

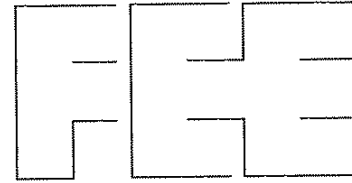
Date
16 November 2004

Le Président

Fédération
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Comptables
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Ms Hazel O'Sullivan
Project Director
The Auditing Practices Board Limited (APB)
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Dear Ms. O'Sullivan,

Re: APB Ethical Standards Consultation Paper: Draft Ethical Standard Exemptions Available for Small Entities

FEE (Fédération des Experts Comptables Européens – European Federation of Accountants) is pleased, as the representative organisation of the European accountancy profession, to comment on the Auditing Practices Board's (APB) consultation paper *Draft Ethical Standard Exemptions Available for Small Entities* (ES - EASE) issued on 5 October 2004.

Our comments centre on matters of principle that are of relevance to the European accountancy profession as a whole. We have not, therefore, responded to the specific questions posed in the consultation paper.

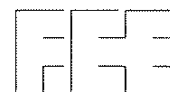
Alignment with international standards

Auditors in the European Union are expected to have to apply International Standards on Auditing (ISAs) from 2007, which assume compliance with the IFAC Code of Ethics. We refer to our letter of 27 February 2004 in which we communicated our comments related to international harmonization and we believe these concerns remain. We believe the APB should ensure that compliance with its Ethical Standards will ensure compliance with the EC Recommendation on Statutory Auditors' Independence in the EU (EC Recommendation) and the IFAC Code of Ethics. We are concerned that international harmonisation will not benefit from a major national standard setter issuing specific standards and regulations in isolation from the carefully considered international requirements without clearly different local circumstances applying.

FEE recently issued its publication "EC Recommendation on Statutory Auditor's Independence in the EU and comparison with the Independence Section on the IFAC Code of Ethics for Professional Accountants – Considerations on the Implementation of the Framework Approach" both the EC Recommendation and the Code of Ethics of IFAC utilise a conceptual framework approach to independence as supported by FEE evidenced by its first paper on the conceptual approach published in 1998.

Impact on SMEs

Audit is a public interest issue throughout Europe. While the definition of which entities are considered to be public interest entities varies by country, smaller private entities (generally referred to as SMEs) are normally not considered to be public interest entities within EU member states.



We again refer to our letter of 27 February and our concerns regarding the unintended consequences for SMEs. If implemented, ES – EASE appears to provide only a temporary exemption to the very smallest companies and this is expected to be of limited value. Those SMEs which are not able to take advantage of the ES – EASE will still be faced with an additional burden by having to consult in addition to their auditor, other advisors.

Need for ES – EASE

We believe it is possible to cater for the independence requirements for all audits within the Ethical Standards, as demonstrated by the EC Recommendation, the IFAC Code of Ethics and FEE's position on independence.

The Ethical Standards should preferably take a common approach for all audits, with additional requirements to address the independence issues associated with listed and other public interest entities.

The APB believes that "an audit is an audit" and that its Ethical Standards should apply to all audits irrespective of the size of the entity, a view with which we concur. Indeed the EC Recommendation and FEE's position on independence start from the same premise and conclude that there is no justification to differentiate between small and large audit firms in terms of the principle of independence.

However, the EC Recommendation and the FEE position on independence differ from the APB's Ethical Standards in that they recognise that the size of the audit firm can influence the availability and proportionality of some safeguards. Furthermore, the EC Recommendation differentiates in the significance of threats to independence by considering the public interest dimension where a higher level of safeguards in relation to the larger public interest is considered proportional. In practice, though not necessarily, small audit firms often audit non-public interest entities. In this case, the EC Recommendation suggests proportionate safeguards.

A particular safeguard may provide substantial benefit at a relatively modest cost when applied to listed entities but the converse may be true when the same safeguard is applied as a requirement to owner-managed entities. We are of the opinion that it is not advisable, therefore, to impose standards designed for the auditors of listed and other public interest entities on auditors of smaller companies.

We also believe that in proposing to introduce ES – EASE, the APB risks sending a conflicting message with the possible implication of less a rigorous standard for certain audits. The requirement to issue a modified audit report where the ES – EASE is applied, may also reduce the value of the audit.

If you should have any questions regarding our views, we should be pleased to discuss them with you.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'David Devlin', with a small dot at the end.

David Devlin
President