



Effective Internal Audit in the Financial Services Sector

ICAEW welcomes the opportunity to comment on the Effective Internal Audit in the Financial Service Sector guidance published by the Chartered Institute of Internal Auditors [link](#).

This response of 28 November 2016 has been prepared on behalf of ICAEW by the Financial Services Faculty. As a leading centre for thought leadership on financial services, the Faculty brings together different interests and is responsible for representations on behalf of ICAEW on governance, regulation, risk management, auditing and reporting issues facing the financial services sector. The Faculty draws on the expertise of its members and more than 25,000 ICAEW members involved in financial services.

ICAEW is a world-leading professional accountancy body. We operate under a Royal Charter, working in the public interest. ICAEW's regulation of its members, in particular its responsibilities in respect of auditors, is overseen by the UK Financial Reporting Council. We provide leadership and practical support to over 147,000 member chartered accountants in more than 160 countries, working with governments, regulators and industry in order to ensure that the highest standards are maintained.

ICAEW members operate across a wide range of areas in business, practice and the public sector. They provide financial expertise and guidance based on the highest professional, technical and ethical standards. They are trained to provide clarity and apply rigour, and so help create long-term sustainable economic value.

Copyright © ICAEW 2016
All rights reserved.

This document may be reproduced without specific permission, in whole or part, free of charge and in any format or medium, subject to the conditions that:

- it is appropriately attributed, replicated accurately and is not used in a misleading context;
- the source of the extract or document is acknowledged and the title and ICAEW reference number are quoted.

Where third-party copyright material has been identified application for permission must be made to the copyright holder.

For more information, please contact fsf@icaew.com

icaew.com

Overall we welcome the code and think that it has been useful in setting out minimum standards.

Below we have set out our thoughts on the guidance itself and areas where views on internal audit for financial services firms have evolved or are evolving:

1. **Role and Mandate.** [A 1.] Financial services firms, together with society, have recently recognised that for these firms to retain their social licence, they need to think about more than their self-interest. The role of IA should consider the responsibilities of the firm towards its customers and the impact of the firm's behaviour on markets (as these can have a material impact on the firm's reputation). Firms have defined conduct risk to recognise that an overly inward-looking view may lead to sub-optimal outcomes for all. The role of internal audit should also mature to recognise the role of financial services in society and with respect to markets.
2. **Scope and priorities.** Whilst the guidance says that no aspect should be 'restricted', unfortunately time, budgets and auditor skill levels are limited. The CIIA could periodically set out positively the areas that often present risk; particularly areas that may have historically been under-reviewed. ICAEW has recently published guidance on assurance around banking regulatory ratios. A CIIA bulletin or website could usefully refer to such materials which provide coverage of areas that which we know have not seen consistently high levels of assurance but which are critical to the users of bank financial information.

<http://www.icaew.com/-/media/corporate/files/technical/financial-services/regulation-ratios/10235-banking-regulatory-ratios-web-v2.ashx>

3. Rotation of staff from the business into internal audit should be encouraged to ensure there is appropriate business knowledge in internal audit to challenge on the areas of highest risk. Some firms rotate staff at the graduate entry level or in their executive high-flyer programmes. Rotation has the dual benefit of ensuring that not only do internal audit have the right skills to understand the business but the business too benefits from having more staff who are control-aware.
4. [B 6 c.] Whilst internal audit is not responsible for setting the risk appetite, given that the scope of audit is 'unrestricted' they should have latitude to make judgements about it. Internal audit should have the ability to escalate concerns where the risk appetite appears inconsistent or not coherent and to raise concerns if there are large gaps and/or flag where its calibration is misaligned. The guidance should make it clearer that the risk appetite statement is a valid area for review.
5. [B 6. e] There is an opportunity for the CIIA to produce useful outline guidance on the best way to assess conduct risks. Conduct risks have been a significant issue for banks in the recent past and to leave this area underdeveloped risks internal audit being or appearing to be, less relevant and not dealing with the issues of the day.
6. [B 6. f.] This paragraph might be better defined as 'Business model risk' and the text below it should refer explicitly to capital and liquidity risks.
7. The paragraph [B 6.h.] could be rephrased to reflect the role of internal audit. It is the responsibility of the business (1st line) to ensure the outcomes of processes are considered. It should be the responsibility of audit to assess whether this outcome assessment (i.e. by the business) is adequate. As drafted, the current guidance may appear to place executive responsibilities on internal audit.

8. **Independence and authority of Internal Audit** [E 18.] The guidance sets laudable objectives for IA remuneration but is unclear how each strand could be achieved in a coherent and simple way. In another publication, it would be useful to set out a range of options that might be seen as good practice, notwithstanding that no single approach would suit all nor would standards remain static.
9. [E 23.] Stating whether the Audit Committee is satisfied with IA resource is a one word answer that may tell stakeholders little about IA's strength. It would be useful if firms set out whether they were satisfied and the reasons why. This could reflect objective criteria such as vacancies against headcount, audit plan completion, risk crystallisation and delayed audits.
10. **Quality Assurance (QA)** [G 26] The guidance could make it clear that QA is a continuous process and that QA should be involved at the beginning, middle and end of the audit. Among other things, the QA review should consider audit plan completion and the quality of audit reports and their conclusions.