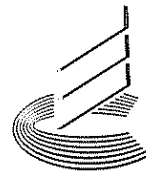


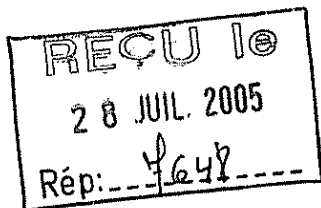


CONSEIL NATIONAL
de la Compagnie nationale
des commissaires aux comptes



CONSEIL SUPÉRIEUR
de l'Ordre des
experts-comptables

12th July 2005



Mr David Devlin
President
Fédération des Experts Comptables Européens
Rue de la Loi 83
1040 Bruxelles

VB JPA GZ CB 2005-711

Re: FEE Discussion paper – Risk Management and Internal Control in the EU

Dear Mr Devlin,

The Compagnie Nationale des Commissaires aux Comptes (CNCC, the French Body of Statutory Auditors) and the Conseil Supérieur de l'Ordre des Experts-Comptables (CSOEC, the French Public Accountancy Body) are pleased to comment on the FEE Discussion paper on Risk Management and Internal Control in the EU.

You will find in the attached appendix the responses to the specific questions raised in the invitation to comment.

We would be pleased to discuss any aspect of this letter you may wish to raise with us.

Yours sincerely,

Vincent BAILLOT
President of the CNCC

Jean-Pierre ALIX
President of the CSOEC

Envoyer obligatoirement toute correspondance aux deux adresses ci-dessous.

Appendix

Responses to specific questions raised in the invitation to comment

- 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. (Section 2.4)**

Yes.

A uniform approach to risk management and internal control should be encouraged within the Union member states.

At present numerous initiatives exist in this sense in various countries in the Union and coordination can only be constructive.

Such an approach would supplement the convergence and standardisation initiatives already taken within the European Union as regards accounting standards (IFRS) and audit standards (ISA).

- 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. (Section 2.4)**

It is preferable to restrict the scope of the new provisions envisaged in relation to risk management and internal control.

In our opinion, it would be reasonable for these provisions to be applicable initially only to Public Interest Companies as defined by the draft European Directive.

Indeed, the cost borne by these companies in order to meet these obligations should not be minimised; the general and immediate application to all companies might provoke a phenomenon of rejection that would be prejudicial to the objective sought.

Initially, optional application by enterprises not considered to be public interest companies would be preferable and would constitute a good practice which could subsequently be extended to other companies, with the exception of small entities not exceeding thresholds to be defined.

The shareholders are probably not the only ones to have to be taken into account for the implementation of these provisions. The recent scandals, both in Europe and the USA, have shown that other third parties (suppliers, clients, employees, public authorities, banks, etc.) are concerned by the provisions set up by the company to manage its risks and by the quality of its internal control.

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. (Section 3.6)**

Yes to both questions.

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. (Section 3.6)**

No principles to be added to those identified by FEE.

5. **Is the matrix for analysis presented in Figure 1 in Section 4.1 clear and useful? If not, please explain why not. (Section 4.4)**

Yes, this matrix makes it possible to show, firstly, the various types of risk identified by the COSO (financial, conformity, strategy and operational) and, secondly, the risk management activities and the conditions of preparation of the reports.

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? (Section 4.4)**

The development of a European framework or guidelines for internal control and risk management is a necessary condition for companies and their auditors to have a common vision of these subjects. Such a framework would, in addition, make it possible to reconcile the audit risk model developed by the IAASB for auditors (ISA 315 in particular) and the principles of internal control and risk management designed for companies (COSO for example), as both approaches cannot be different.

Solutions should be favoured which can be accepted as widely as possible internationally and the work already undertaken on this subject during the preparation of the internal control guidelines that already exist should be taken into account. From that point of view, it is therefore difficult not to refer to the "COSO" which is the most widely recognised and applied framework in the world.

The Union should define the basic principles of an internal control framework (components, due process of preparation, etc.) to which companies would refer in their communication on risk management and internal control.

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? (Section 4.4)**

Yes.

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? (Section 5.6)**

Yes.

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? (Section 5.6)

Yes. Practical “criteria” must necessarily be defined at European level for the entities so that they can meet the legislative and statutory obligations concerning their communication on internal control and risk management in satisfactory conditions. These criteria would be applied uniformly within the member countries under the control of the regulators and the auditors.

10. What role should regulatory requirements play in promoting improvement in risk management and internal control? (Section 5.6)

The law must be progressive in the application of the provisions concerning risk management and internal control; it should fix stages and a timetable for companies to meet the targets. There should be prior consultation with all the stakeholders concerning the development of these provisions.

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

Yes.

12. What views do you have on the issues for consideration discussed in Section 5.5? (Section 5.6)

- Issues related to managing risks

The document seems to consider that risk management is a process which would be added on to the setting-up of the internal control procedures, whereas these two processes are complementary and difficult to dissociate.

Internal control should be the response to the risks facing the company, particularly as regards accounting and financial aspects.

- Issues related to disclosures of overall process

The significant areas are correctly identified in this section:

- The quality required for the preparation of the reports drawn up by the companies: greater importance should be given to the relevance of the information given;
- The necessary clarification of the aim of these reports: should they concern the design of the processes and/or their effectiveness?
- How should reports that are too long and descriptions that are of no interest to the reader and identical from one year to the next be avoided?
- The often confidential nature of the information covered by these processes.

These difficulties show that it is more useful for the reader to have a report prepared by the management confirming that risk management and internal control processes exist within the company, rather than a description of the procedures set up which could prompt more questions than answers.

- Issues related to disclosures of management of specific risks

The comments made in the item above can be repeated here.

One might add that a company is by definition an organisation which generates risks that it has to face. Risks are part of the life of a company and the latter must try to reduce them to an acceptable level for all the stakeholders by providing relevant information on these matters.

- Issues related to disclosures of effectiveness conclusion

In our opinion, it is necessary to note the difficulties of implementing the “certification” of the design and functioning of internal control (model chosen by the Sarbanes-Oxley Act in the United States); this work requires a great deal of effort and profuse literature.

The proposed solution (3rd § of page 27), which recommends that the process making it possible to express a conclusion on the effectiveness of internal control should be spread over time, is in our opinion reasonable.

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. (Section 6.7)

The audit standards are very clear on this subject: the auditor does not provide any assurance regarding internal control at the conclusion of his audit of the financial statements:

“In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control”. (ISA 700)

The audit of the financial statements is therefore not intended and does not make it possible to guarantee the quality of internal control; taking internal control into account in the audit approach merely contributes to assessing the risk related to control.

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? (Section 6.7)

It is up to the legislator and the regulator to decide whether the auditor should be entrusted with a new assignment concerning the risk management and internal control procedures set up by the company.

Obviously, the performance of this new assignment would modify the approach of the auditor, who would rely more on the company's internal control procedures, subject to these procedures being documented, efficient and useful for the purposes of the certification of the accounts.

The United States now oblige the managers of companies that have gone public to certify the quality of the design and functioning of their internal control, and their auditors to confirm this certification. The work performed by the companies and by their auditors to meet this new obligation has been considerable; the extent of the work on internal control has naturally been taken into account by the auditors in their approach to the audit of the accounts; the two audit approaches have been implemented in a concerted manner and have resulted in the *integrated audit* concept.

If the same obligation had to be met in Europe, this concept would have to be developed.

15. What do you see as the principal priorities in the possible development of new forms of assurance related to risk management and internal control? (Section 6.7)

Priority should be given to the definition of the objectives to be attained in consultation with the various stakeholders.

Creating new obligations both for the companies and their auditors should be avoided without prior discussion with the stakeholders and without having identified and quantified the necessary means to be implemented, in particular the definition of a European framework for internal control.

In addition, do you have any other comments on this discussion paper not covered by the specific questions reproduced above?

Not at this stage.