



June 15, 2010

Technical Manager
International Accounting Education Standards Board
International Federation of Accountants
277 Wellington Street West
Toronto
Ontario
Canada
M5V 3H2

Dear Sir or Madam

We appreciate this opportunity to comment on the Consultation Paper on the Revision of International Education Standard 8: Competence Requirements for Audit Professionals. We commend the IAESB for their efforts on this initiative.

Comments on Consultation Paper:

Before responding to the specific questions raised in the consultation paper, we have some overall comments on the approach to revising IES 8 which we set out below.

Overall Comments

The issues raised in the consultation paper highlight the challenges of providing appropriate standards and guidance for the competence of those working on audits of historical financial information, given the wide variety of contexts and differing complexities in which they operate.

The existing standard seeks to identify minimum competence requirements for Audit Professionals, and then to identify additional competence requirements for those working in specific roles (audit Engagement Partners) or specific situations (transnational audits or specific industries). It also identifies certain competences as being required at an 'Advanced' level when compared to the requirements of professional accountants as set out in IESs 1 to 6. This illustrates that the individual Audit Professional's role and context will determine the type and level of competence required. We would therefore recommend that the standard be revised to provide a broader framework for the development and measurement of an Audit Professional's competence rather than these specific areas of audit Engagement Partners, transnational audits and specific industry situations.

Such a framework could include a number of competency types and various levels of competence. Minimum competence requirements for an Audit Professional could then be described by setting out the competence level required for each competence type. This broader approach may be difficult to capture within a standard, but we believe it merits consideration.

The following considerations should be borne in mind in the development of a framework of competences for Audit Professionals:

- The competence requirements (types and levels) of the Audit Professional within an engagement will vary due to many factors including (but not limited to) their role and responsibilities, the size and complexity of the engagement, the reporting, regulatory and legal environment, the industry etc., therefore the framework needs to be capable of flexible application.
- A range of competence types are relevant for Audit Professionals. The existing standard identifies competences in the areas of knowledge content, professional skills and professional values, ethics and attitudes. A competence framework would enable the level of competence across these types to vary such that different competence types can be linked to different levels of competence.
- Competence should be expected to develop through experience and over time, and so would be best represented by a continuum of development. However, for practical purposes it may be simplest to identify a number of discrete levels of competence – for example, Basic, Advanced, and Mastery. In some competence types it may be the case that all Audit Professionals would be expected to exhibit competence level of Advanced or higher, when compared to the requirements of other professional accountants.
- We recommend that the requirements of the Standard focus on the competences (level and types) that are expected of all Audit Professionals. Given the wide range of factors that impact on the roles and responsibilities of Audit Professionals in audit engagements we do not believe it would be useful to attempt to specify additional minimum requirements for specific roles or situations. However, we do believe that adopting a competence framework approach would provide useful guidance to those who have or share responsibility for the development of Audit Professionals.

The following should also be clearly addressed in a revised standard:

- Given that there are a great many competence types that could be identified as being required of Audit Professionals, IES 8 should remain clear that the competence types it addresses are those required specifically of Audit Professionals, and that other competence types may also be required of them in their capacity as professional accountants.
- The standard should make clear, through its definition of the Audit Professional, that it does not apply to the most junior members of the audit engagement team, for example, those who are still in their initial professional development and who are working toward their professional accounting designation/qualification. However, we recommend that the standard specifically acknowledges the importance of junior audit staff gaining suitable practical audit experience in an appropriately supervised environment prior to achieving the level of Audit Professional, and further, that this is in itself a critical factor in developing individuals to the level of Audit Professional.

With respect to the specific questions outlined in the Consultation Paper our comments are as follows:

Question A: Do you consider that the IAESB has identified the critical issues in respect of “whom” the IES 8 requirements are aimed at?

Yes, it is clear that the requirements are aimed at a broad group of entities which encompasses organizations with many differing mandates. However, it is not clear to us that the IAESB has the mandate to prescribe standards for organizations other than the IFAC member bodies.

To keep a broad focus it will be important to provide specific guidance for this broader group of entities so that they are able to carry out their responsibilities under this standard, rather than simply referencing the all encompassing concept of ‘shared responsibility’.

Question B: Would expansion of the “Audit Professional” definition cause concern, or would you broadly support this approach? Are there any additional factors that you think the IAESB should consider including as part of this definition?

We support clarification, rather than expansion of the definition of the Audit Professional. This clarification should seek to ensure that clear and unambiguous guidance is provided on who meets the definition of an Audit Professional.

We believe there should be explicit recognition, as there is in ISA 200, that the engagement partner works with a team to conduct the audit and that they, as the engagement partner, are responsible for ensuring not only the appropriate composition of the team in terms of competences and capabilities but also the appropriate supervision and review of the work of more junior members of the team.

In this context, there should also be recognition that audit professionals have varying levels of experience, are expected to make judgments in accordance with those levels in the context of their responsibilities and that those judgments, along with other aspects of their work, are subject to appropriate levels of supervision and review as determined by the engagement partner.

In addition, we understand that IFAC is currently reviewing the definition of “professional accountant” and we recommend that the Board ensure that revisions to the definition of “audit professional” in IES 8 also reflect the outcome of that process. We note that in a number of jurisdictions there are many senior members of audit engagements teams who are not members of IFAC member bodies and therefore do not meet the definition of a professional accountant, despite having many years’ of training, development, including CPD, and audit experience – such individuals would be able to easily demonstrate the competence expected of an audit professional and a professional accountant. Conversely, some IFAC member bodies offer membership to individuals who are not trained or practising as accountants, yet these individuals would appear to meet the current definition of a professional accountant.

See also our comments above in relation to the most junior members of the audit engagement team and to question C below in relation to the concept of ‘significant judgment’.

Question C: Do you agree that any revision of IES 8 necessitates consideration of the use of the term “significant judgment”? If so, what advice would you give the IAESB on this matter?

The concept of ‘significant judgment’ in the definition of an audit professional is difficult to interpret as ‘significant judgment’ is a subjective construct, which will differ depending on context and can only be judged effectively in hindsight.

We recommend that the Board consider an alternative definition of an audit professional that is open to less interpretation and therefore provides more clarity to professional accountants working as members of audit engagement teams, member bodies and other stakeholders. For example, the Board may consider the number of years of recent practical audit experience together with relevant CPD as we believe this may provide a more objective and measurable benchmark for the definition.

If the term significant judgement is retained in the definition of an audit professional then it is important that it be consistent with the definition of significant judgement under ISA 200, para A28.

Question D: Are there any additional considerations that you would like the IAESB to consider when clarifying guidance on shared responsibilities among the stakeholders identified above?

We believe it would be useful to consider whether different stakeholders have different responsibilities depending on their mandate rather than identifying shared responsibilities applicable to all stakeholders.

It is also important to recognise that respective responsibilities may be determined as a matter of fact (e.g. by local legal requirements), and that therefore non-IFAC member bodies such as governments may play a significant role in licensing of accountants and auditors – and may impose specific competence requirements as part of these licensing arrangements.

See also our comments in response to Question A above.

Question E: In considering the question of “advanced level” competences, do you believe that the IAESB has identified an area that requires further clarification? If so, how would you advise the IAESB to approach this matter?

Yes. We would caution the Board against using size of engagement as a determiner of complexity or the need for specialization as we believe there are many other factors that also need to be taken into consideration. See our overall comments regarding the development of a framework of competences above.

Question F: How would you guide the IAESB during its consideration of appropriate types and levels of competences?

Competences might include those related to measurement and reporting, assurance, taxation, governance, strategy, risk management, management decision-making, and finance. Professional skills might include critically examining and interpreting information and ideas, solving problems and making decisions, communicating effectively and efficiently, managing and supervising, understanding the impact of IT, and considering legal concepts. Ethical behaviour and professionalism might include protecting the public/other interest, acting competently with integrity and honesty, carrying out work with a desire to exercise due care, maintaining objectivity and independence, avoiding conflicts of interest, protecting the confidentiality of information, and maintaining and enhancing the profession’s reputation.

See our overall comments regarding the development of a framework of competences, specifically regarding the levels of competences we would recommend.

Question G: Do you believe that the IAESB should address competences for different types of audit engagements? If so, what types of audit engagements should the IAESB consider? Should these examples be limited to transnational and specialized engagements?

No. At this stage we believe it would be more valuable for the Board to focus its efforts on revising IES8 to achieve a somewhat generic standard regarding the competence of all “audit professionals” engaged in the audit of historical financial information.

We are strong supporters of high quality standards in auditing and the education and development of auditors. However, in this context we believe it is important for the Board to keep in mind that the majority of audits of historical financial information are performed on smaller entities by small practices or single practitioners and making such audits more expensive by increasing the burden on audit professionals unnecessarily is unlikely to serve the public interest in the long term.

The ISA 220 requires the engagement partner to be satisfied that the engagement team, including experts who are not part of the team, collectively has the appropriate competence and capabilities to (a) perform the audit in accordance with professional standards, and (b) enable an appropriate auditors' report to be issued". We believe that this adequately addresses the need for the engagement partner to consider the various specialized competencies that are required on the engagement team.

Question H: Are there any other definitional inconsistencies that you would like the IAESB to consider?

None that we are aware of.

Question I: Do you agree with the IAESB's approach to eliminating inconsistencies?

Yes. However, we would caution the Board not to over-generalize comments in publications from regulators as they are typically written to address matters specific to certain types of audit engagements in a specific jurisdiction (such as audits of financial statements of entities listed on a specific stock exchange) and which, therefore, may be relevant in other contexts.

Question J: Are there any other areas you consider to be specific issues that you would like the IAESB to consider as part of its revision of IES 8?

See our comments regarding the development of a framework of competences above.

In addition, we recommend that the Board consider whether it is appropriate to leave the extant IES 8 as an active Standard during this period of consultation, reconsideration and possible revision of the Standard. At a minimum we suggest that, having considered all the responses to this consultation paper, the Board issue some clear communication to Member Bodies and other Stakeholders laying out its timetable with regard to revisions of IES 8, its view of the status of the extant standard and rationale behind that.

We recommend that the focus of IES 8 in its revised form remain on the competence of audit professionals involved in the audit of historical financial information. However, as a future project, the Board should consider the need for an additional standard(s) and/or practice statement(s) that addresses the competences required of those providing the wider range of assurance services contemplated by the IAASB. In determining the need for such a project and the priority of it we recommend that the IAESB undertake detailed discussion with the IAASB.

Question K: Finally, do you foresee any impact on your organization or the wider profession of the IAESB's proposed changes to IES8?

We find it difficult to respond fully to this question without fully understanding all the implications of the proposed changes to IES8, for example, how the definition of "audit professional" might be expanded (or clarified). We believe this would be an appropriate question to pose again as part of any Exposure Draft or further public consultation process once the Board is able to share more detail regarding its proposed changes to IES8.

However, we note that implementation of the existing IES 8 and any subsequent revised standard is likely to continue to provide a significant challenge in many territories – particularly where IAASB and IAESB standards are enacted into law. Larger organizations are likely to be well resourced and able to respond appropriately, however smaller organizations may well face significant difficulties in meeting the requirements of the standards, and hence meeting their legal obligations, which could have unintended consequences. We therefore recommend that the Standard be clearly principle-

based and that the related guidance in the standard recognize the implementation challenges and describe the sort of flexibility and alternative approaches to implementation that would be considered by the Board to be appropriate in these circumstances.

We would be pleased to discuss our letter with you or your staff at your convenience. If you have any questions, please contact Jens Simonsen on +45 36103781.

Very truly yours,

A handwritten signature in black ink, appearing to read "Jens Simonsen". The signature is written in a cursive style with a large, stylized initial "J".

Jens L Simonsen
Global Director Audit Services
Deloitte Touche Tohmatsu