



Fédération des Experts
Comptables Européens

Press Release

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THE ROLE OF ACCOUNTING AND AUDITING IN EUROPE

Recent high profile international business failures have seen concerns raised regarding the current state of corporate governance and financial reporting in Europe. With its new position paper FEE is highlighting the essential issues for the accountancy profession at the centre of the current debate.

Financial statements presenting a true and fair view of a company's financial position are the cornerstone of any capital market. A major listed company's unexpected collapse risks undermining the credibility of the financial information presented to the market place, and the regulatory system which is put in place to protect investors.

FEE, as the representative organisation of the accountancy profession in Europe, understands the seriousness of the questions raised by recent events. Also, we recognise the fundamental importance of public trust in our profession and the need to work continuously to maintain that trust.

The key areas in the debate concern: financial reporting standards; enforcement of standards and corporate governance; auditing standards and quality assurance; ethical standards and independence; oversight of the profession; and auditor liability (protection from catastrophic loss disproportionate to auditor responsibility).

Although this FEE paper focuses on the accounting and auditing professions' commitment to high quality financial reporting, all major influences on the quality of financial reporting should be considered, including the role of other professions and regulators.

FEE believes that there is a need to strengthen corporate governance arrangements so that they are equally effective across Europe; corporation directors, audit committees and supervisory boards have a key role to play. Others in this debate include enforcement bodies, stock exchanges, sponsors, investment bankers, investors, analysts, rating agencies and the financial press.

FEE will work with all partners in this debate to maintain momentum and, where necessary, suggest additional initiatives to preserve and enhance the effectiveness of the financial reporting system.

Major steps have already been taken to improve the current financial reporting system in Europe, for example EU adoption of International Financial Reporting Standards (IFRS) and the Commission's recommendation on auditor independence^{*1}. FEE has played a proactive role, working closely with the European Institutions. The paper provides a snapshot of the current situation; outlining the progress made to date and recommending areas that need to be improved. It provides insight into those issues which FEE considers priorities.

FEE strongly believes that recent European initiatives have strengthened the credibility of the financial reporting system and they are a signal of political commitment to continue to strengthen the quality of European corporate disclosure. The forward-looking strategy adopted by the European Commission, and supported by FEE, should now be given a higher priority.

FEE believes that action is needed in:

- Ensuring that the European Financial Reporting Advisory Group, (EFRAG)^{*2} makes a significant impact in providing a European contribution to the international financial reporting standard setting process (IFRS and IFRIC);
- Ensuring effective enforcement of IFRS in Europe by 2005^{*3};
- Coordinating initiatives in the Member States on the enforcement of financial reporting standards, in order to ensure consistency in application decisions within Europe;
- Agreeing on the FEE proposal to require the application of International Standards on Auditing in Europe by 2005^{*4};
- Increasing efforts to support and influence the global standard setting process in auditing;
- Speeding up national programs of quality assurance in conformity with the EC's recommendation;
- Stimulating the implementation of the European Commission's recommendations on statutory auditor independence;
- Improving the current situation in the area of auditors' liability; and
- Defining at EU level harmonised conditions for organising the public oversight of the auditing profession in the EU Member States.

Commenting on the current debate, FEE President Göran Tidström said:

"The accountancy profession has made substantial efforts over many years to provide businesses and capital markets with high quality accounting and auditing standards. As demonstrated by its action in recent years, FEE has been proactive in its contribution. FEE will continue to work on behalf of the European profession to raise standards and to highlight areas of concern"

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Notes for Editors:

1. The European Commission's Financial Services Action Plan (FSAP) was adopted in March 2000 and it details the steps necessary to create an integrated financial services market in the EU. A key element of the plan is for all listed companies in the EU to prepare consolidated accounts using International Financial Reporting Standards (also known as IAS) by 2005. For more information on the European Commission's action plan, visit Internal Market DG: http://europa.eu.int/comm/internal_market/en/index.htm

FEE has developed a conceptual approach considering the different kinds of threats that arise with respect to statutory audit independence and objectivity and the possible safeguards, including prohibitions where necessary, to offset these threats. This approach has contributed to the European Commission's Committee on Auditing in developing a European set of fundamental principles for statutory auditors' independence. The Commission's Recommendation on Statutory Auditors Independence adheres to the spirit of the FEE conceptual framework approach. The FEE paper The Conceptual Approach To Protecting Auditor Independence is available to download from: <http://www.fee.be/secretariat/Positionpaper.htm>

2. The European Financial Reporting Advisory Group, (EFRAG): in recent years FEE has been at the forefront in supporting the proposed EU Regulation on IFRS by establishing EFRAG (together with nine other European organisations). A main role of EFRAG is to provide European input to IASB and to recommend improvements to IFRS. To be ready by the 2005 deadline is a large challenge for preparers, auditors, regulators and others. For more on EFRAG visit: <http://www.fee.be/secretariat/EFRAG.htm>
3. In April FEE launched its discussion paper on **Enforcement of IFRS within Europe**. It addresses the enforcement of IFRS at European level. It examines how IFRS should be enforced in order to ensure the consistent and rigorous application of financial reporting standards throughout Europe by 2005. The paper is a clear example of the European accounting profession's desire to utilise its expertise proactively. It supports the creation of a fully integrated European capital market and contributes to the work of CESR. The paper can be downloaded from the FEE website at: <http://www.fee.be/publications/main.htm>
4. International Standards on Auditing, (ISAs), are developed by the International Auditing and Assurance Standards Board, (formally IAPC), the audit standard setting committee of the International Federation of Accountants, IFAC (www.ifac.org).

FEE recently presented its paper: **Proposal on International Standards on Auditing in the EU** to the European Commission's Committee on Auditing. The paper can be downloaded from the FEE website at: <http://www.fee.be/secretariat/Positionpaper.htm>

In the paper FEE makes the following proposes concerning European auditing:

By 2005 national auditing standards in the European Union should require auditors of financial statements to:

- *perform audit procedures that comply with ISAs;*
 - *report on financial statements in accordance with ISAs; and*
 - *perform additional audit procedures and report on additional matters in response to specific legal, regulatory or other needs established at a national level.*
5. The position paper **The Role of Accounting and Auditing in Europe** is available free of charge and can be downloaded from the FEE website: www.fee.be
 6. The **Fédération des Experts Comptables Européens** (FEE) is the representative organisation for the accountancy profession in Europe. It groups together 38 professional bodies from 26 countries, including all 15 Member States of the European Union and 3 member countries of EFTA. Between them, these bodies have a combined membership of 450.000 individuals, of whom approximately 95% are from EU countries.
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