



2023



The Institute of  
**Internal Auditors**

# **INTERNAL AUDIT FUNCTION IIA QUALITY ASSESSMENT**

Banco de España - Reporting period 2019 – 2023

**Executive Report**

*November 2023*



## Objectives of the EQA

- The principal objectives of the EQA were to (1) assess IAD conformance with the Standards and the IIA Code of Ethics; (2) assess their effectiveness in providing assurance and consulting services to the Governor and the Board of BDE, and other interested parties; and (3) identify opportunities, offer recommendations for improvement, and provide counsel to IAD for improving their performance and services and promoting their image and credibility.

## Scope of the EQA

- The scope of the EQA addressed BDE activities, as set forth in the BDE Internal Audit Charter approved by BDE Governor. This Charter defines the authority and responsibility of the Internal Audit Function.

## Methodology of the EQA

- To accomplish the objectives, the EQA team reviewed documentation submitted by IAD at the EQA team's request; conducted interviews with selected IAD key stakeholders including the Governor and IAD members; reviewed a sample of audit projects and associated work papers and reports; and prepared and executed 8 Thematic Workshops with IAD members, consistent with the methodology established at IFACI for an EQA.

## Reporting Period

- The onsite portion of the EQA took place from the 3rd to the 27<sup>th</sup> of October 2023.
- The reporting period covered the years 2019-2023 and was based only on information made available through October 2023, when field work was substantially completed.

## Independence of the EQA team

- The team who performed the EQA was appointed by IIA France with the approval of IIA Spain and declared its independence and lack of conflict of interest with BDE.
- The EQA team main qualifications are :
  - ↳ Sébastien ALLAIRE : CIA, CISA, CRMA, CFE, ACCA
  - ↳ Enrique Antonio FERNANDEZ MORO : CIA, CRMA, CPA, COSO ERM, COSO CI, TEAI
  - ↳ Carlos FERNANDEZ BIDART : CISA, CISM, CRISC, TEAI

## Opinion as to Conformance with the Standards and the IIA Code of Ethics

- The IIA Evaluation Committee endorses the opinion that the Internal Audit of Banco de España is Generally Conform to :
  - ↳ the Internal Audit's Core principles for the Professional Practice of Internal Auditing
  - ↳ the Definition of Internal Auditing
  - ↳ the International Standards for the Professional Practice of Internal Auditing
  - ↳ the Internal Audit's Code of Ethics
  - ↳ the Audit Charter of BDE and the Audit Charter for the Eurosystem/ESCB and the Single Supervisory Mechanism
  - ↳ the BDE audit manual
  - ↳ the IAC audit manual
- This level of conformance demonstrates a clear intent and commitment to achieving the Core Principles for the Professional Practice of Internal Auditing ("Core Principles") and the Definition of Internal Auditing.



## Elements supporting the Opinions

- The “generally conforms” opinion means that the IIA Assessment Team has concluded the following
  - For Individual Standards, the Internal Audit Department conforms to the requirements of the Standard or elements of the IIA Code of Ethics (both Principles and Rules of Conduct) in all material respects.
  - For the General Standards, the Internal Audit Department achieves general conformity with a majority of the individual Standards and/or elements of the IIA Code of Ethics, and at least partial conformity to others, within the General Standard.
  - For the Internal Audit Department overall, there may be opportunities for improvement, but these should not represent situations where the internal audit activity has not implemented the Standards, the IIA Code of Ethics, has not applied them effectively, or has not achieved their stated objectives.

## Selection of Audit Engagements

| Scope | Type of Audit | Audit Name  | Year | Overall Rating           |
|-------|---------------|---|------|--------------------------|
| BDE   | Assurance     | Sistema interno estadístico de evaluación crediticia de empresas no financieras (S-ICAS)  | 2023 | Effective                |
| BDE   | Assurance     | Gestión documental y registro general y electrónico   | 2021 | Insufficiently effective |
| IAC   | Assurance     | Operaciones de mercado: programas de compras / Market Operations - Purchase Programs  | 2021 | Effective                |
| IAC   | Assurance     | Funcionamiento de los servicios de TARGET / Operation of TARGET Services  | 2021 | Sufficiently effective   |
| BDE   | Assurance     | Proyectos de infraestructuras de Mercado, focalizada en la adaptación local para la integración con la nueva plataforma consolidada de T2/T25 (CSLD)            | 2022 | Effective                |
| BDE   | Assurance     | Gestión de activos  | 2022 | Sufficiently effective   |
| IAC   | Assurance     | Política monetaria - Gestión colateral / Monetary Policy - Collateral Management  | 2022 | Effective                |
| IAC   | Assurance     | Distribución de billetes / Distribution of Banknotes  | 2022 | Sufficiently effective   |
| IAC   | Assurance     | Gestión de crisis bancarias / Banking Crisis Management   | 2022 | Sufficiently effective   |
| IAC   | Assurance     | Gestión de la seguridad de los sistemas de información (focalizada en la gestión de accesos e identidades - IAM- y en la infraestructura de clave pública -PKI) | 2022 | Sufficiently effective   |

# INDEPENDENT QUALITY ASSESSMENT SCORECARD



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|--|
| <b>1000 - Purpose, Authority, and Responsibility &amp; 1000.A1</b>   |
| 1010 - Recognition of the IPPF in the Internal Audit Charter         |
| <b>1100 - Independence and Objectivity</b>                           |
| 1110 - Organizational Independence                                   |
| 1111 - Direct Interaction with the Board                             |
| 1112 - Chief Audit Executive Roles Beyond Internal Auditing          |
| 1120 - Individual Objectivity  |
| 1130 - Impairment to Independence or Objectivity                     |
| <b>1200 - Proficiency and Due Professional Care</b>                  |
| 1210 - Proficiency   |
| 1210.A1 - Competent advice and support                               |
| 1210.A2 - Fraud sufficient knowledge                                 |
| 1210.A3 - Information systems sufficient knowledge                   |
| 1220 - Due Professional Care   |
| 1220.A1 - Due professional care criteria                             |
| 1220.A2 - Data analysis  |
| 1230 - Continuing Professional Development                           |
| <b>1300 - Quality Assurance and Improvement Program</b>              |
| 1310 - Requirements of the Quality Assurance and Improvement Program |
| 1311 - Internal Assessments  |
| 1312 - External Assessments  |
| 1320 - Reporting on the Quality Assurance and Improvement Program    |
| 1321 - Use of "Conforms with the IPPF"                               |
| 1322 - Disclosure of Nonconformance                                  |

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| <b>2500 – Monitoring Process</b>                                    |
| 2500.A1 - Monitoring reporting                                      |
| <b>2600 – Resolution of Senior Management’s Acceptance of Risks</b> |
| <b>Code of Ethics</b>   |
| <b>Conformance with IAC Manual</b>                                  |

| GC | PC | NC | NA | Reference    |
|----|----|----|----|--------------|
| GC |    |    |    | OCI #1000    |
| GC |    |    |    | OCI #1010    |
| GC |    |    |    | OCI #1100    |
| GC |    |    |    | OCI #1110    |
| GC |    |    |    |              |
| GC |    |    |    |              |
| GC |    |    |    | OCI #1120    |
| GC |    |    |    |              |
| GC |    |    |    |              |
| GC |    |    |    | OCI #1210.A1 |
| GC |    |    |    | OCI #1210.A2 |
| GC |    |    |    |              |
| GC |    |    |    |              |
| GC |    |    |    | OCI #1220.A2 |
| GC |    |    |    |              |
| GC |    |    |    |              |
| GC |    |    |    | OCI #1320    |
| GC |    |    |    |              |
| GC |    |    |    |              |

| GC | PC | NC | NA | Reference    |
|----|----|----|----|--------------|
| GC |    |    |    | OCI #2500    |
| GC |    |    |    | OCI #2500.A1 |
| GC |    |    |    |              |
| GC |    |    |    |              |
| GC |    |    |    |              |

GC Generally conforms  
PC Partially conforms  
NC Does not conform  
NA Not applicable / Not assessed

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| <b>2000 - Managing the Internal Audit Activity</b>       |
| 2010 - Audit plan  |
| 2010.A1 - Risk based approach                            |
| 2010.A2 - Management expectations                        |
| 2020 - Communication and Approval                        |
| 2030 - Resource Management                               |
| 2040 - Policies and Procedures                           |
| 2050 - Coordination                                      |
| 2060 - Reporting to Senior Management and the Board      |
| 2070 - External Service Provider                         |
| <b>2100 - Nature of Work</b>                             |
| 2110 - Governance  |
| 2110.A1 - Ethics   |
| 2110.A2 - Information systems governance                 |
| 2120 - Risk management process                           |
| 2120.A1 - Assessing risk exposure                        |
| 2120.A2 - Assessing fraud risks                          |
| 2130 - Internal controls                                 |
| 2130.A1 Assessing adequacy and effectiveness of controls |

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|---|
| <b>2200 - Engagement Planning</b>                           |
| 2201 - Planning Considerations                              |
| 2210 - Engagement Objectives                                |
| 2220 - Engagement Scope                                     |
| 2220.A1 Systems   |
| 2230 - Engagement Resource Allocation                       |
| 2240 - Engagement Work Program                              |
| 2240.A1 - Audit procedures                                  |
| <b>2300 - Performing the Engagement</b>                     |
| 2310 - Identifying Information                              |
| 2320 - Analysis and Evaluation                              |
| 2330 - Documenting Information                              |
| 2340 - Engagement Supervision                               |
| <b>2400 - Communicating Results</b>                         |
| 2410 - Criteria for Communicating                           |
| 2410.A1 - Communicating recommendations and/or action plans |
| 2410.A2 - Satisfactory performance                          |
| 2420 - Quality of Communications                            |
| 2421 - Errors and Omissions                                 |
| 2430 - Use of "Conducted in Conformance with the IPPF"      |
| 2431 - Engagement Disclosure of Nonconformance              |
| 2440 - Disseminating Results                                |
| 2450 - Overall Opinions                                     |

| GC | PC | NC | NA | Reference    |
|----|----|----|----|--------------|
| GC |    |    |    |              |
| GC |    |    |    |              |
| GC |    |    |    | OCI #2010.A1 |
| GC |    |    |    |              |
| GC |    |    |    |              |
| GC |    |    |    | OCI #2030    |
| GC |    |    |    | OCI #2040    |
| GC |    |    |    | OCI #2050    |
| GC |    |    |    | OCI #2060    |
| GC |    |    |    |              |
| GC |    |    |    |              |
| GC |    |    |    | OCI #2110    |
| GC |    |    |    |              |
| GC |    |    |    | OCI #2110.A2 |
| GC |    |    |    |              |
| GC |    |    |    |              |
| GC |    |    |    |              |
| GC |    |    |    |              |

| GC | PC | NC | NA | Reference        |
|----|----|----|----|------------------|
| GC |    |    |    |                  |
| GC |    |    |    | OCI #2201        |
| GC |    |    |    | OCI #2210        |
| GC |    |    |    |                  |
| GC |    |    |    |                  |
| GC |    |    |    | OCI #2230        |
| GC |    |    |    |                  |
| GC |    |    |    | OCI #2240-A1     |
| GC |    |    |    |                  |
| GC |    |    |    | OCI #2310        |
| GC |    |    |    | OCI #2320        |
| GC |    |    |    |                  |
| GC |    |    |    |                  |
| GC |    |    |    |                  |
| GC |    |    |    |                  |
| GC |    |    |    |                  |
| GC |    |    |    | OCI #2410-A1-1/2 |
| GC |    |    |    | OCI #2410.A2     |
|    | PC |    |    | GC #2420         |
| GC |    |    |    |                  |
| GC |    |    |    |                  |
| GC |    |    |    |                  |
| GC |    |    |    |                  |
| GC |    |    |    |                  |

# VALIDATION AGREEMENT OF THE INDEPENDENT QUALITY ASSESSMENT



| Gaps to Conformance and Significant Opportunities for Continuous Improvement with the Standards or the Code of Ethics                             | IAD Corrective Action Plans   | Opinion of the IIA Evaluation Committee                    |
|---|---|--|
| <ul style="list-style-type: none"> <li>OCI #1210.A1: consider identifying specific expertise needs that would require external support</li> </ul> | <p>Specific situations have been identified in which external training support has been required, and this has been done.</p> <p>Additionally, a situation has been identified in which, in the near future, it will be necessary to hire a team specialized in cybersecurity issues to carry out a Red Team exercise.</p> <p>Consequently, no further action is considered necessary, as specific expertise needs that may require external support are already being identified.</p>                        | <ul style="list-style-type: none"> <li>Approved</li> </ul> |
| <ul style="list-style-type: none"> <li>OCI #2010.A1: more detailed information to the governing bodies on BDE's risk universe coverage</li> </ul> | <p>The governing bodies will be asked to indicate what additional information on the coverage of the universe is of interest to them and this will be included in the Annual Plan.</p> <p>In any case, the ranking of audit objects provided with the Annual Internal Audit Plan will include for each audit object:</p> <ul style="list-style-type: none"> <li>• Impact</li> <li>• Residual risk</li> <li>• Year of last audit</li> <li>• Coverage of the last audit</li> </ul> <p>Deadline : 31.12.2023</p> | <ul style="list-style-type: none"> <li>Approved</li> </ul> |
| <ul style="list-style-type: none"> <li>OCI #2030: analysis of the adequacy of IA's resources both quantitatively and qualitatively</li> </ul>     | <p>It is not considered necessary to carry out any additional analysis, taking into account that the number of auditors in the department (25) allows the management to know perfectly well the competencies of these auditors, as well as the needs of each audit, both qualitative and quantitative.</p>  | <ul style="list-style-type: none"> <li>Approved</li> </ul> |

# VALIDATION AGREEMENT OF THE INDEPENDENT QUALITY ASSESSMENT



| Gaps to Conformance and Significant Opportunities for Continuous Improvement with the Standards or the Code of Ethics  | IAD Corrective Action Plans  | Opinion of the IIA Evaluation Committee                    |
|--|--|--|
| <ul style="list-style-type: none"> <li>OCI #2050: documenting BDE's Assurance map and defining the IA "reliance strategy"</li> </ul>   | <p>A presentation will be made to the Governor and the Audit Committee on how to audit the second line and on the typology of external assurance providers that are trusted.</p> <p>Deadline : 31.12.2023</p>  | <ul style="list-style-type: none"> <li>Approved</li> </ul> |
| <ul style="list-style-type: none"> <li>OCI #2060: further highlighting in the Execution Report the link between the findings and BDE's risk, information on the root cause analysis for the main findings, transversal conclusions / trends</li> </ul> | <p>The information contained in the Execution Report is considered to be necessary for the target audience, i.e. the Executive Committee. On the other hand, the details of the observations can be found in the audit reports, which are transmitted to the competent members of the Senior Administration according to the object audited, and, in addition, they are always available to the rest of the members of the Executive Committee, which will be explained in the Implementation Report.</p> <p>Deadline : 31.12.2023</p> | <ul style="list-style-type: none"> <li>Approved</li> </ul> |

# VALIDATION AGREEMENT OF THE INDEPENDENT QUALITY ASSESSMENT



| Gaps to Conformance and Significant Opportunities for Continuous Improvement with the Standards or the Code of Ethics  | IAD Corrective Action Plans   | Opinion of the IIA Evaluation Committee                    |
|--|---|--|
| <ul style="list-style-type: none"> <li>OCI #2110-A2: assessment on whether the IT governance of BDE supports the organization's strategies and objectives</li> </ul> | <p>The information provided to the Governor and the Audit Committee on the assessment of the Bank's IT governance and on its support for the organization's strategies and objectives (through the audits carried out) is considered sufficient. However, they will be asked if they require further information to include in the Execution Report.</p> <p>Deadline : 31.12.2023</p> | <ul style="list-style-type: none"> <li>Approved</li> </ul> |
| <ul style="list-style-type: none"> <li>OCI #2201-2: auditees perception of own risks and impact in the WP</li> </ul>   | <p>Information already included in the minutes of the kick-off meetings of all audits.</p>  | <ul style="list-style-type: none"> <li>Approved</li> </ul> |
| <ul style="list-style-type: none"> <li>OCI #2210-2: source of the key / expected controls in the WP</li> </ul>   | <p>In work programmes, this information is included when it is considered to add value (e.g. when it is drawn from a standard).</p> <p>Where control practices are obtained from a specific source of good practice, this shall be expressly indicated.</p> <p>Deadline : 31.12.2023</p>  | <ul style="list-style-type: none"> <li>Approved</li> </ul> |

# VALIDATION AGREEMENT OF THE INDEPENDENT QUALITY ASSESSMENT



| Gaps to Conformance and Significant Opportunities for Continuous Improvement with the Standards or the Code of Ethics                        | IAD Corrective Action Plans   | Opinion of the IIA Evaluation Committee                    |
|--|---|--|
| <ul style="list-style-type: none"> <li>OCI #2410-A1-1: deadline to collect the high / medium action plans in the audit report</li> </ul>     | <p>A deadline is already being included in the Internal Communication requesting Action Plans.</p> <p>Extreme vigilance will be exercised in meeting deadlines.</p> <p>Deadline : 31.12.2023</p>  | <ul style="list-style-type: none"> <li>Approved</li> </ul> |
| <ul style="list-style-type: none"> <li>OCI #2410-A2: satisfactory performance according to the results of the audit work</li> </ul>          | <p>Where appropriate and convenient, consideration shall be given to how to include positive feedback in the audit report. The results will be reflected in the template available on the Internal Audit Portal.</p> <p>Deadline : 31.12.2023</p>   | <ul style="list-style-type: none"> <li>Approved</li> </ul> |
| <ul style="list-style-type: none"> <li>GTC #2420: reduce the duration of audit engagements and issuance of the final audit report</li> </ul> | <p>The scope of the BdE's optional (local) audits will be limited and, within the defined scope, the audit will focus on risks with medium or high potential impact.</p> <p>In addition, and taking into account the risk tolerance established in the BdE, the advisability of including only medium and high risk observations in the audit report will be assessed.</p> <p>In addition, compliance with the deadlines set out in the audit programmes will be monitored more closely and strictly.</p> <p>The closing meeting is a practice that has been in place for years.</p> <p>Deadline : 31.12.2023</p> | <ul style="list-style-type: none"> <li>Approved</li> </ul> |



# VALIDATION AGREEMENT OF THE INDEPENDENT QUALITY ASSESSMENT



| Gaps to Conformance and Significant Opportunities for Continuous Improvement with the Standards or the Code of Ethics                                   | IAD Corrective Action Plans  | Opinion of the IIA Evaluation Committee                    |
|---|--|--|
| <ul style="list-style-type: none"> <li>OCI #2500: further reviewing on an on-going basis the high and medium risk action plans</li> </ul>               | <p>Alarms will be set for the auditees in which they will be indicated, one month before, that the expiration of the actions is near. Likewise, they will be reminded that, as established in the Audit Manual, they can send us at any time the evidence that demonstrates their effective implementation, in order to proceed with their assessment and definitive closure if applicable.</p> <p>Deadline : 31.12.2023</p> | <ul style="list-style-type: none"> <li>Approved</li> </ul> |
| <ul style="list-style-type: none"> <li>OCI #2500.A1: implementing specific actions to reduce the delays to remediate the identified findings</li> </ul> | <p>In addition to the previous measure, the status of actions with an expired implementation period of more than 5 years will continue to be requested on a quarterly basis.</p> <p>Deadline : 31.12.2023</p>  | <ul style="list-style-type: none"> <li>Approved</li> </ul> |

