

# International Standards on Auditing (ISAs)

## Current Status:

- A FEE Survey of June 2000 "The Auditor's Report in Europe" showed that there was considerable variation in the wordings of statutory auditors' reports between EU member states. The variations were caused in part by differences in auditing standards (relatively minor differences in standards are neither transparent nor clearly identifiable) and, more significantly, by differences in national laws and regulations governing the subject matter and form of auditors' reports. This is an obstacle to the development of a single internal market in audit services.
- FEE supports the mandatory application of International Standards on Auditing (ISAs) to all audits in Europe.
- FEE proposed in November 2001, that by 2005, EU national auditing standard setters should require auditors to perform audit procedures that comply with ISAs and to report on financial statements in accordance with the same international standards.
  - ISAs could be supplemented by additional standards covering issues connected to the national regulatory framework. Other differences should be gradually eliminated.
  - The aim is to reduce variations in auditing and audit reporting practice.
- FEE has also recommended a new format of the audit report which would allow European auditors to demonstrate clear compliance with ISAs whilst providing additional information as required by national laws and standards.
- By enhancing cross-border confidence in audited financial statements, the proposal will promote the internal market for goods and services across all sectors. The proposal also facilitates cross-border capital flows, including fund-raising and merger and acquisition activity and the buying and selling of securities.
- The most substantial benefits of the proposal will be in markets which rely on audited financial statements. When audited financial statements are used across borders, the value of the assurance provided by auditors' reports is reduced by variations in auditing and reporting practice. Either users of auditors' reports do not understand the nature of the assurance provided or they have to invest extra resources in obtaining such an understanding. This contributes to the fragmentation of European markets and raises business costs.
- The FEE proposal supports the objectives of the recent IAS Regulation which mandates the adoption of common accounting standards by all EU listed companies, as from 2005. The benefits in terms of companies' improved access to markets and lower costs of capital will be reduced if audit reports on financial statements continue to refer to the national auditing standards of the country where a company is incorporated.

(continued overleaf)

**Next Steps:**

- On 21 May 2003 the European Commission published a Communication on statutory audit. The European Commission's strategy is broadly consistent with FEE's earlier ISA proposal. FEE will work to successfully implement the new strategy and is ready to assist in the necessary preparatory steps.
- In its Communication, the European Commission declares that it will evaluate possible endorsement systems for ISAs. Some argue that standards established by an international private body cannot be enforceable without such a public endorsement. Although noting the point, FEE is concerned that such a process could undermine application of the global audit standards in a uniform and complete way in the EU. It would be preferable if an alternative method of achieving acceptance of ISAs could be found, perhaps through scrutiny of the standard setting process.

**FEE Reference:****Proposal on International Standards on Auditing in the EU (2001)**

<http://www.fee.be/publications/main.htm>

**The Auditor's Report in Europe (2000)**

<http://www.fee.be/publications/main.htm>

**European Reference:****Reinforcing the Statutory Audit in the European Union**

European Commission Communication of 21 May 2003

[http://europa.eu.int/comm/internal\\_market/en/company/audit/official/index.htm](http://europa.eu.int/comm/internal_market/en/company/audit/official/index.htm)

**Other Reference:****International Standards on Auditing, (ISAs)**

The standard setting body for ISAs is the International Auditing and Assurance Standards Board (IAASB). It functions as an independent standard setting body under the auspices of the International Federation of Accountants (IFAC).

<http://www.ifac.org/IAASB/>

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**About FEE:**

The Fédération des Experts Comptables Européens (FEE) is the representative organisation for the accountancy profession in Europe. It groups together 41 professional bodies from 29 countries. Between them, these bodies have a combined membership of 500,000 individuals.