

	Comments Template on Consultation Paper on on the Proposal for Guidelines on the System of Governance	Deadline 19 June 2013 12:00 CET
Name of Company:	The European Confederation of Institutes of Internal Auditing (ECIIA), Brussels	
Disclosure of comments:	Please indicate if your comments should be treated as confidential:	Public
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Reference	Comment	Resolution

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General Comment	<p>The ECIIA (The European Confederation of Institutes of Internal Auditing) would like to thank EIOPA for the opportunity to comment on the Consultation paper 13-008.</p> <p>As the representative of the profession of internal auditors in Europe ECIIA very much appreciates the important role Solvency II and EIOPA allows to Internal Audit in the system of governance. ECIIA is happy to support EIOPA in this task to any extent; following comments are consistent with the position paper named "The role of internal audit with Solvency II" prepared by ECIIA.</p> <p>ECIIA's comments are consequently focused only in Internal Audit guidelines, that provide a definition of Internal Audit completely in line with the Professional Standards issued by the The Institute of Internal Auditors (The Global IIA). However, we think that the role of Internal Audit can be more precise to reach a level of granularity similar to the roles and responsibilities of the other key functions, such as risk management and actuarial function. Otherwise the reader might get the impression that EIOPA gives these functions a greater emphasis. We therefore recommend in general, that all key functions are treated in a similar way. Furthermore it eases the reading and the understanding of the guideline, if all chapters and the guidelines regarding the key functions follow a similar structure and uses the same wording. In the delineation of the specific roles and responsibilities of each function, ECIIA suggests a reference to the "three lines of defence model". This model is more and more recognised as an international benchmark to effectively coordinate different organisational function toward a comprehensive risk management system (permanent controls carried out by the business lines as first line; providing guidance and monitoring through, Risk Management, Compliance and Actuarial Functions as second line; auditing the other two lines to grant assurance by Internal Audit as third line of defence).</p>	
Introduction General Comment		
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1.26	<p>ECIIA thinks that the wording of the Guideline 8 might cause misunderstandings. Art. 41 rightly demands a regular internal review of the system of governance. This regular monitoring is a permanent task of each of the governance functions itself. In addition ECIIA recommends a self-assessment performed by the board itself on a yearly basis. It is a way to walk through decisions already taken by the board ensuring if they are still valid. This self-assessment should be conducted by a board member or a committee of the board. Furthermore we have the audit activities requested by Art. 47, which are reported to the board. All this activities form part of an internal review as requested in Art. 41. Guideline 8 might give the impression, that an additional review is requested, without saying which additional objective is pursued with it. So we can not see the added value of it. We propose to be more concrete saying that the regular internal review should, besides the ongoing monitoring activities of the governance functions, comprise a self assessment by the board and is supported by the audit activities in respect of the governance system.</p> <p>Guideline 8 - Internal review of the system of governance</p> <p>1.25 (new) In accordance with Article 41 of Solvency II, national competent authorities should ensure that the regular internal review comprises besides the ongoing monitoring activities of the governance functions a self assessment by the board supported by the results of the internal audit activities in respect of the governance system.</p> <p>1.25 old will be 1.26 new with „self Assessment“ instead of „internal reviews“; 1.26 old can be deleted; 1.27 old „self assessment“ instead of „review“</p>	
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1.28	ECIIA agrees that written policies clearly defining the task and responsibilities are crucial for an effective system of governance. Regarding the processes and reporting procedures (point c)) we would like to clarify, that in the policies approved by the AMSB these processes and procedures are defined at a high level, e.g. for Internal Audit the policy should set out, that Internal Audit disposes of processes for the risk based audit plan, the audit, the follow-up and the reporting. The details of each process should be defined in separate process descriptions or manuals, which include also the supporting IT tools. Add "general" in point (c)	
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Chapter II General Comments		
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Chapter III General Comments		

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1.37	<p>The responsibility of the AMSB counts for the whole system of governance. We see no need to emphasis this responsibility for the risk management system and the other components. In ECIIA point of view, the above mentioned "three lines of defence" model implies a correct balance between the different control units. Its use could be an effective practical mean to a coordinated and integrated approach to risk management and a common risk language across the organisation.</p> <p>Delete and add a paragraph in Guideline 3 stating the responsibility of the AMSB for the overall system of governance including the approval of the policies for all key functions.</p>	
1.38	<p>The responsibility of the AMSB counts for the whole system of governance. We see no need to emphasis this responsibility for the risk management system and the other components. In ECIIA point of view, the above mentioned "three lines of defence" model implies a correct balance between the different control units.</p> <p>Delete and add a paragraph in Guideline 3 stating the responsibility of the AMSB for the overall system of governance including the approval of the policies for all key functions.</p>	
1.39	<p>The responsibility of the AMSB counts for the whole system of governance. We see no need to emphasis this responsibility for the risk management system and the other components. In ECIIA point of view, the above mentioned "three lines of defence" model implies a correct balance between the different control units.</p> <p>Delete and add a paragraph in Guideline 3 stating the responsibility of the AMSB for the overall system of governance including the approval of the policies for all key functions.</p>	
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1.41	<p>There is no description of the general tasks of Internal Audit in the guideline such as performing audits covering all activities of the undertaking with a special focus on the system of governance, building a risk based audit plan, follow-up of recommendations and regular reporting to the AMSB about its activities.</p> <p>Adding a corresponding guideline in chapter VII.</p>	

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1.42	There is no description of the general tasks of Internal Audit in the guideline such as performing audits covering all activities of the undertaking with a special focus on the system of governance, building a risk based audit plan, follow-up of recommendations and regular reporting to the AMSB about its activities. Adding a corresponding guideline in chapter VII.	
1.43	It eases the reading of the guidelines, if the guideline follow the same order as in Art. 44 no. 2 of the directive.	
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Chapter IV General Comments		
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Chapter V General Comments		
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Chapter VI General Comments		
1.67	1.142 of the explanatory text doesn't mention the risk assessment component in the definition of IC. This is a key component for the efficiency of internal control measure and their alignment with the risk policy adopted by the AMSB.	
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Chapter VII General Comments	<p>ECCIA appreciates the role for Internal Audit considered in the guidelines especially the high independence and the role of Internal Audit as the assurance function for the AMSB. We think the articles of the chapter should be aligned with articles of chapter III. It should start e. g. with description of the general tasks of Internal Audit in the guideline such as performing audits covering all activities of the undertaking with a special focus on the system of governance, building a risk based audit plan, follow-up of recommendations and regular reporting to the AMSB about its activities.</p> <p>Furthermore a general link to the existing IIA standards could support the independence and effectiveness of the internal audit function.</p>	

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1.70	<p>ECIIA believes that the independence of Internal Audit is key to perform its assurance function towards the AMSB. Key for its independence are</p> <ul style="list-style-type: none"> • a reporting line functionally to the Board and administratively to the Chief Executive Officer (CEO) including the attendance of Board or Committee meetings and private sessions, if needed, with them without top management, • the right to audit any activity of an insurance undertaking at its discretion without any limitation and free of influence in the performance of its audit, • full access to all information within the company as well as active inclusion in the information flow of the company and • Decision of hiring and dismissal of the Head of Internal Audit should belong to the Board or the Audit Committee. <p>Guideline 35 should be rephrased.</p>	

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1.71	<p>ECIIA thinks the internal audit policy should in first place cover, how the insurance undertaking ensures its independence (see 1.70), followed by the rights (right to audit every activity, information) and general tasks Internal Audit has to perform (e.g. audit, monitoring of projects, consulting on internal controls) and which processes (planning, auditing, reporting, follow-up, quality assurance) should be in place and who is responsible for it (see also 1.29 of the Guidelines). It should comply with the IIA standards. The points a) to c) are not completely clear to us and we have the following remarks:</p> <p>a) The wording „can be called upon“ is misleading. The activities of Internal Audit base on the risk based audit plan approved by the AMSB. The activities comprises ex-post and ex-ante audits. Ex-ante audits may comprise the audit of projects as well as some consulting work by defining internal controls. The audit plan is not fix and may be adjusted, if new risks arises. But it is the decision of Internal Audit to add new activities to the plan based on its risk assessment and forward it to the AMSB for approval. Otherwise the activities of Internal Audit may be determined by third parties, which is not in line with the independence of Internal Audit. An appropriate rule should be set under 1.74. The point should be deleted.</p> <p>b) Internal Audit is an internal function of the insurance undertaking responsible solely towards the AMSB. The Solvency II directive does not foresee any direct reporting line towards the supervisory authority. Such a clause would jeopardise the position of Internal Audit in the undertaking as the independent assurance function towards the Board and may prevent open communication between Internal Audit and the other functions in an insurance undertaking including the AMSB. The point should be deleted.</p> <p>c) We see that rotation of staff supports the independence and objectivity of auditors. But we do not think a rotation of staff within an internal audit department is visible for most insurance undertakings. The development of additional, very specialised skills already means a challenge for Internal Audit. A rotation would mean that either Internal Audit has to hold available additional staff to cover all activities or, more probable, a less skilled auditor has to perform the audit. To ensure the independence of internal auditors the rules of the IIA Standards regarding independence and objectivity should be adhered to. The point should be deleted.</p>	

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1.73	<p>Before defining specific tasks of Internal Audit a clause with the general tasks of Internal audit should be added similar to Guideline 17 (see also our comment under 1.41). General tasks are the audit of all activities of the insurance undertaking including the system of governance. This requires a comprehensive and up to date audit universe, a risk based audit plan, preparing a report about each assignment with findings and recommendations, which should be made available to the AMSB, and a follow-up process.</p> <p>We agree with the determinations made in Guideline 37. But we think the audit plan should not only be reported to the AMSB but it should be approved by the AMSB. The audit plan is the basis for the work to be performed by Internal Audit. Thus the approval by the AMSB gives it a higher legitimization in the organisation.</p> <p>The points (d) and (e) are better under Guideline 38 as it deals with findings and recommendations. It should be compulsory for Internal Audit to issue a written report with findings and recommendations after each audit, not only once a year as rightly stated in the explanatory text Guideline (38 1.154.</p> <p>The explanatory text mentions the audit program in point 1.152 and 1.153. ECIIA agrees that it is important to have an audit program in place for each assignment and that it should be handled flexible. However, we do not understand the link to the audit cycle principle. An audit program is the basis for a single audit, which have to be adapted every time before an audit will take place. One can say the principal audit activities are defined in the audit plan, which bases upon the audit universe. The audit universe reflects all activities of an insurance undertaking, which have to be covered by Internal Audit. The audit cycle is reflected in the multi year audit plan ensuring that the audit universe can be covered in a certain period of time. Whereas the audit program is the basis for the audit work to be performed during one specific assignment in one specific year. Therefore the last sentence of point 1.153 should be deleted.</p>	

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1.74	ECCIA thinks it is important to give Internal Audit the possibility to carry out audits, which are not included in the audit plan (see also our comment to 1.71). The risk situation may change during the year and Internal Audit has to have the possibility to react accordingly. But ECIIA does not see, how "national competent authorities" can ensure it. It is rather the responsibility of the insurance undertaking to do so. This can be done e.g. by having a provision for not planned audit in the plan or by having a revolving plan, which is reviewed and adapted every quarter by the Head of Internal Audit with the approval of the AMSB. This can be ruled in the audit policy.	
1.75	<p>To make findings and recommendations including the remediation time and the responsible person are one of the major tasks of Internal Audit. They should be part of each audit report to be issued after each audit, not only at an annual basis. Each report should be made available for every member of the AMSB. Therefore the points 1.154 and 1.155 of the explanatory text should be part of Guideline 39.</p> <p>Point 1.158 should become an own Guideline as the follow-up is one of the key tasks of Internal Audit.</p> <p>The explanatory text mentions in 1.157 the coverage of Internal Audit; we see a broader coverage of risks taking into account the risk dimensions of the COSO model strategic, operational, reporting, compliance risks.</p>	

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1.76	<p>As mentioned before (see 1.75) an audit report with findings and recommendations has to be issued after each audit and made available to all members of the AMSB. This should be clearly stated in Guideline 39 and not only in the explanatory text to Guideline 38.</p> <p>The explanatory text mentions in point 1.159 that the AMSB should regularly discuss the audit program. Following our understanding of an audit program (see under 1.73), we do not think it is appropriate to discuss it in the AMSB. The audit program is an internal working paper of Internal Audit, which may be discussed in the AMSB in exceptional cases. The focus of the AMSB should be put on the audit plan.</p>	
Chapter VIII General Comments		
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1.82	ECIIA sees here a potential overlap with internal audit tasks, which may lead to double work. Given the Solvency II directive it is a task of the actuarial function to assess the consistency of the internal and external data. EIOPA expands this task by stating that „the actuarial function provides recommendations, ..., on internal procedures to improve data quality ...“. Data quality is one of the most important audit fields for the internal audit function not only in the Solvency II environment and part of nearly every assignment. . Data quality review is intrinsic in each audit assignment, and not only for the technical provisions processes but in all processes of the undertakings (premiums, investments, debts, information, etc) , and it could be included in the General tasks point as our proposal in guideline 37.	
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Chapter IX General Comments		
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