Comments of The Institute of Internal Auditors - UK and Ireland to the recommendation that companies should consider the risk of the withdrawal of their external auditor from the market as part of the risk analysis.

The risk event is that an external audit firm is no longer available in the market place. Just like the loss of any other major supplier, we believe that corporates should consider the risk.

We expect that the procurement departments of major corporates have well-honed processes for assessing the risk of loss of suppliers and for responding to it. However, the relationship with the external auditor is often handled not by the procurement department but by the finance function. Therefore, it may not be captured by the usual processes and this recommendation is a useful reminder to corporates.

As the FRC recognises, just because the risk is considered does not mean than any action will be taken. Individual organisations may assess the likelihood of the risk event occurring or the impact if it does to be so low that they decide that it is within their risk appetite. In that case, they will, rightly, take no action.

For the loss of an external audit firm, there is anecdotal evidence to suggest that many corporates believe that 'it cannot happen' or that 'they' will step in to fix the problem so that the impact is low. These two factors mean that corporates are likely to assess the risk as too low to require action before the fact.

We suggest that the FRC might find it helpful to share with the market the information they hold. This would allow corporates to assess more accurately the likelihood and impact of a firm no longer being in the external audit market.