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THE
INSTITUTE OF
CHARTERED
ACCOUNTANTS
OF SCOTLAND



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Dear Hilde

RISK MANAGEMENT AND INTERNAL CONTROL IN THE EU – DISCUSSION PAPER

This response is prepared by the Business Law Committee of the Institute of Chartered Accountants of Scotland. The Business Law Committee is the Institute's committee which monitors developments in the rules and regulations affecting businesses generally and considers legislative and other proposals deriving from bodies such as the DTI, the European Commission and the FSA as the UK Listing Authority. The Committee is broadly based, with members representing different sizes of accountancy practice, industry, the investment community and the legal profession.

As the Institute's Charter requires, the Committee must act primarily in the public interest, and our proactive projects, responses to consultation documents etc. are therefore intended to place the general public interest first. Our Charter also requires us to represent our members' views and protect their interests, but in the rare cases where these are at odds with the public interest, it is the public interest which must be paramount. The Committee has considered the above consultation document and responds as follows:

We believe that any regulations/guidance on risk management and internal control should follow the comply or explain model of the United Kingdom Turnbull Guidance. This guidance has been successful in the United Kingdom due its principles based approach which has enabled companies to apply the guidance in a manner which is suitable to their own particular circumstances.

We believe that any regulations/guidance should cover all internal controls and should not be limited to financial reporting controls. We would oppose any movement towards a rules based approach such as the US Sarbanes-Oxley Act and believe that it would not be appropriate for boards to make a statement on the effectiveness of the company's internal control or for there to be any expansion of the external auditors' responsibilities on this matter. We believe that it is impossible to make such a statement in real time and any statement as to effectiveness relating to a past period risks giving misleading signals about its continuing relevance. We also believe that any statement as to effectiveness would incur significant internal and external audit costs due to the quantum of work which might have to be undertaken to make any positive statement.

We have not answered the detailed questions in the invitation to comment as we believe that our views are summarised above. We hope that our comments are of assistance to you. If you wish to discuss any of these further, please do not hesitate to contact me.

Yours sincerely



MICHELLE CRICKETT
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Secretary to the ICAS Business Law Committee