



9 December 2011

Office of the Secretary  
Public Company Accounting Oversight Board  
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USA

Email: [comments@pcaobus.org](mailto:comments@pcaobus.org)

Ref.: ETH/PRJ/HBL/LAN/SHA

Dear Sir or Madam,

**Re: PCAOB Rulemaking Docket Matter No. 37: Concept Release on Auditor Independence and Audit Firm Rotation**

FEE is pleased to provide you with its comments on the PCAOB Rulemaking Docket Matter No. 37: Concept Release on Auditor Independence and Audit Firm Rotation.

FEE has only responded to the questions in the PCAOB Concept Release that are relevant from a European or international perspective. We have not expressed views on issues that focus on purely national US matters. Our detailed responses to the relevant questions, set out below, can be summarised as follows:

1. FEE supports the aim of enhancing independence and objectivity of auditors as we strongly believe that the independence of auditors is fundamental to public confidence in audited financial information, thereby providing credibility and value to all stakeholders. In this context, there are legitimate concerns regarding independence and excessive client familiarity that mandatory audit firm rotation could attempt to address.
2. FEE is also of the opinion that professional scepticism could be enhanced even further to have audit quality at the highest level achievable. This could be sufficiently done by reassessing the requirements in the auditing standards as well as focusing on their application, including, for example, analysing the findings from PCAOB inspections as a first step. However, FEE believes that mandatory audit firm rotation would not be conducive to further enhancing professional scepticism. Indeed, inspections by audit oversight bodies have already contributed to enhanced professional scepticism. Further analysis should be carried out to substantiate the impact of this development with a specific focus on whether

the duration of the engagement term has an impact on auditor independence and the application of professional scepticism.

3. With this in mind, mandatory audit firm rotation is not the most appropriate policy option to achieve such enhancements in practice. It may even have a potential adverse impact on audit quality.
4. The European Commission recently proposed the introduction of mandatory audit firm rotation as an instrument to reduce concentration in the top end of the audit market. Though this impact is not extensively debated in the PCAOB Concept Release, FEE believes that it would not reduce and potentially could result in an increasing concentration within the audit market, especially in segments of the market where high concentration is already observed.
5. Due to the evident extraterritorial consequences of such a requirement, or any other requirement with similar characteristics, it is essential to carefully consider the practical feasibility of such measures - if introduced in only one jurisdiction - for companies with global activities and their auditors. Therefore, in case any initiative would be taken, FEE strongly encourages the PCAOB to coordinate any initiatives with its counterparts in Europe and in other parts of the world, such as in Asia, in order to achieve a coherent, practical and sustainable solution.

## General Questions

### **Should the PCAOB undertake this work and would mandatory audit firm rotation help solve the identified problems?**

Representing the audit profession in Europe, FEE strongly believes that the independence of auditors is fundamental to public confidence and adds credibility to published financial information and value to investors, creditors, employees and other stakeholders in companies. Furthermore, professional scepticism and high audit quality are cornerstones of audit work and also need to be preserved in order to maintain audit as a service that provides added value to all stakeholders.

FEE has taken note of the concerns expressed by various audit oversight bodies, including those in Europe, regarding the perceived lack of auditor independence in certain audits and the need to improve professional scepticism. FEE fully supports the aim of reducing misconceptions about auditor independence and of fostering improvements to professional scepticism.

Taking the arguments for and against mandatory audit firm rotation into consideration, FEE is of the view that mandatory audit firm rotation is not the best or the most appropriate measure to achieve this goal, as there might well not be as clear a link between mandatory audit firm rotation and independence, objectivity and professional scepticism as the Concept Release seems to suggest.

With regard to independence of the auditor, mandatory audit firm rotation might contribute to reducing misconceptions and perceptions, and respond to the legitimate concerns regarding independence and excessive client familiarity which mandatory audit firm rotation could attempt

to address. Such an initiative would be in addition to the existing safeguards that are already covered through ethical and independence requirements, especially in relation to independence in appearance. However, mandatory audit firm rotation is not the most practical or cost-effective way to respond to concerns regarding independence<sup>1</sup>.

With regard to professional scepticism and subsequently the impact mandatory audit firm rotation might have on audit quality, no direct link between mandatory audit firm rotation and professional scepticism can be made. The requirements in the international auditing standards regarding professional scepticism, which are similar to requirements in the current US standards, highlight that the auditor should not solely rely on the honesty and integrity of the management and those charged with governance, but must obtain evidence and evaluate the persuasiveness of this evidence. Additionally, while recognising that earlier decisions can always be challenged, engagement quality control review is an integral part of the audit of listed companies under ISAs. It may therefore be more relevant to consider further improvements to the auditing standards on professional scepticism with the aim of enhancing the application of this principle, rather than seeking enhancements of professional scepticism through other policy measures, such as requiring audit firms to rotate on a regular basis.

Although recently more attention has been devoted to the application of professional scepticism, as mentioned above, the continuous reinforcement of it could also be done by focusing on the application of its requirements. The combination of the already required engagement quality control review, further improvements to auditing standards, if found relevant, and focus on their application therefore seems to sufficiently correspond to the wish to reinforce professional scepticism. In our view, the introduction of mandatory audit firm rotation would not be conducive to further enhancing professional scepticism.

As noted in the Concept Release, the European Commission is also considering initiatives like mandatory audit firm rotation as well as other measures, as displayed in the recently published proposals for a new European Regulation regarding requirements for statutory audit of public interest entities<sup>2</sup>. It should be noted that the European debate focuses mainly on market related issues when discussing mandatory audit firm rotation, whilst the PCAOB approaches the debate from the angle of independence, professional scepticism and audit quality. Due to the evident extraterritorial consequences of such requirements, or any other requirement with similar characteristics, it is essential to carefully consider the practical feasibility of the measures, if introduced in only one jurisdiction, for companies with global activities and their auditors. Therefore, in case any initiative were to be taken, FEE would strongly encourage the PCAOB to coordinate any initiatives with its counterparts in Europe and in other parts of the world, such as in Asia, in order to achieve a coherent, practical and sustainable solution.

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<sup>1</sup> As also noted by PCAOB Member Daniel L. Goelzer in his speech of 16 August 2011  
[http://pcaobus.org/News/Speech/Pages/08162011\\_GoelzerStatement.aspx](http://pcaobus.org/News/Speech/Pages/08162011_GoelzerStatement.aspx)

<sup>2</sup> European Commission Proposal for Regulation for specific requirements regarding statutory audit of public-interest entities, 30 November 2011, [http://ec.europa.eu/internal\\_market/auditing/docs/reform/COM\\_2011\\_779\\_en.pdf](http://ec.europa.eu/internal_market/auditing/docs/reform/COM_2011_779_en.pdf)

## Advantages and disadvantages of mandatory audit firm rotation

The Concept Release refers to a number of advantages and disadvantages of mandatory audit firm rotation which all stem from previous surveys and experience in practice. The 2004 FEE Study on Mandatory Rotation of Audit Firms<sup>3</sup> also refers to additional surveys on the matter including advantages and disadvantages.

The majority of surveys concluded that there are more disadvantages than advantages to mandatory audit firm rotation, and in particular that alternative policy options may be more appropriate. In addition, this measure is not viewed as positively impacting on professional scepticism.

Others have taken a similar view, for instance:

- The General Accounting Office (GAO) noted in 2003<sup>4</sup> as acknowledged in the Concept Release that *“the costs of mandatory audit firm rotation are likely to exceed the benefits. Most believe that the current requirements for audit partner rotation, auditor independence, and other reforms, when fully implemented, will sufficiently achieve the intended benefits of mandatory audit firm rotation”*. Also, the GAO expressed the view that *“... audit committees can play an important role in ensuring auditor independence ...”* including through *“...adequate transparency...”*.
- Since Korea introduced mandatory audit firm rotation in 2006, Korea University together with the University of New South Wales analysed the impact of this initiative in a report from November 2010<sup>5</sup>. They concluded that since the Korean government mandated audit firm rotation in 2006, (1) audit hours increased, (2) audit fees increased, and (3) audit quality (measured as abnormal discretionary accruals) remained unchanged or decreased slightly.
- The European Parliament expressed in their recent report on the European Commission Green paper on “Audit Policy”<sup>6</sup> its support for internal key audit partner rotation instead of external audit firm rotation.

Therefore, although a number of years have gone by, the conclusions of the GAO in 2003 are still considered by some as valid.

## Alternatives to mandatory audit firm rotation

In identifying solutions, regulators should make clear whose behaviour they seek to influence. In this case, the PCAOB aims to influence the behaviour of auditors to enhance their independence, objectivity and professional scepticism. However, mandatory audit firm rotation appears first and foremost to be impacting the audited entities, and on auditors only in an indirect way.

<sup>3</sup> FEE Study on Mandatory Rotation of Audit Firms  
<http://www.fee.be/fileupload/upload/FEE%20Study%20on%20Mandatory%20Rotation%20of%20Audit%20Firms%2004102112005561253.pdf>, October 2004

<sup>4</sup> General Accounting Office (GAO): Public Accounting Firms: Required Study on the Potential Effects of Mandatory Audit Firm Rotation”, November 2003, <http://www.gao.gov/new.items/d04216.pdf>

<sup>5</sup> “Mandatory Audit Firm Rotation and Audit Quality: Evidence from the Korean Audit Market”, Soo Young Kwon, Young Deok Lim, Roger Simmet, November 2010

<sup>6</sup> European Parliament: Report on audit policy: lessons from the crisis <http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//NONSGML+REPORT+A7-2011-0200+0+DOC+PDF+V0//EN&language=EN>, September 2011, paragraph 26.

Alternatives to mandatory audit firm rotation could achieve the objectives of enhancing independence, objectivity and professional scepticism of auditors in a better and more direct way. These objectives could be met without necessarily reducing the influence on the decision-making of those charged with governance of companies which are the most suitable parties to assess the most appropriate timing to rotate the audit firm.

#### Alternative measures

- **Appointment of auditors to be more independent of management by reinforcing the role of the audit committee:** Through involving audit committees and (supervisory) boards to a greater extent than at present, as well as by additional engagement of shareholders, the appointment process of auditors can be made more independent of management. This could be combined with tendering procedures under the responsibility of the audit committee and through more transparency by the company regarding the selection and appointment process.

Further guidance to audit committees on how they make proper use of their skills to discharge their duties would probably also be helpful. In this context, the role for audit committees with regard to their monitoring responsibilities of the independence of the auditor could be considered. Also, assessments by the audit committee of whether the auditor sufficiently challenges the management in their decisions and thus how the auditor has applied professional scepticism could be relevant to consider.

It should be noted that mandatory audit firm rotation would contradict the objective of reinforcing audit committees, as it takes away one of the key roles of audit committees to decide when and whether a new audit firm should be appointed. Further responsibilities for audit committees to disclose and justify the re-appointment of the auditor after some period of time could also be considered.

- **Quality assurance in audit firms and audit oversight inspections:** Audit oversight has generally contributed to enhancing professional scepticism as well as improved audit quality through the introduction of improvements to deal with identified deficiencies, often addressed by training initiatives, appropriate amendments to internal quality controls in audit firms and improvements to applied audit methodologies. In this context, it should be noted that the purpose and the tasks of audit oversight and mandatory audit firm rotation are different. Audit oversight should continue to be carried out in accordance with its principles and the incoming auditor should not be expected to fulfil the tasks of audit oversight through mandatory responsibility of an implicit “inspection” of audits in previous years.

As noted, inspection reports from audit oversight bodies have already contributed to enhanced professional scepticism and FEE would certainly support further analysis on this impact to substantiate this development and enable identification of the source of deficiencies, such that appropriate measures can be taken in response. Such further analysis could also be carried out with specific focus on whether the duration of the term has an impact on auditor independence and the application of professional scepticism. The

results of such further analysis would also be very useful in the design of future training initiatives in relation to improving the application of professional scepticism, as requested by some audit oversight bodies. In this context, it should be noted that the deficiencies detected in inspection reports show that weaknesses in the audit performed refer to also other reasons than lack of professional scepticism, as for instance displayed in the Netherlands<sup>7</sup>.

- **Training initiatives:** Although not an explicit alternative to a regulatory requirement, training initiatives for auditors both in relation to their professional qualification and with regard to continuing professional development are measures that can have a very positive impact on, for instance, professional scepticism in the way that it changes behaviour through experience and knowledge sharing in the daily work. Initiatives related to additional training on the particular area of professional scepticism have been introduced in some countries and by some audit firms, and are based on some critical comments made by audit oversight bodies. Such initiatives are preferable over a regulatory market intervention that impacts the audit clients as much or more than it has an impact on auditors.

The initiatives introduced by some audit firms and professional bodies are on training regarding the application of professional scepticism and through issuing various publications on the matter. Further initiatives in this regard should be encouraged, also by audit regulators and oversight bodies, which could engage as well to ensure that professional scepticism is applied in practice.

#### Complications of other alternative measures proposed by the PCAOB

Certain complications and complexities regarding other alternative measures proposed by the PCAOB can be identified as well as some additional measures can be brought forward. These relate in particular to:

- **Joint audit:** Joint audit is currently mandated in one country within Europe, namely in France, as referred to in the Concept Release<sup>8</sup>. It is not prohibited in any country in Europe. When considering the impact of joint audit on professional scepticism, the measure may not be a comparable alternative to mandatory audit firm rotation, due to the following:
  - In a joint audit, the audit of the current year entails that two auditors carry out the audit work through exercising professional scepticism on that year's financial statements in a balanced way, being jointly responsible for the same audit.
  - With audit firm rotation, the incoming auditor, who has taken over, cannot influence the audit carried out in the previous year through exercising professional scepticism on the audit of the previous year as the incoming auditor can only have an impact on future audits.

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<sup>7</sup> The report of the Netherlands Authority for the Financial Markets (AFM) states that 29 out of 46 audits examined had findings. Out of these, 25 audits had as finding 'insufficient audit evidence' which is caused by various weaknesses/shortcomings. Only one of the shortcomings which falls under the finding 'insufficient audit evidence' is related to 'insufficient professional scepticism in obtaining and classifying audit evidence'.

<sup>8</sup> More details on the French experience on joint audit can be found in the report from the French Securities Regulator, Autorité des Marchés Financiers (AMF) in July 2010. The survey shows that the market in the top end of the market remains concentrated, although between five and not four, audit firms [http://www.amf-france.org/documents/general/9557\\_1.pdf](http://www.amf-france.org/documents/general/9557_1.pdf).

Whether joint audit in practice has an impact on independence is difficult to say. Some believe that it may actually significantly complicate the management of independence requirements and could reduce the number of audit firms that an entity can appoint.

Another example of joint audit could be found in Denmark, where a mandatory joint audit requirement was abandoned in 2005 as it was considered to be an administrative and financial burden that did not necessarily result in benefits for the business regarding audit quality, etc. The practice of joint audit in Denmark originated from an audit market where audit firms did not have the capacity to carry out audits of very large, complex and global companies. The requirement of joint audit was therefore used as a proxy for a second partner review. Under the current audit market situation and auditing standards, this is dealt with within the audit firm through independence requirements, review partner requirements, key audit partner rotation and effective internal and external quality control and assurance.

Furthermore, it should be noted that joint audit is proposed by the European Commission as an option that should operate in conjunction with different possible durations for mandatory audit firm rotation. If considered more in detail as a potential policy option, FEE strongly urges the PCAOB to conduct further analysis to ensure that the benefits of having two auditors outweigh the costs as well as whether joint audit will meet the objectives of improving independence, objectivity and professional scepticism. The extraterritorial consequences of such a measure should also be taken into consideration.

- **The combination of measures:** The possible combination of measures, which is currently also being debated in Europe, can lead to severe complications and complexities for the audited entities in relation to the selection and appointment process for the auditor as well as in the daily work and cooperation with the auditor. For instance, simultaneous audit firm rotation, key audit partner rotation as well as joint audit and mandatory tendering, all with different durations, would constitute over-regulatory intervention where the administrative burdens and the complexity will not respond to the desired aim of enhancing independence, objectivity and professional scepticism of the auditor.

## Specific questions

### Duration of the term and variation of audit effectiveness during the term – Questions 1-4 and 11-12

FEE can understand the existence of the perception that an audit tenure of more than 30, 50 or even 100 years is too long and can result in concerns about familiarity between the auditor and the audit client. However, as noted in the Concept Release, it is not the same team of management, board members and auditors that are in place throughout that long a period of time. In Europe, the European Commission has encouraged rotation of board members since the EC Recommendation on non-executive directors in listed companies<sup>9</sup> was issued in 2005 by noting that non-executive directors should be appointed for specified terms at maximum intervals with a view to enabling both the necessary development of experience and sufficiently frequent

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<sup>9</sup> <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2005:052:0051:0063:EN:PDF>

reconfirmation of their position. Management and board members, as well as audit partners (as a result of required key audit partner rotation) and audit team members, rotate regularly which counterweighs the risk of excessive familiarity.

Furthermore, tendering takes place at relevant intervals on the initiative of companies when they believe that there is a need to reassess the appropriateness of its current procedures and interaction with the current auditor by prompting a thorough examination of whether improvements can be made to enhance the value of the service it requires from the auditor. The risk of familiarity is therefore mitigated in this way, as tendering on the initiative of the company preserves the fundamental powers of the governance bodies of a company whilst leading to a change of auditor in a manner and at a time most appropriate for the entity.

It has been argued that tenures of short duration lead the auditor to perform lower quality audits. However, in practice the auditor has a professional duty to perform every audit with the highest professional care and will be subject to external audit oversight and potential disciplinary sanctions in all years of the engagement, regardless of its duration. Generally, auditors should not take an excessive reputational risk and should therefore have a self-interest in maintaining a sufficiently high level of audit quality at any point of time during the term of engagement.

In all engagements, the auditor has a learning curve that can be more or less steep. In practice, auditors already have procedures in place to reduce the impact of the learning curve as much as possible, although no measure can fully eliminate it. However, as the auditor is subject to audit oversight and potential disciplinary sanctions, also in the first year of the engagement, it does not seem likely in practice that a short duration of the engagement will lead to shortermism in relation to the behaviour of the auditor.

In this context, access to previous year's audit files reduces the length of the learning curve for the new auditor, but there will always be a higher audit risk in the first year as it takes time to build up an in-depth knowledge of the audited entity's business, which cannot be gained by reading audit files of predecessors. Additionally, rotation of key audit partners and audit team members at different intervals will normally reduce the impact of the learning curve.

### **Limitation of choice of auditors – Questions 7-8**

Mandating audit firm rotation will limit the company's choice of future auditors as the current auditor cannot be reappointed. The pool of candidates is therefore reduced.

In most segments of the audit markets there is supply and choice which is not perceived as limited. However, in the audit market of large multinational entities, the number of suppliers is perceived as too limited. In Europe, the European Commission views mandatory audit firm rotation as one of the key elements that could rebalance the current audit market and solve the current market concentration in the top end of the market. Independence reasons are only brought in in addition to the desire to resolving market concentration.

Whether mandatory audit firm rotation is introduced due to the first or the second reason, it does not appear to provide solutions for market concentration in the top end of the market, as seen in



Italy. Additionally, it does not necessarily lead to an increasing number of (mainly smaller) audit firms carrying out audits in the top end of the market. In fact, contrary to expectations, mandatory audit firm rotation may indeed lead to an increase in concentration. When companies change audit firms, smaller audit firms often see their audit clients appoint larger audit firms, as audits tend to rotate from smaller to larger audit firms or amongst larger audit firms.

As concentration is most prominent in the top end of the market (and may also be prominent in particular industry sectors), opening up the market would need time to materialise. Initially, companies may be faced with difficulties in identifying suitable candidates as incoming audit firm.

### **Audits of multinational companies – Question 10**

Changing the auditor normally requires additional resources and costs in the transitional phase, both for the auditor and for the audited entity. To reduce this impact and its costs and also to realise benefits in the transitional phase as much as possible, audit firms have today procedures in place to accommodate for the changes needed. For multinational companies, such a change does not take place that often and needs to be implemented in a coordinated way in the parent company as well as in subsidiaries in all jurisdictions in order to match it with the activities of the company. For multinational companies, their business model may not relate to specific jurisdictions, but will depend on how the company has defined its segments which can relate to regions, product lines, the structure of the major customers, etc. in accordance with their internal control system and with financial reporting requirements. Different requirements in different jurisdictions are therefore disruptive, not beneficial and costly for such companies.

In any consideration of mandatory audit firm rotation, a coordinated approach at a global level regarding mandatory audit firm rotation would therefore be strongly encouraged in order to avoid causing difficulties and additional costs for multinational companies and their auditors.

### **Impact on non-audit services – Questions 12-13**

As discussed in our response to Questions 1-4 and 11-12 above, an audit firm devoting fewer resources due to a limited duration engagement is an unlikely consequence of mandatory audit firm rotation.

Furthermore, it is possible that some audit firms will focus on providing non-audit services to non-audit clients if the regulatory burden of providing audit services becomes too costly without any substantial corresponding perceived or recognised benefits.

Mandatory audit firm rotation for audit services is bound to have an effect on the market for non-audit services, insofar as the incoming auditor will have to terminate the provision of certain non-audit services prior to commencing the audit work in order to be independent during the entire audit engagement period, due to the independence requirements related to audit services.

Additionally, in the year(s) prior to rotation, aspirant-auditors will be required to be independent prior to accepting an audit engagement. Therefore, the audit firm in question would not be able to

undertake an engagement that is categorised as a non-audit service within a given time frame prior to the audit engagement. This will be more explicit if rotation of audit firms is set at specific time intervals.

Subsequently, the audit firm that is no longer the statutory auditor, can provide non-audit services to the (now) non-audit client and therefore as such be active in the market for non-audit services after an appropriate cooling-off period for the former auditor to provide non-audit services has expired.

Due to most likely transitional period with overlap of the incoming auditor and the outgoing auditor, neither the incoming nor the outgoing auditor will be available to provide non-audit services in that particular period. Consequently, the possibility for the audit client to choose from non-audit service providers amongst audit firms will be reduced. This effect may even be more explicit if audit firms participating in a proposal, cease their provision of non-audit services in order to preserve their independence in case of appointment.

### **Mitigation of risks posed by rotation through internal quality control systems – Question 16**

As audit firms take on new audit engagements on a regular basis, the current internal quality procedures already take into account the risks associated with a new audit due to the lack of in-depth knowledge in the transitional phase. Therefore, from an international perspective based on the relevant international standards, no changes seem needed with regard to internal quality control systems when considering the impact of a potential mandatory audit firm rotation requirement.

### **More extensive audit oversight in the beginning of the term – Question 17**

Audit risk is bound to be higher in the beginning of the term compared to later on, due to the learning curve for obtaining in-depth information and knowledge about the audited entity.

Auditors will always strive towards a high level of audit quality in any part of the engagement term which entails aiming at the optimal combination of efficiency in audit procedures and resources spent to reach this goal. With this in mind, there will always be room for improvement regarding audit quality with due considerations to cost-benefit assessments. As professional scepticism is a crucial part of audit quality, there is continuous room for improvement in applying the essential concept of professional scepticism.

With the above in mind, audit oversight bodies should design their inspection initiatives as they find appropriate.

Regulators and audit oversight bodies across various jurisdictions have intensified their inspection activities over recent years, especially in Europe due to the implementation of the Statutory Audit Directive of 2006. Recently published reports of audit oversight bodies have shown a need for improvement in the application of professional scepticism, which the audit

profession has carefully responded to through new initiatives. However, comments by audit oversight bodies suggesting improvements in other areas have also been made, as well as comments from the audit profession suggesting improvements to financial reporting standards as the basis for the entity's financial statements. These comments are aimed at providing a financial reporting framework that is comprehensible, easy to interpret and sufficiently robust over time. This should lead the entity to prepare financial statements that are auditable and on which the auditor can exercise judgements and be sufficiently sceptical.

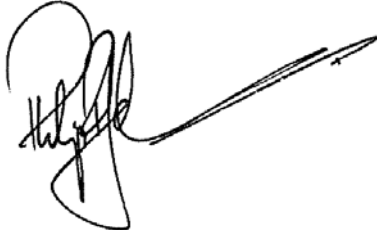
In practice, some identified deficiencies in audits are not necessarily due to the lack of professional scepticism applied by the auditor, but more due to the lack of performing the necessary audit procedures. The criticism on the lack of professional scepticism seems to be confined to subjective areas, such as valuation.

In this context, it may be relevant to more clearly define or describe what professional scepticism is, as well as the extent of its role, where applicable, in deficiencies in the audit. It should relate more to ensuring the diligence with which the work is performed than to the competences of the auditors, as professional scepticism is only one of the skills of an auditor. The skills required of an auditor are far wider than solely applying professional scepticism. As far as education is concerned, a move to a principles and outcomes based approach for auditor's competences would be a major improvement. This is currently reflected in the initiatives taken by some within the audit profession which focus on improving the way that professional scepticism is applied in practice through training initiatives.

However, audit regulators and audit oversight bodies could provide more input on what they believe is or should be understood by professional scepticism, which should be viewed in light of the development of accounting standards that are now more principles-based and allow for the application of judgement within a range. Only outside the boundaries of the judgement related to accounting principles and the test of these ranges, professional scepticism is to be used by the auditors. With this additional guidance and also in general, we recognise the need for auditors to be more communicative on how professional scepticism is applied in practice, and how professional scepticism is embedded in the training.

For further information on this FEE<sup>10</sup> letter, please contact Hilde Blomme at +32 2 285 40 77 or via email at [hilde.blomme@fee.be](mailto:hilde.blomme@fee.be) or Lotte Andersen at +32 2 285 40 80 or via email at [lotte.andersen@fee.be](mailto:lotte.andersen@fee.be) from the FEE Secretariat.

Yours sincerely,



Philip Johnson  
FEE President

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<sup>10</sup> 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 European Union (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.

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