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Your ref:

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Dear Hilde

Discussion Paper for Auditor's Role Regarding Providing Assurance on Corporate Governance Statements

ICAEW welcomes the opportunity to comment on the discussion paper *Auditor's Role Regarding Providing Assurance on Corporate Governance Statements* published by the Federation of European Accountants (FEE) in November 2009.

ICAEW operates under a Royal Charter, working in the public interest. Its regulation of its members, in particular its responsibilities in respect of auditors, is overseen by the Financial Reporting Council. As a world leading professional accountancy body, we provide leadership and practical support to over 134,000 members in more than 160 countries, working with governments, regulators and industry in order to ensure the highest standards are maintained. We are a founding member of the Global Accounting Alliance with over 775,000 members worldwide.

The discussion paper *Auditor's Role Regarding Providing Assurance on Corporate Governance Statements* is a thorough, well researched and thought provoking paper which summarises the main features of corporate governance reporting by European companies under existing practices in the context of the Fourth and Seventh Directives. We set out below some of our initial observations which we would be happy to discuss and expand upon.

- We agree with the FEE conclusion that there is no 'right answer' as to the optimum level of involvement by an auditor with corporate governance information across Europe notwithstanding there being a reasonably overall common approach to corporate governance reporting across Europe. The EU directives require consistency of certain corporate governance information with the financial statements and whether certain other corporate governance information has been produced or included in a statement. Some countries, such as the UK, have gone further than this but we feel that this should remain a matter for each jurisdiction.

- We feel that it would be beneficial if the EU led work on how the audit profession could provide more objective assessments in areas which do not easily lend themselves to objective verification. Preparers of accounts could do much when compiling information to allow greater objectivity to be applied by auditors and providers of assurance services. We think it would be an achievable objective to assist preparers of accounts to work towards more evidenced based disclosures.

- Increased independent assurance is potentially helpful to users of accounts but the independent assurance reporting model can, as matters stand, only apply to those aspects of corporate governance where objective assessment is possible. As was demonstrated in the discussion paper, independent assurance is difficult in many aspects of corporate governance because many of the concepts require subjective judgements to be made. However, if additional assurance is thought beneficial by users of accounts then auditors are a natural source of additional assurance.

- The involvement of an auditor in assurance would add value over a wide range of information but it must be remembered that assurance over non-financial information must be outside the scope of statutory audit work. The challenge for audit is to remain relevant and to move into more subjective areas to provide differing levels of assurance. As some of the information in corporate governance statements is wholly subjective it is unlikely to be capable of objective verification by an auditor. Should the audit process be applied more than it already is in this process one possible effect is that we may lose many useful voluntary disclosures as the audit process may drive a move towards objectively verifiable statements which may lead to more routine and bland disclosures. However, there are matters currently subject to assurance which do depend on subjective judgements so it is possible to provide assurance on subjective matters provided that a suitable framework exists.

- Confidence in financial reporting, and in assurance, is a key factor in ensuring confidence in capital markets but a cost benefit analysis is important when reviewing whether to increase the scope and breadth of independent assurance to ensure that disproportionate costs are not introduced into the financial reporting system. Additional corporate governance information may be subject to independent assurance but at an excessive and disproportionate cost. We believe that the cost and benefit may vary enormously and that this is a major factor when considering whether additional corporate governance items could be subject to independent assurance.

- The discussion paper is very helpful in setting out the differing categories of work (audit, review, assurance and related services engagements) that an auditor could perform in the area of corporate governance statements and we feel that it is helpful in the general debate to educate non-finance professionals in the key differences of possible forms of auditor involvement. However, we feel that the ultimate users of accounts may not always fully appreciate what aspects of the corporate governance statement are assured in an annual report and that any enhancement of confidence of the ultimate user may be illusory rather than tangible. Much could be done to explain the different levels of assurance and in explaining what assurance can be given. For example in the UK the Listing Rules require the auditor to review a company's compliance with only 9 of the 48 provisions of the Combined Code. The rest of the corporate governance statement is not subject to assurance. This does not seem to impact on the users of accounts in any way and it is debatable whether if more than 9 of the provisions were reviewed by the auditor additional user confidence would be obtained.

- As currently stands we see the role of auditor in corporate governance statements to be primarily as one of checking material inconsistency with the financial statements. Whilst there is nothing in EU law to preclude the involvement of another independent and suitably qualified practitioner in the provision of services relating to corporate governance statements other than those in the Fourth and Seventh Directives we believe that it should be for each jurisdiction or company to decide whether to incorporate additional external scrutiny in this area. It would seem appropriate that if there were any additional assurance to be provided then the auditor is in a unique place to provide such assurance services.

Please contact me should you wish to discuss any of the points raised in this response.

Yours sincerely

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