Australian Banking Association

17 August 2020

Ms Sandra Birkensleigh
Chair
The Institute of Internal Auditors Australia
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Dear Ms Birkensleigh

Draft Internal Audit Better Practice Guide Consultation

The Australian Banking Association (ABA) welcomes the consultation on the draft internal audit better practice guide (the "Guide") developed by the Institute of Internal Auditors in consultation with banks. The draft Guide represents the significant work by banks and the Institute to address concerns raised by the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry.

The ABA considers that the draft Guide Principles and Recommendations, once implemented, will significantly improve the quality of information available to Boards upon which they make decisions. As noted by the Royal Commission Final Report Volume 1 at page 400:

> *"Boards must have the right information in order to discharge their functions. In particular, boards must have the right information in order to challenge management on important issues including issues about breaches of law and standards of conduct, and issues that may give rise to poor outcomes for customers. Without the right information a board cannot discharge its functions."*

Importance of flexible approach according to the scale of organisation

The ABA welcomes the Committees recognition that different entities may need to adopt different practices, based on a range of factors, including their size, complexity, history and corporate culture. For that reason, the Principles and Recommendations are not mandatory and do not seek to prescribe the internal audit practices that an entity must adopt. The ABA considers that flexibility will be essential to implement the final Guide effectively across its wide and varied membership.

Given this, it would be useful for the Guide to note that a flexible approach can be taken under recommendations requiring entities to have significant investment specialist systems and technology, such as data analytics. Scale of an entity is also likely to affect its approach to people and culture audit. Many smaller entities may not have these capabilities and signposting the Committees flexible approach in the relevant recommendations such as Recommendation 4.3 would be helpful.

Implementation and ongoing reporting requirements

The ABA members look forward to implementing the recommendations across their organisations and are working towards completing the process by the end of next financial year. To assist with the implementation planning, the ABA would find it helpful if the final Guide clarified when the implementation needs to be complete. In addition, it would be useful to include any ongoing review and/or ongoing compliance reporting requirements that banks may need to undertake. Building in these requirements as part of the implementation phase will ensure banks are best placed to meet these requirements in future.

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Specific comments on recommendations

The ABA has the following comments on specific recommendations.

1) *Recommendation 3.4: Internal audit should set a strategy which is approved by the Audit Committee.*

The ABA would like that recommendation to be clarified to ensure that a global strategy approved by the global management board is compliant and, in this case, not required to be approved by a local Audit Committee. For global banks, the 3rd line charter's etc are driven centrally and often don not require Audit Committee approval except for the Audit Charter, Plan, and Budget, on an annual basis.

2) *Recommendation 4.5: Internal audit should have a retrospective review/'lessons learned' process in place when the organisation is subject to significant incidents and regulatory actions.*

The ABA considers that more clarification of this recommendation would be helpful. It would be useful to understand better what type of review process is required under which circumstance. One bank queried in an example case of an anti-money laundering breach on customer due diligence, whether the recommendation requires a formal investigation into why internal audit missed the issue, in order to improve its review process going forwards? While this is a commendable approach, there are challenges in practice where it is not always possible to reasonably detect underlying causal events (e.g. due to a complete breakdown in test of design). An internal audit may note high level deficiencies over control design, but to then go back and look at the practices and approach when something breaks (as a test of effectiveness output of a broken test of design) could be quite predatory especially when it comes to head of internal audit being BEAR accountable.

3) *Recommendation 6.2 Targeted audit of the risk culture framework.*

The ABA would like a reference under recommendation 6.2 about how banks can take a flexible approach to implementation. While all banks audit risk culture as part of every internal audit, to undertake a targeted audit of the risk culture framework – is not something smaller audit teams can do properly in house. Even larger organisations might not have subject matter experts like occupational psychologists and behaviour specialists in house and might have to engage consultants. This will also be a costly exercise to repeat on an annual basis.

If you have any queries regarding this submission, please contact me, Karen O'Brien, Policy Director on 0450 615148 or by email karen.obrien@ausbanking.org.au

Yours sincerely

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