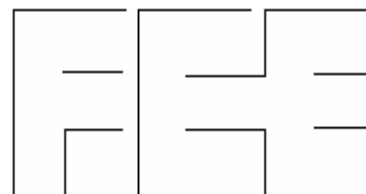


Date  
22 November 2007

Le Président

Fédération  
des Experts  
Comptables  
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AISBL

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Mr. J. Sylph  
Executive Director Professional Standards  
International Auditing and Assurance Standards Board (IAASB)  
545 Fifth Avenue, 14<sup>th</sup> Floor  
New York, New York 10017  
USA

[Edcomments@ifac.org](mailto:Edcomments@ifac.org)

Dear Mr. Sylph,

**Re: IAASB Consultation Paper – Proposed Strategy for 2009-2011**

As the representative organisation of the European accountancy profession, FEE is pleased to comment on the IAASB Consultation Paper – Proposed Strategy for 2009-2011 (Proposed Strategy).

This letter includes our suggested comments which would further enhance the Proposed Strategy which are also out 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 of 23 February 2007.

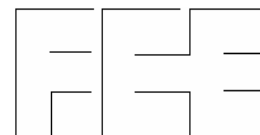
## **Main Comment**

### *A conceptual framework for assurance engagements*

FEE strongly believes that a project on a conceptual framework for assurance engagements would greatly contribute to the success of IAASB's initiatives for 2009-2011. Discussions on some key International Standards on Auditing (ISAs) in the light of the clarity project (for instance the request FEE received from the European Commission to prepare a paper on inherent limitations of an audit) might result in the now more pressing need to prepare a conceptual framework for assurance engagements, addressing qualitative aspects of auditing such as reasonable assurance, inherent limitations of an audit, professional judgment, etc. Many of the issues encountered by auditors, regulators, inspectors, etc in performing an audit, deciding on adopting international auditing standards or reviewing audit files arise from a lack of a conceptual framework.

The IAASB mentions a conceptual framework as an "Other Matter Arising from the Initial Consultations" and indicates that it is unlikely that the IAASB will develop a conceptual framework as a whole but that it may develop parts of such a framework (paragraphs 41 to 43 in the Proposed Strategy). We believe that matters such as professional judgement, reasonable assurance, etc have already been sufficiently considered and discussed in depth by other parties, work which could form the basis for IAASB to develop an overall conceptual framework.

We support that other auditing standard setters cooperate with IAASB to develop a conceptual framework for assurance services as such project might indeed be time consuming, but we are not convinced that third parties, including academics, should or could take the lead in such work in order for its output to be acceptable for assurance engagements in accordance with international standards.



It should be noted that FEE has performed work in the area of “Principles of Assurance: Fundamental Theoretical Issues with respect to Assurance in Assurance Engagements”<sup>1</sup>, in 2003 and [has recently finished] further work on “Selected Issues in Relation to Financial Statement Audits: Inherent Limitations, Reasonable Assurance, Professional Judgement and its Documentation, and Enforceability of Auditing Standards”<sup>2</sup>. It should also be noted that it is expected that the International Organisation of Securities Commissions (IOSCO) will recommend an initial literature review on the subject of the conceptual framework for ISAs. IAASB should not jump on this but also cannot escape it any longer to explain the missing links between the concepts of an audit, otherwise others might take it over. The IAASB should not only develop a conceptual framework for audits but also make it workable for wider assurance engagements.

## **Other Comments**

### ***The World’s Capital Markets***

#### *International Standards on Auditing*

##### Reporting Standards

FEE is aware of the concerns existing in a number of jurisdictions and with a number of important stakeholders in relation to ISA 700 on “The Independent Auditor’s Report on a Complete Set of General Purpose Financial Statements”. Although we do not share such concerns, we understand that the IAASB takes them seriously and plans to consider whether the auditor’s report should for instance be more informative or less prescriptive and thus ISA 700 be revised.

The IAASB is aware that Article 28.2 of the European Union Statutory Audit Directive stipulates that the common European Commission can adopt a European auditor’s report, even in case all other ISAs would be adopted. FEE believes it is unnecessary for Europe to develop such common European audit report as legislating for a common European audit report would represent a departure for the selected international standards on auditing, which must be applied in their totality to be effective.

If a common European audit report can be avoided as a result of IAASB actions in regard to ISA 700, this would be most welcome for the European accountancy profession.

#### *International Standards on Assurance Engagements*

Although FEE would like the IAASB to focus on assurance on corporate governance statements and assurance on effectiveness of internal controls, it is understood based on paragraph 23 of the Proposed Strategy that there was limited support for such projects and therefore, such projects do not feature in the IAASB Consultation Paper on the IAASB Proposed Strategy 2009 – 2011.

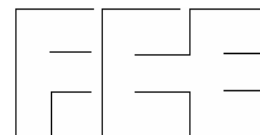
However, Article 41.4 of the European Union Statutory Audit Directive required that the statutory auditor or audit firm reports to the audit committee on key matters arising from the statutory audit, and in particular on material weaknesses in internal control in relation to the financial reporting process.

In this respect, it is a pity that the IAASB project to define the term "Material Weakness in Internal Control" appears to be refocused to “Communicating Control Deficiencies in Internal Control”. The lack of an international definition of “material weaknesses in internal control” might result in a de facto use in the European Union of the PCAOB definition. This could also result in a Sarbanes-Oxley type audit finding its way to Europe, even though the auditor’s responsibility in the area of internal control are about communicating matters that have come to the auditor’s attention during the audit of the financial

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<sup>1</sup> [http://www.fee.be/publications/default.asp?library\\_ref=4&content\\_ref=114](http://www.fee.be/publications/default.asp?library_ref=4&content_ref=114)

<sup>2</sup> [http://www.fee.be/publications/default.asp?library\\_ref=4&category\\_ref=44&private=False](http://www.fee.be/publications/default.asp?library_ref=4&category_ref=44&private=False)



statements. Therefore, the IAASB should set the definition itself, rather than leaving this to the European Union or its member states.

### Assurance Services Relevant to Raising International Capital

FEE is very supportive of a project regarding the auditor's involvement with prospectuses, including prospective (including assurance on solvency tests) and pro forma financial information and comfort letters.

On 1 July 2005, a new regime for prospectuses became effective within the European Union. Neither the Prospectus Directive nor its implementation measures laid down in the Commission Regulation detail how the auditor should report and what measures the auditor should have performed in order to express an opinion. Such details should be made available by the auditing standard setting bodies, which would preferably be on the level of international standards.

There is specifically a need to address reporting on pro-forma financial information and prospective financial information, not only in the context of prospectuses but also in the context of the current discussions on the capital maintenance regimes including solvency tests. FEE produced several papers on the auditors role in relation to prospectuses and comfort letters<sup>3</sup>.

### Assurance on Sustainability Reports

The IAASB proposes to develop a pronouncement addressing auditor's reports on information related to tradable carbon credits. 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 IAASB to co-operate rather than duplicate efforts with other standard setters, like the Royal NIVRA, to provide high quality and usable standards for assurance on sustainability. 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 standard setters for assurance to recognize the need for assurance standards for sustainability reporting<sup>4</sup>. We in particular draw your attention to our Discussion Paper published in June 2006 "Key Issues in Sustainability Assurance – An Overview"<sup>5</sup> and the related Roundtable on Assurance in Sustainability of 21 November 2006<sup>6</sup>. We believe to have demonstrated that there is a clear need for an international sustainability assurance standard: If the IAASB will not produce such a standard others will step in.

## ***The Implementation of Standards***

### *The Implementation Assistance*

The IAASB plans to develop a *process* for assessing the effectiveness of the implementation of new standards, in order to determine whether there is any necessity for further refinement to achieve the intended effect of new standards.

We believe that a post-implementation *review* of the clarity project and clarity redrafted standards should be performed to determine whether the objectives and goals of the clarity project have been achieved upon implementation in practice of the clarified ISAs, seen the magnitude and expectations in relation to this project. Such review should allow for the identification of any possible areas for further clarification or that need greater coverage in the standard (for instance in relation of ISAs 250, 570, 610 and 720), including consideration of aspects relating to audits of small entities.

<sup>3</sup> [http://www.fee.be/publications/default.asp?library\\_ref=4&category\\_ref=44&private=False](http://www.fee.be/publications/default.asp?library_ref=4&category_ref=44&private=False)

<sup>4</sup> [http://www.fee.be/publications/default.asp?library\\_ref=4&content\\_ref=256](http://www.fee.be/publications/default.asp?library_ref=4&content_ref=256)

<sup>5</sup> [http://www.fee.be/publications/default.asp?library\\_ref=4&content\\_ref=580](http://www.fee.be/publications/default.asp?library_ref=4&content_ref=580)

<sup>6</sup> [http://www.fee.be/news/default.asp?library\\_ref=2&content\\_ref=626](http://www.fee.be/news/default.asp?library_ref=2&content_ref=626)

Although the ISAs are becoming increasingly complex and lengthy as they are written top-down and not bottom-up with the latter especially catering for larger audits, FEE supports the concept of 'an audit is an audit'. The objectives of each audit should be the same, the requirements to achieve the objectives should be the same, but the specific audit procedures to be undertaken to comply with the requirements may vary considerably in the audit of a small and simple entity compared to that of a large or complex one. FEE would be in favour of ISAs which meet the needs of the smaller entity without the need for separate standards.

We recommend for the IAASB to be as closely involved as it can in the review of the implementation of both the clarity project and of the clarified ISAs themselves, rather than merely delegating this task to others.

Upon completion of the clarity project of the ISAs and its implementation review, the IAASB should refocus its attention away from auditing standards to other assurance services. Subsequently, FEE calls for a pause in ISA standard setting, both in revising ISAs and issuing new ISAs. It is important to create a stable platform of a set of up-to-date ISAs which would benefit their swift endorsement for application throughout the profession and by regulators, for instance in the European Union.

#### *Implementation Guidance*

It is noted in paragraph 34 that the IAASB, in consultation with relevant parties, will develop guidance for auditors on the audit of complex valuation models.

Although the move to fair value based accounting models has resulted in the increased use of complex valuation models, the use of such models is not relevant in a considerable number of audits. FEE is therefore not convinced that IAASB should address these auditing needs as a priority, which are often related to specific industries, particularly banking and insurance. The following should be considered in connection with such project:

- Valuation models are very much driven by the underlying accounting practices on which they are based and which oftentimes differ substantially, audit guidance on this matter will necessarily need to be financial reporting frame neutral and thus limited to the biggest common denominator.
- Such guidance might therefore be more than needed for small entities audits but less than sufficient for audits of financial institutions or insurance undertakings.
- There is no need to repeat accounting and financial reporting material in auditing guidance.
- Such guidance will quickly be outdated due to the rapid changes in the underlying valuation models.

If you have any further questions about our views on these matters, please do not hesitate to contact us.

Yours sincerely,



Jacques Potdevin  
President

Ref: AUD/AED/JP-HB/EF