



Ms. Hazel O'Sullivan
Project Director
The Auditing Practices Board Limited
5th Floor
Aldwych House
71-91 Aldwych
London WC2B 4HN
UK

Email: h.osullivan@frc-apb.org.uk

16 December 2009

Ref.: AUD/HvD/HB/SH

Dear Ms. O'Sullivan,

Re: FEE Comments on Consultation on Audit Firms Providing Non-Audit Services to Listed Companies that they Audit

FEE (the Federation of European Accountants) is pleased to provide its comments on the Auditing Practices Board (APB) Consultation on Audit Firms Providing Non-Audit Services to Listed Companies that they Audit.

FEE does not support changes to the approach of the APB to its standard setting relating to the provision of non-audit services by auditors to entities they audit, as we strongly believe in alignment of national ethical codes with international standards and as a principles-based approach rather than a rules-based one is more robust.

Our comments centre on matters of principle that are of relevance to the European accountancy profession as a whole. We have not, therefore, responded in detail to all the specific questions posed in the consultation paper.

Question 1: (a) Do you think that the provision of non-audit services by accounting firms to their audit clients currently impacts confidence in the independence of auditors?

(b) Are you aware of any instances where the provision of non-audit services by accounting firms to their audit clients has or may have adversely affected audit quality?

Please give the reasons for your views.

We do not believe that the provision of non-audit services by accounting firms should impact or impacts confidence in the independence of auditors although we are aware that some perceive that the provision of non-audit services by accounting firms to their audit clients has or may adversely affect audit quality.

Question 3: In the light of your answers to questions 1 and 2, do you think that there needs to be a change in the approach taken by APB to the setting of standards relating to the provision of non-audit services by auditors to the entities that they audit? Please give reasons for your view.

We do not believe that a change is needed in the approach taken by APB to the setting of standards relating to the provision of non-audit services by auditors to the entities that they audit, as we strongly believe in alignment of national ethical codes with international standards and as a principles-based approach rather than a rules-based one is more robust.

As far as the alignment with international standards is concerned, following the publication of the European Commission Consultation on the Adoption of International Standards on Auditing (ISAs), it is expected that auditors in the European Union will be required to apply ISAs in the near future, which assume compliance with the International Code of Ethics for Professional Accountants, previously referred to as the IFAC Code of Ethics¹.

We are concerned that international harmonisation will not benefit from a major national standard setter issuing specific standards and regulations in isolation from the carefully considered international requirements without clearly different local circumstances applying that might necessitate such measures. In particular, FEE believes that international harmonization will not be aided by the introduction of additional concepts, requirements or prohibitions in national ethical codes in any European Union member state and we therefore discourage gold plating on a national level. We therefore believe that the role entrusted to the APB should be to ensure that compliance with its Ethical Standards will ensure compliance with the EC Recommendation on Statutory Auditors' Independence in the EU (EC Recommendation)² and the International Code of Ethics for Professional Accountants.

As you are no doubt aware, the International Code of Ethics for Professional Accountants is set by the International Ethics Standards Board for Accountants

¹ In ISA 200 "Overall Objectives of the Independent Auditor and the Conduct of an Audit in accordance with ISAs", paragraphs 14, A14 to A16; in ISA 220 "Quality Control for and Audit of Financial Statements", paragraphs 11 and A5; and in ISQC 1 "Quality Control for Firms that perform Audit and Reviews of Financial Statements and other Assurance and Related Services Engagements", paragraphs 12 (q), 21 to 25 and A7 to A17.

² European Commission Recommendation on Statutory Auditor's Independence in the EU: A set of Fundamental Principles, May 2002.

(IESBA or the Board). The composition of the Board is balanced between practitioners and other members and consists of 17 members including nine practitioners, six non-practitioners (including one from the United Kingdom) and two public members (including one from the United Kingdom). It should also be noted that the European Commission is an observer with speaking rights at the Board.

The standards are set following a rigorous due process recognizing that it is critical to ensure that the views of those affected by its standards and guidance (i.e. stakeholders in general) are thoroughly considered.

This due process covers:

- Research and consultation by an IESBA task force in the development or revision of every aspect of the Code;
- Debate in IESBA meetings which are open to the public;
- Exposure of the draft Code for public comment;
- Consideration of comments received on exposure; and
- Approval of each amendment to the Code by the affirmative vote of at least two-thirds of the IESBA members.

Additionally, the IESBA Consultative Advisory Group (CAG) delivers valuable public interest input to the IESBA. The CAG is comprised of representatives of regulators, business and international organisations, and users and preparers of financial statements. The CAG is chaired by the Chairman of the Auditing and Practices Board (APB) of the United Kingdom who is also an observer with speaking rights at the Board, allowing him to closely contribute to the activities and output of the Board.

Furthermore, in 2005, the activities of the IESBA came under the oversight of the Public Interest Oversight Board (PIOB). The European Commission nominates two of the ten members of the PIOB, one of whom is from the United Kingdom.

As far as the approach to ethics and independence is concerned, FEE is committed to the principles-based approach as being the most robust because, inter alia, by focusing on the underlying aim rather than detailed prohibitions, the principles-based approach combines flexibility with rigour in a way that is unattainable with a rules-based approach. This has been recognised in Europe by the European Commission Recommendation on Independence, which follows this approach, and the Statutory Audit Directive³, which specifically endorses this approach in Article 22. We accept that a Code containing nothing but a general discussion of principles, threats and safeguards is unlikely to completely meet the needs of the modern, complex profession and that some prohibitions, requirements, guidance and examples of how these should be applied are necessary without moving too close to a rules-based approach which can encourage a tick-box compliance with the form of the requirement rather than the spirit.

³ Directive 2006/43/EC on Statutory Audits of Annual Accounts and Consolidated Accounts.

The introduction of additional absolute prohibitions even in circumstances when acceptable safeguards could be applied is not justified either in terms of enhanced independence or evidence of a need to restrict further the ability of businesses to have access to and obtain their professional service needs cost effectively. There are a number of matters that need to be considered when proposing additional prohibitions. For example, cost and management time is often greater when non-audit services are obtained from a provider other than the auditor. In addition, the additional information acquired when providing other services can enhance audit quality.

We agree that the provision of non-audit services by auditors to audit clients could create threats to independence and these need to be assessed and necessary safeguards applied, or the service not provided. However, we do not believe there is any justification for a complete prohibition on non-audit services provided by auditors to listed audit clients.

Question 5: In setting the standards relating to auditor independence, do you believe regard should be had to the perceived benefits that are derived by companies from the provision of non-audit services by their auditors? If your answer is yes, please provide specific examples of these benefits and indicate the magnitude of any cost savings that arise.

Yes. We refer especially to the examples of benefits included in sections 3.3 and 3.4 in the consultation paper.

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

Yours sincerely,



Hans van Damme
President

Note:

FEE is the Fédération des Experts comptables Européens (Federation of European Accountants). It represents 43 professional institutes of accountants and auditors from 32 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.*