



18 February 2009

Mr. Keith Wilson  
Associate Chief Auditor  
Public Company Accounting Oversight  
Board  
1666 K Street, NW  
Washington DC 20006-2803  
USA

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

Ref.: AUD/HvD/HB/SH

Dear Mr. Wilson,

**Re: FEE Comments on PCAOB Release No. 2008-006: Proposed Auditing Standards Related to the Auditor's Assessment of and Response to Risk and Conforming Amendments to PCAOB Standards**

FEE is pleased to provide you below with its comments on the Public Company Accounting Oversight Board (PCAOB) Proposed Auditing Standards Related to the Auditor's Assessment of and Response to Risk and Conforming Amendments to PCAOB Standards of 21 October 2008 (the Proposed Auditing Standards).

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.

### **The benchmark auditing standards are the clarified International Standards on Auditing (ISAs)**

For over ten years, FEE has been advocating for the use of the (clarified) ISAs in the European Union (EU). In the meantime, the worldwide use of the ISAs has steadily expanded over the last few years, making them the global benchmark auditing standards.

We therefore welcome the PCAOB's initiative to align its standards with the clarified ISAs as a step towards the ultimate worldwide application of one set of auditing standards for capital market entities and also other entities.

We also welcome the update of the PCAOB's risk standards, reflecting the importance the PCAOB attaches, and is right to attach, to the new risk approach (i.e. risk assessment and responses to risk) to the audit which was introduced into the ISAs a few years ago.

We also support the clarified ISAs, have commented on each of them, and support further convergence. These Proposed Auditing Standards from the PCAOB are therefore very welcome. In an environment of convergence of accounting standards, the globalisation of auditing standards will facilitate consistency in the auditing of financial statements. The alternative is cumbersome questionnaires covering differences in auditing standards that detract from an efficient and effective audit.

We recognise that at this stage, the PCAOB issues standards separately and with differences from those of the IAASB because the PCAOB standards need to take into account U.S. securities law and U.S. Securities and Exchange Commission (SEC) and other PCAOB rulemaking on these laws. Additionally, since the PCAOB has chosen for an integrated audit approach on both the financial statements and the internal controls of an entity, we understand that there are differences between the PCAOB auditing standards and the (clarified) ISAs.

However, we believe that it is not conducive to international convergence of auditing standards for the PCAOB to write auditing standards that differ from the (clarified) ISAs at a technical level for other reasons: the (clarified) ISAs reflect the product of an intensively overseen and thorough due process involving considerable consultation at an international level.

We noted a wide range of differences not identified by the PCAOB of which we note just a few below:

- The distinction between audit procedures on a financial statements level and on an assertion level is not always drawn systematically in the Proposed Auditing Standards like it is done in the clarified ISAs;
- The distinction between requirements pertaining to management as opposed to those charged with governance or the board of directors is not always pronounced clearly in the Proposed Auditing Standards like it is included in the clarified ISAs;
- The introduction in the Proposed Auditing Standards of far reaching requirements to compensate for the lack of an auditing standard on group audits like ISA 600<sup>1</sup> makes the Proposed Auditing Standards to be less comprehensive and unduly burdensome;
- There are requirements for substantive procedures on *all* significant risks, with little scope for the combination of work on controls and analytical procedures as required by clarified ISAs; this may be onerous. Detailed substantive testing for significant risks is flawed logically; *detailed* checking is not the right response to significant risks;
- There is a great number of presumptively mandatory 'shoulds' in the Proposal Auditing Standards (a construction rejected by the IAASB).

The differences we have noted in the bullet points above are significant. We believe that if they were addressed this would be helpful in eliminating unnecessary differences between PCAOB Standards and Clarified ISAs.

A number of European Union (EU) Member States have successfully adopted a standard-setting model whereby the basis of the auditing standards are the full (clarified) ISAs with additions that address specific national requirements. The PCAOB should consider this model particularly as we believe it would facilitate reliance upon other regulators in the PCAOB's inspection process. The PCAOB has recently proposed amendments to its rules in order to help fulfil its inspection mandate.

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<sup>1</sup> ISA 600, Special Considerations — Audits of Group Financial Statements (Including the Work of Component Auditors)

## **The fraud risk auditing standard should be more balanced**

FEE is in favour of the introduction of a fraud risk auditing standard but the clarified ISAs have a great deal more on this in the application material than is included in the Proposed Auditing Standard. Application material is not just about the extent and effectiveness of work on fraud, but also about efficiency and ensuring that auditors do not do too much.

With the lack of application material, there is also a danger that the public expectations in respect of the auditor's ability to detect fraud may exceed the actual ability given the nature of the inherent limitations relating to fraud. The PCAOB needs to mention these limitations in its various pronouncements so as to ensure the "expectation" gap is not widened.

## **The objectives in the Proposed Auditing Standards should be aligned to the objectives in the clarified ISAs**

We support the inclusion of an objective in each standard to clarify the objective of the requirements and act as a guide to the auditor in considering whether this has indeed been achieved by the audit work performed. It is however not clear why the PCAOB has chosen to deviate from the objectives included in the comparable clarified ISAs.

## **The due process for Proposed Auditing Standards could be enhanced**

We welcome the 120 day comment period for a document of such extensiveness and importance as a step in improving the PCAOB's due process. Professional accountancy bodies and organisations such as our own, which wish to confer with their members or counterparts on such issues, need to be accorded adequate time to do so if the comments they might wish to submit are to be representative and well-deliberated.

We also support the comments made by Daniel L. Goelzer in relation to the need for further development of due process. Standards of such international significance require a transparent due process throughout their development. Open public hearings should be considered given the need for a degree of openness with these particularly important standards.

We regret that no implementation date is suggested in the Proposed Auditing Standards. The implementation date of new standards needs to be announced as early as possible to allow ample time for the standards to be embedded in the audit methodology, audit training and education, etc of audit firms and professional accountancy bodies.



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](mailto:hilde.blomme@fee.be) from the FEE Secretariat.

Yours sincerely,

A handwritten signature in black ink, appearing to be 'Hans van Damme', written over a horizontal line.

Hans van Damme  
FEE President