



Federation of European Accountants
Fédération des Experts comptables Européens

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Dear Mr Haddrill,

Re: FRC Discussion Paper on Effective Company Stewardship: Enhancing Corporate Reporting and Audit

As the representative organisation of the European accountancy profession, FEE is pleased to comment on the Discussion Paper on Effective Company Stewardship: Enhancing Corporate Reporting and Audit.

Representing an organisation that is dedicated to work in the public interest, FEE fully subscribes to the aim of delivering information of value to investors and to serve the public interest at large in the best way possible. FEE believes that this objective can be achieved if all stakeholders within the financial reporting chain, being preparers, auditors, enforcers and oversight bodies, as well as investors and other users, work together aiming at providing robust and reliable information.

Therefore, FEE welcomes the contribution of the FRC to the debate on how company stewardship can enhance corporate reporting as the preparation, reporting and presentation of financial and other information is a responsibility of management and the board(s) of the company and delivering quality information is part of good governance of the entity. Seen in light of the debate initiated by the European Commission in its Green

Papers on Corporate Governance in Financial Institutions, on Audit Policy¹ and on the EU Corporate Governance Framework, the FRC Discussion Paper highlights key points that deserve due consideration and FEE encourages the FRC to closely monitor the developments at European level in this area.

An entity's management and board(s) are responsible for the preparation of financial statements and other financial information in accordance with the applicable financial reporting framework, being it national or international accounting standards. An auditor's responsibility is to express an opinion on such financial statements. As part of the governance of an entity, the auditor's responsibility consists of the provision of assurance services, including audit, in respect of financial and other information produced by management and its board including any committees established to support the board. Therefore, the auditor's responsibility is secondary to that of management and the board, without consequently exceeding the responsibilities assumed by those who originate the information. As such it is crucial that the business environment is closely involved in how the audit process can evolve to meet the changing market expectations of investors and others. Further considerations regarding the future role of the auditor is welcomed by FEE.

FEE is of the view that, if the investor community expresses an interest, more transparency and improved communication by entities can be considered. Management or the board(s) could, in a proportionate way, report on the assumptions on which the entity's ability to continue as a going concern is based. There could therefore be benefits in management, the board or the audit committee disclosing additional information on key risks associated with the entity's business model and its longer term sustainability as well as how the governance, including the audit committee, discharges its responsibilities.

A key responsibility of the auditor is to communicate the results of the work carried out. FEE recognises that the current model for auditor's communication can lead to an expectation gap with some as to how the auditor discharges the responsibilities for the work being done. In this context, FEE looks forward to the results of the current project on Auditor's Reporting undertaken by the International Audit and Assurance Standards Board (IAASB)² which has, with the contributions of relevant stakeholders, the potential to significantly improve and clarify auditor's reporting for the benefit of the international community, including at European and national level.

FEE is of the view that the role of the auditor can be expanded in the future. In this context, it is important to note that audit is only one part of the financial reporting system and

¹ The FEE responses to the European Commission Green Papers on Corporate Governance of Financial Institutions and on Audit Policy address similar points as is mentioned in the FRC Discussion Paper. The FEE responses can be found on <http://www.fee.be/fileupload/upload/EC%20Green%20Paper%20Corp%20Gov%20Fin%20Inst%20remuneration%20p%20100901792010371622.pdf> and <http://www.fee.be/fileupload/upload/Barnier%20101208%20FEE%20Response%20to%20EC%20Green%20Paper%20Audit%20Policy1712201011118.pdf>.

² Further comments regarding the IAASB strategy and work program 2012-2014 are set out in the FEE comment letter to the IAASB <http://www.fee.be/fileupload/upload/Gunn%2010316%20IAASB%20Strategy%20and%20Work%20Progam%202012-20141632011491541.pdf>

therefore auditors should only assume responsibility for their own role and actions without excessive and disproportionate liability attaching to them.

Considering communication in the broadest way as described above, from the entity as well as from the auditor, FEE agrees with the FRC that it should be carefully considered whether investors in fact would like information on the performance of the entity from the entity itself, for instance in the form of extended public reporting from the audit committee or whether the auditor should be involved in providing information on such matters. It might very well be the audit committee of the entity that is best placed to provide the information potentially requested by investors and the public at large, and not the auditor. However, if so requested and if suitable criteria exist, auditors could provide a certain level of assurance on such information provided by the audit committee.

Additionally, when considering how to improve communication, it will be important to strike a proper balance and to avoid two main shortcomings: first, the creation of an information overload that would reduce the accessibility to and relevance of key information, and second, the production of self-fulfilling prophecies that would have counterproductive effects threatening entities' existence.

Another point raised by the FRC is in relation to the auditor's professional scepticism. FEE agrees that professional scepticism should continue to be reinforced. This could be done by further training and by application of the ISAs as the application of these standards clearly underlines this concept.

As far as the appointment of auditors is concerned, FEE supports having greater involvement by shareholders in the process of appointment of the auditor as such initiatives could only contribute to safeguarding the independence of auditors which is an essential part of the trust and integrity of the audit profession vis-a-vis the entity in question and as a whole. Such additional safeguarding of the independence could be done through initiatives such as increased independence of the auditors' selection process, enhanced shareholders' engagement and increased transparency of the auditors' selection, appointment and remuneration process.

FEE agrees with the FRC that there are significant potential benefits to the use of technology for the accessibility of the annual report and financial statements which are yet to materialise. FEE supports the use of electronic applications in financial reporting. Such electronic applications could be XBRL, as highlighted by the FRC. However, FEE also acknowledges the challenges to using XBRL, in relation to financial reporting as well as auditing, such as in relation to the inclusion of extensions and the responsibility for such extensions and with regard to the audit of XBRL generated financial statements³.

³ Further information regarding XBRL is set out in the FEE Policy Statement on XBRL: eXtensible Business Reporting Language (XBRL) - The Impact on accountants and auditors
<http://www.fee.be/fileupload/upload/Auditing%20and%20Financial%20Reporting%20PS%20I%20XBRL%20-%20Impact%20on%20Accountants%20and%20Auditors%2009121812200946946.pdf>

For further information on this FEE⁴ 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

⁴ 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.