

Comments Template on EIOPA-CP-11/006 Response to Call for Advice on the review of Directive 2003/41/EC: second consultation		Deadline 02.01.2012 18:00 CET
Company name:	ECIIA, c/o IIA Belgium, Koningstraat 109-111, B-1000 Brussels (Belgium)	
Disclosure of comments:	EIOPA will make all comments available on its website, except where respondents specifically request that their comments remain confidential. <i>Please indicate if your comments on this CP should be treated as confidential, by deleting the word Public in the column to the left and by inserting the word Confidential.</i>	Public
<p>The question numbers below correspond to Consultation Paper No. 06 (EIOPA-CP-11/006).</p> <p>Please follow the instructions for filling in the template:</p> <ul style="list-style-type: none"> ⇒ <u>Do not change the numbering</u> in column "Question". ⇒ Please fill in your comment in the relevant row. If you have <u>no comment</u> on a question, keep the row <u>empty</u>. ⇒ There are 96 questions for respondents. Please restrict responses in the row "General comment" only to material which is not covered by these 96 questions. ⇒ Our IT tool does not allow processing of comments which do not refer to the specific question numbers below. <ul style="list-style-type: none"> ○ If your comment refers to multiple questions, please insert your comment at the first relevant question and mention in your comment to which other questions this also applies. ○ If your comment refers to parts of a question, please indicate this in the comment itself. <p>Please send the completed template to CP-006@eiopa.europa.eu, in MSWord Format, (our IT tool does not allow processing of any other formats).</p>		
Question	Comment	
General comment	The ECIIA (The European Confederation of Institutes of Internal Auditing) would like to thank EIOPA for the opportunity to comment on the Call for Advice on the review of Directive 2003/41/EC, second consultation.	

**Comments Template on EIOPA-CP-11/006
Response to Call for Advice on the review of Directive 2003/41/EC: second consultation**

**Deadline
02.01.2012
18:00 CET**

	<p>The ECIIA is a confederation of national associations of internal auditing located in 35 countries, including all those of the EU, representing 35,000 internal audit professionals. As such, the ECIIA is an Associated organization of the global Institute of Internal Auditors (the IIA), a professional organization of more than 170,000 members in some 165 countries. Throughout the world, the Global IIA is recognized as the internal audit profession's leader in certification, education and research regarding internal auditing. The Global IIA also maintains the International Professional Practices Framework (IPPF)= which includes the International Standards for the Professional Practice of Internal Auditing (available in 29 languages), the Definition of Internal Auditing, the Code of Ethics, practice advisories and other guidance (http://www.theiia.org/guidance/standards-and-guidance/interactive-ippf/).</p>	
1.		
2.		
3.		
4.		
5.		
6.		
7.		
8.		
9.		
10.		
11.		
12.		
13.		
14.		
15.		
16.		
17.		

**Comments Template on EIOPA-CP-11/006
Response to Call for Advice on the review of Directive 2003/41/EC: second consultation**

**Deadline
02.01.2012
18:00 CET**

18.		
19.		
20.		
21.		
22.		
23.		
24.		
25.		
26.		
27.		
28.		
29.		
30.		
31.		
32.		
33.		
34.		
35.		
36.		
37.		
38.		
39.		
40.		
41.		
42.		

**Comments Template on EIOPA-CP-11/006
Response to Call for Advice on the review of Directive 2003/41/EC: second consultation**

**Deadline
02.01.2012
18:00 CET**

43.		
44.		
45.		
46.		
47.		
48.		
49.		
50.		
51.		
52.		
53.		
54.		
55.		
56.		
57.		
58.		
59.		
60.		
61.	<p>Outsourced functions and activities are part of the IORP's operational risks so there have to be managed adequately. IA can give an assurance on the effectiveness of the process in place for mitigating the risk associated to key outsourced services. EIOPA should emphasize on this notion of key /essential activities. The capacity of the IORPs to guarantee the processes for monitoring these activities will be enhanced if based on an existing internal control framework in the IORP. With such a framework, supervisory authorities' action will be more efficient</p>	
62.		
63.	<p>ECIIA welcomes that EIOPA wants to apply the same material elements of the Solvency II requirements</p>	

**Comments Template on EIOPA-CP-11/006
Response to Call for Advice on the review of Directive 2003/41/EC: second consultation**

**Deadline
02.01.2012
18:00 CET**

	for governance to IORPs. An effective system of governance is key for every undertaking. The components of an effective system of governance are thoroughly described in the Solvency II framework for insurance and reinsurance undertakings. They should also count for IORPs as IORPs face similar risks as insurance undertakings. Less complex and small IORPs will benefit of the principle of proportionality, which allows them to implement a system of governance adapted to their respective business models.	
64.		
65.		
66.		
67.		
68.	Call up the key role of IA in evaluating and improving risk management system. The paper emphasizes on continuous control. Even if this level of control is fundamental in mitigating risks, as it could identify on an ongoing basis some deficiencies and so reduce the impact of some risks. But it must be coordinated with periodical and more comprehensive review lead by the IAF (cf. 3LD) We agree with the principle of a risk management system covering all the risks.	
69.		
70.		
71.		
72.		
73.	Yes, should include all legislation and it must also cover the risk associated to outsourced activities. Furthermore ECIIA would like to suggest a more broad view of the internal control as recognized internationally and defined in the COSO framework. The proposal is really focused on compliance function and the documentation of . It will be more relevant to state the different components of sound IC (risk based and control environment). For example the control environment is the cornerstone for the effectiveness of compliance policies and for an effective monitoring of IC activities at all levels of the organization.	
74.	ECIIA strongly believes that the material requirements of Internal Audit in respect of insurers should also apply to IORPs. Internal Audit is key to an effective system of governance. We would like to elaborate a bit more on this point.	

**Comments Template on EIOPA-CP-11/006
Response to Call for Advice on the review of Directive 2003/41/EC: second consultation**

**Deadline
02.01.2012
18:00 CET**

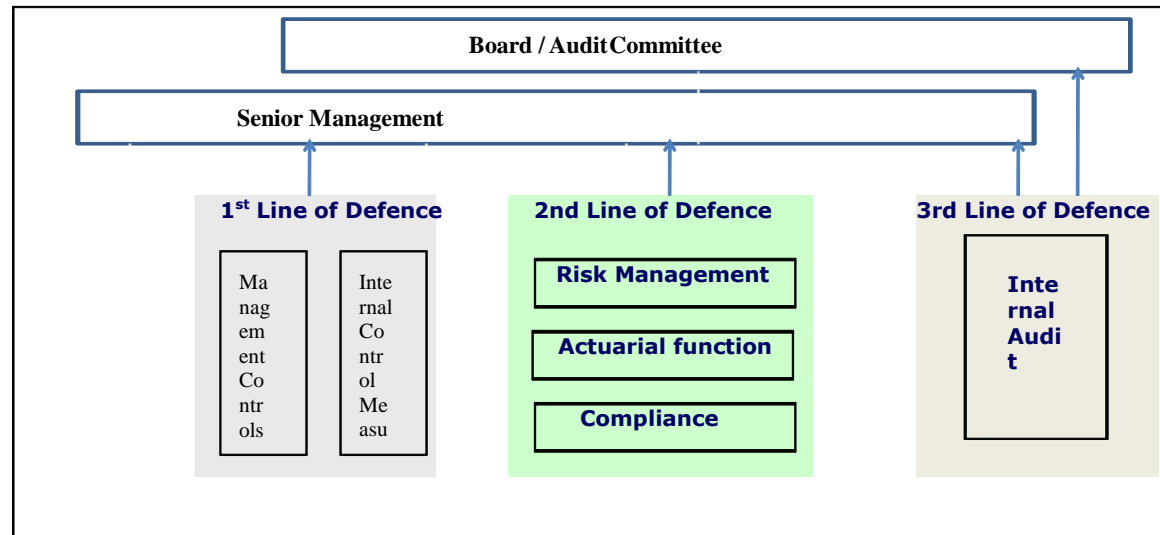
Internal Auditing is an essential part of Corporate Control and Governance. Important in this view is the fact, that Internal Auditing serves as an integral part of the organization and is thus involved in regular communication processes as an insider. Internal Auditing has more knowledge about the processes and control requirements for the company than any other internal or external function. It provides a global assurance to the management, administrative or supervisory board on the reliability of the enterprise's risk management and internal control systems. It does not happen by chance that Internal Auditing is a standard element in the context of the Audit Committee concept. Assurance can include:

- Budgetary management reporting
- Risk reporting
- Operational performance reporting
- Accounting processes and interrelationships with operations
- IT processes which, in complex environments, must ensure proper integration of diverse databases and systems

Internal Audit represents the so called "third line of defense" for any entity. The "Three lines of Defence-Model" is considered a valid conceptual delineation of control levels :

- First line : line controls, controls operated by line management
- Second line : in an insurance or reinsurance undertaking consists of activities covered by several components (compliance, risk management, actuarial function)
- Third line: an independent internal audit function providing assurance on internal control and risk management systems.

The Three lines of defence model



Efficient and effective interaction between these components is essential for a truly effective corporate governance

Internal Auditing departments worldwide use a common basis for their work: the **International Standards for the Professional Practice of Internal Auditing (Standards)** and the **International Professional Practices Framework** (<http://www.theiia.org/guidance/standards-and-guidance/interactive-ippf/>) defined by the Institute of Internal Auditors (IIA) make up a series of detailed strongly recommended or mandatory guidance for all internal auditors worldwide. Thus, Internal Auditors in all parts of the world can rely on a common basis for their work. Guidance for internal auditors includes

**Comments Template on EIOPA-CP-11/006
Response to Call for Advice on the review of Directive 2003/41/EC: second consultation**

**Deadline
02.01.2012
18:00 CET**

specifically: characteristics of organizations and parties performing internal audit activities. As stated in the international definition, internal audit activity must evaluate and contribute to the improvement of internal control and risk management systems. These evaluations are valuably based on the use of internationally recognized frameworks such as COSO I and COSO ERM framework.

The positive value of Internal Audit depends of course on its own quality structure and performance. Criteria applicable to this includes:

- The effective independence of the internal audit function; organizational independence is effectively achieved when the chief audit executive reports to the highest level within the organization, has direct and unrestricted access to senior management and the board.
- The clarity of the mandate of Internal Audit approved by the Board
- The closed relationship with governance bodies on material subjects (follow up, planning and resources),
- The management of the internal audit function in accordance with the Standards
- The implementation and results of the quality assurance review process required by the Standards, including the external assessment every five years by qualified assessors. The competency of the chief audit executive (“fit and proper”), requiring strong leadership capability in addition to technical and communication skills
- The adequacy of resources, both human and technical, including for example appropriate certifications by members of the Internal Audit department as issued by the Institute of Internal Auditors.

Therefore we very much appreciate the requests on independence and objectivity of Internal Audit as stated in the Call for advice. They are fully in line with the requests defined by our Standards. We would like to recommend embedding three more core principles of the work of Internal Audit.

- The work of Internal Audit has to be risk-oriented. Risk orientation means especially the

**Comments Template on EIOPA-CP-11/006
Response to Call for Advice on the review of Directive 2003/41/EC: second consultation**

**Deadline
02.01.2012
18:00 CET**

- development of a risk-oriented audit plan on a yearly basis ensuring that the high risk areas of the undertaking are covered in an appropriate way.
- An audit report has to be delivered after each assignment with findings and recommendations delivered to the relevant management, administrative or supervisory body. The adequate documentation and communication of all audit results to the stakeholders are key for the effectiveness of Internal Audit. By addressing weaknesses in the internal control system or the risk management system and making recommendations how to improve the systems Internal Audit adds significant value to an organization.
 - The establishment of a follow-up process to monitor and ensure that management actions have been effectively implemented should also be considered as a minimum requirement towards the internal audit function. Without a stringent follow-up process it can not be ensured that actions to improve the internal control or risk management system are implemented and the overall control environment including the system of governance improves.

The Standards cover this aspects and define more requirements, which an internal audit function has to fulfill. The Standards base on good practices of internal audit functions worldwide and can be seen as the standard followed by the global internal audit community. We recommend to have a link to the Standards in the foreseen directive or any additional guidance. With this link all requirements towards an efficient and effective internal audit function could be covered without giving to much detail in the directive or guidance itself.

Although internal audit function must evaluate the potential for occurrence of fraud and how the organization manages fraud risk, it is not intended to focus on deterring and investigating fraud.

The decision of outsourcing IA must be taken by the governance bodies after taking into account the risks associated to such an option. For example, in the consultative paper of the Basel committee “The internal audit function in banks” states that “Internal audit activities should normally be conducted by the bank's own internal audit staff. While internal audit activities may be partially or fully outsourced, the board of directors remains responsible for these activities and for maintaining an internal audit function within the

**Comments Template on EIOPA-CP-11/006
Response to Call for Advice on the review of Directive 2003/41/EC: second consultation**

**Deadline
02.01.2012
18:00 CET**

	bank (§ 42.)”	
75.	<p>Regarding the proposed whistle-blowing obligation ECIIA do not think such an obligation would be beneficial for the effectiveness of the internal audit function in the system of governance. Internal Audit is an internal function of an undertaking. It is responsible only towards the management, administrative or supervisory board and supports this function by overlooking the activities of the entity, especially the risk management, internal control system and the system of governance. Its independence and objectivity towards other functions is key for its success. But a good relationship towards the respective board is also key for the success of Internal Audit. It has to be founded on mutual trust and reliability. This is the precondition for open communication between the relevant body and Internal Audit. Without open communication Internal Audit will have difficulties to obtain the information needed to evaluate the risk situation of the undertaking in an appropriate way. Any type of external whistleblowing would be in contradiction with current internal audit status within the organization.</p> <p>The results of Internal Audit should be fully transparent towards the supervisory authority and it should be entitled to receive all internal audit reports. But this should happen via an official reporting line including the management, administrative or supervisory board.</p>	
76.		
77.		
78.		
79.		
80.	Yes and these requirements should include key processes and must be in the scope of Internal Audit Function, the Internal Control and Risk Management system.	
81.		
82.		
83.		
84.		
85.		

**Comments Template on EIOPA-CP-11/006
Response to Call for Advice on the review of Directive 2003/41/EC: second consultation**

**Deadline
02.01.2012
18:00 CET**

86.		
87.		
88.		
89.		
90.		
91.		
92.		
93.		
94.		
95.		
96.		