



16 February 2022

Via Online

Re: EC Consultation on Corporate reporting – improving its quality and enforcement

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 Wessenberg, Senior Expert, FISMA.C.1

Dear Mr. Gentner:

On behalf of The Institute of Internal Auditors (The IIA) and our more than 210,000 professional members worldwide, I thank you for the opportunity to comment on the European Commission's (EC) Consultation on "*Corporate reporting – improving its quality and enforcement.*" As President and CEO of The IIA, my main mission is enhancing the value internal audit professionals add to their organizations around the world for the support of investors and the public interest. The points made in our response are aligned with those of our member affiliates including the European Confederation of Institutes of Internal Auditors (ECIIA).

Regarding the EC's consultation document, we highlight our specific agreement with, and support of, the following objectives:

- That information companies disclose to the public should be high quality.
- That corporate reporting by listed companies is critical to capital markets.
- That one of the three key pillars to quality and reliable public reporting by listed companies is corporate governance inside these companies.
- That initiatives should balance increased quality and effectiveness with limited additional costs and avoidance of undue administrative burden.
- That this initiative should be positioned to support both financial and nonfinancial reporting objectives.

To help achieve these objectives, we recommend that the EC mandate an internal audit function as one of the three key actors in effective corporate governance. As one of the three key actors in corporate governance, internal audit:

- Exists inside listed companies and provides risk-based, objective assurance over internal processes, including governance, risk management and control, the objective of which is producing high-quality, reliable information to both internal and external stakeholders.
- Produces high-quality insight and advice when adequately resourced, appropriately positioned independent of management, and conforming to international recognized standards such as those promulgated by The IIA.
- Provides a level of internal assurance that is commiserate with the level of confidence needed by stakeholders.
- Enables statutory auditors to provide external assurance in balance with companies' cost and administrative burden.

The Three Lines Model

The core components of sound corporate governance are articulated in the widely accepted Three Lines Model, updated and published by The IIA in 2020. The Three Lines Model emphasizes the need for clear roles and responsibilities toward confronting applicable risks, and the crucial importance of effective coordination, communication, and collaboration. The model articulates the three core components (lines) of effective corporate governance:

- The governing body is accountable to stakeholders for organizational oversight;



- Management’s responsibility to take actions, including risk management, to achieve the objectives of the organization, 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 governance, risk management and control systems and reporting. The reporting process requires organizations to define the accountability of each line to ensure the reliability, coherence, and transparency of the information reported, assured through their internal audit functions.

Because of its holistic view and understanding of risks across an organization, internal audit is uniquely positioned to provide objective assurance, independent from management, on effective governance structures and systems of internal control (such as those using the *COSO Internal Controls - Integrated Framework*) that produce corporate reports and disclosures. This assurance, in turn, ensures complete, accurate, transparent and reliable financial and nonfinancial information on which to effectively assess risk, confidently make decisions, and protect the public interest.

Global IIA Standards Apply to All Internal Audit Professionals Working in All Organizations

Internal auditing is conducted in diverse legal and cultural environments, for organizations that vary in purpose, size, complexity, and structure. While differences may affect the practice of internal auditing in each environment, conformance to The IIA’s *International Standards for the Professional Practice of Internal Auditing (Standards)* is essential in meeting the responsibilities of internal auditors and the internal audit activity.

The IIA *Standards* are developed by a standards-setting board, following a rigorous due process, and overseen by an Oversight Council, made up of representatives from several global organizations. The Oversight Council evaluates and advises on the adequacy and appropriateness of The IIA’s standard-setting processes to promote inclusiveness and transparency and ensure the *Standards* serve the public interest.

The IIA’s *Standards* provide internal audit leadership a framework and related guidance to ensure the effectiveness of the internal audit activity. The *Standards* also provide internal audit stakeholders a basis for evaluating the activity’s effectiveness and, at least every five years, an external quality assurance review is mandatory. In addition, The IIA provides various timely authoritative guidance that offers detailed information on how to better serve and add value to organizations and their stakeholders.

Internal Audit, as Key Actors in Effective Governance, Helps Statutory Auditors

The definition of internal auditing developed by The IIA states: “Internal auditing is an independent, objective assurance, and consulting activity designed to add value and improve an organization’s operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.” Identifying the important role of internal auditors within corporate reporting aligns directly with The IIA *Standards* and principles of the internal audit profession as trusted stewards to companies around the world.

The IIA also advocates that it is the professional responsibility of the external auditor to use the work of the internal auditor if effectively functioning within any organization. ISA 610 “Using the Work of Internal Auditors” says the statutory auditor, where considered relevant, should determine whether, and to what extent, to use specific work of the internal auditors; and if so, whether such work is adequate for the purposes of the audit. In accordance with the requirements of ISA 610, the statutory auditor assesses the competence and objectivity of internal auditors and may also consider, where appropriate, direct assistance of internal auditors. EC proposals should encourage the use by statutory auditors of a company’s effective internal audit function as an integral part of their assessment of their client’s corporate governance. The use of internal audit will also allow the statutory auditor to provide external assurance while balancing cost and administrative burden for companies.



The Institute of
Internal Auditors
Elevating Impact

Thank you again for the opportunity to provide feedback to the consultation on *Corporate reporting – improving its quality and enforcement*. I encourage the EC to identify and recognize the value of internal assurance, independent from management, provided by an organization's internal audit function, over the management and disclosure of any corporate reporting, including those that are financial and nonfinancial.

The IIA stands ready to assist as the EC further organizes targeted interviews and meetings with stakeholders and organizes dedicated workshops. I am available to discuss our response with you at your convenience.

Sincerely,

Anthony J. Pugliese, CIA, CPA, CGMA, CITP
President and Chief Executive Officer
The Institute of Internal Auditors, Global Headquarters