
To Sven GENTNER Head of Unit European Commission - Directorate-General for
Financial Stability, Financial Services and Capital Markets Union - Deputy Director-
General - Financial Markets - Corporate reporting, audit and credit rating agencies
(FISMA.C.1)

Copy to:

U. Bassi, Director General, FISMA.

C Rogier Wesseberg, Senior Expert, FISMA.C.1

February 17, 2022.

Subject: Comment letter to ECIIA's Response to the EC Consultation on Corporate Reporting

Dear Mr Gentner,

We thank you for the opportunity to share our view on the audit reform implementation.

ECIIA is the European Confederation of Institutes of Internal Auditing and represent 48.500 members.

This initiative on corporate reporting is crucial as we observe that non-financial information is now as important as the financial reporting.

We would like to recommend extension on what 'audit' means, while we appreciate that the consultation and the Directive 2014/56/EU and the Regulation 537/2014 (together called the "EU Audit Reform) are mainly focused on improving the quality and effectiveness of statutory/external audit, we would like to emphasize the role of internal auditors. They provide independent reasonable assurance and insight and are key for effective corporate reporting.

Robust corporate reporting should underpin enhancing the internal auditors' role in internal controls and reliable and effective reporting.

The [Three Lines Model](#). in the context of our response, is key to understand the organisation's governance, risk management, audit and assurance functions.

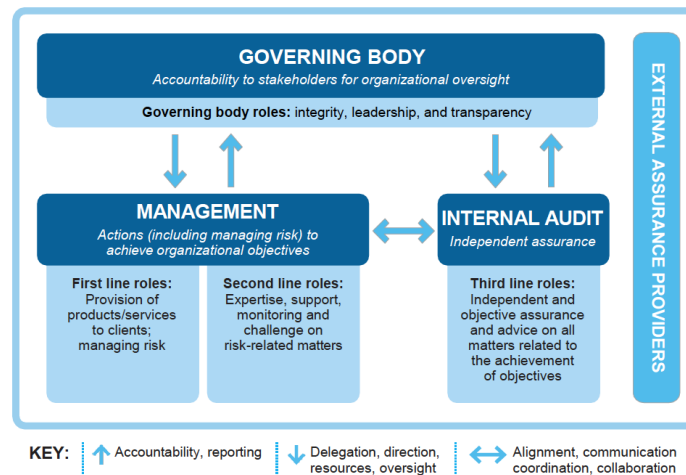
The model articulates the core components of effective governance and include principles:

- Accountability by a governing body to stakeholders for organisational oversight;
- Actions, including risk management, by management to achieve the objectives of the organisation through risk based approach;

- Assurance and advice by an independent internal audit function to provide clarity and confidence, and to promote and facilitate continuous improvement.

These principles are important for the effectiveness and efficiency of internal control and risk management systems.

The IIA's Three Lines Model



The reporting process involves actors from each line and organisations must define the accountability of each actor involved to ensure the reliability, coherence and transparency of the information published

Under this model internal audit is shown as the Third Line with a primary reporting line to the Governing Body/Audit Committee. External/statutory audit is considered as effectively assurance provider, located outside the business. The role of internal audit is to provide assurance on the effectiveness of risk management, internal control and governance across the business, providing insight to the board on a broad range of financial and non-financial risks areas.

We, therefore, strongly recommend the obligation to set up an internal audit function in all organisations.

Internal audit has a unique position as the Third Line in the business, it means it has an independent 'helicopter view' of the entire audit, risk and assurance landscape, helping to weave the policy together, in partnership with the other assurance functions (internally and externally). They play an important coordination role and assist the Governing Body in its oversight role.

Similarly, **we recommend the obligation to set up an Audit Committee** in charge of the supervision of the audit functions and the evaluation of the effectiveness of the internal controls, risk management and governance. Efforts should be made in the composition of the audit committee members to ensure that they have collectively the required knowledge.

Finally, we support the simplification and harmonization of the audit rules across Europe.

About ECIIA

The European Confederation of Institutes of Internal Auditing (ECIIA) is the professional representative body of 34 national institutes of internal audit in the wider geographic area of Europe and the Mediterranean basin. We represent 48.500 internal auditors.

The mission of ECIIA is to be the consolidated voice for the profession of internal auditing in Europe by dealing with the European Union, its Parliament and Commission and any other appropriate institutions of influence. The primary objective is to further the development of corporate governance and internal audit through knowledge sharing, key relationships and regulatory environment oversight.

Contact

P. Vandenbussche-ECIIA Secretary General-Email: p.vandenbussche@eciia.eu