

### **FSR Comments on the IAESB Consultation Paper on the IES 8 Revision**

FSR - the Danish Institute of Public Accountants ("Foreningen af Statsautoriserede Revisorer") is pleased to send its comments on the IAESB Consultation Paper on the Revision IES 8 Competence Requirements for Audit Professionals.

The transparency and quality of the competences of the accountants are definitely a central aspect when discussing how to secure the ongoing confidence and accountability of the profession. Rapid changes and the dynamic development in rules and legislation makes it an ongoing challenge to secure flexible and modern framework for the education requirement. The financial crisis has probably accentuated market actors, public oversight and other institutions' focus on the competences of the profession. This makes a debate and a constructive discussion of this object even more relevant.

FSR acknowledges that IAESB's 2010-2012 Strategy and Work Plan includes a requirement to revise all IESs, including IES 8, following the recent release of the IAESB's framework and Drafting Convention in December 2009 and welcomes the consultation paper raising very important questions at an early stage in the process to revise IES 8.

FSR supports the ultimate aim of international implementation of all IESs and the intention of IAESB to issue principles based standards and to ensure a full consistency with other standards especially IAESB pronouncements and the Code of Ethics which are particularly relevant to IES 8.

FSR would like to draw your attention to the fact that in the EU the statutory audit is mandatory not only for PIEs, but for a large number of companies, trusts etc. A statutory audit shall be carried out by approved auditors. The Audit Directive 2006/43/EC of 17 May 2006, which has been adopted in national laws of the EU member states, determines the conditions to be an approved auditor: educational qualifications, the test of theoretical knowledge, practical training and good reputation among others. Registration of auditors and audit firms as well as requirements of continued education is made by public oversight - and not by the European member bodies who have very limited authority with regard to requirements to audit professionals.

FSR would appreciate if the IAESB takes the requirements of the Audit Directive into consideration when revising the IES 8. It is in common interest that the requirements in the IES are as consistent with the European Legislation as possible.

Finally, FSR suggests that the IAESB considers broadening the competence requirements for audit professionals to include non-assurance engagements.

Our responses to the questions in the Discussion Paper are indicated in the following. If you need any further information, please do not hesitate to contact Judith Skou (e-mail: [jis@fsr.dk](mailto:jis@fsr.dk)) or Lars Juul Gielstrup (e-mail: [lgi@fsr.dk](mailto:lgi@fsr.dk)).

#### **Question A. Do you consider that the IAESB has identified the critical issues in respect of "whom" the IES 8 requirements are aimed at?**

FSR believes that the IAESB should open a fundamental discussion on the scope of the standard which currently relates restrictively to professional developments carrying out audits of historical financial statements.

The IAESB should consider advantages and inconveniences of broadening the scope of IES 8 beyond the audit of historical financial information as many audit professionals, especially - but not exclusively - in SMPs are frequently involved in non-audit assurance engagements.

**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?**

Defining “Audit Professional” is clearly a very important issue not only because it determines the scope of the standard, but because of its indirect impact on the organisation of audit firms.

Management of staff and structuring the organisation in audit firms is, however, something that can hardly be regulated. FSR draws attention to the negative reactions that competition authorities could have towards such rules imposed by standard setters. A principle-based approach needs to be maintained.

**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?**

FSR emphasises the need to ensure consistency with other standards including ISAs. The expression “significant judgements” is used in several ISAs. It would be most inappropriate if the IAESB develops its own definitions.

**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?**

In the European Union, public oversight bodies have the ultimate responsibility for the approval and registration of statutory auditors – a concept that does not necessarily match with the definition in IES 8. This responsibility extends to the assessment of the compliance with the legal provision on initial professional development included in the EC Directive 2006/43. It is relevant to observe that oversight applies in all kinds of audit in the EU, not only on the audit of public interest entities.

As an illustration of this situation, FSR would like to draw the attention of the IAESB to a difference between the European Directive and IES 8. Whereas IES 8 could adopt an output based approach for developing and maintaining capabilities and competences, in the EU the Directive will remain input-based in defining a list of matters to be included in the curriculum.

Also, the role and responsibilities of professional bodies in Europe have been substantially modified by these regulatory reforms. The flexibility to structure the curriculum which existed in the past might be reduced.

**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?**

Advanced level refers to a knowledge that is deeper and broader than the benchmark. It is assumed that this benchmark is prescribed in IES 2 (IES 8-23). However, the concept of advanced level could be further clarified in many areas of competence. This also relates to the definition of “audit professional”.

As far as “areas of competence” are concerned, FSR believes that improvements are possible in the following areas:

- a) Paragraph 24 (i) of IES 2 defines the audit and assurance subject in very general terms. Paragraph 36 of IES 8 is not much more developed. For instance, it does not refer to the concept of assurance and the assurance framework. It is not clear how far this relates to one or the other standard. Furthermore, the terminology “best practice” does not seem very appropriate.
- b) Evaluation of controls and risks is mentioned in paragraph 40 as an application of the information technology subject. Although IT is indeed very important in that respect, this approach is not appropriate in view of recent developments.
- c) Corporate governance should be part of competences that auditors should have at an advanced level. This requirement has been introduced in the European Directive in 2006. In the light of regulatory developments in corporate governance, in many regions, it would make sense to require auditors to develop their competences in this area.

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

The IAESB could refer to the common content of professional accountancy qualifications developed by nine EU professional bodies of accountants which defines three levels of the performance of learning outcome and knowledge (professional, technician and generalist). The higher level would indeed be required for audit professionals.

The IAESB could also use as valuable material the European Qualification Framework approved by the European Parliament and Council. Please refer to [http://ec.europa.eu/education/lifelong-learning/doc44\\_en.htm#doc](http://ec.europa.eu/education/lifelong-learning/doc44_en.htm#doc)

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

In the answer to question A, FEE suggests that the IAESB should consider whether the scope of IES 8 could be broadened to cover non-audit assurance engagements. If a positive answer is given to this question, some specific competences could be further discussed, for instance non-financial information, sustainability reporting or reporting on internal control.

If the IAESB decides to maintain the scope of IES 8 as it stands now, there is no reason to add new types of audit engagements to those that are already covered in the standard.

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

**Question I. Do you agree with the IAESB’s approach to eliminating inconsistencies?**

FSR agrees with the IAESB that inconsistencies between standards should be eliminated. Such inconsistencies could have unintended, but nonetheless very important consequences. FSR encourages the IFAC to carry out a detailed analysis of the consistency of terminology, definitions and competences between IESs, ISAs, ISQC 1 and the Code of Ethics for professional accountants and to avoid repeating requirements of i.e. the Code of Ethics in the IESs.

**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?**

It could be considered whether the competence requirements should be aimed at the individual or the audit team. This could be specially relevant in case of i.e. auditing global concerns. Coordination with the revised/coming chapters 290 and 291 of the Code of Ethics seems relevant when considering this question.

**Question K. Finally, do you foresee any impact on your organization or the wider profession of the IAESB's proposed changes to IES 8?**

FSR believes that the answer to this question is very much dependant of the IAESB's decision on the scope of IES 8. As far as the European Union is concerned, the impact of IES 8 will be limited if its scope is restricted to the audit of historical financial information. The ultimate responsibility for registration of statutory auditors is transferred to public oversight bodies who defines the requirements in accordance with the Audit Directive.

FSR believes, however, that there is a good reason for developing an education standard to address competences to carry out all kinds of assurance engagements - being mandatory by law or not - as well as non-assurance engagements made by an approved auditor. This could contribute to keeping the highest level of capabilities of the auditors and the public trust as well.

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