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Groupement Européen des Banques Coopératives
Europäische Vereinigung der Genossenschaftsbanken*



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EACB Comments
on the Basel Committee consultative document "The
internal audit function in banks"

The voice of 4.200 local and retail banks, 50 million members, 160 million customers

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1. Introduction

The EACB welcomes the opportunity to comment on the consultative document: “The internal audit function in banks”.

We support the Basel Committee’s goal of promoting a strong internal audit function in banks and appreciate that the guidance takes into account the principle of proportionality.

The goal of our remarks is to stress, with regard to principles 8 and 15, the principle of proportionality as follows.

As far as principles 8 and 15 is concerned, we would like draw the intention to those cooperative banks, which are small in size, whose activities are limited to a small region and who dispose only of a very limited number of employees. Those banks, while having only one or more permanent staff members, often tend to outsource their internal audit activities to their national or regional federation. Maintaining internal audit staff might be overly burdensome in these circumstances.

Furthermore, benefits would be few: having an internal audit staff would not lead to be better result. This is also the case because it is the associations’ specific task to provide internal audit activities to its members. The associations know very well the banks’ characteristics and peculiarities and, consequently, banks needn’t to have the own dedicated staff.

2. Core issues

Principle 8, point 42: “Internal audit activities should normally be conducted by the bank’s own internal audit staff. While internal audit activities may be partially or fully outsourced, the board of directors remains responsible for these activities and for maintaining an internal audit *function* within the bank. Outsourcing of internal audit activities is further addressed in principle 15 and related paragraphs.”

With regard to small banks with a lower complexity that fully outsource internal audit activities, the internal audit *function* within those small coop banks is represented by a “link person” (or “link auditor”) between the board of directors, the operating areas and the outsourcing suppliers. Taking into account all the relevant principles stated in this document, the figure of the “link person” ensure, having regard to the bank dimension, well functioning relationships between all the parts involved in the audit process.

Principle 15, point 64: “The head of internal audit should ensure that outsourcing suppliers comply with the principles in the bank’s internal audit charter. To preserve independence, it is important to ensure that the supplier has not been previously engaged in a consulting engagement in the same area within the bank unless a reasonably long “cooling-off” period has elapsed. Similarly, as a best practice banks should not outsource internal audit activities to their own external audit firm”.

With regard to the “head of internal audit” mentioned in this point, it is important to remind, as stated above, small banks don’t have an internal audit *function* that is executed by their own staff. Therefore, for these banks, the “link person” (or “link auditor”) undertakes all the actions so that the board of directors can assess the compliance of the outsourcing suppliers with the principles in the bank’s internal audit charter.

Principle 15, point 65: “The head of internal audit should ensure that, whenever practical, the relevant knowledge input from an expert is assimilated into the organisation. This may be possible by having one or more members of the bank’s internal audit staff participate in the external expert’s work”.

Even though the principal in question seems to refer almost only to large and internationally active banks, we would like to stress, that it would be highly impractical to apply point 65 to small and local banks. For the reasons explained above and in order to make the concept of “*whenever practical*”



unequivocal, we would suggest to amend or to allow an understanding of principle 15 point 65 as follows:

“The head of internal audit should ensure that, taking into account the significance, complexity and international presence of the bank, the relevant knowledge input from an expert is assimilated into the organisation. This may be possible by having one or more members of the bank’s internal audit staff participate in the external expert’s work”.

Moreover, members of our association, especially large size cooperative banks, think that the consultative paper of the BCBS on the internal audit function in banks would benefit from clarifying the definition of corporate governance. The paper should therefore make clear the distinction of the respective roles between the board of directors and the executive management as it enhances the management efficiency and its control.

In addition the internal audit function should be able to report to the different bodies governing the firm.