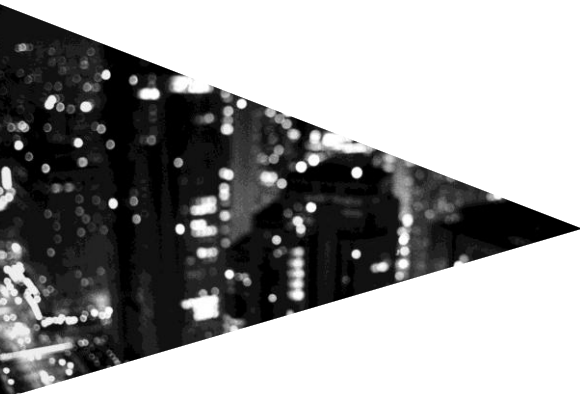


Converging standards for audits and auditors?

A guide for audit committees



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The August 2008 announcement by the US Securities and Exchange Commission (SEC) that the United States may adopt International Financial Reporting Standards (IFRS) immediately elevated the discussion around global convergence towards a single set of high-quality accounting standards. Participants at a September 2008 summit of audit committee chairs of leading companies focused much attention on the issue and practical implications for their companies.¹ Subsequently, on 14 November 2008, the SEC published for comment its Roadmap for the potential adoption of IFRS by US companies.²

The proposed Roadmap sets out a number of key elements that may impact certain decisions made by the International Accounting Standards Board and its parent, the International Accounting Standards Committee Foundation, which would affect entities outside the US as well. Many companies in the US have an extensive global reach. Conversion to IFRS requires all constituents to participate in the debate and to comment on the proposal.

However, the proposed roadmap is now facing potential delays as Mary Schapiro, the newly appointed Chairman of the SEC, has stated that she does "not necessarily feel bound by the existing roadmap that is out for comment."³ She went on to say that she intends to slow the pace of the SEC's proposed roadmap as she has a number of concerns, including the timeline, the independence of the overseas standard-setter and the potential cost of the conversion for those companies that would adopt IFRS. Despite these developments, the IASB is continuing to work with the US Financial Accounting Standards Board on various convergence projects, including work on off-balance-sheet accounting.

Behind the scenes, policymakers have been working on other types of standards relevant to audit committees and auditing, oftentimes with convergence - or at least consistency - in mind. For this issue of *InSights*, Tapestry Networks interviewed representatives from regulators, standards setters, the accounting profession and the financial-statement user community to determine the status of convergence on these standards.

For a complete list of research participants, please see the appendix on page 11.

International convergence of auditing standards is progressing

Research participants point to clear, pragmatic steps towards the adoption of International Standards on Auditing (ISAs) in Europe, but question whether the United States will converge its auditing standards.

Europe is on a slow march towards international auditing standards

The EU has been moving methodically towards the adoption of a set of internationally-recognized auditing standards for almost a decade. It initially flagged its intent in 1999, but added more weight to that intention by adopting the Statutory Audit Directive, or 8th Directive, in May 2006. Article 26 of the Directive states that "Member States shall require statutory auditors and audit firms to carry out statutory audits in compliance with international auditing standards adopted by the Commission."⁴ The Commission stated, in light of adopting IFRS, "It would be inconsistent to have [standardised] financial statements [while] auditing according to differing national auditing standards."⁵

Since then, the policy discussion has focused on which auditing standards the EU will adopt and when. Many have assumed that the most credible standards are those issued by the International Auditing and Assurance Standards Board (IAASB). As one research participant put it, "In reality, if the EU doesn't adopt [IAASB-issued] International Standards on Auditing, what else can it do? It seems unlikely it will push any one country's standards on others." Yet, as one leading accounting body notes, whether or not to use IAASB-issued ISAs is "a major point of policy discussion at this stage."⁶ Another research participant stated, "In 2002, the EU said it would make a decision to move to ISAs in 2005, but then [the Directive deferred] that decision. There is a lot of work going on, but [I believe] it is still unclear how it will work out."

In part, the uncertainty reflects the Commission's apparent cautiousness in considering the adoption of ISAs. Some experts believe this attitude reflects the EU's reaction to the ambitious, and somewhat challenging, move to adopt IFRS in 2005. A research participant stated, "When the EU adopted IFRS, we didn't realise what we were signing up for, and it created trauma [for EU companies, their audit committees and their auditors]. This is relevant to the adoption of auditing standards - you can see people saying 'oh no, we're not going to do this again.'"

Mr Charlie McCreevy, EU Commissioner for Internal Market and Services, has been a proponent of adopting international standards on auditing. However, he has proceeded cautiously,

first commissioning "two studies that will be carried out by external consultants in the course of ... [2008]: One will look at the costs and benefits of introducing ISAs in Europe and the other will identify potential differences between ISAs and US auditing standards."⁷ Research participants reported that the results of these studies have been delayed and will likely be published early in 2009. After that, the Commission may consult on the adoption of ISAs, leading to more delays. Several participants noted that Commissioner McCreevy's office has been focused heavily on the financial crisis and will be for the foreseeable future, which could adversely affect the timeline for any future adoption of auditing standards in the EU.

Auditing practitioners are frustrated by the delays. One research participant remarked on the significant effort that has been made to allay politicians' anxieties: "The International Federation of Accountants [IFAC] ... and IAASB [which IFAC oversees] have been doing all they can to reassure European politicians that there is nothing to fear in these standards and that they are not just a creation of a bunch of practitioners writing standards in their own self-interest."

Indeed, several research participants noted that the IAASB accelerated its overhaul of ISAs through its so-called "Clarity Project" to ensure the standards were in an appropriate form to be adopted into law by EU member states. In essence, the project distinguished between actual requirements and guidance on implementation. In addition, the IAASB used the project as an opportunity to outline an overall objective for each ISA, improve the standards' readability and to update them, in some cases substantively.⁸ Clarified ISAs will be in effect for audits of financial statements for periods beginning on or after 15 December 2009.

A new set of ISAs will have an impact on companies, large and small

If the EU adopts ISAs, the impact will be felt most by Europe's small and medium-sized companies, many of which at present adhere to national standards that are less rigorous than ISAs. One research participant suggested that adoption may also increase the audit committee's role: "Firms in those countries where there are less demanding standards for communicating with the audit committee will feel a change. Under clarified ISAs, there will be a new requirement that when an auditor finds a misstatement, it must bring it to the attention of management and ask that they correct it. If management doesn't act, the auditor will be obliged to communicate the inaction to the audit committee."

International convergence of auditing standards is progressing *(continued)*

However, large international companies may also be affected, even if the EU delays adoption of ISAs. The 17 members of the Forum of Firms,⁹ which includes the Big Four, will have to update or adapt their global methodologies to maintain their commitment to be ISA-compliant. Audit committees of the boards of large companies will need to raise such changes in their discussions with the external auditor, particularly in areas in which the ISAs have been revised substantially. Those most cited by research participants include:

- ▶ *Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors) (ISA600)*: This ISA requires the group auditor to get more active in component audits by ensuring the component auditors have appropriately identified risks and addressed these risks in the audit, to the group auditor's satisfaction.

Questions for audit committees: How will the group auditor adapt its approach to reviewing the planning and work of component auditors? What changes or improvements should the audit committee expect in terms of the quality of the risk assessment and audits?

- ▶ *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures (ISA 540)*: This ISA places more emphasis on areas of higher risk and accounting judgements, thereby assisting the auditor in forming appropriate conclusions about the reasonableness of estimates in the context of an entity's financial reporting framework. It "includes expanded guidance on auditing fair value accounting estimates ... and [on] the use of models in valuations."¹⁰ Several research participants suggested that, even though the new ISAs are not effective until the end of 2009, the inclusion of more detailed advice on auditing fair values would help market participants, given recent concerns surrounding the application of fair value accounting in illiquid markets.

Questions for audit committees: How will auditors modify their approach to auditing accounting estimates and the use of fair values? What new processes might be required to ensure potential issues are elevated quickly enough to the audit committees? Does the auditor feel able to raise issues directly with the committee?

- ▶ *Related Parties (ISA 550)*: This ISA states that the auditor must obtain an understanding of related-party relationships

and transactions sufficient to be able to recognize fraud risk factors that are relevant to the identification and assessment of the risks of material misstatement due to fraud.

Questions for audit committees: Will the auditor change its approach to evaluating the materiality of related-party matters? Are there known related-party issues that will be evaluated more thoroughly once the clarified ISAs are adopted? Does the new standard require the establishment of new control policies or processes?

The United States has not committed to convergence

For large, international companies, any discussion of a future EU adoption of ISAs would be incomplete without discussing the likelihood that the United States will eventually adopt the same standards. Research participants unanimously agreed that US consideration of adopting ISAs lags significantly behind that which has been taking place in the EU. One root of this delay relates to provisions in the Sarbanes-Oxley Act of 2002 ("SOX") that heralded a new approach to setting audit standards in the US.

Until SOX was enacted, the American Institute of Certified Public Accountants (AICPA) set auditing standards. SOX mandated the establishment of the PCAOB to oversee the audits of public companies and to establish standards and rules for auditing, quality control, ethics and independence to be used by accounting firms in the preparation and issuance of audit reports.¹¹ (The AICPA still sets auditing standards for private and non-profit entities through its Auditing Standards Board.)

The PCAOB's first audit standard was to adopt all of the AICPA's auditing standards in effect at that time on an interim basis, and since then, the PCAOB has modified these 'interim' auditing standards and issued six further audit standards. In addition, the AICPA has also changed their standards. In particular, the AICPA has committed to converging with IAASB ISAs and has started to work towards this objective. The PCAOB has so far shown much less interest in convergence and several research participants noted that, since its inception, the PCAOB has been more "*focus[ed] on the implementation of internal control rules.*"



“[IFAC]...and IAASB have been doing all they can to reassure European politicians that there is nothing to fear in these standards.”

The PCAOB released for public comment seven new auditing standards dealing with the auditor’s assessment of and responses to risk and related conforming amendments in October 2008.¹² In its accompanying press release, the PCAOB stated: “In developing these proposals, the Board began by considering whether the provisions of the IAASB’s recently adopted risk assessment standards were appropriate for audits of issuers and consistent with the Board’s statutory mandate ... While many of the procedures described in the IAASB standards appear to be generally suitable for audits of issuers, the Board believes that certain changes to those standards would be necessary for the board to adopt them as standards of the PCAOB.”¹³ Mr Tom Ray, the PCAOB’s chief auditor, commented: “We want to work with other auditing standards to avoid unnecessary differences.”¹⁴

Some research participants said they believe the PCAOB’s consideration of ISAs in drafting its new standards reflects, at a minimum, a *“willingness to remain cognizant of ISAs as it develops its own standards.”* However, one research participant felt the PCAOB’s proposed standards highlight its intention to diverge from ISAs and to *“push back the cause of converging global auditing standards.”* Most research participants agree that the PCAOB seems determined to continue setting its own standards, perhaps with ISAs in mind, such that for the time being, there will be two primary frameworks for auditing standards.

The governance of ISAs may be a major obstacle to convergence

Several research participants noted that the governance structure of auditing standards setters may come under scrutiny, much as the governance structure of international accounting standards setters has. One participant said, *“The IFAC structure is always vulnerable to people trying to reinvent it. There is a danger people will want to do this and cause more delay [in the adoption of international standards on auditing].”*

Participants pointed out that the establishment of the Public Interest Oversight Body (PIOB) “to oversee IFAC’s auditing and assurance, ethics, and education standard-setting activities” has been an important step forward in this regard.¹⁵ The PIOB is composed of members of the International Organization of Securities Commissions (IOSCO), the Basel Committee on Banking Supervision, the International Association of Insurance Supervisors, the World Bank and the European Commission. It approves IFAC’s nominations to its standards setting boards, among other activities.¹⁶ A research participant said: *“The fact that [the European Commission] nominates two PIOB individuals signals that, in general, [the Commission] supports their governance.”* Participants see the development of a regulatory monitoring group, like the one created to oversee the International Accounting Standards Board (IASB), as another positive step in this regard.

Governance concerns may be more pronounced for US policymakers. The creation of the PCAOB marked an explicit decision to remove auditing standards setting from the profession. By contrast, as one research participant put it, the IAASB is writing standards *“within the profession.”* Recent statements by Mr Charles Neimeier, a PCAOB board member, highlighted the potential for this to be a major stumbling block for any future US adoption of ISAs: *“IFAC itself has no legal authority ... they are by no means a substitute for enforceable standards for developed securities markets like the US. This is why I am troubled by the recent push to consider replacing US auditing standards with IAASB standards in the US, or converging US standards to the IAASB standards.”¹⁷*

International convergence of auditing standards is progressing *(continued)*

Internal controls may be a second, more substantive, obstacle

Research participants pointed out that, for the most part, there are few areas where ISAs and PCAOB standards diverge significantly, and most of those could be removed with the will to do so. One point of divergence is found in the clarified group-audit ISA, mentioned above, which requires the group engagement partner to take sole responsibility for the direction, supervision and performance of the group audit, and not to refer to other auditors in the auditor's report. In the United States, it has been a long-standing feature of the auditing standards that the principal auditor of the group is allowed to divide the responsibility by indicating, in the auditor's report, the portion of the financial statements audited by other auditors. However, as one participant pointed out, *"the PCAOB could change their position."*

Differences in the audit of internal control over financial reporting present a thornier problem. None of the research participants believe the divide between the US and European approaches will be bridged easily. In the United States, SOX Section 404 requires management to assert and the external auditor to attest to the effectiveness of internal control over financial reporting. Auditing Standard No. 5 (AS5), *An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements* stands in stark contrast to the European approach.

The EU's Company Reporting Directive, adopted in 2006, did increase company reporting requirements related to internal controls. Article 46a requires companies to publish a corporate governance statement that includes "a description of the main features of the company's internal control and risk management systems in relation to the financial reporting process."¹⁸ However, one research participant described this as *"a light-touch approach. It gives investors ... more detailed disclosures by forcing companies to describe their internal control and risk management systems, without a statement on their effectiveness."* Beyond that, all research participants agreed that, *"there is no appetite for a European 404."*

From a European company perspective, several research participants argued that the differing approach could put European auditors at a disadvantage. Participants recognized the additional cost of SOX 404, but as one put it, *"Having to do a full evaluation of internal controls undoubtedly means the auditor has more knowledge of the control environment and, thus, is better placed to perform the audit of the financial statements."*

Questions for audit committees: How does the auditor gain sufficient understanding of the internal control to properly direct the audit plan? Are there additional procedures the audit committee might ask the auditor to undertake to expand its scope, consideration, testing and reliance upon the control environment?

Developing a common approach to the oversight of audit firms is slower

“There is a strong motive to have a common approach, including trust in the other regulators.”

Progress on ensuring that audit firms conduct their work according to a common set of high quality standards shared by auditing oversight bodies has been slower than progress towards adopting, or converging with, international auditing standards.

Europe has been strengthening its oversight of the audit profession

In light of the establishment of the PCAOB, the EU agreed that member states should establish their own oversight processes. The 8th Directive requires that audit firms in all member states be subject to public oversight and external quality assurance independent of the auditing profession. The Commission issued a recommendation in May 2008 intended to strengthen its position on the necessary independence of the oversight body and its quality assurance systems and inspections.¹⁹ As of October 2008, 24 of the 27 EU member states had established a public oversight system that has, according to the Commission, adequate independent financial resources to perform its duties.²⁰

Several research participants speculated that in the medium- to long-term, the Commission's intent will be to adopt common inspection approaches. Article 34 of the 8th Directive, “Mutual recognition of regulatory arrangements between Member States” states that EU members “shall respect the principle of home-country regulation and oversight by the Member State in which the statutory auditor or audit firm is approved and the audited entity has its registered office.”²¹ One research participant pointed out that “since country reliance, or mutual recognition, is a pre-requisite for regulators to avoid duplicating work, there is a strong motive to have a common approach, including trust in the other regulators.”

Stakeholders in Europe are hopeful that the European Group of Auditors' Oversight Bodies (EGAOB) can be helpful. The EGAOB was established by the 8th Directive to ensure the effective co-ordination of new EU auditor oversight bodies.²² (Practitioners cannot be designated as members of the EGAOB.) However, one research participant stated, “It will take a few years before [the EGAOB] truly represents the 27 [member states].”

Another participant believed that there are real hurdles in the way of more consistent inspection processes, even within the EU. That participant believed that EU rules effectively force each EU oversight body to depend on the home country regulator's approach, “even if we know the [home country's] standards are much less stringent ... The EGAOB may help, but not much.”

From an audit committee perspective, however, the creation of oversight bodies over the past few years may present an opportunity to get a better sense of the quality of their audit firm's work. “We have seen significant developments in this area. Remember, five or six years ago, these firms were not inspected properly,” noted one participant. Individual oversight bodies have developed innovative new approaches, with a view to putting more information into the hands of audit committees. In the US, for example, the PCAOB issued a report in December presenting observations from its inspections of the largest US firms since 2004, including trends and deficiencies in important audit areas.²³ The UK, as another example, now publishes periodic reports on each audit firm. It has also developed reports that showcase individual audits that auditors have conducted and that they can share directly with their clients' audit

Developing a common approach to the oversight of audit firms is slower *(continued)*

committees. *"This should provide audit committees with much greater insight into their auditor,"* remarked one participant. Other oversight bodies may adopt similar approaches over time.

The PCAOB's creation initially caused concerns in Europe that the United States was seeking to regulate audit firms beyond its borders. While regulators on both sides of the Atlantic have sought to address these concerns, real barriers to co-operation remain. For example, while EU and US officials have made overtures indicating they are seeking a co-operative approach to regulating audit firms, their respective legal frameworks do not support such co-operation internationally; on the contrary, they prevent reliance on overseas regulators.

Co-operation with the PCAOB has been limited

In March 2007, PCAOB chairman Mr Mark Olson and Mr Charlie McCreevy agreed to begin discussions on cooperation between the PCAOB and EU regulators. Their goal was to "enable the PCAOB and EU audit regulators that have independent and rigorous oversight systems to move toward full reliance by 2009."²⁴ However, the EU's July 2008 announcement that the assessments of audit regulation by non-EU countries, undertaken by the Commission and EGAOB, were not sufficient to allow a final equivalence decision to be taken has slowed

down international co-operation.²⁵ Similarly, as one research participant noted, although the PCAOB's Rule 4012, "Inspections of Foreign Registered Public Accounting Firms," is focused on allowing mutual recognition, *"It remains a theoretical tool, which has not been enacted in practice."*²⁶ Another research participant pointed out that the December 2008 changes to PCAOB Rule 4003²⁷ concerning the timing of certain inspections of non-US audit firms *"contain some controversial suggestions that non-US auditors should essentially disregard their local laws and give the PCAOB access to their working papers."*

Several research participants hope that the International Forum of Independent Audit Regulators (IFIAR), which was established in 2006, will, like the EGAOB, encourage international co-operation. However, at least one participant believes IFIAR could be impeded by the legal barriers to co-operation.

Questions for audit committees: How and when has your audit firm been inspected over the past 12 to 18 months? Were the inspection reports made public and/or shared with clients? What issues were identified in the inspections, if any? What changes has the auditor made to its policies and processes in light of the inspections? How will the changes affect its audit approach? What other tools does the audit committee have to assess audit quality?

Divergent rules on auditor independence and rotation presents challenges

“Audit committees should engage in a broader discussion with the auditor on independence and go beyond the application of legal requirements.”

Within the context of improving the oversight of audit firms, there has been a policy focus on adopting mechanisms to strengthen auditor independence and to promote a more active dialogue between the audit committee, external auditor and management on this topic.

Unlike standards for auditing and the oversight of audit firms, this is an area of clear and continued divergence. Large audit firms follow the independence rules in IFAC’s Code of Ethics, but they must also deal with the requirements established by individual countries. Auditors that operate across national borders spend a great deal of time monitoring independence rules and ensuring adherence to local requirements, an effort that has an impact on audit fees. Audit committees should engage in discussions with their auditors to understand their approach to independence, and how independence is monitored.

Limits on non-audit services

When it comes to limiting the breadth of non-audit services that audit firms may provide (which is one aspect of safeguarding auditor independence), policymakers generally take one of three approaches:

- ▶ **Partial prohibitions.** In the United States, SOX prohibits a specific list of non-audit services and requires all permissible non-audit services to be pre-approved by the audit committee. This rules-based approach has gained traction in some European countries (such as Belgium and Italy) and some Asian countries (such as Japan and Korea).
- ▶ **Broad prohibitions.** Several countries have enacted more stringent prohibitions, notably France, which bars all non-audit work, except limited audit-related work.
- ▶ **A principles-based approach.** The 8th Directive follows a principles-based approach, stating that “statutory auditors or audit firms cannot provide any additional service that would compromise their independence ... [nor can they] in any way be involved in management decisions.”²⁸ This approach is most common in the EU. One research participant suggested that, although it might seem counter-intuitive, “a principles-based approach can be the most severe.”

Regardless of the approach, one participant noted that “every country has, in some way, limited non-audit services in practice.” Several research participants suggested that, “audit committees should engage in a broader discussion with the auditor on independence and go beyond the application of legal requirements.” After all, in the EU, the 8th Directive requires that audit committees talk with their auditors about the types of services that may threaten their independence. In the United States, a new PCAOB rule issued in April 2008 builds on a previous Independence Standards Board rule by requiring the auditor to discuss independence issues with the audit committee *prior to* accepting an initial engagement.²⁹

Questions for audit committees: What are the audit committee’s views on key principles for maintaining auditor independence? For what permissible services may management reasonably engage the auditor? How does the audit committee discuss independence with the auditor? What processes does the auditor use to ensure it complies with all independence standards?

Divergent rules on auditor independence and rotation presents challenges *(continued)*

Requirements for audit partner rotation and recruitment

Two other measures that have been used to enhance auditor independence are firm or partner rotation and recruitment. For many years, Italy was noteworthy for its stringent approach: it requires audit *firm* rotation every nine years for all publicly listed companies. No other EU country currently mandates audit firm rotation for listed company audits. However, other member states have now adopted rules to adhere to the requirements in the 8th Directive that mandate audit *partner* rotation every seven years. (In the United States, lead audit partner rotation must take place every five years.)

Similarly, regulators have sought to limit past employment relationships between company financial management and the

auditor. In Europe, the 8th Directive prevents a “key” audit partner from taking up a “key” management position in the audited entity for at least two years. In the United States, SOX also bans audit firms from conducting an audit if the CEO, CFO, controller or CAO of the company was employed by the audit firm and had a role in the audit of the company in the preceding year.

Questions for audit committees: Depending on how recently the lead auditor changed, what preparations are being made ahead of the next rotation? (Experts suggest starting preparations at least one year prior to the change.) How will the auditor work with the audit committee to review potential candidates?

Conclusion



Policymakers continue to focus attention on the global adoption of IFRS. A move in this direction by the United States will have significant ramifications for US companies and their European peers as well. However, audit committees should be aware that complementary discussions have been taking place, focusing on other standards related to the audit and auditors. In terms of auditing standards, these discussions have progressed in the EU, although there has not yet been a commitment to one set of standards; in the United States, there has been much less progress and this looks set to slow down even further under the new administration. Potentially significant hurdles to convergence remain in both jurisdictions. However, regardless of the lack of significant policy progress, upcoming improvements to international auditing standards will affect the methodologies of global audit firms, which, in turn, may present challenges to audit committees. At the same time, audit committees will need to deal with the consequences of divergent approaches to auditor independence and public oversight of auditors across Europe and across the Atlantic.

About this document

InSights is produced by Tapestry Networks to provide assessments of key issues of interest to audit committee members in Europe. Initially, *InSights* will be distributed to members of the European Audit Committee Leadership Network who, in turn, will share it with colleagues on audit committees and boards, and their advisers. It will be distributed by Ernst & Young to its partners. Anyone who receives *InSights* may share it with those in their own network. The ultimate value of *InSights* lies in its power to help all constituencies develop their own informed points of view.



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Appendix A: Research participants

Subject matter experts who participated in the research include:

- ▶ Ms Katharine Bagshaw, Manager, Auditing Standards, Audit and Assurance Faculty, Institute of Chartered Accountants in England and Wales
- ▶ Mr Paul Boyle, Chief Executive, Financial Reporting Council; Chairman, International Forum of Independent Audit Regulators
- ▶ Mr David Damant, Chair of the Consultative Advisory Group of the International Auditing and Assurance Standards Board, member of the CFA Institute
- ▶ Ms Denise Esdon, Partner, International Auditing and Assurance Standards, Canada, Ernst & Young
- ▶ Mr Patrick Finnegan, Director, Financial Reporting Policy Group, CFA Institute Centre for Financial Market Integrity
- ▶ Mr Robert Franchini, Independence Leader for Europe, Middle East, India and Africa, Ernst & Young
- ▶ Mr Robert Hodgkinson, Board Member, International Federation of Accountants; Executive Director, Technical, Institute of Chartered Accountants in England and Wales
- ▶ Mr Jeremy Jennings, Partner, Regulatory and Public Policy Leader, EMEIA, Ernst & Young
- ▶ Ms Vanessa Jones, Manager, Corporate Governance, Institute of Chartered Accountants in England and Wales
- ▶ Mr John Kellas, Outgoing Chair, International Auditing and Assurance Standards Board
- ▶ Mr Jürgen Tiedje, Head of Unit F4 - Auditing, DG Internal Market and Services, European Commission
- ▶ Mr Stephen Todd, Global Vice Chair - Professional Practice, Ernst & Young
- ▶ Mr Matthew Waldron, Senior Policy Analyst, Financial Reporting policy group, CFA Institute Centre for Financial Market Integrity

Appendix B: End notes

¹ Tapestry Networks orchestrates Ernst & Young's North American Audit Committee Leadership Network and European Audit Committee Leadership Network, whose members met for a summit in London on 29 September -1 October. Information on the summit's discussions and participants can be found at http://www.tapestrynetworks.com/networks/net_audit_summit3.html.

² *WebCPA*, January 16, 2009, "New SEC Chairman May Delay IFRS Roadmap." Available at <http://www.webcpa.com/article.cfm?articleid=30446&searchTerm=mary%20schapiro%20sec>

³ U.S. Securities and Exchange Commission, Roadmap for the Potential Use of Financial Statements Prepared in Accordance with International Financial Reporting Standards by U.S. Issuers (Washington, DC: Securities and Exchange Commission, 2008). Available at <http://www.sec.gov/rules/proposed/2008/33-8982.pdf>.

⁴ European Union, "Directive 2006/43/EC of the European Parliament and of the Council of 17 May 2006," Official Journal of the European Union, 9 June 2006. Available at <http://eurlex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2006:157:0087:0107:EN:PDF>.

⁵ European Commission, "European Commission proposal for a Directive on statutory audit: frequently asked questions," press release, 16 March 2004. Available at <http://europa.eu/rapid/pressReleasesAction.do?reference=MEMO/04/60&format=HTML&aged=0&language=EN&guiLanguage=en>.

⁶ The Institute of Chartered Accountants of England and Wales, "Up-date on the EU Statutory Audit Directive." Available at http://www.icaew.com/index.cfm/route/147481/icaew_ga/Technical_Business_Topics/Topics/Audit_and_assurance/Update_on_the_EU_Statutory_Audit_Directive_revised_8th_Company_Law_Audit_and_Assurance_ICAEW/pdf.

⁷ Charlie McCreevy, "European Commissioner for Internal Market and Services, Mr. McCreevy presents statutory audit package." Speech to JURI Committee, European Parliament, Brussels, 19 December 2007. Available at http://europa.eu/rapid/pressReleasesAction.do?reference=SP_EECH/07/835&format=HTML&aged=0&language=en.

⁸ International Auditing and Assurance Standards Board, IAASB Clarity Project Update (New York: International Auditing and Assurance Standards Board, 2008). Available at http://web.ifac.org/download/IAASB_Clarity_10-08.pdf. The final clarified set of ISAs includes one new standard, which

addresses the communication of deficiencies in internal control, 16 ISAs that contain new and revised requirements and 19 ISAs that, for the most part, have simply been clarified.

⁹ The Forum of Firms is a group of audit firms whose objective is to promote consistent and high-quality standards of financial reporting and auditing practices worldwide. The Transnational Auditors Committee (TAC) is the executive arm of the Forum and a committee of IFAC. In that capacity, it provides an official connection between the Forum and IFAC. More information on the Forum of Firms is available at http://web.ifac.org/download/Forum_of_Firms_and_TAC_Fact_Sheet.pdf.

¹⁰ International Auditing and Assurance Standards Board, "Challenges in auditing fair value accounting estimates in the current market environment," Staff Audit Practice Alert, October 2008, 10. Available at http://web.ifac.org/download/Staff_Audit_Practice_Alert.pdf.

¹¹ Public Company Accounting Oversight Board, "Standards," <http://www.pcaobus.org/Standards/index.aspx>.

¹² Public Company Accounting Oversight Board, "Board Proposes New Auditing Standards Related to the Auditor's Assessment of and Responses to Risk," press release, 21 October 2008. Available at http://www.pcaobus.org/News_and_Events/News/2008/10-21.aspx.

¹³ *Ibid.*

¹⁴ Tammy Whitehouse, "Universal Set of Auditing Standards a Possibility," *Compliance Week*, 25 November 2008. Available at <http://www.complianceweek.com/article/5161/universal-set-of-auditing-standards-a-possibility>.

¹⁵ Public Interest Oversight Board, "Overview," <http://www.ipiob.org/index.php>.

¹⁶ *Ibid.*

¹⁷ Charles D. Niemeier, "Keynote Address on Recent International Initiatives." Speech to New York State Society of CPAs at the 2008 Sarbanes-Oxley, SEC and PCAOB Conference, 10 September 2008. Available at http://www.pcaobus.org/News_and_Events/Events/2008/Speech/09-10_Niemeier.aspx.

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