



## International Federation of Accountants

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### **By E-Mail**

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July 28, 2005

Dear Ms Blomme

### **FEE Discussion Paper – Risk Management and Internal Control in the EU**

Although the International Auditing and Assurance Standards Board (IAASB) has not formally reviewed FEE's discussion paper on risk management and internal control in the EU, it was discussed by the IAASB Steering Committee in the context of IAASB's plans and agenda. The Steering Committee did not consider that a full response to all the questions raised was necessary or appropriate, but suggested that I write to you with its views on a few issues.

The Steering Committee welcomes FEE's initiative to stimulate and promote debate among investors, business and regulators on the subject of risk management and internal control in the EU. A full and informed debate on the role and importance of risk management and internal control is a necessary prelude to further regulatory requirements that might be considered.

The Steering Committee was pleased to note that the discussion paper approached the subject from a broad corporate governance perspective, recognizing the importance of the accountability of management and those charged with governance to shareholders. It also agreed with FEE's position that any consideration of new regulatory requirements on risk management and internal control in the EU should take into account the likely benefits of the new requirements to companies and their shareholders, relative to the costs of implementation and compliance.

The Steering Committee has asked me to comment on the following three specific aspects:

- i) It is important that any requirement for reports by companies on their risk assessment and internal controls should be demand led. While it is noted that the auditing profession should be sufficiently involved in the development of proposals for assurance engagements by others to assist in ensuring that these are practical and realistic from an assurance perspective, it is not appropriate that standard setters should be developing service opportunities for consideration by the market and regulators.
- ii) The discussion paper rightly recognizes that, in improving risk management and internal control, companies should follow an evolutionary path over a number of years that recognizes the challenges involved and allows opportunity for past experience to be fully assimilated. In line with this, the Steering Committee is monitoring developments related to reporting on internal control internationally with a view to recommending to the IAASB appropriate responses from a standard-setting perspective as and when appropriate. One such response is the proposed development of an IAASB project proposal for further guidance on the definition and meaning of a material weakness in internal control to enhance practitioners' evaluation and reporting on such matters.
- iii) The Steering Committee was pleased with FEE's support for the use of the IAASB's assurance standards in enabling external auditors to provide assurance services in relation to company reporting requirements on risk management and internal control. The Steering Committee should, however, like to emphasize that caution should be exercised in suggesting that a level of assurance other than a high can or should be provided on the effectiveness of a company's risk management and internal control.

Once again, the Steering Committee welcomes and supports FEE's efforts in this important area. Should the above matters require any clarification, I should be pleased to discuss them with you or another representative of FEE.

Yours sincerely



John Kellas  
IAASB Chairman