



Federation of European Accountants  
Fédération des Experts comptables Européens

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James Gunn  
Technical Director  
IAASB  
545 Fifth Avenue, 14<sup>th</sup> Floor  
New York, New York 10017  
USA

Ref.: AUD/PRJ/HBL/SHA

Dear Mr. Gunn,

**Re: Consultation Paper – Proposed IAASB Strategy and Work Program for 2012-2014**

As the representative organisation of the European accountancy profession, FEE is pleased to comment on the Consultation Paper – Proposed IAASB Strategy and Work Program for 2012-2014 (Proposed Strategy).

This letter includes our suggested comments which would further enhance the Proposed Strategy, which are also our responses to the questions set out in the Proposed Strategy. FEE's earlier positions on the Proposed Strategy are set out in the FEE response to the IAASB Strategic Review Questionnaire of 14 May 2010.

## **Main Comment**

### ***European Commission Green Paper on Audit Policy***

Reference is made to the European Commission (EC) Green Paper on Audit Policy of 13 October 2010 which is expected to shape the future role of the audit profession in Europe and beyond over the coming years. The outcome of the deliberations on the EC Green Paper on Audit Policy in the European institutions will gradually become clearer in 2011 and beyond and will be crucial to determine the strategy of FEE, the European profession and the profession at large.

FEE very much appreciates that the IAASB responded to the EC Green Paper on Audit Policy. We would strongly encourage the IAASB to continue to be involved in the debates and developments on audit policy in the European Union (EU) and duly consider how this impacts their strategy and work program. We would also like to invite the IAASB to be flexible and open-minded for subsequent changes to their strategy and work program in the future as the debate develops.

### ***Link with the IAASB Strategy and Work Program***

In general and broad terms, we would like to commend the IAASB for the Proposed Strategy as it appears quite balanced and already takes into account a number of the major concerns addressed in the EC Green Paper on Audit Policy. That is the case for audit quality, audit communication, SME/SMP issues like review and compilation engagements and communication on the value of an audit (including addressing the expectation gap).

More detailed comments on some of these projects are included in our other comments and responses to questions to the Proposed Strategy below.

## **Other Comments and Responses to Questions**

### ***(a) Whether the IAASB's three areas of strategic focus noted in paragraphs 7–11 remain appropriate?***

FEE agrees that the IAASB should continue to focus on the three areas of strategic focus of developing, monitoring, adopting and addressing implementation issues of ISAs, as noted in paragraphs 7-11.

### **SMEs and SMPs**

#### **Assurance and other services for SME clients**

FEE is fully supportive of the IAASB projects (A.8.) to finalise the revisions to ISRE 2400, engagements to review historical financial statements, and ISRS 4410, compilation engagements. We are hopeful that these two standards will result in service offerings for SME clients which fully meet the needs to such clients. We strongly encourage the IAASB to monitor this and in case it would become apparent that these services do not meet all the needs of SME clients, we are of the opinion that the IAASB should consider how to actively respond to this.

In this respect, we would like to note that in some countries, the use of XBRL is becoming mandatory for the filing of all financial statements, including for SMEs. It appears worthwhile to also include this perspective in considering and responding to the service needs for SMEs.

## ISA adoption

### *Proportionality of documentation requirements*

As far as addressing the needs of SMEs and SMPs as a strategic focus, especially in relation to the adoption of ISAs and ISQC 1, the main issue continues to be proportionality but more specifically proportionality of documentation requirements. There is a need to further demonstrate that proportionate documentation is possible and acceptable to quality assurance, inspection or public oversight bodies. FEE very much believes that the issue of proportionality should be addressed as a major issue and also that it should be addressed as a relevant topic in the discussions between the IAASB and IFIAR.

Reference is also made to our comments below in respect of project C.8.

### *Audit software*

Another issue which is only named in passing in relation to SMEs and SMPs is the importance of audit software and the IAASB interest in audit software. The reality is that SMPs do not get into contact with the standards as included in the IFAC Handbook including the ISAs and ISQCs but may only get acquainted in depth with auditing standards included in audit software packages which are labelled (but not necessarily certified) to be clarified ISA compliant.

An issue which is oftentimes brought to the attention of FEE is the lack of clarified ISA compliant audit software available in national language(s). Although the IAASB is not an audit software provider, work could usefully be performed in being instrumental in identifying potential suppliers, in creating awareness about the consequences of the IAASB Clarity Project on audit software, training audit software providers and in providing best practices on qualitative ISA compliant audit software.

Therefore, in order to maintain the quality of ISA audits in practice, we strongly believe that the IAASB should take a much greater interest in audit software, as high quality audit software will be essential and will have a much larger impact on audit quality following the implementation of clarified ISAs than additional paper-based guidance.

Project B.6 on the benefits of adopting ISAs could be extended to further consider these issues.

### **Comments on current projects (Column A)**

Although the projects listed in Column A are projects currently running, we would like to comment on the remit of some of them. Some “projects” in this list do not necessarily appear to be projects (yet) as they consist of monitoring developments and/or concluding on actions to be taken, like for instance A.9., A.2., etc.

### Project A.2. on the auditor's report (ISA 700)

The current purpose of an audit is to enhance the degree of confidence of intended users in the accounts or financial statements. This is achieved by the expression of independent opinions by auditors as to whether the financial statements, as prepared by entities, give a true and fair view in accordance with the relevant financial reporting framework<sup>1</sup>.

With the unfolding of the financial market crisis, the audit profession should be prepared to reassess how it can enhance its contribution to the economy and to society. In our market economy, an important role of the audit profession is to bring transparency and reliability in corporate reporting, including financial but also non-financial data.

Whereas the focus of auditor' involvement was until recently on financial reporting, FEE strongly believes that more and more attention should be given to the role of the auditor in relation to non-financial information. Such a project could combine the output of projects A.2. and also A.6. on revising ISAE 3000, C.3., C.4., C.5. and C.6 as referred to above and below.

Additionally, FEE believes the project on the auditor's report should not only focus on the auditor's report in ISA 700. It should also focus on the perceptions in relation to qualifications in an external auditor's report and especially on audit communication in the broader sense.

In public interest entities, it is also important to focus on audit communication not only by the external auditor but also by the audit committee. This includes considering communication with and by the audit committee, internal communication between the external auditor and the audit committee and which information could or should be publicly communicated by the audit committee and which by the external auditor.

### Project A.4. on audit quality

We support the IAASB to champion work in relation to audit quality. We believe that this project and the projects B.1. and B.4. on responding to findings of the ISA Implementation Monitoring as well as project B.6. on a publication explaining the benefits of adopting the ISAs are interlinked and should feed into each other.

We would also encourage the IAASB to follow the developments on audit policy in the European Union (EU) and more specifically on Question 10 in the EC Audit Policy Green Paper as the outcome of this consultation might alter the profile of such project.

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<sup>1</sup> As per Articles 51a and 37, respectively, of the Fourth and Seventh EU Directives

#### Project A.5. on the auditability of financial reporting

We note heightened attention to the linkage between financial reporting and auditing following the financial crisis, following the European Commission Green Paper on Audit Policy but also following IASB consultations (for instance on effective dates and transition methods) etc. and we would encourage the IAASB to be more active in this area.

#### Project A.9. on actions with regard to XBRL

Recently, a significant amount of actions in relation to reporting financial, taxation and other information under XBRL have been noted. Therefore, a project in relation to XBRL would deserve higher attention and priority than currently being given to it.

***(b) Whether the list of anticipated projects likely to commence in 2012–2014 (Column B) adequately address issues currently facing the accounting and auditing professions, in particular:***

- (i) Whether respondents support the IAASB undertaking work in these areas and, if not, the reasons why a particular project(s) would not be supported;***
- (ii) Whether respondents believe these projects are consistent with the IAASB's three areas of strategic focus; and***
- (iii) How these anticipated projects should be prioritized in light of the current projects (Column A).***

#### **B.1. and B.4. on ISA Implementation Monitoring**

We believe that projects B.1. and B.4. on responding to findings of the ISA Implementation Monitoring should, in case deficiencies in the Clarified ISAs are noted, focus on improving the ISAs themselves rather than other actions.

We also refer to our comment in relation to project A.4. on audit quality in this respect.

#### **B.3. on ISAE 3400 on the examination of prospective financial information**

We understand that existing ISAE 3400 covers the needs of auditors performing examinations of prospective financial information and is currently used in the European Union without being a source of concern.

FEE therefore does not see a need to revise ISAE 3400, other than to align it with ISAE 3000 once the new ISAE 3000 has been completed, nor do we see a need to withdraw ISAE 3400. Additionally, in the light of the pending revision of the European Union Prospectus Directive and the needs of other regions, the revision of ISAE 3400, other than to align it to the new ISAE 3000, might not be an immediate priority.

**Project B.5. on feedback on ISAE 3402 on Assurance Reports on Controls at a Service Organisation**

Until now, FEE has not been made aware of any particular issues in relation to the use of ISAE 3402. We are therefore not convinced there is support for this project.

Reference is also made to our comment above in relation to project B.6 on the benefits of adopting ISAs.

**(c) With respect to the additional projects (Column C):**

**(i) Which of the suggestions, if any, should be considered for inclusion on the future work program, and how should these be prioritized in light of the current projects (Column A) and anticipated projects likely to commence in 2012–2014 (Column B); and**

**(ii) Whether any particular project(s) in Column C would not be supported; and**

As far as the new projects are concerned, FEE has attempted to prioritise the 8 proposals made. In this respect, we also refer to our comments below on projects or actions not addressed in the Proposed Strategy.

**Projects deserving high priority**

**C.8. ISQC 1 start alert or guidance for smaller firms.**

FEE believes that ISQC 1 (or equivalent system at least as demanding) should be adapted and applied as it is best practice for internal quality control rules for EU audit firms. ISQC 1 is already adaptable, scalable or proportionate to meet the needs for application by SMPs and considerations specific to smaller firms are taken into account in the standard itself as well as in the guidance to the standard.

In this context, further guidance from the IAASB specifically for smaller firms and others would be welcomed, also to illustrate its proportionate use to auditor oversight bodies of especially documentation requirements displaying that audits of public interest entities differ from audits of SMEs, which in most cases is due to the less complex nature of the businesses.

Depending on the status and authority of the IAASB document to be issued, this might not require full board attention. In this respect, it should be noted that a more rather than less authoritative document might be useful.

**C.3 Monitoring the impact of developments in integrated reporting**

FEE has set up an Integrated Reporting Task Force as a response to stakeholders' and regulators' requests to reshape reporting to the needs of tomorrow's sustainable economy. The growing trend towards 'integrated reporting', bringing financial, governance, environmental and social reporting as well as management reporting into a consistent

framework carries considerable promise and is likely to result in significant changes. These changes in reporting will also impact on the provision of audit and other assurance services in the future.

Therefore, this is an area in which the IAASB should take a keen interest and be on the forefront.

We also refer to our comments on Project A.2. above in this respect.

### **Projects deserving priority (with or without amended scope)**

#### **C.2. New standard or guidance on auditor's responsibility relating to preliminary announcements**

Instead of just concentrating on preliminary announcements, FEE would encourage the IAASB to consider developing a more general approach to the use of the auditor's association principle and the auditor's responsibility in case of association with financial and other information. Indeed, apart from the auditor's responsibility relating to other information in documents containing audited financial statements, as covered by ISA 720, the auditor could be associated with financial and other information included in analyst briefings, company's websites, compilation reports, etc.

Specifically regarding preliminary announcements, there are considerable country-specific and company-specific requirements which are not expected to be able to be dealt with in an international standard on auditors' responsibility in relation to preliminary announcements.

#### **C.4., C.5. and C.6. ISAE on non-financial information**

##### ***C.5. ISAE on assurance on corporate governance statements***

The financial crisis has demonstrated that robust, transparent governance practices need to be embedded in all organisations, along with a re-evaluation of remuneration structures, board level expertise and training, and risk management and internal controls. This needs to go beyond respecting and complying with relevant corporate governance codes. Corporate governance statements, providing increased transparency for investors and other stakeholders, have gained in importance in the aftermath of the crisis. Assurance by independent qualified accountants enhances the credibility of information.

For instance in Europe, the 2006 amendments to the Fourth and Seventh EU Company Law Directives, requiring a corporate governance statement for listed companies, result in audit implications in case of inclusion of the corporate governance statement in the annual report. These range from full audit to consistency or existence checks. This is discussed in

further detail in the FEE Discussion Paper on the Auditor's Role Regarding Providing Assurance on Corporate Governance Statements of November 2009<sup>2</sup>.

We would also encourage the IAASB to follow the developments on audit policy and corporate governance (on which the EC issued a Green Paper in June 2010 (for financial institutions)<sup>3</sup> and is expected to issue another Green Paper in 2011 (for public interest or listed entities)) in the European Union (EU), the outcome of which might raise the profile of such project.

We also refer to our comments on Project A.2. above in this respect.

#### *C.4. ISAE on assurance on sustainability reporting (including Corporate Social Responsibility (CSR) and other Environmental, Social and Governance (ESG) information)*

There is clearly a progression towards a global understanding that corporate entities should report their sustainability performance and that assurance is a vital part of that reporting. Over the years, FEE has published a series of papers in the area of assurance on sustainability and environmental reports in which we called on assurance standard setters to recognize the need for assurance standards for sustainability reporting. We in particular draw your attention to our Discussion Paper published in June 2006 "Key Issues in Sustainability Assurance – An Overview" and the related Roundtable on Assurance on Sustainability held on 21 November 2006. We believe to have demonstrated that there is a clear need for an international sustainability assurance standard. We strongly emphasise that it is important for the profession to have a specific authoritative standard in this area given the initiatives taken by other organisations such as Accountability. The profession needs to consolidate its leading role in this field. We also encourage the IAASB to cooperate rather than duplicate efforts with other standard setters to provide high quality and usable standards for assurance on sustainability.

#### *C.6. ISAE on assurance on internal control*

FEE continues to believe that internal control and risk management is one of the key factors of corporate governance as well as reporting thereon, within or outside of the corporate governance statement. Such project could be considered by the IAASB to promote the application of the IAASB International Framework for Assurance Engagements and the IAASB International Standard on Assurance Engagements (ISAE) 3000 on reporting on internal control and risk management. FEE has been active in this area and is keen to support the IAASB in developing further applications for assurance engagements by maintaining a close dialogue with the IAASB and by sharing information with the IAASB. However, FEE cautions the IAASB to take an international approach to this issue, rather than to simply transpose the PCAOB's standard AS-5, as this is written in

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<sup>2</sup> [http://www.fee.be/publications/default.asp?library\\_ref=4&content\\_ref=1167](http://www.fee.be/publications/default.asp?library_ref=4&content_ref=1167)

<sup>3</sup> [http://ec.europa.eu/internal\\_market/company/modern/corporate\\_governance\\_in\\_financial\\_institutions\\_en.htm#consultation2010](http://ec.europa.eu/internal_market/company/modern/corporate_governance_in_financial_institutions_en.htm#consultation2010)

the context of an integrated financial statement audit and U.S. securities laws, and thus may not be appropriate.

*Conclusion on Projects C.4., C.5. and C.6.*

Over the years, the focus has changed from being more narrowly on internal control and risk management to now being more broadly on corporate governance, corporate governance statements or even environmental, social and governance information (ESG).

Therefore, the IAASB is invited to integrate project C.6. into project C.5. on assurance on corporate governance statements or even into C.4. on assurance on sustainability reporting and C.5. combined.

Indeed, we would also encourage the IAASB to explore whether the projects C.5. on assurance on corporate governance statements and C.4. on assurance on sustainability reporting could not be combined in some way as the scope of corporate governance statements seems to widen and the same appears true for the scope of sustainability reporting, resulting in some overlap. We also refer to our comments on Project A.2. above in this respect.

Also, project C.3. on integrated reporting would incorporate aspects of governance, environmental and social information which could be taken into consideration at the same time.

**Projects deserving less priority**

**C.7. Redraft ISRE 2410 interim review standard**

Although FEE is supportive to redraft ISRE 2410 on review of interim financial information in line with the clarity conventions, such a project appears to be of a more mechanical nature to align this standard to the body of redrafted standards and to align this standard to the new ISRE 2400. Therefore, this appears to be an area in which the IAASB should take an interest but it might not be a major project requiring extensive board and staff resources.

**C.1. IAPS 1004 on the relationship between banking supervisors and banks and external auditors and IAPS 1006 on audit of financial statements of banks**

FEE believes that the content of these two Practice Statements remains valid for application in practice, especially considering the lessons learnt from the financial crisis as well as the increased focus these issues have received in the EU with the consultations initiated by the European Commission in its two recent Green Papers on Corporate Governance in Financial Institutions and on Audit Policy. It could however be questioned whether these are topics which can be deepened further in international standards or practice statements as they are highly regulated at national level.

***(d) Whether there are additional actions or projects that respondents believe should be addressed, and, if so, how these should be prioritized in relation to the projects identified in Columns B and C.***

One particular area which is very prominently questioned in the EC Green Paper on Audit Policy and in the aftermath of the financial crisis in general terms is the following:

**Professional scepticism**

Although professional scepticism is addressed in ISA 200, FEE believes that it should continue to be reinforced. More guidance on applying professional scepticism in practice appears therefore indispensable, in addition to adopting and training partners and staff in the already existing auditing and ethical standards and matters.

Raising the auditor's awareness to the importance of professional scepticism, also in relation to the entity's business model, enables the auditor to actively challenge those financial statement disclosures and management assumptions used in recognition and measurement that are material from a user's perspective. The auditor should not rely solely on the honesty and integrity of the management and those charged with governance, but must obtain evidence and evaluate the persuasiveness of this evidence. This is also applicable in case of indications of error or fraud.

As some audit oversight bodies have criticised the audit profession for not applying a sufficient amount of professional scepticism, the auditing profession as well as the auditing standard setters should take note of this criticism and address it by further initiatives in this regard as explained above. This point should also be considered given the focus that professional scepticism received in the recent European Commission Green Paper on Audit Policy which indicates that in particular investors believe that professional scepticism should be reinforced ensuring a stronger and more visible "tone from the top" as well as highlighting the crucial nature of monitoring, training and continuing education as part of professional scepticism.

When considering the issue of professional scepticism, its interrelationship with such issues as reasonable assurance and sufficient appropriate evidence may need to be addressed.

For further information on this FEE<sup>4</sup> letter, please contact Hilde Blomme at +32 2 285.40.77 or via email at [hilde.blomme@fee.be](mailto:hilde.blomme@fee.be) or Lotte Andersen at +32 2 285.40.80 or via email at [lotte.andersen@fee.be](mailto:lotte.andersen@fee.be) from the FEE Secretariat.

Yours sincerely,



Philip Johnson  
FEE President

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<sup>4</sup> FEE is the Fédération des Experts comptables Européens (Federation of European Accountants). It represents 45 professional institutes of accountants and auditors from 33 European countries, including all of the 27 EU Member States. In representing the European accountancy profession, FEE recognises the public interest. It has a combined membership of more than 500.000 professional accountants, working in different capacities in public practice, small and big firms, government and education, who all contribute to a more efficient, transparent and sustainable European economy.

FEE's objectives are:

- To promote and advance the interests of the European accountancy profession in the broadest sense recognising the public interest in the work of the profession;
- To work towards the enhancement, harmonisation and liberalisation of the practice and regulation of accountancy, statutory audit and financial reporting in Europe in both the public and private sector, taking account of developments at a worldwide level and, where necessary, promoting and defending specific European interests;
- To promote co-operation among the professional accountancy bodies in Europe in relation to issues of common interest in both the public and private sector;
- To identify developments that may have an impact on the practice of accountancy, statutory audit and financial reporting at an early stage, to advise Member Bodies of such developments and, in conjunction with Member Bodies, to seek to influence the outcome;
- To be the sole representative and consultative organisation of the European accountancy profession in relation to the EU institutions;
- To represent the European accountancy profession at the international level.