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Dear Madam, Dear Sir,

### **EC Consultation on the Adoption of ISAs**

The Committee of European Banking Supervisors welcomes the opportunity to comment on the possible adoption of the International Standards on Auditing (ISAs) at European level.

External audits performed in accordance with high-quality globally accepted audit standards contribute to a sound banking system and financial stability. As banking supervisors, we therefore have long encouraged efforts to come to a set of internationally developed auditing standards. We supported the IAASB "Clarity Project" and we took part into the consultation process for revision and/or redrafting for the standards particularly relevant to prudential supervisors.

We support the adoption of ISAs at European level in accordance with the criteria listed in article 26.2 of Directive 2006/43/EC of 17 May 2006.

We set out our answers to the questions raised in the consultation document in the attached appendix.

Our comments were coordinated by our Expert Group on Financial Information (EGFI) chaired by Mr. Didier Elbaum from the Commission Bancaire, France and especially by its Subgroup on Auditing, which is under the direction of Marc Pickeur from the CBFA, Belgium.

If you have any questions regarding our comments, please feel free to contact the chairman of EGFI, Didier Elbaum (+33.1.4292.5801) or Marc Pickeur (+32.2.220.5253).

Yours sincerely

Giovanni Carosio

Chair, Committee of European Banking Supervisors

## **Appendix**

### **Answers to the questions raised in the consultation document.**

#### **Question 1: Is international acceptance of the ISAs sufficiently demonstrated?**

We believe that acceptance of ISAs at the international level is sufficiently demonstrated. This opinion is based on the current state of convergence towards ISAs in some jurisdictions in the world, the adoption of ISAs in other jurisdictions, the application of ISAs by the largest networks of audit firms (through the incorporation of the clarified ISAs in their audit methodology and ISQC 1 into their firm's quality control policies) and the wide recognition of ISAs in the world by public authorities (e.g. the recent IOSCO statement<sup>1</sup> encourages securities regulators to accept audits performed in accordance with the clarified ISAs for cross-border offerings and listings).

#### **Question 2: What degree of importance do you attach to the fact that the Commission may amend the standards?**

We believe the EU would maximize the benefit of adopting a globally accepted set of standards without amendment. Moreover, amending the standards would not be consistent with the objective of having a single set of internationally accepted audit standards. In addition, ISAs form a closely integrated set of standards, established after strict due process and consultation. Piecemeal changes to them by the European Commission over time could damage their coherence and consistency.

In addition to assessing the specific conditions set out in article 26.2 of Directive 2006/43/EC of 17 May 2006 when adopting a new ISA, the EC should also consider a regular assessment of these specific conditions after having adopted an ISA. Article 26.2 states that the Commission may adopt auditing standards only if they:

- have been developed with proper due process, public oversight and transparency, and are generally accepted internationally,
- contribute a high level of credibility and quality to the annual or consolidated accounts, and
- are conducive to the European public good.

Assessment of these criteria is still relevant after initial adoption in order to ensure that the whole set of standards continues to bring sufficient benefits at EU level.

#### **Question 3: To what extent are "add-ons" or "carve outs" by Member States acceptable?**

We believe that add-ons would be acceptable to the extent that they stem from specific national legal requirements relating to the scope of statutory audits. Carve-outs by Member States should be avoided, except in rare circumstances

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<sup>1</sup> IOSCO Statement on International Auditing Standards published on 11 June 2009.

where an ISA is not 'conducive to the European public good, as they might impair the coherence of the set of standards or create level playing field issues and are not compatible with the overall objective of having global standards.

**Question 4: Do you have any comments on the overall cost/benefit analysis presented in the University of Duisburg/Essen study?**

No comment.

**Question 5: Should the Application Material be part of the adoption process and acknowledged as "best practice"?**

We believe that the Application Material should be part of the adoption process, as according to ISA 200 "Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with ISAs", paragraph 19, "The auditor shall have an understanding of the entire text of an ISA, including its application and other explanatory material, to understand its objectives and to apply its requirements properly". Moreover, we see no compelling argument to make a difference between the requirements and the application material in the adoption process. The distinction has been made by the IAASB to improve the clarity and splitting requirements and application material would be contrary to the clarity objective.

We would favour a legally binding adoption of the Application Material by the EC. To avoid confusion, and ensure consistency, we also suggest that the EC should use the same terminology as in ISA 200 and refer to the application material as 'application and other explanatory material.

**Question 6: Should ISQC1 on internal quality controls be part of the adoption process?**

ISQC1 on internal quality controls within an audit firm should be part of the adoption process. ISQC1 is interrelated with the set of ISAs (i.e. ISA 220 Quality Control for an Audit of Financial Statements - see also our response to question 1). Also, the adoption of ISQC1 would increase the benefits of an ISA adoption at European level.

**Question 7: In case of adoption of the ISAs at EU level, would a common reference to "ISAs as adopted in the EU" in all auditors' reports in the EU be sufficient? Or, is further harmonisation of audit reports necessary?**

We believe that a common reference to "ISAs as adopted in the EU" in all auditors' reports in the EU would be sufficient. Although the adoption of ISAs at European level is linked with the issue of harmonisation of audit reports, we do not think that work towards further harmonisation of audit reports should delay the adoption of the ISAs. Some time after the adoption of the ISAs, the EC could evaluate whether or not further harmonisation would be beneficial.

**Question 8: Do you support adoption of ISAs at EU level?**

Yes, we support the adoption of ISAs at EU level.

We assume that the future endorsement mechanism for ISAs will follow the standard comitology process. We believe that this endorsement process should take into account the views of the main parties concerned, including banking supervisors. It should also be a mean to foster common understanding of adopted ISAs in the EU.

CEBS stands ready to assume its role in the endorsement process.

**Question 9: If yes, which of the following options do you support:**

**Option 1 – ISAs should be adopted for the audit of the consolidated accounts of the listed companies (IFRS accounts);**

**Option 2 – ISAs should be adopted for the statutory audit of all companies except for the audits of small companies where Member States would be free to choose which audit standards should be applied;**

**Option 3 – ISAs should be adopted for the statutory audit of all companies, including small companies for which an audit is required.**

We support option 3. We believe that audits should follow a single set of international professional standards, on the basis that all audits need to support the conclusion of true and fair view (“an audit is an audit”). Moreover, the ISAs are designed to be used for the audit of both consolidated and annual accounts of listed entities, limited companies and small companies and as such, should be applied for the statutory audits of all companies. In addition, having several sets of audit standards at national level would not be cost effective or practical.

**Question 10: Do you have comments on the timing in case of an adoption of the ISAs?**

We prefer an adoption within the EU as early as possible and practical, taking into account transition practical constraints linked to the transition such as management, training and education, software.