

FEE
To Mrs. Hilde Blomme
Avenue d'Auderghem 22-28
B-1040 Brussels
Belgium

Date	Subject	Reference	Attachment	Direct number
29 July 2005	Comment on discussion paper	RB/RS/hg0016	1	T +31-20-3010318 F +31-20-3010302

Dear Mrs Blomme,

We thank you for sending the Discussion paper 'Risk Management and Internal Control in the EU'. We agree with your view that good risk management and internal control make business sense and businesses should not be subjected to regulatory intervention without good cause and a proper consideration of the costs and benefits. We support the view taken in the discussion paper to approach risk management and internal control from a corporate governance point of view as part of the accountability of a company's board and management to stakeholders.

In The Netherlands there has been an intensive discussion regarding Corporate Governance and management responsibilities for implementing adequate risk management and control systems. A private committee ('corporate governance committee') was set up in 2003 with the aim to investigate how principles and best practices of corporate governance could be described in such a way that transparency and responsibilities would be clear for a wide range of stakeholders. In December 2003 the committee presented its final report ('The Dutch corporate governance code') which was supported by a large number of stakeholders. Last year we have sent this report translated in English to you in hard copy and electronic form and we have mailed you this report again. Certain elements of the code have been implemented in Dutch law.

In order to give the auditor guidance in auditing the financial statements and auditing the information on the corporate governance code in the annual report, Royal NIVRA issued an Audit Alert 14 'The responsibilities of the auditor when auditing the information in the annual report regarding the application of the Dutch corporate governance code'. For your information we have annexed a copy of this Audit Alert.

In the annex to this letter we provide answers and comments on your questions. We will be pleased to answer any questions you may have regarding this letter.

Yours faithfully,
Royal NIVRA

Drs. R.G. Bosman RA
Technical Director

Annex

Question 1

Do you agree with FEE that there is a need to promote discussion and evidence gathering to encourage coordination and convergence of the development of risk management and internal control at EU level? If not, please explain.

Answer/comment

We agree with your view.

Question 2

Do you consider it appropriate for public policy on risk management and internal control in the EU to focus on listed entities and the needs of their shareholders? Alternatively, do you think that there is a pressing need to deal with issues relevant to a wider range of entities and stakeholders? If so, please explain.

Answer/comment

No. We are convinced that we should not only focus on listed entities. There are jurisdictions with over 80% not listed companies so why focus only on the 20%. We should find a better segmentation. We think that there should be a two way approach: implementing adequate risk management and internal control suitable for a wide range of **anonymous** stakeholders of listed companies and implementing adequate risk management and internal control for stakeholders of non-listed companies.

Question 3

Do you agree with FEE that the case for introducing any regulation related to risk management and internal control should have regard to: the business case for risk management; the advantages of principles-based requirements; the distinctive features of listed companies; the primacy of those charged with governance; and reasonable liability? If not, please provide details.

Answer/comment

We fully agree with FEE's view on these issues. We strongly believe in principle-based requirements because the principle-based approach is the basis for the European way of thinking and doing business. It is the basis for all EU and National European laws and regulations. This approach will provide a better fit with the requirements of the various businesses. We also are in favour of introducing principles of reasonable liability.

Question 4

Are there overriding principles additional to those identified by FEE in Sections 3.1 to 3.5 that are relevant to risk management and internal control? If so, please explain.

Answer/comment

No, we do not have any other overriding principle provided overriding means basic principle.

Question 5

Is the matrix for analysis presented in Figure 1 in section 4.1 clear and useful? If not, please explain why not.

Answer/comment

Yes, it is clear and useful.

Question 6

Is there any need to develop an EU framework for risk management and internal control? If so, how would you address the concerns about resources and benefits identified by FEE in section 4.2

Answer/comment

Developing an EU framework for risk management and internal control will be reinventing the wheel. It is better to accept COSO 1 and 2 as the basic framework. We only draw your attention to cultural differences in the EU community. It can not be that in all member states auditors and managers will react the same on different risks and understand fully the need and the consequences of internal controls. So we urge you to investigate the influence of those cultural differences on the proposed framework.

Question 7

Do you agree with FEE's disclosure principles for risk management and internal control set out in section 4.3? If not, why not and are there additional factors that should be considered?

Answer/comment

We agree with FEE's disclosure principles provided they will not be too descriptive.

Question 8

Do you agree with FEE's proposal that there should be a basic EU requirement for all companies to maintain accounting records that support information for published financial statements? If not, why not?

Answer/comment

We can't agree more.

Question 9

Do high-level criteria need to be developed to promote meaningful descriptions of internal control and risk management as envisaged by the proposal to amend the Fourth and Seventh Directives? If so, who should develop the criteria and if not, why not?

Answer/comment

The only criteria available on this moment are the criteria defined in the COSO 1 and COSO 2 reports. Those criteria are of a very high-level. In our view suitable criteria, as defined in the ISA framework, should be developed and made available as being the benchmarks to be used in the EU. Those criteria should be focussed on both the different business processes and the risks to be identified and the related internal controls. We would like to help you to accomplish this very difficult task.

Question 10

What role should regulatory requirements play in promoting improvement in risk management and internal control?

Answer/comment

Regulatory requirements should be restricted to high level principles (principle based approach).

Question 11

Do you agree with FEE's identification of the issues for consideration by listed companies and regulators set out in section 5.5? Are there any other matters which should be dealt with?

Answer/comment

We agree with FEE's identification.

Question 12

What views do you have on the issues for consideration discussed in section 5.5?

Answer/comment

We agree with your view that in improving risk management and internal control, companies should follow an evolutionary path over a number of years that recognises the challenges that are involved. We strongly suggest however to implement a monitoring system to make sure that companies following that evolutionary path should comply with the agreed timetable. Our view is also that a corporate governance code with adequate principles and best practices will be effective in implementing control systems.

Question 13

Do you consider that the current financial statement audit provides adequate assurance to investors in respect of internal controls over financial reporting? Please explain your response.

Answer/comment

No.

In performing a financial statement audit, only the internal controls related to the financial processes are audited. Sometimes existing internal controls are not included because substantive testing will give the auditor more comfort than auditing the internal controls.

Also in the reporting there will be a fatal flaw. Management letters with remarks of weaknesses in risk management and internal control systems are directed to management and supervisory bodies. Investors do not have information regarding internal controls over financial reporting.

Question 14

Should new disclosures related to risk management and internal control be subject to external assurance? If so, why, and should this be as part of an integrated financial statement audit as in the United States?

Answer/comment

Yes. For all information issued at the same time as the financial statement the auditor has to make sure that that information is not conflicting with the financial statement. So the auditor has a general responsibility for all the other disclosures as well. For that reason the new disclosures should be subject to external assurance. This requires development of suitable criteria.

Question 15

What do you see as the principal priorities in the possible development of new forms of assurance related risk management and internal control?

Answer/comment

We see developing 'suitable criteria' as the principal priority.