

AB3C'S STRATEGY TO COVER THE YEARS 2010 TO 2013

1 AB3C'S MISSION AND VISION

1.1 Mission

AB3C's mission has been defined in the Auditing Act (459/2007). AB3C's tasks are defined as follows:

- to authorise KHT auditors and audit firms
- to oversee the operations of KHT auditors and KHT audit firms and to ascertain that the qualifications required for approval are maintained
- to maintain the Auditor register
- to lead and develop authorisation and supervision of auditors
- to arrange KHT and HTM examinations on an annual basis
- to be responsible for international cooperative oversight activities
- to take care of other tasks as provided for in the Auditing Act

In addition, AB3C is taking initiatives to improve and develop the audit industry's legislative and operative environments.

1.2 Vision

There is a functioning and globally recognised auditing system in Finland. In order to maintain this, AB3C is responsible for securing high-quality authorisation and oversight of auditors and works to further develop applicable legislation as well as the auditing system as such.

1.3 Leading operational principles

AB3C's operations must be proactive and foreseeable. This can be reached by way of ongoing improvement of independent expertise and proper administrative practices. AB3C's central leading operational principles are:

- legal certainty
- open approach and high quality processes
- observing public interest

2 OPERATIVE AND LEGISLATIVE ENVIRONMENT – CHANGES AND CHALLENGES

2.1 Business operations

Regardless of company size, the fact that international business operations are increasing reflects the currently ongoing general globalisation development. We are increasingly dependant on occurrences and circumstances prevailing in other countries. As a result of this internationalisation development, companies have

corporate divisions and personnel in several countries. Internationalisation is also affecting corporate management and other bodies.

In several industries, competition has significantly tightened in the past few years. Tough competition and fast changes tend to shorten the life cycles of products and services. Competition tends to cut prices, but also sets challenges with regard to quality of products and services. Fast and powerful changes are not unusual when looking at future corporate prospects.

The significance of ownership value is increasing especially in the case of public listed companies. Increasing pressure is put on corporate growth, improved profitability and cost savings. The importance of ownership value tends to promote company size growth and make corporate arrangements more common. Quarterly economics is also putting increased challenge on financial reporting.

Increased business internationalisation also results in increased and more diverse risks. Internationalisation is changing corporate operation models. Accounting and administration services are often being provided by global service centres, and information systems applied are also often global. Consolidated group focus is emphasised in company activities.

2.2 Auditing

Increased and more diverse risks as well as shorter review periods with regard to operations and results also reflect on how audit firms operate. The same phenomena affecting other business operations apply to the audit market.

In the past few years, the audit industry has become significantly more centralised. The audit market has become more clearly divided into one comprised of public listed and large companies and another comprised of SME's. The audit market is comprised of larger entities. This has led to increased chain integration and international corporate arrangements in audit firms.

Competition for clients and markets has increased in the audit industry. The fact that Corporate Governance recommendations have been introduced has also increased competitive assessment of auditing services. With regard to auditor selection, the importance of price is increasing and the importance of customer fidelity is decreasing.

In audit firms, internal administrative work has increased. Internal quality assurance, training, risk management, auditing methodology and administrative tasks require increased resources. This serves to emphasise challenges related to sufficiency of resources. Audit firms are also facing challenges relating to whether or not the auditing industry is considered attractive, bonus systems, work demands and responsibility. Audit firms also tend to demand more and more special competences (IFRS, IT, treasury, taxation, etc.).

For supervisory positions in audit firms, increased emphasis is put on human interaction and leadership skills applicable to managing leading expert organisations and international assignments.

The audit industry is characterised by increased technicism, increasingly complex norms, fast changes and increased differentiation between auditing services and related services. The period of review of financial operations and results is decreasing. Fast changes may be expected to become an ongoing phenomenon.

The audit industry is facing an ongoing challenge of being able to find a sufficient number of expert resources. Maintaining job attraction and HR related matters (incentives, making sure that job demands and responsibilities do meet) require in-depth skills and efforts. Internationalisation tends to lead to larger company size, which, in connection with increasingly common mergers and acquisitions requires additional competence from experts. In several countries, legislative changes affecting the extent of auditing obligations have been made.

Most changes applicable to legislative environments are a result of implementation of international accounting and auditing standards. As a result of implementation of the ISA standards, the work hours used for auditing are increasing. The complexity of the international IFRS accounting norms requires improved competence, the ability to follow up on changes and the use of special expertise. On the other hand, the international accounting regimes IFRS and US GAAP have approached each other in the past few years. One possibility would be to introduce one single unified global accounting regime.

In the case of international groups, the responsibility of group auditors has significantly increased. The importance of consolidated group audits has increased.

Auditing research has become more international. For Finland to achieve a pioneer position in the international audit industry would require improved research and study in the field. In this respect, our Schools of Economics would be key players. AB3C attempts to generate interaction between the different actors in order to promote discussion about the need to maintain and further develop research and education in the field of auditing in Finland. Universities would have the autonomy to take decisions on their respective fields of research. Anyhow, different community actors will have their respective interests with regard to development in the field of auditing research and teaching.

2.3 Authorisation and oversight of auditors

In the past few years, the audit industry's oversight authorities have taken efforts to restore investors' and other stakeholders' confidence in the industry, which was weakened as a result of the accounting scandals in the 2000s and to maintain a credible regulation and oversight system.

The global financial crisis which aggravated in 2008 is emphasising the need to secure availability of accurate financial information. In order to secure the operation of the capital market, means of regulation and oversight must be implemented. This is where auditing industry oversight bodies are facing an important task. Dealing with the global financial crisis requires close international cooperative oversight. Oversight measures must be based on accurate

information about critical accounting issues. Oversight functions are facing increasing risk-based elements.

In the case of public listed companies, credit institutions and insurance companies, the credibility of audit oversight must be assessed on a global level as a result of the fact that the capital market has become increasingly international. The oversight system must be competent, sufficient in terms of capacity and independent of the audit industry. The increased demands placed on oversight functions especially relate to oversight of public listed company auditors. This development tends to lead to differentiation between regulation and oversight. Especially auditors working for companies operating in regulated markets will be facing clearly tighter demands than other auditors.

Public authorities must be able to ascertain that the auditing market remains functional and that there is a sufficient number of professional and independent auditors available to companies. In the authorisation proceedings, the international nature of auditing operations as well as specialisation and the fact that auditors need to move across borders must be observed. There must be several career path alternatives for persons wishing to qualify as auditors.

Oversight bodies are increasingly cooperating across borders. The control authorities must be able to maintain efficient cooperation and coordination towards competent authorities in the EU as well as towards third country authorities. Such cooperation involves exchange of information relating to registration and oversight of foreign auditors as well as jointly taken oversight measures (inspections and investigation). International cooperative oversight may also involve oversight measures to be taken abroad without involvement of oversight of the other country.

Audit industry oversight bodies must also be able to monitor proper application of ISA standards in auditing tasks. Due to the global nature of the ISA standards, norms must be applied in a uniform manner across the EEA. Although the ISA standards are extensively applied as it is today and affect good accounting practise, a possible transformation of these standards into obligations is putting pressure on application and oversight. This development has an increasing effect on quality requirements of interpretations made based on the standards.

3 CENTRAL TARGETS AND POINTS OF FOCUS

3.1 Main target

By way of its operations, AB3C is promoting ongoing development of the auditing system and also secures confidence in this respect.

In its development activities, AB3C is focusing on quality improvement.

AB3C is working to improve the competitiveness of auditing careers among talents.

AB3C is promoting the qualifications of economical activities and a functional audit market.

3.2 Points of focus

AB3C's main tasks include authorisation and oversight of auditors. AB3C is continually developing its authorisations methods applicable to auditors. One way would be to introduce modular KHT and HTM examinations. A so-called "reverse career" must be made possible, based on which it would be possible to become an auditor based on the grounds of other accounting task experience. There is a need for approval of versatile work experience in the field of accounting.

As far as audit industry oversight is concerned, there is a need to observe improvement of oversight work methods applied and to secure expediency of oversight in all areas. These would be public oversight, inspection, investigation, quality assurance and oversight of professional competence maintenance. AB3C will define the criteria for ongoing education.

AB3C is promoting the prerequisites of international cooperative oversight and is actively involved on the level of international oversight (Nordic countries, EGAOB, IFIAR). AB3C is also promoting other national and international public authority cooperation, e.g. towards financial industry oversight bodies.

It is important to secure expertise and other resources in the field of auditing and AB3C's operations. AB3C attempts to enforce AB3C's Secretariat's expert accounting resources for the purpose of handling audit and control related monitoring tasks.

AB3C attempts to promote development and education within the field of auditing in collaboration with other community actors. AB3C is supporting the work of the Auditing Committees of the Chambers of Commerce and promoting improvement in this respect.

4 MEANS

In order to reach our strategic targets, proper means need to be selected. These will be prepared in connection with our annual operation plan. AB3C's most important means are administrative decisions, legislative initiatives, statements, directives, cooperation between public authorities and communication, as well as cooperation and other means of influence.

5 FOLLOW-UP ON STRATEGY IMPLEMENTATION

Implementation of AB3C's strategy will be followed up based on signals received from the audit industry and other feedback. Implementation of follow-up methods will be developed as a part of operational planning. AB3C will confirm quality criteria applicable to its own operations as well as for assessment by the Auditing Committees of the Chambers of Commerce.