



22 February 2011

James Gunn
Technical Director
International Auditing and Assurance Standards
Board
545 Fifth Avenue, 14th Floor
New York, New York 10017
USA

Re: AUD/HB/LA/SH

Dear Mr. Gunn,

Re: IAASB ED on Proposals Relating to International Auditing Practice Statements (IAPs) and Proposed IAPS 1000 on Special Considerations in Auditing Complex Financial Instruments

FEE is pleased to provide you with its comments on the IAASB ED on Proposals Relating to International Auditing Practice Statements (IAPs) and Proposed IAPS 1000 on Special Considerations in Auditing Complex Financial Instruments.

FEE welcomes the initiative to reassess the guidance on auditing complex financial instruments as auditors as well as other stakeholders can only benefit from evaluating the lessons learned from the financial crisis. Also, as the current guidance on auditing financial instruments is part of the International Auditing Practice Statements (IAPS), FEE finds the initiative to clarify the status and authority of International Auditing Practice Statements appropriate regarding the proposal relating to IAPs generally.

Our main comments on the exposure drafts are summarised below:

1. With regard to the specific proposals relating to IAPs, FEE considers it essential that the hierarchy of auditing standards and any additional guidance, including application material and appendices, is clearly defined and described. This is especially important in light of the expected endorsement of ISAs in Europe. In order to ensure such a clear hierarchy, FEE recommends some amendments in addition to the proposed clarifications, such as having a clear understanding of which IAASB pronouncements are to be “*authoritative*” and developing criteria for when to issue an IAPS rather than another type of IAASB pronouncements.
2. With regard to the specific proposals in IAPS 1000 on Special Considerations in Auditing Complex Financial Instruments, FEE would expect that this is most relevant to practitioners who do not have much experience with audits of financial instruments. FEE would, therefore, encourage the IAASB to more clearly identify the probable audience of this IAPS.

3. Regarding the structure of the proposed IAPS 1000, FEE recommends that all shaded tables are moved to an appendix with clear indications of the source of this material. This will help to clearly distinguish between the auditing guidance in the main part of the document and the educational material addressing financial reporting and other matters that would be in an appendix. FEE has also suggested a few amendments to the auditing guidance, related to going concern, among others.
4. To underline the differences between large complex financial institutions and entities with less complex financial instruments, specific sections similar to the sections in the ISA on "*Considerations Specific to Smaller Entities*", could be included keeping in mind the recommended audience of the document as mentioned above.

Our detailed comments and responses to the questions set out in the IAASB Exposure Drafts are included in the Appendix attached hereafter.

For further information on this FEE¹ letter, please contact Hilde Blomme at +32 2 285 40 77 or via email at hilde.blomme@fee.be or Lotte Andersen at +32 2 285 40 80 or via email at lotte.andersen@fee.be from the FEE Secretariat.

Yours sincerely,



Philip Johnson
FEE President

¹ 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.

Appendix

The comments below address separately each of the two exposure drafts issued for comments by the IAASB, one being the Clarification of the Status and Authority of New IAPs and the other being the new Proposed IAPS 1000 on Special Considerations in Auditing Complex Financial Instruments.

IAASB ED on Proposed withdrawal of existing IAPs, Clarification of the Status and Authority of New IAPs and Proposed Amendments to the Preface to the International Quality Control, Auditing, Review, Other Assurance, And Related Services Pronouncements

In the explanatory memorandum, the approach taken in the assessment of whether to withdraw and if not, how to clarify the current IAPs, is explained. FEE's views on the four interrelated issues considered by the IAASB are set out below.

(i) What, if anything, should be done with respect to the existing IAPs?

FEE agrees that the guidance included in the existing IAPs is to a certain extent out of date and is inconsistent with the text of the clarified ISAs. Therefore, we support the initiative to propose them for withdrawal. However, the topics addressed in some existing IAPs may still be very relevant in the current environment and in the broader context of the debate on the role of the auditors. Therefore, revision of some or parts of specific IAPs merits consideration.

FEE recommends the following approaches for the existing IAPs:

- IAPS 1000², and 1013³: The topics of these two IAPs appear to be outdated and detailed clarification appears no longer to be necessary. Therefore, there is no need to consider updating these standards.
- IAPs 1004 and 1006⁴: The topics of the Practice Statements related to banks have had increased focus in the current environment where the lessons learned from the financial crisis are being analysed by various stakeholders⁵. Therefore, this topic may still provide some valuable guidance to practitioners and revision or retention of some of the material in another form could be a way forward. FEE notes that according to the recently published Consultation Paper on *“Proposed IAASB Strategy and Work Program for 2012-2014”* the IAASB is considering undertaking a project with regard to IAPS 1004 and 1006 on audits of banks. We will further consider these proposals in our response to that consultation.

² IAPS 1000 Inter-Bank Confirmation Procedures

³ IAPS 1013 Electronic Commerce – Effect on the Audit of Financial Statements

⁴ IAPS 1004 The Relationship Between Banking Supervisors and Bank's External Auditors

IAPS 1006 Audits of Financial Statements of Banks

⁵ Among others, the European Commission has initiated further debate regarding issues related to financial institutions and to audit in general in its two recent Green Papers on Corporate Governance in Financial Institutions and Remuneration Policies and Audit Policy, respectively.

- IAPS 1010⁶ addresses environmental issues which in the current context are now considered as part of the broader topics of sustainability, integrated reporting and in an IAASB context, the project on assurance on greenhouse gas statements. The IAPS has been superseded and could be withdrawn. However, projects on integrated reporting and sustainability, including environmental issues, are proposed in the IAASB Strategy and Work Program for 2012-2014 and the way forward will therefore be considered further in our response to that consultation.

(ii) How should the authority and purpose of new IAPSs be described, to make clear that they contain important material to be considered by the auditor while at the same time keeping them distinguishable from the body of ISAs to which compliance is required?

Hierarchy and authority – paragraph 4 and 23 (second and third sentences)

It is essential that the hierarchy of auditing standards and any additional guidance, including application material and appendices, is clearly defined and described. In this context, it should be noted (as is done in the Preface⁷) that ISAs have the highest authority in the hierarchy of IAASB pronouncements. In addition, the hierarchy of all other IAASB pronouncements needs to be clear.

FEE is of the view that significant clarifications are needed in the proposed Preface with regard to whether the Practice Statements are to be authoritative or not, as the IAASB appears to use the concept of “*authoritative*” in two different contexts:

1. As stated in the proposed paragraph 4 that “*The authoritative pronouncements of the IAASB comprise of International Standards and Practice Statements*” (emphasis added), and an IAPS could therefore be understood as being authoritative at the same level as ISAs within the hierarchy.
2. As noted in paragraph 23 of the Preface stating that “*IAPSs do not impose additional requirements on auditors beyond those included in the ISAs, nor do they change the auditor’s responsibility to comply with the requirements of all ISAs relevant to the audit*”. This apparent contradiction to the above is likely to cause confusion, especially on translation into other languages.

In the first instance, the authoritative nature of IAPSs is due to the fact that IAPSs as well as ISAs have been through the same due process of public consultation and Board deliberations and also both ISAs and IAPSs carry an obligation of some sort for auditors to act (I.e., auditors may not chose to disregard them), whilst the implied “*non-authoritative*” in the second instance is based on the fact that IAPSs do not set requirements.

FEE would like to highlight that although the term “*authoritative*” can be understood in these two different ways in the English language, “*authoritative*” in other languages has only one meaning which is that any “*authoritative*” provisions set requirements. Therefore, in order to facilitate consistent application of the ISA hierarchy, including all its guidance throughout all IAASB

⁶ IAPS 1010 The Consideration of Environmental Matters in the Audit of Financial Statements

⁷ Preface to the International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements

jurisdictions, FEE believes that only one of these understandings of “*authoritative*” can be maintained. However, if the IAASB sees the preferable solution as maintaining the two understandings of “*authoritative*”, the IAASB is strongly encouraged to clearly state the difference. The reason for having a hierarchy of the various pronouncements is for the law makers and regulators, as well as the users of the pronouncements, to assess which documents contain provisions that are to be complied with. Therefore, authority of standards and other pronouncements do not depend on the process for development of the pronouncement, but instead on whether the output of that process for a pronouncement sets requirements or not. FEE recommends that paragraphs 4 and 6 of the Preface are amended appropriately in accordance with this principle.

The importance of clearly stating the level of authority attaching to all IAASB pronouncements, including the guidance contained within Practice Statements, should also be seen in light of the future expected endorsement of ISAs in Europe as the Statutory Audit Directive defines the general term “*international auditing standards*” as “*International Standards on Auditing (ISA) and related Statements and Standards, insofar as relevant to the statutory audit*”. The reason is that in a European context “*authoritative*” pronouncements could be viewed as those setting requirements or obligations, meaning that all authoritative pronouncements relevant for the statutory audit would potentially need to be considered for endorsement in accordance with the Statutory Audit Directive. Therefore, to allow for a European endorsement process that will be as smooth as possible, the status, authority and purpose of Practice Statements and any other IAASB pronouncements need to be as clear as possible.

With reference to the proposed paragraph 6 of the Preface, the IAASB also issues non-authoritative material in the form of Staff Audit Practice Alerts and Staff Questions and Answers. It should be noted that there needs to be a clear difference between such staff papers and IAPs, as staff papers are merely published on the IAASB website and not subject to due process measures such as public consultation and Board deliberations. To properly place the guidance in Practice Statements in the hierarchy, it should be made clear that staff papers in any format can not replace IAPs.

Potential future emerging issues arising from the implementation and application of clarified ISAs should be considered when clarifying the general hierarchy of IAASB pronouncements. This would be particularly important when deciding whether any pronouncement on ISA implementation issues is to be authoritative or non-authoritative. Examples of this are the issues related to ISA 600 included in the recent IAASB report on implementation of clarified International Standards on Auditing (ISAs)⁸ and the recent Publication on “*Audit Quality – An IAASB Perspective*”.

Criteria for IAPs – paragraph 23 (first sentence)

The ISAs include requirements and additional application material. Therefore, further guidance material outside the ISAs relevant for the statutory audit needs to be clearly distinguishable from material included as application material within the ISAs. Practice Statements should be intended

⁸ <http://web.ifac.org/download/IAASB-Implementation-Monitoring-Clarified-ISAs.pdf> on ISA 600 on Group Audits entitled “*Entities that Have Joint Ventures or Significant Influence but Not Control over Significant Component Investments*”.

to assist auditors in applying ISAs, including their application material, to particular circumstances and industries. In this way, Practice Statements should be persuasive and indicative of good practice rather than be prescriptive.

FEE recommends that the criteria for issuing an IAPS should be described in the Preface. This could be done by elaborating on the first sentence of the proposed paragraph 23 of the Preface which states that *“International Auditing Practice Statements (IAPSs) are issued to provide practical assistance to auditors in implementing ISAs and to promote good practice”*.

For this elaboration the following principles could be considered:

- a) The issue is widespread and has practical relevance;
- b) The need for guidance is widely acknowledged by stakeholders;
- c) The guidance would be expected to remain valid and useful for the foreseeable future;
- d) The issue is sufficiently specific and complex to be dealt with in a Practice Statement rather than in an ISA as requirements or as application material;
- e) Issuance of an IAPS could contribute to audit quality;
- f) Issuance of an IAPS could contribute to elimination of emerging or already existing diverse interpretations in the application of the corresponding requirements in the ISAs;
- g) The issue can be resolved efficiently within the scope of existing ISAs and is sufficiently narrow in scope to be capable of a Practice Statement. Therefore, an IAPS should:
 - Clearly identify which ISA(s) an IAPS refers to, to enable the users to understand which requirements are being elaborated with the guidance in a specific IAPS; and
 - Not include any requirements, as only ISAs can impose requirements on practitioners, as highlighted in the Preface.

(iii) Following from (ii), how should such a statement be positioned?

FEE agrees that the Preface is an appropriate place to position such a statement.

(iv) How could the IAASB best proceed to ensure that any new IAPS is carefully considered and unhelpful proliferation of IAPSs is avoided?

See our comments to (ii) above, where we highlight that there needs to be clear principles for when to develop an IAPS instead of an ISA as well as clear criteria for what is to be the content of an IAPS. Also, we noted the importance of the IAASB clearly stating what is understood to be authoritative or non-authoritative pronouncements, respectively.

IAASB ED on Proposed IAPS 1000 on Special Considerations in Auditing Complex Financial Instruments

General

As this new IAPS 1000 on Auditing Complex Financial Instruments is setting the scene for any future IAPSs, FEE is of the view that due considerations should be given to its scope, content and level of detail.

Question 1: Whether the material included in the proposed IAPS is appropriate in light of the proposed status and authority of new IAPSs

The guidance is very relevant for practitioners who are seeking information on financial instruments. It is probable that practitioners not having much experience with such matters would find the elaborated guidance most relevant in practice.

In addition, FEE fully subscribes to the view expressed in the explanatory memorandum of the exposure draft that it is not the role of the auditing standard setter to compensate for a complex and comprehensive financial reporting framework. Therefore, the auditing guidance on this issue of financial instruments should not be read in isolation, as its main objective as audit guidance is to be complementary to the underlying financial reporting requirements and guidance.

It should be noted that practitioners are subject to ethical requirements which entails, inter alia, that they have to have the necessary competence to perform their work. Reading this guidance on (complex) financial instruments should therefore be viewed as an additional tool to already accumulated knowledge about the subject matter when carrying out the audits in practice. However, professional judgement when auditing (complex) financial instruments will still be needed and used by the practitioners. FEE recommends that this point is added to the introduction of the proposed IAPS.

As noted in our comment letter responding to the Discussion Paper⁹, FEE is of the view that the financial instruments covered in the guidance should not only be “complex” financial instruments, but financial instruments in general, scoping out cash, receivables and payables. FEE notes that the IAASB has included the scope exclusion, but still limited the guidance to “complex financial instruments” according to the title of the document and references made in the document. FEE would like to reiterate its recommendation to change the title of the document as well as the text to indicate that all financial instruments and not just complex financial instruments are addressed, as we remain of the view that the title amended in this way would de facto reflect the content of the document. FEE would be of the view that the title referring to “Financial Instruments” combined with the explicit exclusion of very simple financial instruments in paragraph 5 of the proposed IAPS 1000 would be seen as appropriate for the understanding of the scope of the document from a user perspective.

⁹ <http://www.fee.be/fileupload/upload/Gunn%20100113%20-%20Auditing%20Complex%20Financial%20Instruments1412010201013.pdf>, 13 January 2010

Question 2: Whether the balance of material included in the proposed IAPS is appropriate in light of its purpose of assisting a wide range of auditors on an international basis

FEE is of the view that the audience of the proposed IAPS 1000 should be identified and explained in a more explicit way than currently done. In the explanatory memorandum, the IAASB notes “...that the proposed IAPS would be most useful, and the demand for auditing guidance is best served, by addressing the more general needs of the broadest group of auditors on an international basis, rather than endeavoring to comprehensively address the issues faced by auditors in a highly specialized industry who may already have adequate guidance.”

The proposed IAPS itself indicates in paragraph 1 that the IAPS is intended to cover all situations, meaning situations with entities having large holdings and transaction volumes and entities with only a few complex financial instrument transactions.

FEE would recommend that the proposed paragraph 1 is expanded to clarify that the guidance is developed with the following audience in mind:

- Small practitioners or members of an engagement team that do not have extensive experience with auditing financial instruments in large financial institutions; and
- Small practitioners or members of an engagement team that audit smaller financial institutions, less complex entities and entities with not many transactions in financial instruments.

Keeping in mind this audience, the IAASB is encouraged to carefully consider whether the final guidance is sufficiently well founded to be helpful for this intended audience or whether the guidance in fact places too much emphasis on large financial institutions.

In FEE’s view, the guidance included appears more focused on larger entities with a significant amount of activities in this area, although the intended audience is practitioners not necessarily specialised in financial instruments in this segment of the market. This is apparent for instance in paragraph 16 and in table 2 in relation to the Risk Management Function. Other entities, such as smaller entities with a complex business or with isolated complex financial instruments would be more relevant to focus on, given the intended audience of the guidance. This could be done, for instance by replacing the comments on how the risk management function operates in large financial institutions with expanded comments on how risk management is approached if no risk management function exists and in entities where dealing with financial instruments are not routine transactions.

Highlighting the differences between large complex financial institutions and entities with less complex financial instruments, being smaller financial institutions as well as large and small non-financial entities, could be done by adding specific sections that address the considerations when auditing each of these groups similar to the sections included in ISAs on “*Considerations Specific to Smaller Entities*”. Such an inclusion could also address any concerns on the proportionality of ISAs when auditing simple as well as more complex financial instruments.

Also, compliance issues as imposed by the regulators could be addressed in more detail by referring to ISA 250¹⁰.

Question 3: Whether the proposed form of the IAPS, including the use of two separate sections and shaded tables, enhances its readability

FEE is of the view that it should be evident from reading the document that guidance on auditing is its main objective. Additional information, such as educational material in other areas, should be secondary to the main part of the document.

3.1 Structure

Section I appears to include financial reporting material with equivalent information also included in the introduction under “*Nature of the Financial Instruments Addressed by this IAPS*” and “*Types of Entities to which this IAPS May be Relevant*”. As a result, the heading “*Section I – Background Information about Complex Financial Instruments*” seems to be superfluous and could be deleted without harming the structure of the document.

This restructuring would entail that the main body of the document consists of auditing guidance in line with the title, the intended use of the document and equivalent to the current Section II, which in FEE’s view is a preferable structure for the document.

3.2 Inclusion of financial reporting and other educational material

FEE strongly recommends the inclusion of clear indications of the sources of the material that is not auditing guidance, such as financial reporting or financial services issues. This will enhance a clear distinction between the auditing guidance and the educational material, keeping in mind that the overall role of the auditing standard setter is not to compensate for a complex financial reporting framework. Also, the definitions of the terms included as educational material can vary depending on the source of literature. This is the case for the content of the current Table 1 *Types of Risks to which Entities May Be Exposed through the Use of Complex Financial Instruments* and table 5 *Fair Value Hierarchy*, much of which is not derived from IFRS, for instance the terms and definitions currently included for credit (or counterparty) risk, market risk and liquidity risk.

The financial reporting framework is likely to change over time and a clear indication of the source would allow practitioners to revert back to the original source of information, if so needed, to obtain a full understanding of the topic in a specific shaded table. The educational material included in the IAPS needs not to be exhaustive, but only give a general overview of the topic.

In addition, an indication in the IAPS that it is considered relevant to fair presentation general purpose financial statements, by reference to ISAs, and not necessarily to special purpose reporting, would be useful.

¹⁰ ISA 250 Consideration of Laws and Regulations in an Audit of Financial Statements

FEE recommends that all shaded tables are moved to one or more appendices. This structure would be similar to the structure of ISAs, where application material is merely cross-referenced in the Requirements section. This will highlight that it is educational material from another source than the IAASB that is clearly distinguishable from the auditing guidance provided by the IAASB.

Such a revised structure would also avoid the guidance being a potential obstacle for endorsement in Europe if there is a clear split between:

1. Authoritative requirements relevant for the audit in ISAs and supplemental guidance outside the ISAs; as well as
2. Guidance from the auditing standard setter including financial reporting material and the material from the financial reporting standard setter that may or may not be endorsed in Europe under the endorsement criteria for financial reporting.

Having compiled all shaded tables in one or more appendices, the IAASB is encouraged to review the length and level of detail of the content. The educational material on financial reporting matters and other issues should preferably be kept as a general description of the issue without an excessive, detailed explanation. As mentioned above, the source should be indicated to direct the user to the original text. This would be especially relevant for the detailed financial reporting material as well as for the current Table 4 on financial services matters (clearing houses).

Also, in the introduction to this new appendix containing all educational material, it would be preferable to add a brief explanation containing the reasoning behind the inclusion of the material. Such an explanation is not included in the exposure draft, but is to some extent explained in the explanatory memorandum. To facilitate the use of the guidance, an additional explanation of its structure would therefore be beneficial.

FEE notes that the IAASB has not developed the guidance as framework neutral. In its comment letter to the consultation paper, FEE called for the framework neutral approach to be used in line with the existing IAASB approach for pronouncements. FEE would like to reiterate this view as we find it important that the auditing guidance, as included in the current Section II, is framework neutral. As noted above, FEE can accept that other educational material that is not framework neutral, and which is not auditing guidance, is however included in an appendix if clear references to sources are made.

3.3. Auditing guidance (current section II)

FEE finds the included guidance in the current Section II – Audit Considerations Relating to Complex Financial Instruments - useful to practitioners and finds that its length, level of detail and content has struck the right balance in being appropriate for application in practice when auditing financial instruments. However, FEE believes delineation of the material as to what could be relevant primarily to larger financial institutions separately from that relevant in other cases, would be useful for practitioners.

Going concern considerations

The proposed IAPS does not contain guidance related to going concern. Considering the course of the financial crisis and the complexity and consequences of some financial instruments, FEE recommends inclusion of specific going concern considerations. A brief comment could be included with reference to ISA 570¹¹ as well as to the IAASB Staff Audit Practice Alert on “*Audit Considerations in Respect of Going Concern in the Current Economic Environment*”. Comments on the adequacy of going concern disclosures could also be mentioned as examples in the current table 3 on “*Categories of Disclosures*”.

When commenting on models used by the entity, it might also be relevant to refer to audit considerations related to stress testing of the models used by the entity, which could be included in paragraph 93 and in the current Table 6 on “*An Entity’s Considerations when Using Models in a Valuation Methodology*”. Other comments that could be included relate to fails and claims in case a transaction cannot be settled, as addressed in Table 4.

Ethical issues - knowledge and competence

With regard to “*Using those with Specialised Skills and Knowledge in the Audit*” FEE would recommend that footnote 10 containing reference to engagement team and ISA 620¹² is simplified to clearly describe the two scenarios of (1) experts in accounting and auditing that are members of the engagement team and (2) other experts. In the first case it seems sufficient merely to state that such a person is a member of the engagement team as defined in ISAs, also considering that the person would be subject to more requirements in ISAs than ISA 220¹³ as stated in the footnote. In the second case the intention should be clearer, i.e. if it is intended that “*Those with Specialized Skills ...*” are equivalent to “*Auditor’s Expert*” in ISA 620. It would facilitate consistent application were the same terminology used as in ISA 620. If the intention is that these two categories are in fact different, then the difference should be described. This simplification would make it clearer that the guidance is not setting additional requirements as to who are members of the engagement team in comparison with those applied to engagement teams formed under existing ISAs.

Also, some additional references to ISA 620 and the term “*Auditor’s Expert*” could be beneficial, as for instance, use of expert advice on pricing models from a broker could under ISA 620 be seen as use of an auditor’s expert. Such references may be relevant in the proposed paragraphs 37 and 90 of the IAPS.

An explicit reference to the engagement team and the engagement partner would be helpful in practice. This would underline that the engagement partner is responsible for the appropriate composition of the engagement team to ensure that the audit of financial instruments can be carried out with the competence and knowledge needed. This could be done by adding such a reference in the proposed paragraph 30 of the IAPS.

¹¹ ISA 570 Going Concern

¹² ISA 620 Using the Work of an Auditor’s Expert

¹³ ISA 220 Quality Control for an Audit of Financial Statements

References to ISAs

FEE recommends that additional specific references to ISAs are made. This will allow practitioners to revert to the original ISA requirements and application material as the IAPS is intended to be guidance on requirements and application material already included in ISAs. For instance, a reference to paragraph 18 of ISA 200 would be relevant to include in the proposed paragraph 22 of IAPS 1000 that deals with professional skepticism. The same goes for the guidance on Valuation Uncertainty in the proposed paragraphs 53-58.

Also, the IAASB is encouraged to reconsider whether all paragraphs in the current Section II are in fact auditing guidance or whether part thereof is educational material related to other areas, such as financial reporting, for example as in paragraphs 33 and 59-60 of the proposed IAPS.

Question 4: Whether respondents believe an effective date should be established for the proposed IAPS and, if so, what would be an appropriate date would be

FEE would recommend that the guidance issued by the IAASB has an effective date as well as an issuance date. This would facilitate the users' awareness of which material is available for a specific year end audit.

Special Considerations in the Audit of Smaller Entities

As stated in our response to question 2, FEE is of the view that the IAPS should be directed towards audits of smaller entities as well as larger entities with less complex operations, addressing (principally) the considerations which are specific for such audits rather than those arising in audits of large financial institutions having complex financial instruments as core in their business model. Preferably, a specific section addressing these considerations should be included, similar to the way that considerations for audit of smaller entities are addressed in the ISAs.

Special Considerations in the Audit of Public Sector Entities

N/A

Developing Nations

N/A

Translations

In general, long sentences should be avoided. Certain specific guidance contains some terms which cannot be easily translated (e.g. (un)observable inputs).