

CONSULTATION ON THE ADOPTION OF INTERNATIONAL STANDARDS ON AUDITING

The European Commission is considering the adoption of the International Standards on Auditing (hereafter "ISAs") of the International Auditing and Assurance Standards Board (IAASB)¹ for statutory audits required by Community law. An adoption is possible on the basis of Article 26 of Directive 2006/43/EC on Statutory Audits².

Comments, preferably in the form of general remarks followed by answers to the questions listed, should be submitted by **15 September 2009** by e-mail to the following address: markt-consultation-isa@ec.europa.eu. Respondents may alternatively send comments by post to the European Commission, DG Internal Market and Services, Auditing Unit-F4, SPA 2/JII - 01/112, B-1049 Brussels, Belgium.

Contributions received, together with the identity of the contributor, will be published on the Internet, unless the contributor objects to publication of personal data on the grounds that such publication would harm his or her legitimate interests. In this case the contribution may be published in anonymous form. Otherwise the contribution will not be published nor will, in principle, its content be taken into account. Please read the specific privacy statement applying to this consultation for information on how your personal data and contribution will be dealt with.

In the interests of transparency, organisations are invited to provide the public with relevant information about themselves by registering in the Interest Representative Register and subscribing to its Code of Conduct. If the organisation is not registered, the submission is published separately from the registered organisations (Consultation Standards, see COM (2002) 704, and Communication on ETI Follow-up, see COM (2007) 127 of 21/03/2007).

June 2009

¹ <http://www.ifac.org/IAASB/>

² Directive 2006/43/EC of the European Parliament and of the Council of 17 May 2006 on statutory audits of annual accounts and consolidated accounts -
http://ec.europa.eu/internal_market/auditing/directives/index_en.htm

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WORKING DOCUMENT OF DG INTERNAL MARKET

1. OBJECTIVE OF THE CONSULTATION

The objective of this consultation is to gather contributions from the public on a possible introduction of the International Standards on Auditing (ISA) at European level. Certainly, auditing standards are, in essence, addressed to auditors of companies on how they should perform an audit required under law. DG Internal Market and Services is, however, seeking the views of the public at large. In particular, the opinion of users of audit reports (investors, analysts, banking and insurance industry), companies, public authorities, regulators and academics would be welcomed.

Further technical explanations are provided in the Appendix to this consultation document.

2. BACKGROUND

In the European Union, the conduct of statutory audits is regulated under Directive 2006/43/EC ("Audit Directive"). The objective of the Audit Directive is to enhance the quality of statutory audits in the European Union – a public good, the perception of which was undermined due to corporate scandals a few years ago. The current financial crisis again demonstrates the importance of rigorously pursuing this policy.

The Directive empowers the Commission to adopt implementing rules at European level. One of the most important measures could be the introduction of a common set of auditing standards. To this end, the Commission would need to adopt a legally binding instrument (for instance a regulation) which would require sufficient support by the EU Member States and the European Parliament under the comitology procedure. Article 26 of the Audit Directive sets specific conditions for the European Commission. It 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.

The International Assurance and Auditing Standards Board (IAASB) has recently performed a thorough revision and clarification of the ISAs under the so-called Clarity Project (see Appendix for further details). Directorate General Internal Market and Services is considering the adoption of these "clarified" ISAs. The main questions are whether the ISAs fulfil the above conditions and whether an ISA adoption at EU level would bring sufficient benefits.

3. GOVERNANCE AND DUE PROCESS

The first condition set by the Audit Directive relates to the governance and due process surrounding the development of ISAs by the international standard setter – the IAASB. The governance is supported by the Public Interest Oversight Board (the PIOB⁴) which oversees the standard setting process since 2005. The members of the PIOB are appointed by the international regulatory world which meets in the so called Monitoring Group⁵. Members of this informal group include the International Organisation of Securities Commissions (IOSCO), the Basel Committee of Banking Supervision, the European Commission, the International Association of Insurance Supervisors, the World Bank, and the Financial Stability Board. The International Forum of Independent Audit Regulators currently acts as an observer.

In overall terms, the Commission services consider that the current governance of the IAASB has matured to a stage where it may be justifiable to adopt ISAs in the European Union. There are four reasons for this:

- Since 2006, the European Commission regularly attends meetings of the IAASB as an observer and meetings of the Consultative Advisory Group as a member. It also sent nearly 30 comment letters on the exposure drafts of the Clarified standards which it prepared after discussions with audit regulators, representatives from the profession and companies under the umbrella of the European Group of Auditor Oversight Bodies (EGAOB). Therefore, it had time to test whether the due process actually works and whether the IAASB has been responsive to comments made;
- In March 2008, the European Commission decided to appoint two out of the ten members of the PIOB;
- In May 2009, the European Parliament and Council agreed - at political level - a decision providing a legal base for funding the PIOB from 2010 to 2013⁶ up to a total of 1.2 million EUR;
- The current governance structure and the due process remains subject to regular effectiveness reviews by the Monitoring Group so that it can constantly be improved and adjusted to future needs. A review is scheduled for 2009 and 2010.

⁴ <http://www.ipiob.org/>

⁵ As to the Monitoring Group charter see: <http://www.iosco.org/news/pdf/IOSCONEWS144.pdf>

⁶ See Commission proposal here: <http://europa.eu/rapid/pressReleasesAction.do?reference=IP/09/125&type=HTML&aged=0&language=EN&guiLanguage=fr>

4. INTERNATIONAL ACCEPTANCE

The second major condition set by the Audit Directive is that ISAs should be accepted internationally. There is a lot of evidence supporting international acceptance of the ISAs. However, a choice needs to be made whether the European Union takes international leadership by adopting the ISAs at European level or whether it should take a "wait and see" stance until international acceptance is even further confirmed in other international fora or organisations. The current situation can be summarised as follows:

Application by the audit profession

Up until recently, the members of the IFAC (professional bodies, audit networks and firms) have played the most significant role in ensuring a widespread use of the ISAs. As of today, in more than 100 jurisdictions, audits are based either directly on the ISAs or on domestic standards which are derived from the ISAs⁷. In addition, more than 20 of the largest networks of audit firms will in any event, as a result of their membership of the Forum of Firms⁸, incorporate the clarified ISAs into their firm's audit methodologies and ISQC 1 into their firm's quality control policies and procedures from December 2009 onwards.

Recognition by public authorities and regulators

An increasing number of independent audit regulators have been set up around the world with responsibilities to conduct inspections on the quality of the work done by the audit firms. This is, inter alia, true for the 27 EU Member States, the US and Japan. Many public authorities, including audit regulators have adopted ISAs or made public their decision to converge their standards towards the ISAs including Australia, Canada, China, the Netherlands, South Africa and the United Kingdom/Ireland. So far convergence or adoption has been based on ISAs prior to clarification, but an upgrade by these jurisdictions towards the clarified ISAs has either been announced or is likely to happen. Other jurisdictions, such as Japan, accept the use of ISAs without imposing them on domestic audits. However, the US does not recognise the ISAs for the time being.

The Monitoring Group also supports the development of high quality auditing standards. In particular IOSCO, one of the members of the Monitoring Group, publicly encouraged the acceptance of audits performed in accordance with the clarified ISAs for cross-border listings and the consideration of the clarified ISAs when setting auditing standards for national purposes on 11 June 2009⁹. In 2002, the

⁷ IAASB 2008 annual report, page 3 - http://web.ifac.org/download/2008_IAASB_Annual_Report.pdf

⁸ Formally established in 2002, the Forum of Firms (FOF) is an association of 21 among the largest international networks of accounting firms that perform audits of financial statements that are or may be used across national borders. The FOF conducts its business primarily through the [Transnational Auditors Committee](#) (TAC), an IFAC committee whose members have been nominated by the members of the Forum.

⁹ <http://www.iosco.org/library/statements/pdf/statements-7.pdf>

Financial Stability Forum, which has this year become the Financial Stability Board, already identified the ISAs as one of the 12 key sets of standards for sound financial systems.

Recognition by investors

The viewpoint of investors is particularly important. Depending on the company they have invested in, investors may be provided with auditor's reports which state that the audit was performed in compliance with national standards applicable in the circumstances or, with international standards. Reliance on auditor's reports could be enhanced if the investors know that a single set of auditing standards are being used in the European Union (and at a global level). It is worth noting that the World Federation of Exchanges (WFE) recognises the importance of the ISAs¹⁰.

Possible future role of the European Commission

Article 26 (2) of the Audit Directive offers an option for the Commission to adopt standards accepted at international level. It does not contain any obligation to introduce standards set by a particular standard setter. For these reasons, the Commission may amend the standards after initial adoption in case the standards would not meet the expectations in terms of due process, international acceptance or European public good. However, the Commission services currently do not foresee the circumstances in which modifications of the contents of the clarified ISAs would be necessary. Nevertheless, in the future, the Commission will keep the situation under review.

Possible future role of the Member States

In the same vein, the role of the EU Member States is pivotal. Article 26 (3) of the Audit Directive allows Member States to make additions to the ISAs only in limited circumstances and to carve out parts of the ISAs only in exceptional circumstances¹¹. Any national measures envisaged should in any event be communicated to the European Commission on a timely basis to allow assessment of such proposed measures. DG Internal Market and Services is about to examine the need for possible "add-ons" with Member States and is currently not aware of any Member State's plans to "carve out".

In any event, EU Member States need to accept the changes brought about by the clarified ISAs (see examples of possible changes to national standards in the Appendix). They would, for example, not be entitled to add elements to a standard if they consider it would enhance audit quality from a purely domestic point of view. National public oversight bodies, in isolation, would not be able to deviate from ISAs in the frame of their inspection policies and work programmes.

¹⁰ The WFE is a trade association of 51 publicly regulated stock, futures and options exchanges. In 2006, WFE endorsed the International Federation of Accountants (IFAC) structure of public oversight, and the processes its public bodies have established for creating high quality global standards for audit work and assurance reviews - <http://www.world-exchanges.org/>

¹¹ See Article 26(3) of Directive 2006/43/EC

Questions:

- (1) *Is international acceptance of the ISAs sufficiently demonstrated?*
- (2) *What degree of importance do you attach to the fact that the Commission may amend the standards?*
- (3) *To what extent are “add-ons” or “carve outs” by Member States acceptable?*

5. QUALITY AND CREDIBILITY OF FINANCIAL STATEMENTS

Overall cost and benefits of using clarified ISAs

The third main condition for an adoption of ISAs in the EU is that they contribute a high level of credibility and quality to financial statements. Against this background, Directorate General Internal Market and Services commissioned the University of Duisburg-Essen to conduct an external study in 2008. The results of the study are published together with this consultation document¹².

The study concludes that, on balance, an adoption of the ISAs in the EU would result in quantitative and qualitative benefits for companies, investors and regulators. These recurrent benefits would outweigh increases in audit costs. It would also bring about a greater acceptance of EU based audits within and outside of Europe. On one hand, the study concludes that the recurring costs of an audit could increase by approximately 6% to 10% per engagement depending on the size of the audit firm. These percentages are only indicative and may vary significantly across Member States depending on, for example, the audit firm or the audit engagement. On the other hand, market participants would benefit from improvements in audit quality, a lower cost of capital and increased business opportunities at international level. The study provides further data and evidence.

Application Material

Each ISA contains objectives and requirements which an auditor should fulfil, and also contains application material. Application material is primarily designed to enhance a practitioner's understanding of the ISAs in the context of a given audit engagement, such as for the audit of smaller entities. The IAASB emphasises in the ISAs that the application material is an inherent part of the standards. For this reason, the Directorate General Internal Market and Services is considering the inclusion the Application and Other Explanatory Material as part of an EU adoption process. However, in order to avoid confusion with authoritative parts of the ISAs such as the requirements, the application material should be adopted as guidance only. This may be achieved by granting special status to application material in a legally binding adoption instrument, such as by presenting it as "best practice".

¹² Evaluation of the Possible Adoption of International Standards on Auditing (ISAs) in the EU, 12 June 2009 - http://ec.europa.eu/internal_market/auditing/isa/index_en.htm

Internal quality controls within an audit firm

DG Internal Market and Services is considering whether to adopt the international standard on quality control – ISQC 1¹³ – together with the ISAs. ISQC 1 addresses the way audit firms organise their internal quality controls. ISAs and ISQC 1 are interrelated, especially in that ISA 220 requires the engagement partner of an audit to assess compliance with the audit firm's internal system of quality control. The University of Duisburg-Essen study concludes that the introduction of ISQC 1 would increase the benefits of an ISA adoption at EU level. Some Member States, such as the United Kingdom, have adopted ISQC 1. Some have developed their own framework at legislative or regulatory level, such as the Netherlands. Others, such as France, leave it to the market to decide how to organise internal quality control systems.

The auditor's report

The main purpose of an audit is to obtain reasonable assurance that the financial statements are free from material misstatement. This is communicated to the users through the auditor's report. An introduction of the ISAs would not necessarily lead to uniform audit reports across the EU. Auditor's reports are in practice divided into two main parts. Part 1 usually gives the auditor's opinion on the audited entity's financial statements. Part 2 is usually a report on other legal and regulatory requirements shaped to a large extent by company and other laws or regulations.

Article 51(a) of the 4th Company Law Directive¹⁴ provides minimum requirements regarding the presentation and content of the auditor's reports. Currently the presentation tends to vary in the EU from one EU jurisdiction to another due to local considerations. An adoption of ISA 700, the standard on the auditor's report, would not bring about full harmonisation, because this standard would offer flexibility to the EU Member States. However, in case of adoption of the ISAs at EU level, all auditors' reports would include the statement that the audit was conducted in compliance with the ISAs (e.g. the "*ISAs as adopted in the EU*"). Such a statement would represent a major advantage for investors and other users of audited financial statements as, to-date, there are usually references to national standards which are often not well known and diverse. If this is not sufficient, the European Commission may decide, as permitted by Article 28(2) of the Directive, to go further in the harmonisation of auditors' reports by introducing an EU standard for the auditors' reports on annual or consolidated accounts prepared in accordance with IFRS.

¹³ International Standard on Quality Control 1 - Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements.

¹⁴ Fourth Council Directive of 25 July 1978 based on Article 54 (3) (g) of the Treaty on the annual accounts of certain types of companies (78/660/EEC) -
http://ec.europa.eu/internal_market/accounting/legal_framework/annual_accounts_en.htm

Questions:

- (4) *Do you have any comments on the overall cost/benefit analysis presented in the University of Duisburg/Essen study?*
- (5) *Should the Application Material be part of the adoption process and acknowledged as "best practice"?*
- (6) *Should ISQC1 on internal quality controls be part of the adoption process?*
- (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?*

6. POSSIBLE ADOPTION OF THE ISAS

6.1. The principle

Directorate General Internal Market and Services is interested to know whether, as a matter of principle, stakeholders in the EU support the adoption of the ISAs in the European Union. Some stakeholders may want to consider in addition certain modalities, such as the scope and timing of adoption.

6.2. Possible scope of an adoption

Article 26 of the Audit Directive empowers the Commission to make the ISAs mandatory for all statutory audits. Yet, the ISAs could also be applicable only for certain audits.

It could, for instance, be argued that ISAs are only suitable for capital markets. In the EU, listed companies must prepare their consolidated financial statements in compliance with IFRS under the IAS Regulation of 2002¹⁵. ISAs could be mandatory for audits in connection with this Regulation. The purpose of international accounting standards is to enhance transparency and comparability of consolidated financial statements of listed companies on global capital markets. However, the rationale for an adoption of ISAs at European level is different to that for the adoption of IFRS. The ISAs focus on the conduct of an audit and are designed to be used for the audit of both consolidated and annual accounts of listed and other relevant limited companies. International auditing standards should provide increased confidence, for users, in auditors' reports. Such confidence will influence a user's decision to invest or not and equally whether or not they should approve the accounts prepared by management.

Another option could be to make ISAs mandatory for the audits of all limited companies except for small companies for which the Member States are currently free to choose if an audit should be mandatory. As a consequence, around 224,000 to 310,000 statutory audits of companies for which an audit is mandatory under EU

¹⁵ Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards -

http://ec.europa.eu/internal_market/accounting/legal_framework/ias_regulation_en.htm

law would follow the ISAs. If the Member States choose to mandate audits for smaller companies, they would also be free to select which auditing standards should be used for these audits. The definition of small companies might follow the same definition as set under the 4th Directive. Approximately 1.4 million statutory audits of small companies performed in the EU every year could be concerned by each Member State's possibility to opt out from ISAs.

Finally, it could also be supported that the ISAs should apply to all statutory audits performed in the EU, including those of small companies. This view is taken by the standard setter – the IAASB. The same position has publicly been taken by the Fédération des Experts Comptables Européennes (FEE) to clarify that audits should not follow different professional standards ("an audit is an audit"). The High Level Group of Independent Stakeholders on Administrative Burden, on 28 May¹⁶, underlined that the ISAs should allow for audit work and audit documentation to be proportionate to the size of the audited entity. The Appendix provides further background on the extent to which such proportionality is enshrined in the clarified ISAs.

Directorate General Internal Market and Services has a preference for this last option.

¹⁶ The group's task is to advise the Commission with regard to the Action Programme for Reducing Administrative Burdens in the European Union whose aim is to reduce administrative burdens on businesses arising from EU legislation by 25% by 2012. The High Level Group explicitly welcomes such a public consultation and holds the view that the consultation should, in particular, aim at reaching a common understanding among all relevant stakeholders, including audit oversight authorities, that ISAs, as principles-based standards, are universally applicable to all statutory audits and can be tailored to the specific circumstances of the individual audit engagement without excessive documentation. The Group asks the EU Commission to ensure that the supervision of ISAs-compliant audits does not lead to disproportionate bureaucratic burdens for enterprises, SMEs, and their auditors. http://ec.europa.eu/enterprise/admin-burdens-reduction/docs/hlg_opinion_environment_16042009.pdf

6.3. Possible timetable

The new ISAs could be applicable within a relatively short timeframe in the EU. On the other hand, audit firms may need some time to adapt their audit methodology and audit software, to organise training of auditors and their staff, etc.

Questions:

(8) *Do you support adoption of ISAs at EU level?*

(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.

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

APPENDIX

Background information

This paper provides further background information on three major issues:

- What should be understood by the term “clarified ISAs”? What is the “Clarity Project”?
- What would actually change in several EU Member States if the “clarified ISAs” were adopted at European level?
- What would the application of the “clarified ISAs” mean for smaller audits?

The background information should not be seen as exhaustive and should also be read together with other publications, in particular those issued by the IFAC and the IAASB.

1. WHAT IS THE CLARITY PROJECT?

The International Auditing and Assurance and Standards Board (IAASB) commenced a project to clarify the International Standards on Auditing (ISAs), the so-called Clarity project, in 2004. The Clarity project was completed in February 2009¹⁷.

The objective of the Clarity project was to redraft and, in some cases, revise the existing ISAs in order to set high quality international auditing and assurance standards that are understandable, clear and capable of consistent application. The new clarified ISAs should also be more adapted to independent public oversight of auditors and other regulatory purposes. Improvements arising from the Clarity project broadly comprise the following:

- Identifying the auditor's objectives when conducting an audit in accordance with ISAs;
- Clarifying the obligations imposed on auditors by the requirements of the ISAs and the language used to communicate such requirements;
- Eliminating any possible ambiguity about the requirements an auditor needs to fulfil;
- Improving the readability and understandability of the ISAs through structural and drafting improvements; and
- Including considerations specific to smaller entities and to smaller firms in the application and other explanatory material.

In parallel with the Clarity project, the IAASB has modernised a number of ISAs. Compared to the extant ISAs, the following improvements will have an effect:

¹⁷ The 2009 Handbook of International Standards on Auditing and Quality Control is available at <http://www.ifac.org/Store/Details.tmp?SID=12410328891595221&Cart=1243429284196766>

- ISA 200 (Overall Objectives and Conduct of the Audit) clarifies the auditor's responsibilities and objectives of obtaining reasonable assurance on the financial statements and reporting the findings, as well as the inherent limitations of an audit. It also clarifies and modernises the premises on which an audit can be built. It also indicates how auditors should apply the ISAs under a principles-based approach as it (i) stresses the use of professional judgment; (ii) mandates the application of all ISAs relevant to the audit; (iii) requires the auditor to use the objectives stated in each ISA to determine the need for any additional audit procedures; (iv) requires the auditor to evaluate whether an inability to achieve one or more objectives prevents the auditor from achieving the overall objectives; and (v) allows for departure from requirements in exceptional circumstances;
- ISA 210 (Agreeing the Terms of the Audit Engagement) clarifies that the “preconditions for an audit” are the use by management of an acceptable financial reporting framework in the preparation of the financial statements and the agreement of management to the premise on which an audit is conducted. It strives to accommodate the terms of the engagement in varied legal and regulatory environments, particularly with respect to management's responsibilities;
- ISA 260 (Communicating with Those Charged with Governance) and ISA 265 (Communicating Deficiencies in Internal Control) improves communication between auditors and management and/or those charged with governance in audited entities, including between the auditor and audit committee where there is one, especially to ensure an effective "two way" communication and address cases where significant deficiencies in internal control have been identified;
- ISA 540 – (Auditing Accounting Estimates, including Fair Values Accounting Estimates) is the result of the merger of two previous standards. This new standard improves the audits of fair values, especially when models and/or unobservable inputs are used through clearer guidance and requirements;
- ISA 550 – (Related Parties) has been modernised with consideration of parties with dominant influence, a wider capture of related parties for consideration, and clearer and expanded procedures for the auditor aiming at identifying and addressing related party transactions;
- ISA 580 – (Written Representations) introduces an automatic disclaimer of the audit opinion in cases where companies do not provide adequate written representation or no representation at all;
- ISA 600 – (Group Audits) has been expanded to address the audits of consolidated financial statements of groups in a comprehensive way;
- ISA 620 – (Using the Work of an Auditor's Expert) clarifies the conditions for the use of external experts by auditors in areas such as the objectivity of the expert, the respective responsibilities of auditors and experts, the communication between the expert and the auditor so as to facilitate the use of an expert to provide audits of a higher quality.

2. WHAT WOULD CHANGE IN THE EU MEMBER STATES?

At present, most EU jurisdictions apply national auditing standards which are largely based on the current ISAs, but often with amendments to comply with national legislation and quality aspects of the audits. The introduction of the clarified ISAs should eliminate, to a large extent, divergences in auditing standards between jurisdictions and reduce the divergences between national legislation/requirements and the ISAs. On the basis of a tentative analysis, the following table shows possible examples of changes in a selected number of Member States if the ISAs are adopted by the EU, beyond the improvements to ISAs described in section 1 of this Appendix:

Austria	Should the ISAs be adopted at EU level, audit practice would be affected by four new ISAs: ISA 540 (Audit of Accounting Estimates, including Fair Values Accounting Estimates and Related Disclosures), ISA 610 (Using the Work of Internal Auditors), ISA 620 (Using the Work of an Auditor's Expert), ISA 720 (Other Information in Documents containing Audited Financial Statements).
France	Should the ISAs be adopted at EU level, ISA 220 (Quality Control for an Audit of Financial Statements), ISA 260 (Communication with Those Charged with Governance), ISA 402 (Audit Considerations Relating to an Entity Using a Service Organisation) and ISA 550 (Related Parties) would represent new specific standards. Application material, if adopted at EU level, would further complement the existing standards. An introduction of ISQC 1 would also represent an important new element.
Germany	No fundamental change is expected from an adoption of the ISAs at EU level compared to current IDW standards. The auditor's approach to confirmation procedures from banks and lawyers would however rely further on professional judgement.
Italy	An adoption of the ISAs at EU level would expand the use of ISAs for statutory audits in Italy beyond audits currently performed in compliance with the auditing standards developed by the securities regulators: CONSOB. The auditor's approach to confirmation procedures from banks and lawyers would rely further on professional judgement.. An introduction of ISQC 1 would also represent an important new element.
Netherlands	No fundamental changes are foreseen from an adoption of the ISAs at EU level compared to the way audits are currently conducted under national standards. However, an introduction of ISQC 1 would entail modifications to the current Dutch legislation in the area.
Poland	The National Chamber of Statutory Auditors' (NCSA) Professional Standards are generally based on the same principles as ISAs. With regards to auditing issues not covered by NCSA's standards, auditors are required to use ISAs. Changes for Polish auditors are likely to be significant across many areas of an auditor's work especially when the auditor is not a member of the Forum of Firms. An introduction of ISQC 1 would also represent an important new element.

Spain	Three ISAs would be new in Spain: ISA 260 (Communication with Those Charged with Governance), ISA 540 (as regards Fair Value Estimates) and ISA 550 (Related Parties). ISA 250 (Consideration of Laws and Regulations) would restrict options for the auditor's report in cases where a company does not comply with the laws and regulations. Auditors' reports would place less emphasis on cases where companies face a going concern issue and correctly report the issue (ISA 570). The auditor would also have more flexibility to use an expert.
Sweden	No fundamental changes are foreseen from an adoption of the ISAs at EU level.
United Kingdom and Ireland	No fundamental changes are foreseen from an adoption of the ISAs at EU level compared to the way audits are currently conducted under national standards. However, an adoption of the ISAs will reduce the number of supplementary requirements. Differences between the current national standards and ISAs 200 (Overall Objectives and Conduct of the Audit), 210 (Agreeing the Terms of the Audit Engagement), 580 (Written Representations), 600 (Group Audits) and 620 (Using the Work of an Auditor's Expert) will disappear. Should the European Commission adopt the ISAs, five of the ISA add-ons relating to audit quality in ISA 450 (Evaluation of Misstatements), ISA 510 (Opening Balances), ISA 570 (Going Concern) and ISA 720 (Other Information) may need to be addressed as well.

3. WHAT WOULD CLARIFIED ISAs MEAN FOR THE AUDITS OF SMALLER COMPANIES?

The clarified ISAs have been developed with the involvement of the IFAC's Small and Medium Practices Committee. In December 2007, the IFAC Small and Medium Practices (SMP) Committee issued a Guide to Using International Standards on Auditing in the Audits of Small and Medium sized Entities¹⁸ which provides an analysis of the standards and their requirements in the context of SME audits. More recently in March 2009, the IFAC SMP Committee published the Guide to Quality Control for Small and Medium sized Practices¹⁹ which provides guidance on applying the redrafted ISQC 1. These documents contain specific provisions in relation to the documentation of smaller audits and quality control documentation for SMP firms.

In terms of content, depending on the size and complexity of the audited entity, a number of sections in the ISAs assist the auditor in tailoring the audit:

¹⁸ <http://www.ifac.org/Members/Pubs-Details.tmp?PubID=1197644356547547&Category=Small%20and%20Medium%20Practices%20%28SMPs%29>

¹⁹ <http://www.ifac.org/Store/Details.tmp?SID=1236610272184921&Cart=1243950370325413>

- Paragraph 18 of ISA 200²⁰ foresees a proportional application of the ISAs by stating that "the auditor shall comply with all ISAs relevant to the audit. An ISA is relevant to the audit when the ISA is in effect and the circumstances addressed by the ISA exist". Paragraph 16 of ISA 200 states that "the auditor shall exercise professional judgement in planning and performing an audit of financial statements". As a result, a number of ISAs will automatically not apply to smaller, less complex audits²¹.
- The Application and Other Explanatory Material sections of the revised and redrafted ISAs contain considerations specific to smaller firms²². In compliance with this guidance, auditors are invited to consider, based on professional judgement, how to implement the ISAs proportionally for a particular audit.
- The nature, size and lack of complexity of many smaller entities also impact on the documentation requirements. The Application and Other Explanatory Material sections of ISA 260 (Communicating with Those Charged with Governance) and ISA 265 (Communicating Deficiencies in Internal Control) allow the auditor of a smaller entity to communicate orally thereby easing the documentation requirements for such audits. Paragraphs A16 and A17 of ISA 230 (Audit Documentation) specify provisions to ease the documentation requirements for the audits of smaller entities. Paragraph A63 of ISA 330 (The Auditor's Response to Assessed Risks) states that "the form and extent of audit documentation is a matter of professional judgment, and is influenced by the nature, size and complexity of the entity and its internal control, availability of information from the entity and the audit methodology and technology used in the audit". Furthermore, with regard to the perceived documentation burden for the audit of smaller entities, paragraph A75 of ISCQ1²³ allows smaller firms to use more informal methods in the documentation of their systems of quality control such as manual notes, checklists and forms.

²⁰ ISA 200 "Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing."

²¹ Including e.g. ISA 600 (Group Audits) because smaller audits are frequently not transnational or made up of numerous components, ISA 620 (Using the Work of an Auditor's Expert) because smaller audits do not often involve complex organisations/activities and ISA 402 (Service Organisations) because smaller entities may not use the services of one or more service organisations.

²² Examples: ISCQ 1 paragraphs A1, A3, A29, A40, A50, A68, A72 and A75; ISA 200 paragraphs 18, A64-A66; ISA 300 paragraphs A11, A15 and A19; ISA 315 paragraphs a10 and A16; ISA 320 paragraph A8 and ISA 550 paragraphs A20 and A41.

²³ The International Standard on Quality Control (ISQC) deals with a firm's responsibilities for its system of quality control for audits and reviews of financial statements, and other assurance and related services engagements