours linked to:

- traditional banking risks (credit, financial, operational, etc.)
- business acumen (understanding of how the business model operates)
- the evolution of risks and professional practices (data analytics, cyber risks, reputational risks, cultural risks etc.)
- influencing skills, critical thinking, creativity, adaptability and communication skills that allow auditors to better recognise organisational risks and the potential impact of those risks.

The skills inventory definition should

adopt a forward-looking approach to identify the skills and competencies needed in a short and medium term period. This approach will allow internal audit functions to address timely, effectively and within any budget constraints, the future needs.

A periodic review of the skills inventory should be performed, which takes into consideration the strategic audit plan, and emerging risks (coming from company internal changes in coherence with the strategic plan, macroeconomic scenarios, development of markets practices, regulatory changes), as well as sector and geographical risks from documents such as European Institutes' annual Risk in Focus.

Skills assessment

The Standard 2030 Resource Management addresses the skills adequacy considerations included in in the International Standards for the Professional Practice of Internal Auditing¹.

A disconnect between the skills and competencies that internal auditors have and those they should have can

¹ Regulation 2030 — Resource Management as well as the section "Quality Assurance" and "Proficiency and Due Professional Care"

source in an operational strategic risk for the Internal Audit function.

Skills adequacy is and should be analysed by IA Management on an annual basis. However, a formal and more detailed analysis of the need for resources and competencies during the yearly planning phase should be considered as best practice, along with a re-evaluation of the internal audit strategic plan.

This “skill assessment analysis” is a very valuable tool in order to perform the assessment set out in the Regulations, Standards. The skill assessment analysis carries out a study of the function as a whole including the analysis of Internal Audit processes that can be impacted by changes in the financial institution business model and strategy (e.g. digitalization, machine learning, use of artificial intelligence) and a multi-annual strategic audit plan. Assessing general impacts of emerging risks and new trends on the Internal Audit function is important at this stage, in addition it is also relevant to undertake the assessment at an individual level. This assessment should not only be focused on the need for resources from a quantitative perspective, but also qualitative.

Within the qualitative factors, the focus should not only be upon the levels of experience that enable the structuring

of balanced and efficient teams, but also on specific topics. Useful tools to identify and assess knowledge gaps vary according to the audited elements, the audit plan, the level and treatment of risk at each organisation, applicable internal policies, and external regulation as well as supervisors’ expectations, management feedback surveys and internal or external quality assurance findings among others. An example of these assessable topics for a European financial institution may be capital specialisation, liquidity, credit risk, anti-money laundering, etc. Also, there are cross-disciplinary topics with a large impact on the industry such as cyber-security, or model risk.

CAEs should assess the internal audit activity by asking probing and specific questions about the department’s team maturity and structure, to determine if there are areas in which there are competency gaps.

In general terms employee skills and competencies can be assessed with different methods even though the most widely used tool is self-assessment:

- **test** — traditional and efficient way to assess technical and theoretical knowledge but not always representative of real-life condition;
- **self-assessment** — useful tool when

combined with other more objective tools to avoid evaluations that are either too optimistic or too pessimistic;

- **feedback from colleagues** — can be a really representative and useful tool;
- **managerial evaluation** — traditional and effective way to assess competencies that entail some difficulties in assessing competencies not used in the day by day activities;
- **business game** — new way of assessing competencies, but it has to be executed by professionals and it is difficult to apply to large populations;
- **stakeholders feedbacks** — traditional and useful tool to perceive also stakeholders’ needs to be combined with some other methods.

All those methods can contribute to the skill assessment and should be combined to achieve the most valuable results based on competencies and target population.

Once the skill assessment analysis has been completed, a gap remediation plan must be established where material gaps exist. The applicable measures will be of a diverse nature. Recruitment of specialized staff with a formalised selection criterion (both from other areas within the entity and from other entities), training plans, co-sourcing,

rotation, etc. This analysis and its associated plan should be presented at the Audit Committee for information purposes and for its ratification, as it is tied to IA’s general budget.

Staff development

Standard 1200 addresses the need to act with proficiency and due professional care, and to have auditors with the necessary abilities, moreover, internal auditors must enhance their knowledge, skills, and other competencies through continuing professional education development².

There are specific auditors performing their audit engagements. This is why training is a key aspect to ensure that the different members of the team can perform their role.

A systematic training plan, structured by position, profile and specialty is a need for IA.

Training plan paths can be designed using different sources including as an example: internal and external courses, classroom lessons, video lessons, e-learnings, training on the job, exchange programs within national or international networks, mentoring, certi-

² Standard 1230 — Continuing Professional Development

fications,...

Many professional certifications require at least 40 hours of training .

Standard 1210 encourages professionals to demonstrate their proficiency by taking appropriate certifications (such as CIA) and other appropriate professional qualifications (such as CFSA). It is a good practice to promote these certifications, both related to Internal Audit and other topics, and that an appropriate percentage of the team holds one.

Finally, it is worth highlighting that, apart from the formal programmes established by IA function, the Code of Ethics includes a principle of professionalism and competency that considers that auditors should show willingness to enhance their knowledge and capabilities and make the best use of available training opportunities.

Staff rotation

Rotation can be performed within the Internal Audit function, within control functions and across other areas of the financial institution.

From the global IA function's perspective, staff rotation has to be considered as an enabler of two main objectives:

1. Job rotation is a key element for acquiring new competencies and/or reinforcing the existing ones.

2. Job rotation is also a tool to enhance independence and objectivity

Staff rotation should be carried out in a way that preserves knowledge and the ability of the Internal Audit function to deliver its mission.

Staff rotation on the other hand should include appropriate measures such as a "cooling-off" period of 12 months to avoid conflict of interests.

Two approaches can be used for the staff rotation and they can be differentiated by role/responsibility:

- define a maximum range period to maintain the same role/responsibility;
- define a periodic evaluation process to identify possible conflicts while the same role/responsibility is not performed too long.

The rotation of the Head of the Internal Audit function is under board discretion as part of board role in defining the entity corporate governance³.

³ Chartered Institute of Internal Auditors — Financial Services Code-2017: "the audit committee should consider the independence and objectivity of the HIA after a period of 7 years so as to satisfy themselves that neither independence nor objectivity has been compromised"

Different strategies in staff rotation could be defined and both may be used by Internal Audit functions, in coherence with the entity HR strategy:

a) encourage systematic recruitment of external talent, with business knowledge, limiting transfers from other functions within the entity. This approach generates IA functions with a distinct identity and a higher self-perception of independence. On the other hand, they may require a higher effort regarding training. When this structure works in a satisfactory manner, it generally causes IA to be considered as a valuable source for professionals and managers that can change to different functions and responsibilities within the entity. In this case it is important that these rotations are performed in an orderly manner that does not compromise the main responsibility of the IA function, which is to enhance and protect organizational value by providing risk-based and objective assurance, advice and insight.

b) desire a certain degree of rotation from other functions to IA, as it facilitates the acquisition of business knowledge, and enables the recruitment of specialized personnel. In this case special care should be taken to comply with the Code of Ethics, especially in regard to the points referring to objectiveness, avoidance of conflicts of interest (e.g. issue an opinion on

functions and controls that were their responsibility prior to joining IA), or any other factor that may affect good judgement.

In any way, a lack of rotation should be also managed. When auditors are performing the same engagement for more than 5 years, a change should be considered. The staff rotation must be in balance with their specialisation (e.g. cybersecurity, internal models of capital, etc.).

Talent management

Internal audit is a good source of talent for the financial institutions. They have a unique insight into governance, risk management and internal controls.

This section is just as applicable to IA as it is to other functions. However, in IA, there are two aspects that require special attention. Firstly, the definition of the roles and career plan must be coherent with IA's valuable work and supervisory structure. The development plan is an important element for talent retention, given that personal and professional growth, including the acquisition of knowledge and technical abilities is one of the main assets that the function can offer. On the other hand, talent management must include the possibility of professional develop-

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ment within other functions, but in this case, it is important that this process is structured and that the rotation rates (both desirable and undesirable) are at an appropriate level.

As a fundamental tool within director talent management process, it is important to have an orderly succession plan in place for “key positions” within the Internal Audit Function, with the objective of evaluating leadership needs and minimising the impact of possible outflows of key personnel.

Efforts to develop talent typically include professional development plans, managerial feedback, training, continuous education and mentoring ■

Conclusion

04

Conclusion

In a fast and vastly changing business environment, where new risks arise, it is more crucial than ever, for internal auditors to have the right knowledge to maximise their value and the way it is perceived.

In this context, a periodic review of the skills assessment must be performed to take remediation actions to fill the gaps.

New skills are required for internal auditors and there are different ways to acquire them: internal rotation within the control functions, transfer of people from the business or recruitment of external talents or outsourcing of specific needs.

In order to attract the right people, it is important to emphasize that the Internal Audit functions are a good path to develop technical and soft skills and for the development of talents within the financial institution ■

Reference Material

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- The IIA's Global Internal Audit Competency Framework
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About ECIIA

About ECIIA

The European Confederation of Institutes of Internal Auditing (ECIIA) is the voice of internal audit in Europe. Our role is to enhance corporate governance through the promotion of the professional practice of internal auditing. Our members comprise 34 national institutes of internal auditing from countries that fall within the wider European region, representing 48.000 members and around 16.000 active in the banking sector.

The ECIIA mission is to further the development of good Corporate Governance and Internal Audit at European level, through knowledge sharing, developing key relationships, and impacting the regulatory environment, by dealing with the European Union, its Parliament and any other European regulators and associations representing key stakeholders.

The Banking Committee

The Committee is made up of CAEs from the banking sector in Europe.

The Committee is responsible for ensuring the Internal Audit profession from the Banking sector in Europe is heard by the European Banking Regulator and Supervisor.

The Committee promotes the professionalism of the internal audit function in the European banking sector

through knowledge sharing between the member institutes and the practitioners. The Committee advise European Regulators and Supervisor by bringing view of the profession on relevant regulatory guidelines and papers.

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