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#### LATEST NEWS:

FEE's Sustainability Conference and the European Environmental Reporting Awards are taking place on April 29, 2002 in Copenhagen

For more details visit the 'What's New' section of [www.fee.be](http://www.fee.be)

FEE members entitled to a 10% discount on the forthcoming FT conference on IAS application, to be held in Brussels, April 25/26

Email FEE for a copy of the brochure

FEE President Mr. Göran Tidström will be speaking at both events



Mr. Robert Hodgkinson  
FEE Vice-President

## FEE LEADS AUDITING STANDARDS DEBATE

*There is broad agreement in Europe on the need to improve the quality and comparability of financial statement audits on the basis of International Standards on Auditing, (ISAs) developed by IFAC, (the International Federation of Accountants). FEE strongly supports ISA based harmonisation of auditing standards and therefore is keen to encourage this process in Europe.*

“...the discussion paper provides a practical vision for the future of auditing standards...”

With the launch of its new paper, entitled, ‘Proposal on International Standards on Auditing in the EU’, FEE is leading the debate about the future of auditing standards in Europe. The insightful discussion paper is the first such paper in this area from a major European stakeholder. The paper is a clear indicator of FEE’s commitment to harmonised auditing standards for all audits.

It suggests that the bodies entrusted with the job of

setting auditing standards should take responsibility, in the public interest, for transforming the transparency and comparability of auditing and audit reporting in the EU.

The FEE proposal calls for a major new commitment to the objectives and standards of the International Auditing Practices Committee, IAPC (the audit standard setting committee of IFAC), not only by professional bodies of accountants but also by

European institutions and investors, together with national regulators and standard setters.

It is envisaged that implementation of this proposal on International Standards on Auditing (ISAs) in the EU will be co-ordinated by a forum of European national auditing standard setters.

Such a forum will need to allow key stakeholders to provide input and to voice any concerns which, if not addressed, might call for an

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# ISAs IN THE EU

As a result, ISAs will become truly transparent benchmarking standards.

**FEE PROPOSES THAT BY 2005 NATIONAL AUDITING STANDARDS IN THE EUROPEAN UNION SHOULD REQUIRE AUDITORS OF FINANCIAL STATEMENTS TO:**

**PERFORM AUDIT PROCEDURES THAT COMPLY WITH INTERNATIONAL STANDARDS ON AUDITING (ISAs);**

**REPORT ON FINANCIAL STATEMENTS IN ACCORDANCE WITH ISAs; AND**

**PERFORM ADDITIONAL AUDIT PROCEDURES AND REPORT ON ADDITIONAL MATTERS IN RESPONSE TO SPECIFIC LEGAL, REGULATORY OR OTHER NEEDS ESTABLISHED AT A NATIONAL LEVEL.**

*(Continued from page 1)*

alternative approach to establishing common auditing standards across Europe.

## **Benefits of the proposal**

Although Member States have developed national auditing standards that are substantially in agreement with ISAs, the differences in standards which remain are neither transparent nor clearly identifiable. Currently, users of auditing reports have to invest extra resources to understand the precise nature of the assurance that is being given. This creates obstacles to the development of a single internal market in audit services. It also contributes to the fragmentation of Europe's markets and raises the cost of doing business.

By enhancing cross-border confidence in audited financial statements, the proposal will promote the internal market for goods and services across all sectors. It will also facilitate cross-border capital flows including, fund-raising and merger and acquisition activity, and the buying and selling of securities.

In the context of public capital markets, these initiatives to enhance audit quality support the Lamfalussy Report's vision for the swift integration of European capital markets and the adoption of International Accounting Standards, or IAS, by all EU listed companies from 2005.

Indeed the access to capital benefits of the International Accounting Standards, (IAS), will be reduced if audit reports only refer to the national auditing standards. Hence the FEE proposals expecting all auditors to comply with ISAs in respect of IAS financial statements; placing the onus on national standard setters to identify differences from ISAs; and requiring full disclosure of additional national requirements.

## **Implementation**

The transparency and comparability of auditing and audit reporting in the EU must be transformed. If national standard setters are to take responsibility for the adoption of ISAs in Europe, they will need to inspire confidence amongst their existing stakeholders as well as key stakeholders at the European level. Stakeholders include the European Commission and its Committee on Auditing, securities regulators, member states, professional bodies of accountants, audit firms and preparers and users of audited financial statements. FEE is well placed to act as a catalyst for establishing a forum for co-ordination amongst standard setters, as its member bodies either have responsibility for setting auditing standards, or make significant contributions to the standard setting process.

The purpose of a forum of European national auditing standard setters would be to provide a focus for dialogue and accountability at the EU level. It would encourage harmonisation and transparency, help ensure that implementation of the proposal stayed on track for 2005 and allow the Commission and other European institutions to communicate any concerns about

**Compliance with ISAs will encourage cross border use of audited financial statements**

**"The discussion paper has been developed to provide a practical vision for the future of auditing standards in Europe.**

**Auditing standards has now been identified as the major project on the Committee on Auditing's agenda."**

**Mr. Robert Hodgkinson,  
FEE Vice President &  
Auditing Working Party  
Chairman**

Downloaded the Discussion Paper from the 'FEE Position Paper' section of:

<http://www.fee.be>

the commitment of the standard setters and the auditing profession to delivering ISAs.

In practical terms the forum would enable, for example, the discussion and evaluation of national practices for potential incorporation into ISAs, as well as the identification of areas of EU-wide concern to the International Auditing Practices Committee, IAPC. Also, best practice on the successful implementation of ISAs could be shared.

In addition the national standard setters joining the forum would be expected to acknowledge the need to require compliance with ISAs. This will result in a number of positive outcomes, the prime one being the elimination of areas in which national standards are less demanding than ISAs. Any additional national requirements should be clearly identifiable, as the use of audited financial statements across borders is to be encouraged, in order to further develop the internal market. FEE not only supports European harmonisation of auditing standards based upon ISAs, but also ISA based global harmonisation.

#### Conclusion

The proposal will not change current national arrangements for delegated regulation of audit standard setting. However, it will allow additional monitoring of national auditing standard setters at a European level to facilitate the harmonisation of auditing standards and the integration of capital markets across Europe. The proposal will also facilitate a coordinated European input to the IAPC, in the continuing development of the scope and content of ISAs.

FEE is consulting actively on this proposal prior to the next European Commission Committee on Auditing meeting in March 2002.

Written comments should be sent by March 8<sup>th</sup>, 2002 to: [secretariat@fee.be](mailto:secretariat@fee.be)



Mr. David Devlin  
newly appointed  
Deputy President

Attendance at the  
Round Table will  
be by invite only

'Towards an  
Internal Market  
Without Tax  
Obstacles' was  
launched by the  
Commission's in  
October 2001.

For more visit:  
[http://  
www.fee.be/  
european/  
eunews.htm](http://www.fee.be/european/eunews.htm)

# DEPUTY PRESIDENT APPOINTED BY FEE

*Position seen as vital to the European accountancy organisation as it increases its workload to face new challenges.*

At its December 2001 meeting, FEE Council unanimously supported the proposal of President Göran Tidström to designate Mr. David Devlin as FEE Deputy President. Mr. Devlin has been an active member of FEE, since 1991. He is Chairman of the Capital Markets Advisory Group, member of the Ethics Working Party and represents Ireland on the FEE Council.

The role of Deputy President in supporting the President will better enable FEE to meet the increased focus on

financial affairs. "FEE's contribution to, and positive influence on the development of Europe's capital markets must be highlighted", said Mr. Devlin. "The Commission's Financial Services Action Plan represents a great opportunity for the profession to demonstrate its integrity, expertise and relevance to the public interest, the wider business community and to the European institutions", he continued.

Mr. Devlin has extensive European level experience: as well as serving on various European Commission committees, he is an advisor to the Irish Government at the EU's Committee on Auditing, and is a member of the Supervisory Board of EFRAG, the European Financial Reporting Advisory Group.

# FUTURE EUROPEAN TAXATION POLICY

*National tax authorities, industry and tax professionals gather to discuss the implications of the European Commission's recent Communication on EU taxation policy.*

The European Commission's comprehensive strategy for the future of EU taxation policy suggests that tax policy should support broader EU policy objectives, such as the goal set by the Lisbon European Council of making the EU the most competitive economy in the world by 2010.

Increased tax co-ordination would help Member States to meet these objectives. However, while the necessity of harmonisation has been outlined in the VAT and excises fields, in other areas, tax co-ordination does not imply tax harmonisation. In addition, "enhanced co-operation" and non-binding approaches could be utilised instead of legislative proposals.

It is widely accepted that the Commission's Communication will have a profound impact. Taxation is already a very complex and detailed area; therefore it is essential that the Commission can be given practical feedback on the detail of the Communication.

Concerned stakeholders should now make their voices heard. Which is why FEE's Direct Tax working party has decided to organise a Round Table in order to discuss the key issues arising from the Communication. The meeting will provide a truly European view, with each Member State represented. The Round Table will provide valuable guidance as to the successful implementation of future EU taxation policy.

FEE's Taxation Roundtable will be held in Brussels on May 14<sup>th</sup>.

For more details e-mail FEE Project Manager:

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## CESR AND ENFORCEMENT

*The role of the Committee of European Securities Regulators will be pivotal to the selection of enforcement systems for International Financial Reporting Standards in Europe. Here we profile CESR; noting that FEE expects to publish its Discussion Paper on Enforcement in March.*

CESR's predecessor was FESCO, the Forum of the European Securities Commissions. FESCO was founded in 1997, to respond to the challenges of creating the European single market in financial services. FESCO's membership consisted of 17 statutory securities commission from the European Economic Area.

Last year, the Committee of European Securities Regulators, CESR was established as an independent committee of European securities regulators. All undertakings, standards, commitments and work agreed within FESCO have been taken over by CESR.

Established under the terms of the European Commission's decision of 6 June 2001 (2001/1501/EC), CESR is one of the two committees envisaged in the Lamfalussy report on the regulation of European securities markets. The report itself was endorsed by the Stockholm European Council Resolution.

Each Member State of the European Union has one member in CESR. The members are nominated by the Members States and are the Heads of the national public authorities competent in the field of securities. The European Commission (DG Market) is also represented. Furthermore, Securities authorities of Norway and

Iceland are also represented, at a senior level.

CESR's stated role is to: a) improve co-ordination among securities regulators; b) act as an advisory group assisting the European Commission, particularly with preparation of draft implementing measures in the field of securities; and c) to work to ensure more consistent and timely implementation of community legislation in the member states.

Following their June 2000 communication on the application of IAS in Europe, the European Commission designated that CESR (then FESCO) develop the approach to enforcement. CESRfin a standing committee of CESR then created two subcommittees: one to deal with endorsement and the other enforcement.

CESRfin's Subcommittee on Enforcement will be examining the existing national enforcement mechanisms with the objective of finding the best systems compatible with the creation of the single European securities market). The Subcommittee has started its work by reviewing the current Enforcement systems in place throughout Europe.

At this stage the subcommittee is liaising with concerned stakeholders; FEE will participate in this consultation. The subcommittee has already

### *Bigger Picture:*

## CESR's EUROPEAN ROLE

To be effective, the Lamfalussy report requires that the legislative process be accelerated to create a single European capital market. The agreed new legislative process should mean that the Council and the European Parliament will now focus exclusively on the political elements, delegating the elaboration of technical issues to a lower level.

For this purpose two new committees are required. The first, the European Securities Committee (ESC), consists of state secretaries and has decision-making powers with regard to technical implementing measures. The second committee, CESR, shall advise the Commission regarding the elaboration of technical measures.

expressed an interest in FEE's forthcoming Discussion Paper on Enforcement. The paper outlines the criteria for good enforcement and emphasises that the end result must be effective enforcement.

Over the past few years, FEE has been actively involved, in the discussion on a financial reporting strategy for Europe. With this new discussion paper, FEE aims to increase stakeholder involvement the enforcement debate.

For more on the background to CESR and the ESC visit the European Commission's website:

**Section:**  
DG Internal Market -  
Financial Services -  
Securities

[http://europa.eu.int/comm/internal\\_market/en/finances/mobil/01-792.htm](http://europa.eu.int/comm/internal_market/en/finances/mobil/01-792.htm)

You can visit the CESR site by linking from FEE's list of useful European contacts

<http://www.fee.be/european/contacts.htm>

### EUROPEAN Update

Please send comments and suggestions to:

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