
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 Wessemsberg, 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 Auditors 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 an extension on what 'audit' means. While we appreciate that the consultations 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 also key for effective corporate reporting.

Robust corporate reporting should in our view underpin enhancing the internal auditors' role in auditing internal governance, risk management and control, related to and imperative for 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.

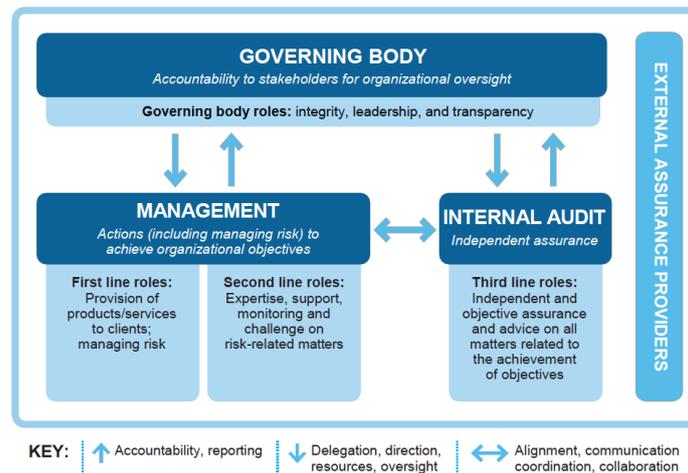
The model articulates the core components of effective governance and includes principles on :

- The governing body being accountable to stakeholders for organisational oversight;
- Management is to take actions, including risk management, to achieve the objectives of the organisation, through a risk based approach; and

- 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 Three Line Model, Internal Audit is shown as the Third Line internal assurance provider, with a primary reporting line to the Governing Body/Audit Committee. The external/statutory auditor is considered as an external assurance provider, located outside the business. The role of Internal Audit is to provide assurance on the design and effectiveness of governance, risk management and internal control across the business, also providing insight to the board on a broad range of financial and non-financial risks areas. As the corporate reporting is the (ultimate) result of internal processes, managed and controlled through the internal governance, risk management and control activities, the work of the Internal Auditor is important for the External Auditor to leverage and rely on.

We, therefore, strongly recommend the obligation to set up an internal audit function in 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 design and

effectiveness of the governance, risk management and internal control. Efforts should be made in the composition of the audit committee members, to ensure they collectively have the required skills, experience and 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.

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