

September 15, 2009

Directorate General for International Market and Services
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CONSULTATION ON THE ADOPTION OF THE INTERNATIONAL STANDARDS ON AUDITING

HTM-tilintarkastajat ry – GRM-revisorer rf represents more than 800 of the total of ca. 1500 auditors in Finland. Our members are certified (HTM) and authorised (KHT) auditors, who serve small and medium sized enterprises in Finland. The audit thresholds in Finland are very low (balance 100.000 euros, turnover 200.000 euros and 3 employees). Both categories of auditors fulfil the requirements of the European Union's directive on statutory auditors. The most generally used legal form of even the smallest enterprises is a limited liability company (responsibility limited to share capital and other legal requirements on the board and management). Auditing and bookkeeping/accounting are separate functions in Finland, even in small company environment.

As one of the members in FEE (Federation of European Accountants), the Finnish HTM-auditors' Association (HTM-tilintarkastajat ry) thanks for the opportunity to comment on EC Consultation on ISA adoption. We agree with FEE comments according to the delivered 'outline of responses'. We also agree with the comments given by the Finnish Institute of Authorised Public Accountants according to its delivered opinion draft. In addition to these, we will add and emphasize the following.

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

We are representing the Finnish auditors practicing mainly in SMPs with audits of the mainly domestic Finnish SMEs including more than 100.000 companies representing over 90 % of all Finnish companies of which over 90 % are micro companies.

During the Clarity project, the 'Application and Other Explanatory Material' sections of ISAs were consistently supplemented with SME issues under heading 'considerations specific to smaller firms'. Simultaneously with the Clarity project IFAC Small and Medium Practices (SMP) Committee prepared the following two Guides:

- 'Guide to Using International Standards on Auditing in the Audits of Small and Medium sized Entities' including 'Risk Based Audit Process' model.
- 'Guide to Quality Control for Small and Medium sized Practices' including sample contents of Quality Control Manuals according to ISQC 1 separately for sole proprietors with non-professional staff and for two-to-five partner firms.



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In addition to the ISA standards we have now become acquainted also with the amendments and tools referred to above and become convinced, that the clarified ISAs with these tools give the result that the ISAs are sufficiently demonstrated for international acceptance also regarding the audits of SMEs.

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

European Commission's legal right to amend the ISAs is decisively increasing EC's power to act, if needed. However, this power is at its strongest so far it has not been used. Our strong opinion is, that EC should not disclose any own amendments, neither 'add-ons' nor 'carve outs', to ISAs, but accept the clarified ISAs as such. With the power described above, if needed, EC should act through IFAC bodies in order to make the needed amendments into the original ISAs. However we see the strive towards only one global set of internationally accepted auditing standards extremely important.

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

Only add-ons so far justified by Member States' national legislations should be nationally accepted, but no carve-outs. However, within strong legislation, some rules in ISAs may be covered by legislation far enough to avoid the detailed implementation of specific ISA rules practically without noncompliance with the objectives or requirements of these rules.

Here we will stress, as also expressed in the opinion of the Finnish Institute of Authorised Public Accountants (KHT-yhdistys), that in Finland also the administrations of the companies are to be audited. Based on our experiences we will encourage this amending issue to become included also into the original international ISAs.

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

We agree with the overall conclusions on the University of Duisburg-Essen study. However, we noted that the detailed studies were mainly based on information received from the big four firms and some other members of IFAC's Forum of Firms. Further, this study covered in detail only medium sized and large companies listed or not, and banks and insurance companies. This means that the companies smaller than the mandatory audit thresholds given in the EU Audit Directive, were included only into extrapolations of the studied results.

According to the detailed studies, the implementation of clarified ISAs and ISQC 1 will raise the audit costs of large and listed companies approximately by 6 % and of medium sized companies by 10 % depending on their smaller size. As described above, the majority of our clients are micro companies which were not covered by this study and thus no costs were estimated. Please note that bookkeeping / accounting costs are often mixed with audit costs.

Here our concern is to find practical way how to comply with ISAs without too costly audit measures. We see the guidance included into the under question 1 referred IFAC guide to use ISAs on SME audits very useful. When acting according to there explained 'risk based audit process' and beginning the audit with basic audit measures as also in reviews (ISA 2400, however note that, the smaller company, the less internal controls if any to be tested and the less staff if any to be interviewed) and simultaneously assessing and documenting the risks, and then



focusing supplementing audit measures to the risks assessed as significant or material. Through this way only few ISAs leave as material and the others can be

passed as insignificant. In compliance with ISAs, also the audits of small and micro companies may become cost-effective, while in general, the smaller the company is, the less significant or material risks there exist.

Based on the reasons above, we strongly support the principle 'an audit is an audit' also in small and micro companies without needs to create any alternative ways.

Regarding cost/benefit issues and the recent global financial crises, the same 'risk based audit process' explained above, may be useful also in the audits of large companies giving additional support also on macro economical global financial stability.

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

We agree with FEE's opinion, that 'Application and Other Explanatory Material' should be part of the adoption process. This is important also because this material includes the sections 'considerations specific to smaller firms'.

We agree with FEE to refer to this material just as expressed in ISAs, 'Application and Other Explanatory Material', and not as 'best practice'. According to our understanding rules are rules and 'best practice' means a way to use the rules. In this understanding, also the 'Application and Other Explanatory Material' means rules while not as objectives or requirements.

Question 6: Should ISQC 1 on international quality controls be part of the adoption process?

Yes. The full use of the adoption process cannot be received without adopting also ISQC 1. Regarding SMPs, we refer to the second IFAC guide referred under question 1.

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

As FEE in its opinion, we support strongly the objective to adapt ISA standards in EU as such without EU 'add-ons' or 'carve outs', and this objective should be seen straight in the referring wording. While EU likely has power to carry, if needed, any reasonable modification into the original ISAs instead of EU 'add-ons' or 'carve outs', the referring wording should not include any in principle limiting expressions as 'as adopted in the EU'. We agree with FEE comments.

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

Yes. We support the efforts to adopt ISAs as legally binding instrument within EU. We emphasize that ISAs are not checklist. Professional judgement should also be used. IFAC guide, Guide to Using International Standards on Auditing in the Audits of Small and Medium Sized Entities, to use ISAs on SME audits should also be mentioned in official papers.





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 audits of all companies, including small companies for which an audit is required.

We support option 3. Our reasons include into our response to question 4 according to which the original ISAs can be complied as such also in the audits of small micro companies. We also refer to the reasons expressed in FEE's response to this question. We strongly support the principle 'an audit is an audit' and we don't see any use or need to create any alternative rules to replace the clarified ISAs.

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

We support the same timing and effective dates as IFAC bodies

Helsinki, September 15, 2009

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