



IIA Czech Republic: Banking Forum

Presentation and Exchange of views on major Internal Audit trends within the European Banking sector

Thierry Thouvenot

ECIIA President

November 28, 2019

Agenda



- **About ECIIA**
- The Banking Committee at a glance
- The challenges for the European Banking Sector
- The impact for the internal auditors
- Questions and answers

ECIIA mission

Exchange

Coaching

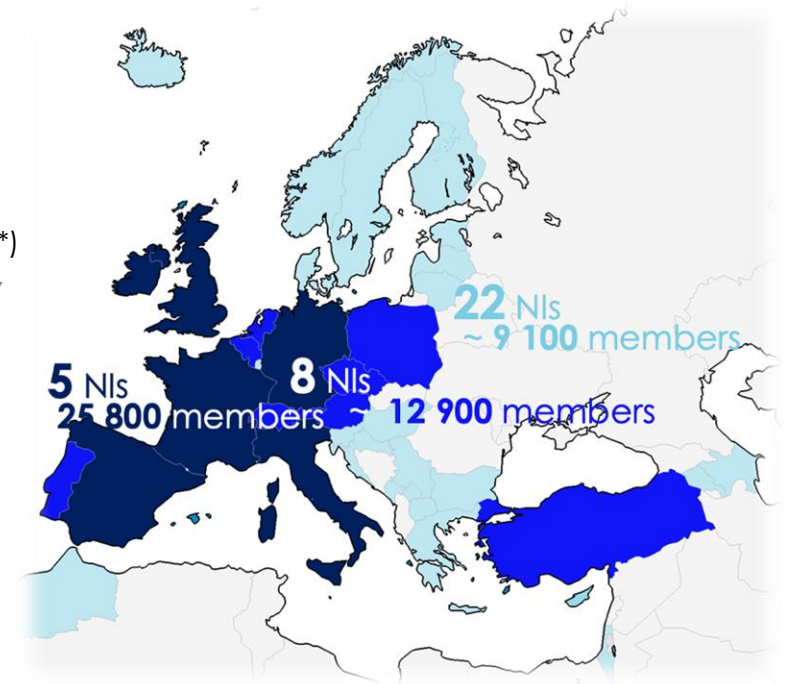
Lobbying

Collaboration

Operations

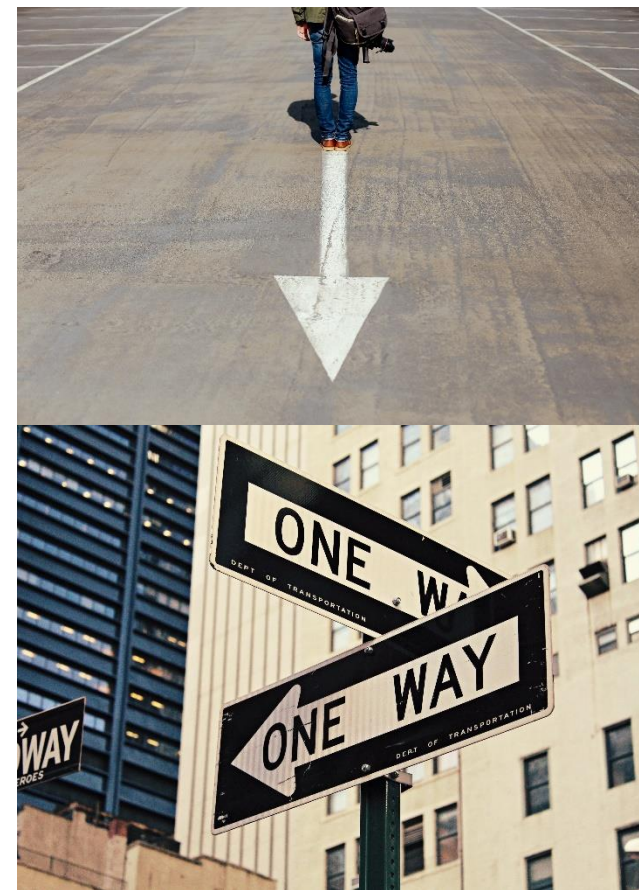
Furthering the development of good Corporate Governance and Internal Audit at the **European level**, through **knowledge sharing**, developing **key relationships**, and **impacting the regulatory** environment.

34 NIs
47 700 members(*)
(*) membership in July 2017

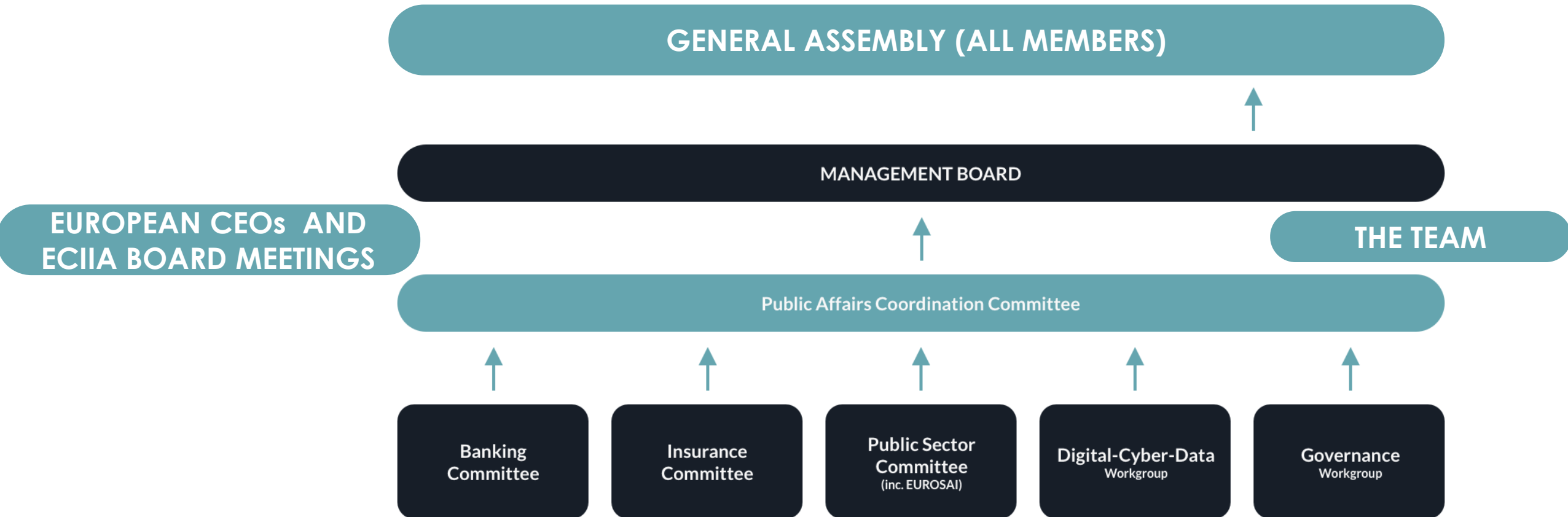


ECIIA current purpose

- Be the European voice of internal audit towards the European Regulators and Supervisors, as well as the European Associations
- Follow up the new European Regulations and define the impact for the internal audit profession
- Follow up the “trends” of the other lines of defense in their profession, including their European advocacy efforts
- Create a platform for the European leading CAEs to exchange on issues and best practices
- Facilitate research activities at European scale
-

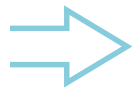


ECIIA organisation and governance



Advocacy & Public Affairs: coordination targets

Main European Bodies



influence



Objective:

Promote **good corporate governance** & **appropriate recognition of I.A** in European regulations and Corporate Governance codes

collaborate with



Objective:

Build relationships with key institutions interested in Corporate Governance at European level
Organize common events, make **common publications...**

ECIIA PACC: 2019 in a glance



Banking Committee



Public Sector Committee



4

Meetings



Public Affairs
Coordination Committee



Insurance Committee



ECIIA Annual Report



Risk in Focus publication



Agenda

- About ECIIA
- **The Banking Committee at a glance**
- The challenges for the European Banking Sector
- The impact for the internal auditors
- Questions and answers



The Banking Committee: objectives



ECIA Banking Committee: composition

Jamie Graham | Chair **Nordea**

Thierry Thouvenot | Vice Chair



Sernella de Candia  UniCredit Bank

Pascal Augé  SOCIETE GENERALE

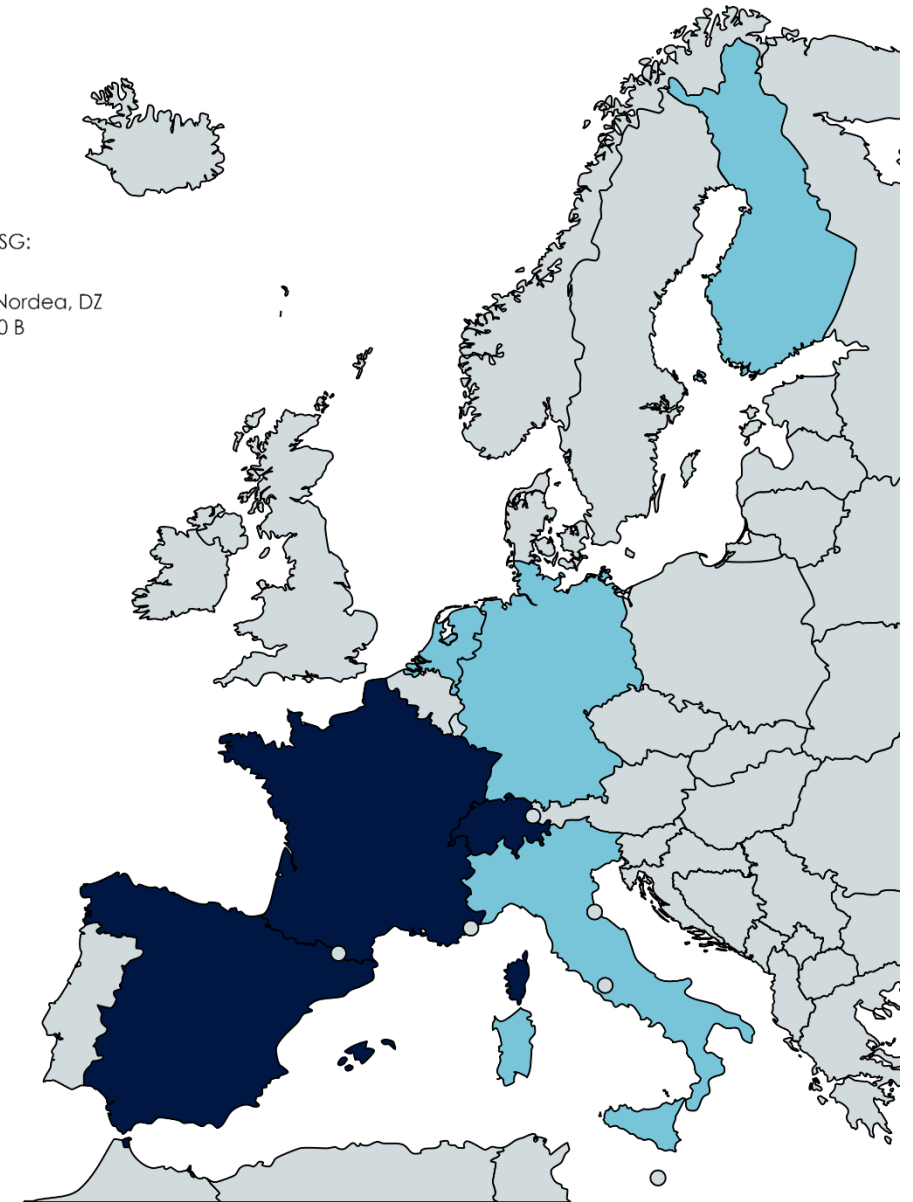
Ernesto Martinez Gomez  Santander

Alessio Miranda  ING

Andrea Bracht  COMMERZBANK

Rafael Lopez  CREDIT SUISSE

■ Santander and SG:
above 1000 B
■ ING, uniCredit, Nordea, DZ
Bank: above 500 B



ECIIA Banking Committee in a glance

It is the consolidated voice for the profession of internal auditing in the Banking sector in Europe
They develop the profession and good corporate governance by exchanging with peers.



Banking Committee

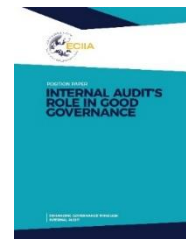
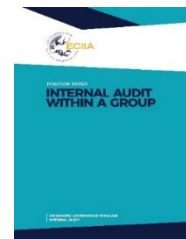
9
members



4
Meetings yearly



**Public Affairs
Coordination Committee**



Enhancing governance through internal audit

ECIIA Banking Committee: Position Papers



- 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 and the Regulator requirements – an approach that can be difficult to combine with traditional, cyclical auditing methods.

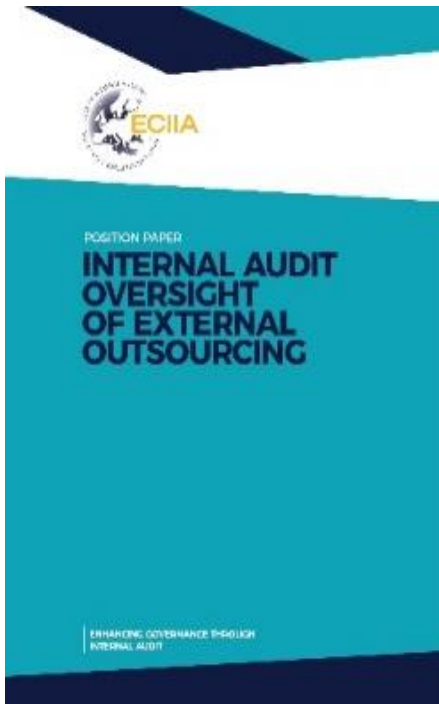
The paper **outlines strategies** to combine a **traditional cyclical approach** to internal auditing with a **risk-based approach**.

ECIA Banking Committee: Position Papers



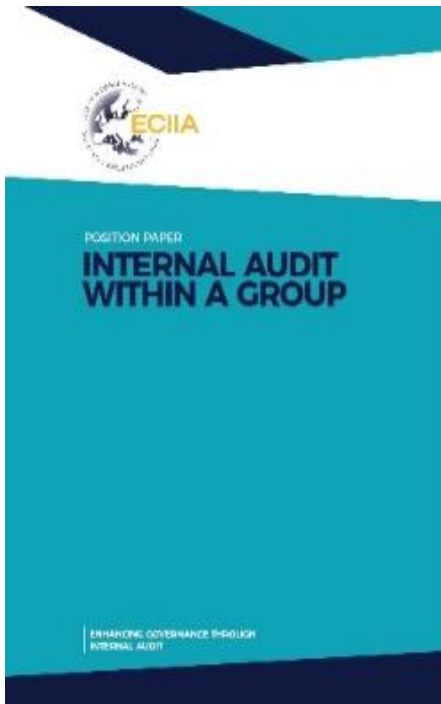
- An audit report generally includes the management action defined as a response to the recommendation, together with a due date and an action owner.
- Every internal audit function should have a process for monitoring follow-up on implementation of management actions. This can be an indicator for the internal audit function's effectiveness.
- It should include all recommendations (also from external audit, Regulator,...)

ECIIA Banking Committee: Position Papers



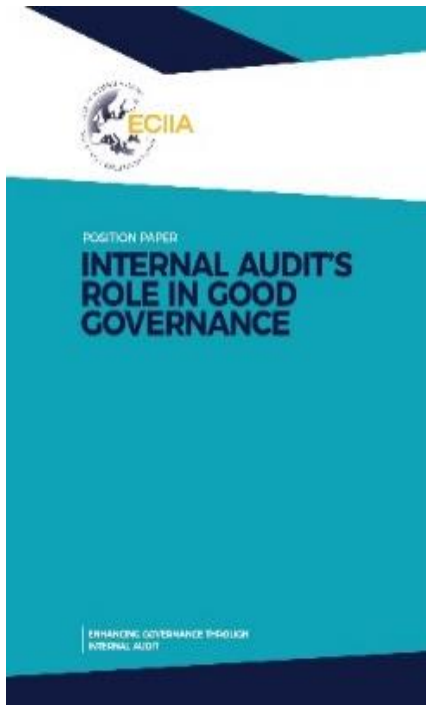
- Internal audit function has an important role to play in providing assurance over the effectiveness and security of key processes outsourced from banks to third parties.
- It is crucial that key stakeholders, including management, the board and the bank's supervisors can place reliance on the work 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.

ECIA Banking Committee: Position Papers



- 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.

ECIA Banking Committee: Position Papers



- 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.

Relations with EBA and ECB

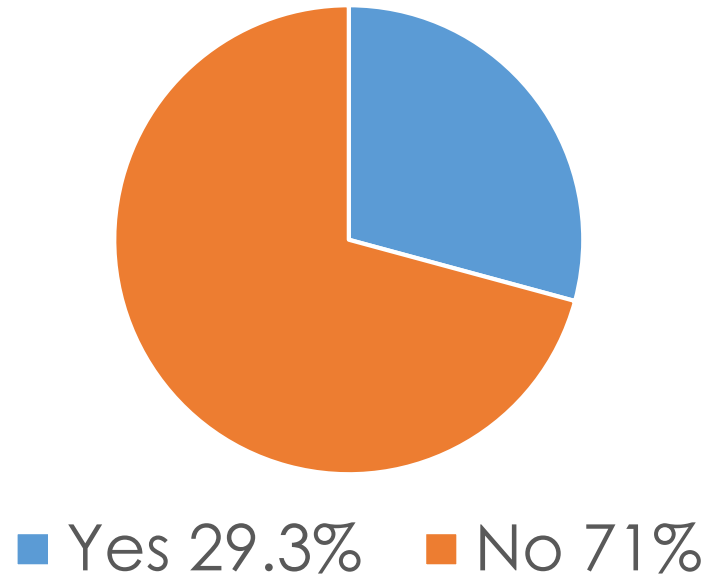
- Regular meetings with ECB and EBA



Forum Breakout session 1: Skills & rotation of the internal auditors

Do you have a «Guest Auditor» Programme for the colleagues from the Business joining for specific audits?

Average from each breakout session:



Breakout session 1:

Yes = 38%

No = 63%

Breakout session 2:

Yes = 25%

No = 75%

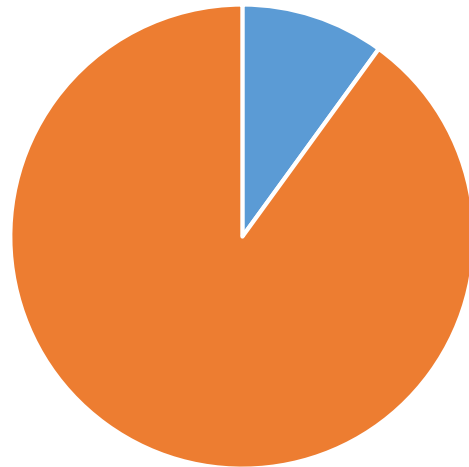
Breakout session 3:

Yes = 25%

No = 75%

Does your Bank have a mandatory rotations programme, requiring senior staff in the Business to rotate into control functions?

Average from each breakout session:



■ Yes 10.3% ■ No 89.6%

Breakout session 1:

Yes = 0%

No = 100%

Breakout session 2:

Yes = 15%

No = 85%

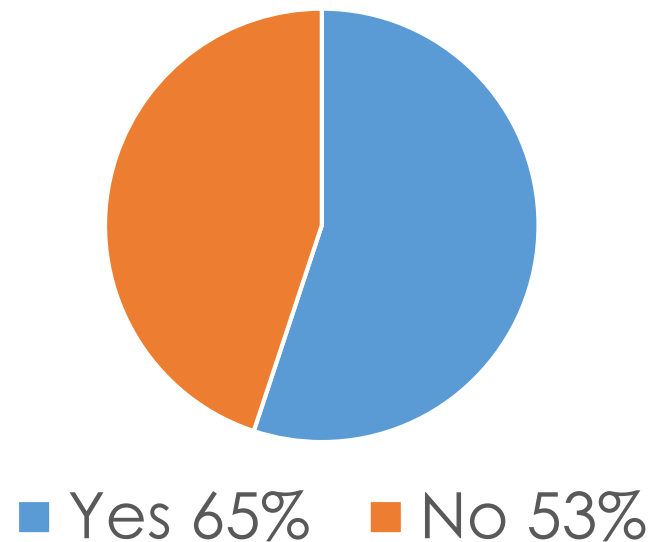
Breakout session 3:

Yes = 16%

No = 84%

Does the Audit Department have a Graduate intake? (Either as part of the Bank's graduate programme or separately)

Average from each breakout session:



Breakout session 1:

Yes = 29%

No = 71%

Breakout session 2:

Yes = 59%

No = 50%

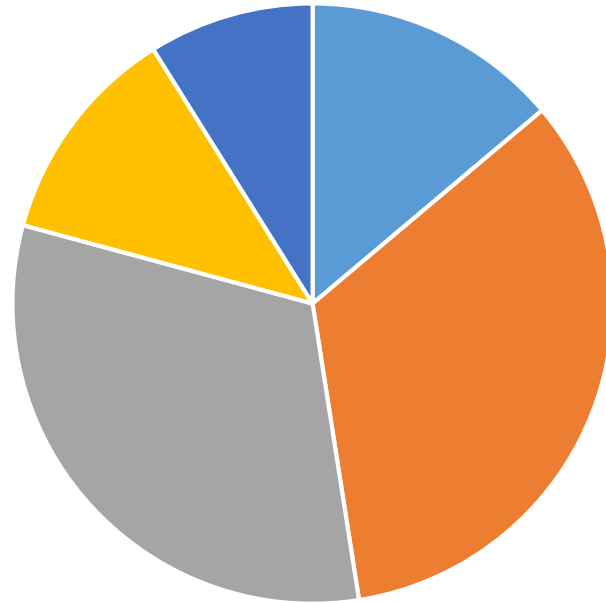
Breakout session 3:

Yes = 62%

No = 38%

What percentage of your staff come from a non-audit background?

Average from each breakout session:



■ <10% = 14% ■ 10-25% = 34% ■ 25-50% = 32%
■ 50-75% = 12% ■ >75% = 9%

Breakout session 1:

<10% = 19%

10-25% = 33%

25-50% = 29%

50-75% = 10%

>75% = 10%

Breakout session 2:

<10% = 8%

10-25% = 38%

25-50% = 31%

50-75% = 15%

>75% = 8%

Breakout session 3:

<10% = 15%

10-25% = 30%

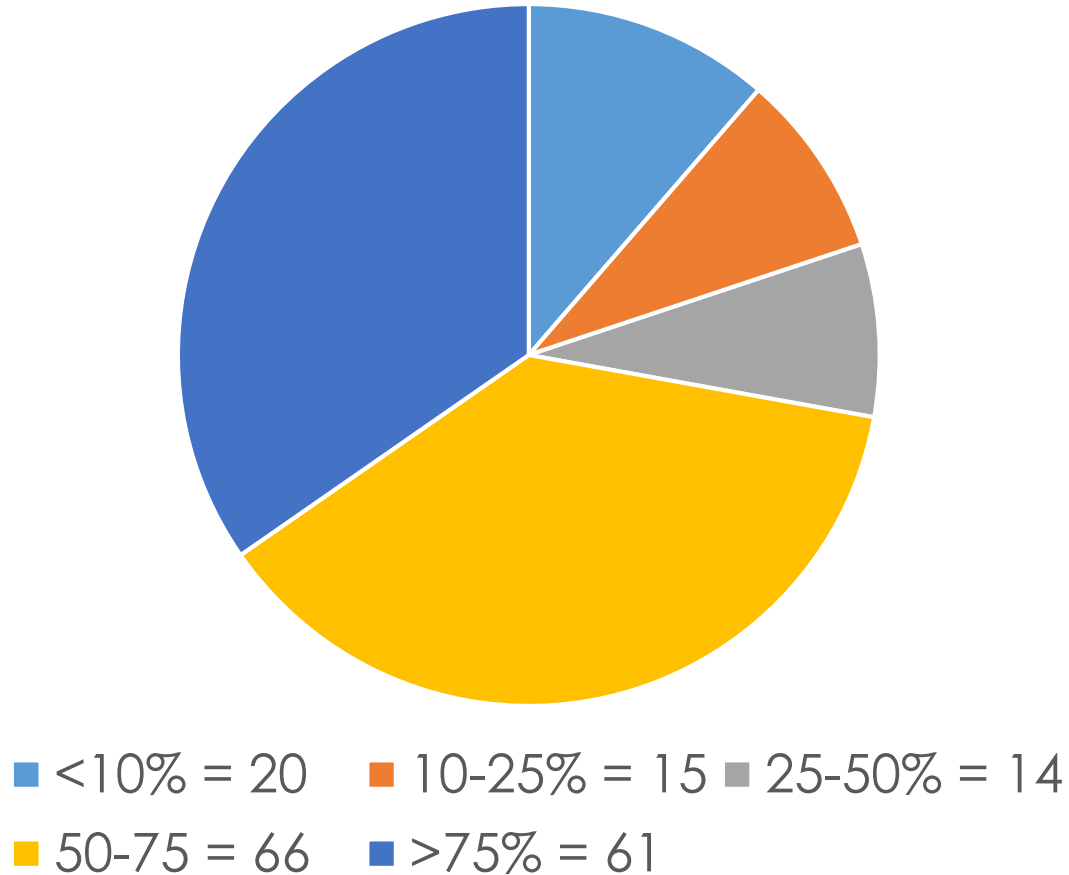
25-50% = 35%

50-75% = 10%

>75% = 10%

What percentage of leavers from your department move to other roles within the Bank?

Average from each breakout session:



Breakout session 1:

<10% = 29%

10-25% = 24%

25-50% = 10%

50-75% = 10%

>75% = 29%

Breakout session 2:

<10% = 21%

10-25% = 7%

25-50% = 7%

50-75% = 36%

>75% = 29%

Breakout session 3:

<10% = 10%

10-25% = 15%

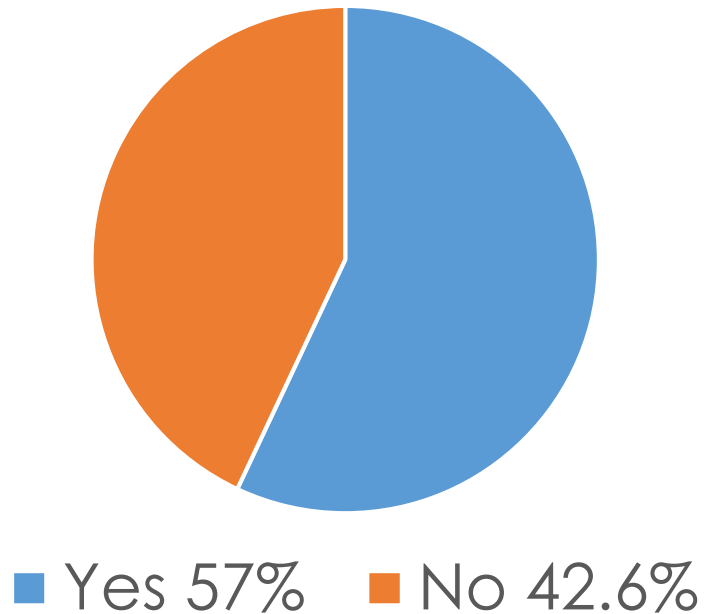
25-50% = 25%

50-75% = 20%

>75% = 30%

Do you have a documented skills gap analysis for your department?

Average from each breakout session:



Breakout session 1:

Yes = 62%

No = 38%

Breakout session 2:

Yes = 57%

No = 43%

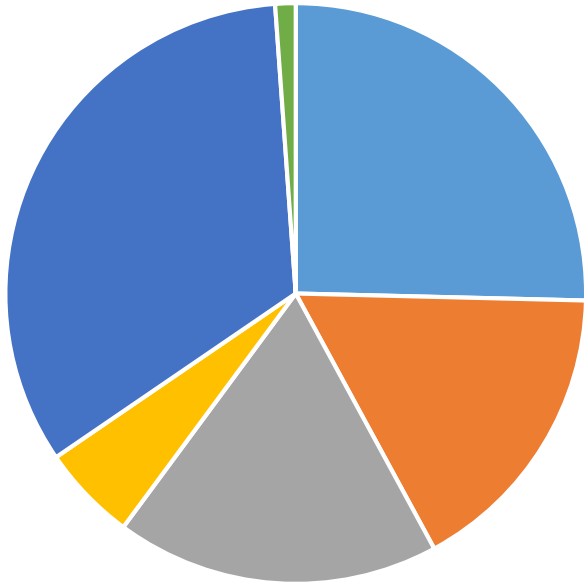
Breakout session 3:

Yes = 53%

No = 47%

Which skills are you most short of today?

Average from each breakout session:



- Data Analytics = 38%
- Cyber Security = 25.3%
- Quantitative Modelling = 27%
- Digital = 8.3%
- Business Acumen = 0%
- Other = 1.7%

Breakout session 1:

- Data Analytics = 38%
- Cyber Security = 14%
- Quantitative Modelling = 29%
- Digital = 14%
- Business Acumen = 0%
- Other = 5%

Breakout session 2:

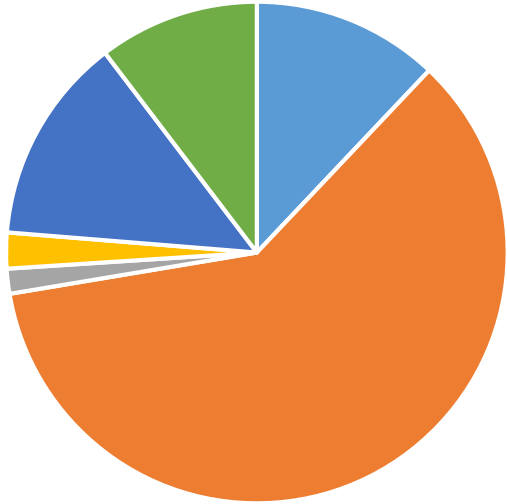
- Data Analytics = 29%
- Cyber Security = 36%
- Quantitative Modelling = 36%
- Digital = 0%
- Business Acumen = 0%
- Other = 0%

Breakout session 3:

- Data Analytics = 47%
- Cyber Security = 26%
- Quantitative Modelling = 16%
- Digital = 11%
- Business Acumen = 0%
- Other = 0%

Which of the following areas do you think it will be most important for IAFs to have sufficient skills to in the future?

Average from each breakout session:



- Robotic Process Automation = 12%
- Artificial Intelligence = 60%
- Blockchain = 1.6%
- Fintech Partnerships = 2.3%
- Open Banking 13.3%
- Other = 10.3%

Breakout session 1:

- Robotic Process Automation = 29%
- Artificial Intelligence = 28%
- Blockchain = 0%
- Fintech = 0%
- Open Banking = 14%
- Other = 19%

Breakout session 2:

- Robotic Process Automation = 7%
- Artificial Intelligence = 79%
- Blockchain = 0%
- Fintech = 7%
- Open Banking = 0%
- Other = 7%

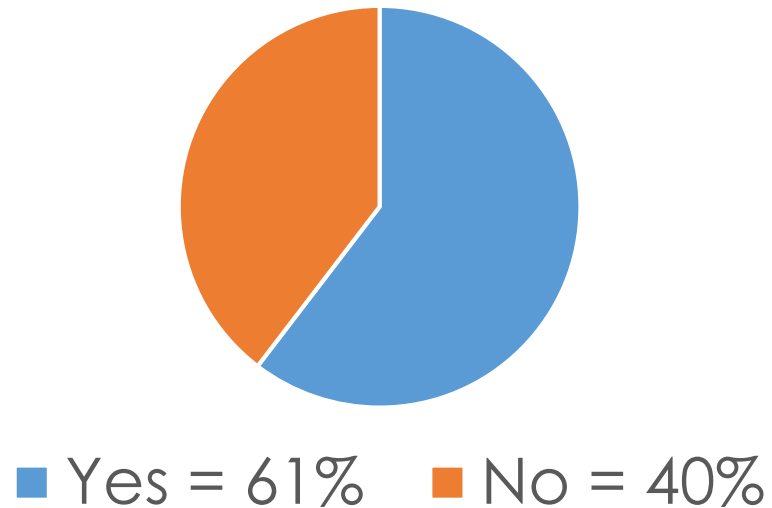
Breakout session 3:

- Robotic Process Automation = 0%
- Artificial Intelligence = 63%
- Blockchain = 5%
- Fintech = 0%
- Open Banking = 26%
- Other = 5%

Forum Breakout session 2: Audit Function effectiveness evaluation

Does your Audit Committee conduct a formal assessment of the IAF each year?

Average from each breakout session:



Breakout session 1:

Yes = 67%

No = 33%

Breakout session 2:

Yes = 47%

No = 53%

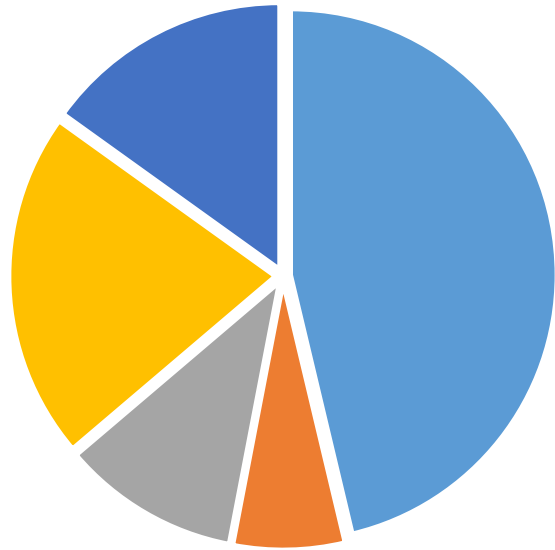
Breakout session 3:

Yes = 68%

No = 32%

If yes, is this based on (select the most relevant):

Average from each breakout session:



- IAF Self-assessment = 46%
- Feedback from the Business = 6.7%
- Evaluation by external audit = 10.7%
- Evaluation by a 3rd Party = 21%
- Other = 15%

Breakout session 1:

IAF Self-assessment = 50%

Feedback from the business = 14%

Evaluation by external audit = 7%

Evaluation by a 3rd party = 29%

Other = 0%

Breakout session 2:

IAF Self-assessment = 44%

Feedback from the business = 6%

Evaluation by external audit = 25%

Evaluation by a 3rd party = 25%

Other = 0%

Breakout session 3:

IAF Self-assessment = 45%

Feedback from the business = 0%

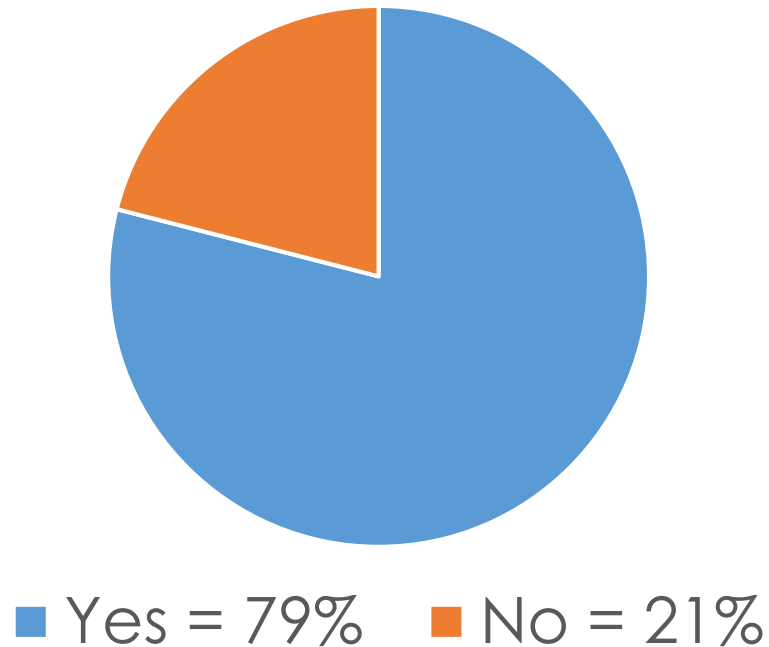
Evaluation by external audit = 0%

Evaluation by a 3rd party = 10%

Other = 45%

Does your AF have an agreed set of KPIs that are tracked by Management and the Audit Committee?

Average from each breakout session:



Breakout session 1:

Yes = 85%

No = 15%

Breakout session 2:

Yes = 74%

No = 26%

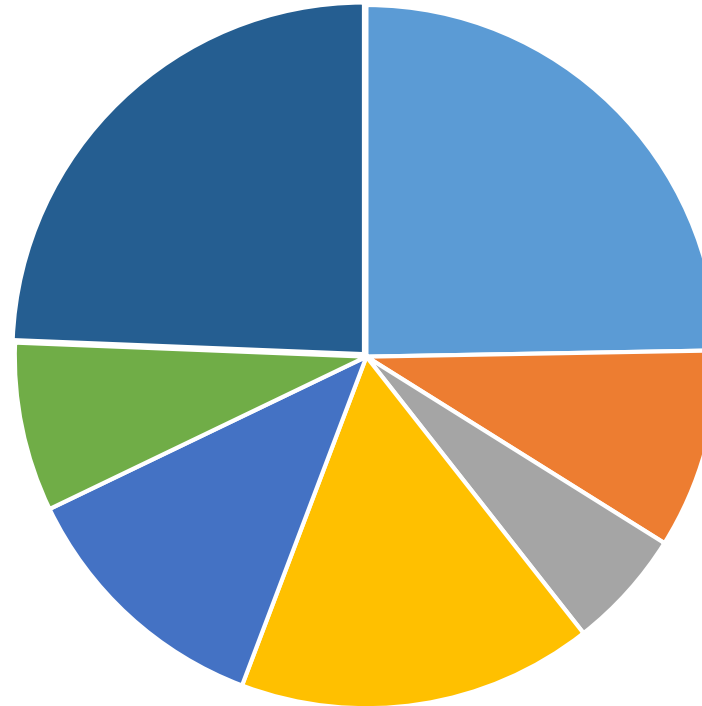
Breakout session 3:

Yes = 79%

No = 21%

What do you believe are the most important criteria in assessing the effectiveness of an IAF (please select 3 answers)?

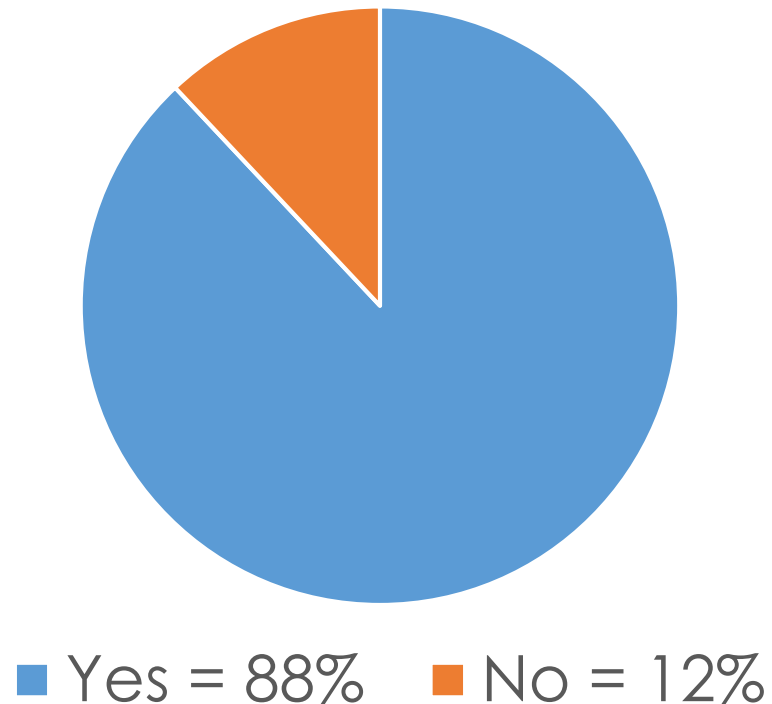
Average from each breakout session:



- Completing the Audit Plan – i.e. Audit Reports Issued (volume, quality and timeliness) = 70%
- Timely closure of open findings by Management = 26%
- Timely validation to confirm closure of findings by the IAF = 15.6%
- Impact of audit work on the agenda of the Board Audit and Board Risk Committee = 46.3%
- Quality of Board Reporting = 34.3%
- Results of Internal QA Functions Work = 22%
- Results of external reviews, on-site inspections or external quality reviews. = 69%

Do you receive regular feedback on the performance of your function?

Average from each breakout session:



Breakout session 1:

Yes = 100%

No = 0%

Breakout session 2:

Yes = 89%

No = 11%

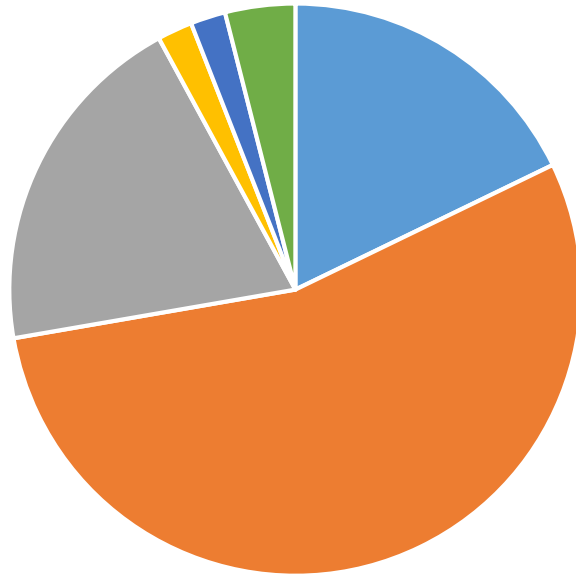
Breakout session 3:

Yes = 74%

No = 26%

If yes, please specify from whom?

Average from each breakout session:



- CEO = 18%
- Audit Committee = 55%
- Senior Management = 20%
- External audit = 2%
- Regulator = 2%
- Other = 4%

Breakout session 1:

CEO = 21%
Audit Committee = 64%
Senior Management = 14%
External Audit = 0%
Regulator = 0%
Other = 0%

Breakout session 2:

CEO = 22%
Audit Committee = 61%
Senior Management = 6%
External Audit = 0%
Regulator = 6%
Other = 6%

Breakout session 3:

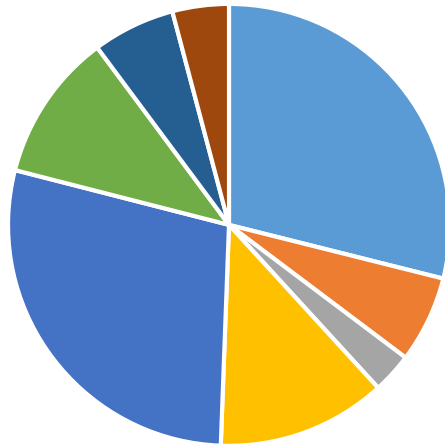
CEO = 11%
Audit Committee = 39%
Senior Management = 39%
External Audit = 6%
Regulator = 0%
Other = 6%

Forum Breakout session 3: General role of the internal audit function in the future

What are biggest risks to the future of established Banks?

Please select 3.

Average from each breakout session:



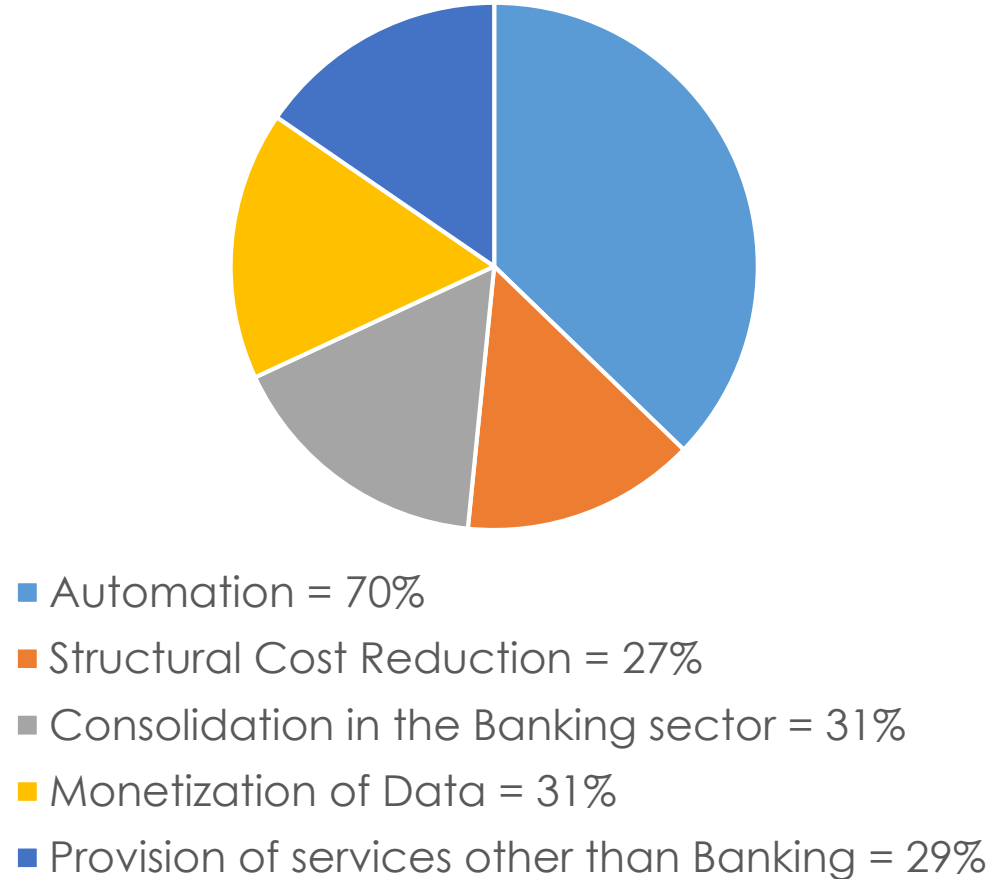
- Business Model Risk = 56%
- Sustainability = 12.3%
- Competition from Fintechs = 5.7%
- Competition from Big techs = 24%
- Cyber Security = 55%
- Poor Data Quality = 21%
- Conduct Risk = 11.7%
- Reputational Risk for established Banks = 8%

Poll Option:	Breakout Session 1:	Breakout Session 2:	Breakout Session 3:
Business Model Risk	42%	73%	54%
Sustainability	13%	9%	15%
Fintech Competition	8%	9%	0%
Big tech Competition	17%	9%	46%
Cyber Security	79%	41%	46%
Poor Data Quality	13%	27%	23%
Conduct Risk	13%	14%	8%
Reputational Risk for established banks	8%	9%	8%

What are the biggest opportunities for Banks in the future?

Please select 2.

Average from each breakout session:



Breakout session 1:

Automation = 75%

Structural Cost Reduction = 25%

Consolidation in the Banking Sector = 33%

Monetisation of data = 29%

Provision of other services other than banking = 25%

Breakout session 2:

Automation = 64%

Structural Cost Reduction = 27%

Consolidation in the Banking Sector = 32%

Monetisation of data = 27%

Provision of other services other than banking = 32%

Breakout session 3:

Automation = 71%

Structural Cost Reduction = 21%

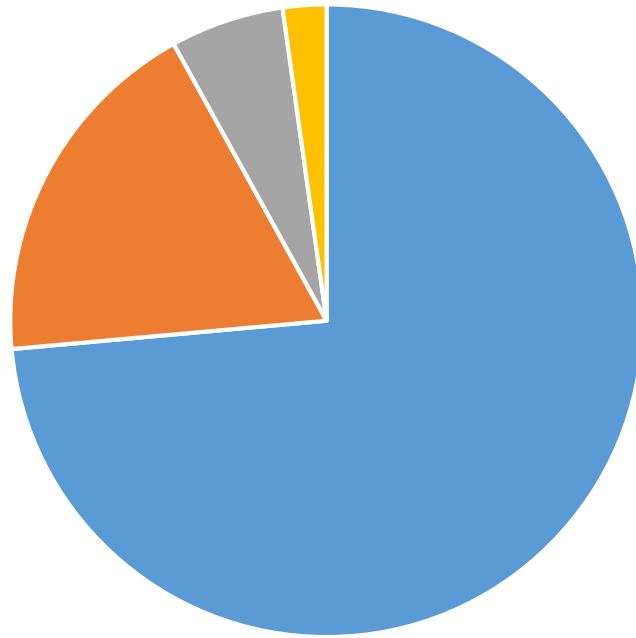
Consolidation in the Banking Sector = 29%

Monetisation of data = 36%

Provision of other services other than banking = 29%

Will the role of Internal Audit have changed in 10 years time?

Average from each breakout session:



■ Yes = 76% ■ Somewhat = 19%
■ Not much = 6% ■ No = 2.3%

Breakout session 1:

Yes = 82%
Somewhat = 18%
Not much = 0%
No = 0%

Breakout session 2:

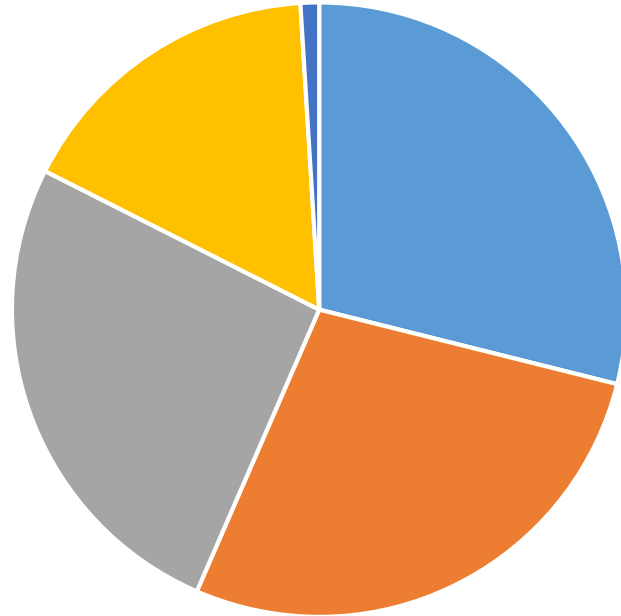
Yes = 74%
Somewhat = 17%
Not much = 19%
No = 0%

Breakout session 3:

Yes = 71%
Somewhat = 21%
Not much = 0%
No = 7%

In 10 years time, IA will spend most of their time doing: (choose up to 3)

Average from each breakout session:



- Continuous Monitoring of the Bank's data = 68%
- A mix of traditional audits and data analytics = 65%
- Oversight of the 2nd Line of Defence = 61%
- Predominately governance reviews 39%
- No significant change from today = 2.3%

Breakout session 1:

Continuous monitoring of bank's data = 68%
A mix of traditional audits and data analytics = 64%

Oversight of 2nd line of defence = 59%

Predominantly governance reviews = 32%

No significant change from today = 0%

Breakout session 2:

Continuous monitoring of bank's data = 64%
A mix of traditional audits and data analytics = 68%

Oversight of 2nd line of defence = 73%

Predominantly governance reviews = 41%

No significant change from today = 0%

Breakout session 3:

Continuous monitoring of bank's data = 71%
A mix of traditional audits and data analytics = 64%

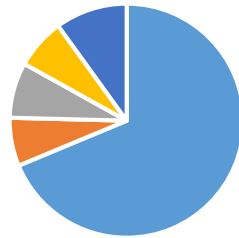
Oversight of 2nd line of defence = 50%

Predominantly governance reviews = 43%

No significant change from today = 7%

How to start preparing IA?

Average from each breakout session:



- New resources/skills = 69%
- New tools = 6.7%
- New methodologies = 7.7%
- New subjects to audit = 7%
- New assurance process = 10%

Breakout session 1:

New resources / skills = 87%

New tools = 4%

New methodologies = 0%

New subjects to audit = 9%

New assurance process = 0%

Breakout session 2:

New resources / skills = 55%

New tools = 9%

New methodologies = 9%

New subjects to audit = 5%

New assurance process = 23%

Breakout session 3:

New resources / skills = 64%

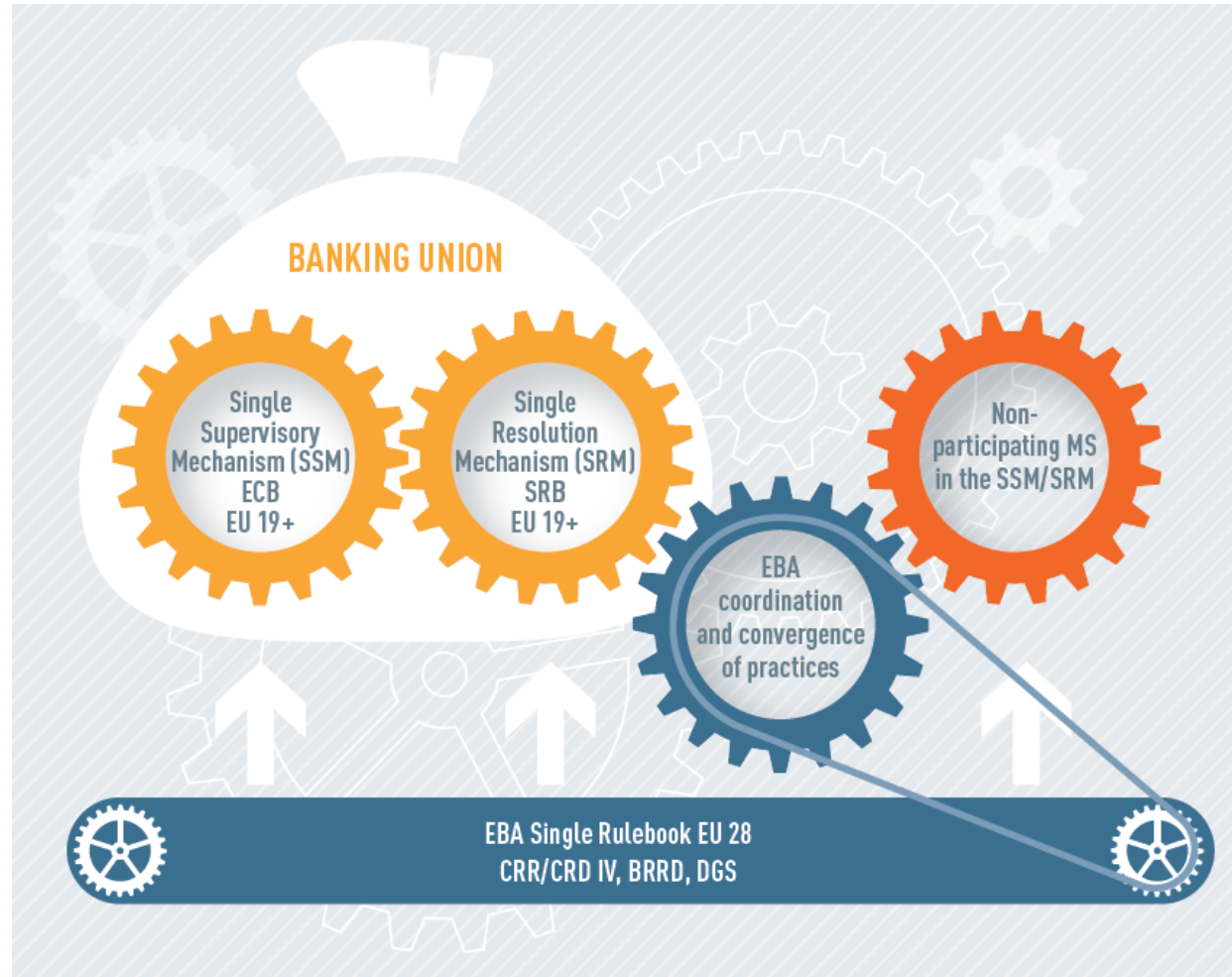
New tools = 7%

New methodologies = 14%

New subjects to audit = 7%

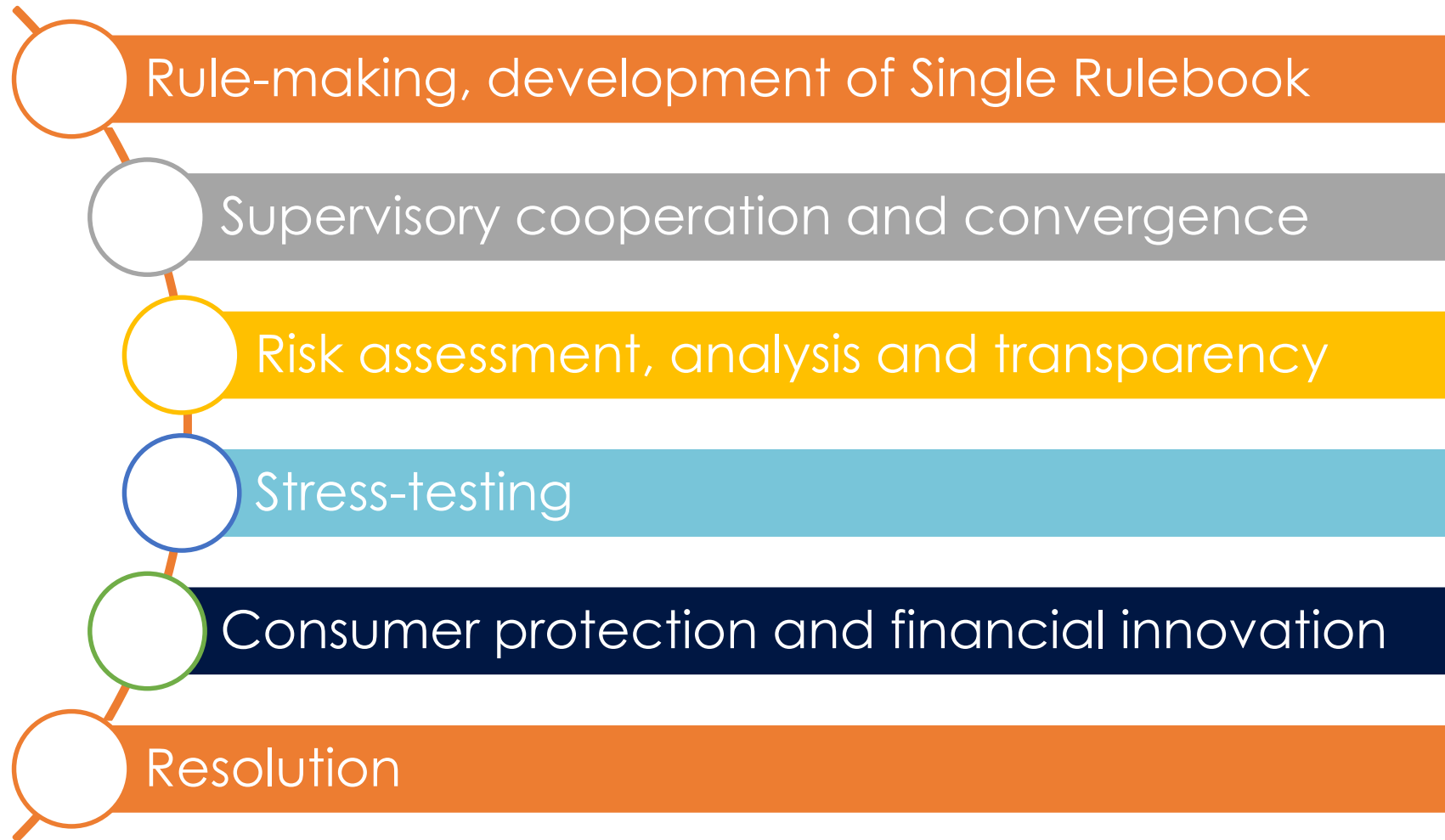
New assurance process = 7%

EBA in the context of the Banking Union*



*@ copyright EBA

EBA: main areas of work*



*@ copyright EBA

EBA's Organisation

- **José Manuel Campa** | Chairperson
- **Adam Farkas** | Executive Director
- **Isabelle Vaillant** | Prudential Regulation and Supervisory Policy
- **Piers Haben** | Banking Markets, Innovation and Consumers
- **Mario Quagliariello** | Economic Analysis and Statistics
- **Delphine Reymondon** | Liquidity, Leverage, Loss Absorbency and Capital
- **Lars Overby** | Risk-based Metrics
- **Francesco Mauro** | Supervisory Review, Recovery and Resolution

Team Governance and Remuneration

Bernd Rummel | Senior Policy Expert
Djamel Bouzemarene | Policy Expert
Margarita Steinbach-Shmeljov | Policy Expert

The Single Rulebook uses a variety of tools*

Binding

- Level 1 Regulation and Directives
- Level 2 regulations (BTS: RTS – ITS)

Comply and Explain

- Guidelines mandated
- Guidelines own initiative
- Recommendations

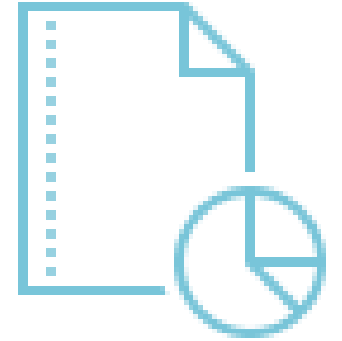
Market discipline

- Opinions
- Q&As
- Peer reviews and Monitoring Reports

*@ copyright EBA

Overview - Latest Developments

- CRD V/CRR2 - update of the regulatory framework
- Governance and remuneration
 - Review RTS identified staff, update of fit and proper requirements re independence and AML aspects, inclusion of holding companies
 - Waivers for the application of deferral and pay out in instruments
- Fintech Roadmap (Cyperrisks, ICT risks, Innovation hubs, Sandboxes)
- IFD/IFR - Separate rulebook for investment firms
- Sustainable finance (ESG factors)
- Challenges ahead due to change of the whole economy
- Financial inclusion, diversity, human rights
- **EBA Guidelines on outsourcing**



EBA Guidelines on Outsourcing*

- Guidelines **update 2006 CEBS Guidelines on Outsourcing** and integrate the cloud recommendation
- Published on 25 February 2019, **enter into force 30 September 2019**
- Transitional arrangements: for the register and review of the contracts **31 December 2021**
- **Guidelines specify the outsourcing process on a risk based approach** from the initial risk assessment, due diligence process, contractual phase and exit from outsourcing arrangements for **Institutions under CRD, Payment institutions and EMI**

*@ copyright EBA

Summary of the outsourcing process*

Pre outsourcing phase	Contractual phase	Monitoring	Exit
<ul style="list-style-type: none">• Economical need• Risk analysis• Critical or important?• Due Diligence• Compliance with legal requirements• Decision	<ul style="list-style-type: none">• Regulatory contractual standards• Clear contract• Audit and access rights• Implementation• BCP	<ul style="list-style-type: none">• Documentation (register)• Service Level met?• Compliance?• Monitoring and controlling of risks• Concentration risks• Change of scale - > becomes critical?• Internal audit	<ul style="list-style-type: none">• Reintegration• Transfer to other provider• Other arrangements to ensure continuity of business activities

*@ copyright EBA

EBA upcoming projects impacting IA

- Complete review of CAD
- Complete review of CRR
- Including adjustments of governance related topics and role of IA
- Guidelines for Investment Firms (consultation in January 2020)



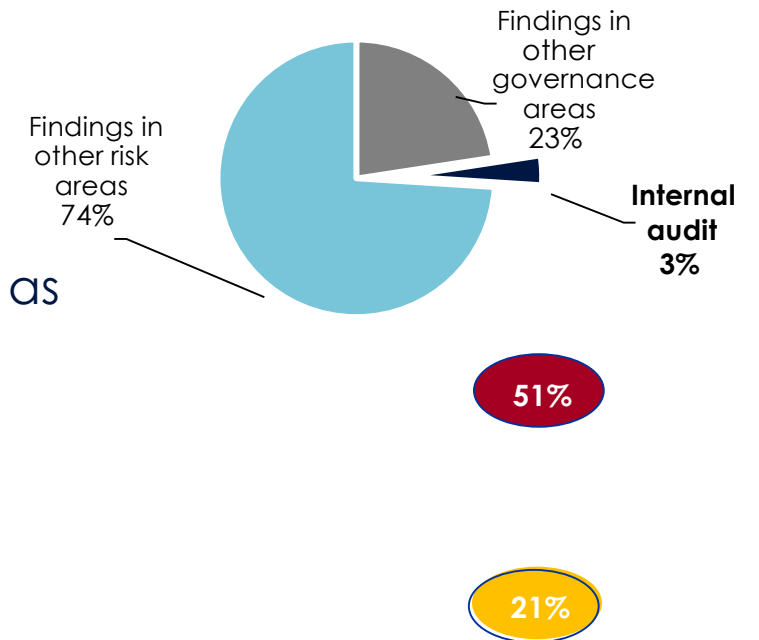
ECB: Introduction

- ECB Banking Supervision recently conducted an in-depth analysis of the key findings from the 2018 OSIs.
- OSI findings were categorised using a four-point scale, from less severe to more severe, to reflect the strength of the potential impact.
- 1,200 findings of the two highest classes of severity analysed (F3-F4).
- 31% related to credit risk, 26% to governance (including internal audit) and 15% to IT risk.

Qualitative overview: Key findings on Internal Audit (F3,F4)

Clear concentration of findings on weaknesses identified in the internal audit life cycle

- **Internal Audit life cycle:**
 - ✓ Insufficient depth of audit work performed
 - ✓ Deficiencies in the follow-up process of recommendations
 - ✓ Weaknesses identified in the risk assessment process serving as basis for the audit plan
- **Scope of activity:**
 - ✓ Limited coverage of audit universe



Please also refer to ECB's Supervision Newsletter (Aug 2019) - [On-site inspections 2018: key findings](#)

ECIIA Banking Forum: Key messages

- There is a change of Bank's DNA with continuous investment in the transformation, with an increase of IT cost and a decrease of Real Estate and HR costs.
- A key question is how to best allocate the resources in the future? Internal audit must address the “old risks” in different ways (data analytics...) while also addressing the new ones (cloud services, cyber...). The access to data is becoming difficult (confidentiality clauses). There is a “big elephant in the room”: internal audit must get ready!
- The three lines of defense model is under pressure in the digital work, we need new relations with the other lines to give efficient assurance to the stakeholders
- We need an open and transparent DIALOGUE between the Supervisor, the Regulator, and the internal audit. There is a common ground on purpose from ECB and the internal audit profession: helping organizations to run sustainable strategies with a reasonable appetite for risk. A more candid discussion, with mutual understanding should take place

Internal auditors should not be shy!



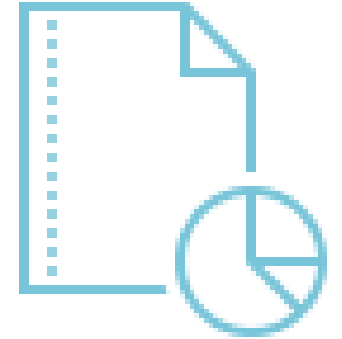
Relations with EBA and ECB

- Reaction on ECB new guide to promote a common understanding on internal models
- Reaction on EBA guidelines on outsourcing
- Reaction on EBA guidelines on internal governance



Banking Committee 2020 objectives

*Consolidate actions and extend the network with European CAEs
Influence ECB/EBA teams on internal audit best practices*



2020 objectives

- Reinforce the relations with EBA, ECB
- Keep the same activities as before:
 - 3 new position papers (skills & rotation, general role of internal audit in the future, internal audit effectiveness)
 - 3rd Banking forum
- Animate a European Platform for the CAEs of SSM Banks to facilitate permanent exchanges (LinkedIn)

Agenda

- About ECIIA
- The Banking Committee at a glance
- **The challenges for the European Banking Sector**
- The impact for the internal auditors
- Questions and answers

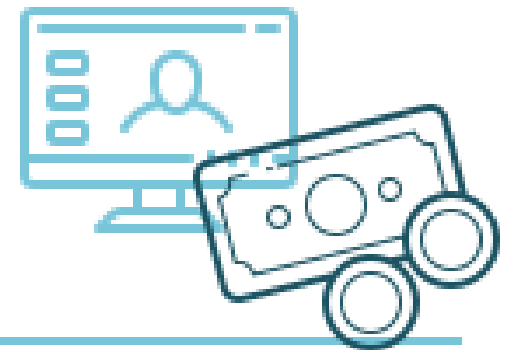


The regulatory context

- Most regulatory reforms, after the 2008 financial crisis, have taken place: the banking union is in place for 5 years:
 - ✓ there has been a marked improvement in the resilience of the banking sector (Basle 3 impact)
 - ✓ Answer to the issue “too big to fail” (no need for public funds)
 - ✓ Macro prudential tools
 - ✓ European banks have never had such a level playing field across Europe before
 - ✓ Reinforcement of whistleblowing regulations and cooperation cross countries

Stubbornly low banking sector profitability (6% ROE)

- So why is the euro area banking sector as a whole struggling to improve profitability?
 - ✓ excess capacity of the euro area banking industry
 - ✓ Not enough focus on cost efficiency and digitalisation
 - ✓ the injections of public money to keep the banking system functioning during the crisis also kept some banks afloat that otherwise



EU Bank Staff statistics: There is a decrease in Europe

EU bank staff



- Austria ● Belgium ● Bulgaria ● Cyprus ● Czech Republic
- Germany ● Denmark ● Estonia ● Spain ● Finland ● France
- United Kingdom ● Greece ● Croatia ● Hungary ● Ireland
- Italy ● Lithuania ● Luxembourg ● Latvia ● Malta
- Netherlands ● Poland ● Portugal ● Romania ● Sweden
- Slovenia ● Slovakia

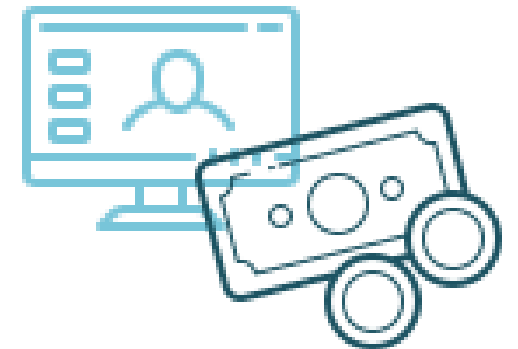
Ativar o Windows
 Acceda a Definições para ativar o Windo

Number of Domestic Bank branches is declining



Main challenges for the sector

- Build a European Capital Market for European companies
- Development of « green finance »: sustainability plan
- Digitalisation of the business
- Reinforcement of macro prudential tools



Agenda

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The impact for internal auditors



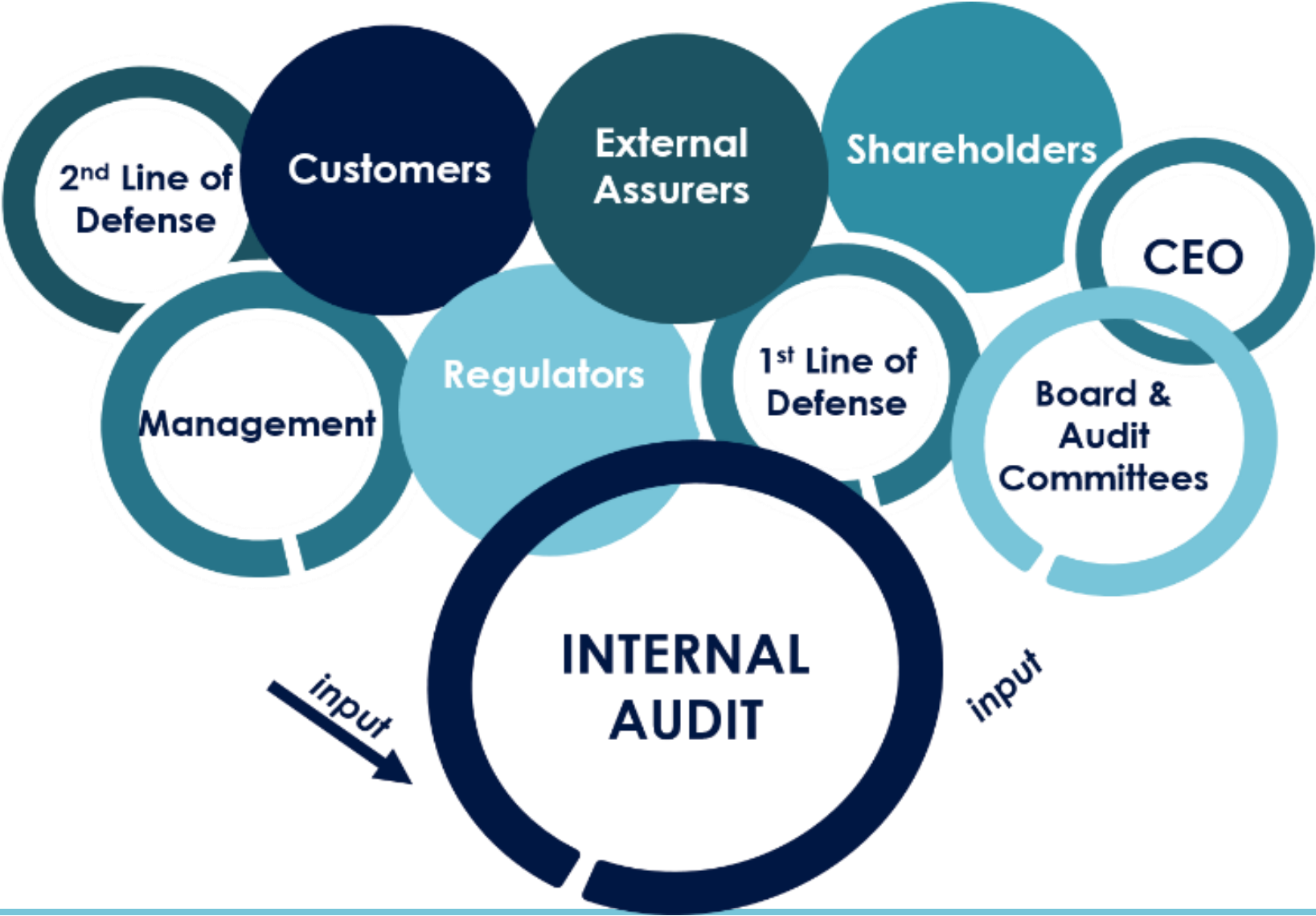
Internal auditors must **get ready for the future !**

- Constructive and co-operative relationship with the Regulator
- Emergence of best practices:
 - ✓ Harnessing the power of data
 - ✓ Be flexible: Balance the organisation risks with regulatory requirements
 - ✓ Build a robust Quality Assurance Process
 - ✓ Linking with other functions while remaining independent
 - ✓ Integrate the right skills (specialized)

The impact for internal auditors



Partner with key stakeholders



Conclusion

Internal auditors need in the future:

- Greater speed



- Agility



- Business Alignment

