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Ref.: QMA/EDU/HvD/HOL/MB*

Dear Sir,

Re: FEE Comments on the IAESB Consultation Paper on the IES 8 Revision

1. FEE - the Federation of European Accountants is pleased to provide you below with its comments on the IAESB Consultation Paper on the Revision IES 8 Competence Requirements for Audit Professionals.
2. FEE 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. FEE welcomes the Consultation Paper raising very important questions at an early stage in the process to revise IES 8.
3. FEE supports 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.
4. It is relevant to note that statutory audit in the European Union and EAA is mandatory for a large number of limited liability companies, not just public interest entities. Statutory auditors must be registered. The conditions for registration, which include education requirements, are determined by national laws complying with the EU Directive 2006/43/EC of 17 May 2006 on statutory audits of annual accounts and consolidated accounts. FEE is well aware that IESs must apply globally. However, the answers to the questions raised by IAESB will inevitably be influenced by this harmonised European environment.

5. Our responses to the questions in the Consultation Paper are included in the Appendix to this letter. We would be pleased to discuss any aspects of this letter you may wish to raise with us. For further information please contact Ms Petra Weymüller (email: petra.weymuller@fee.be, Tel.: +32 2 285 40 75).

Yours sincerely,

A handwritten signature in black ink, appearing to be 'Hans van Damme', written over a horizontal line.

Hans van Damme
President

Encl.

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

6. FEE does not recommend at this stage to extend IES 8 to other assurance engagements. This would require in depth impact analysis. It is suggested however to ensure consistency with ISQC 1.
7. Maintaining the current scope has merits especially against the background of the public oversight systems that are now in place in many regions of the world. Although IES 8 would equally apply to voluntary audits carried out in compliance with ISAs, its main impact will be on mandatory audits under supervision of public oversight systems.

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?

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?

8. 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.
9. FEE emphasises the need to ensure consistency with other standards including ISAs. The expression “significant judgements” is used for instance in ISA 200 (A 27), ISA 220 (paragraph 7, 20, 21, 25), ISA 230 paragraph 8 (3) and A8. It is also used in ISQC 1 referring to professional judgments made by the team. It would not be acceptable that IAESB develops its own definitions.
10. Considering the definition of audit professional in the current versions of ISAs and IES 8, FEE does not support the extension of the scope to all team members to comply with IES 8. As illustrated by paragraph 27 of IES 8, this can not be the objective of the standard. Paragraph 16 of the framework states that “an individual becomes competent through learning and development”. Continuing development of professional competence is clearly a necessity in audit firms.
11. We are concerned that the current definition of audit professional, especially given the related ambiguity over “significant judgement”, may result in members of the audit team who are too junior wrongly being considered audit professionals for the purposes of compliance with IES 8. For example, the trainee can hardly be an audit professional.
12. As far as consistency is concerned between the definitions used in the IESs, the ISAs , the ISREs, the ISAEs, the ISRSs and the IESBA Code of Ethics, the following can be noted:
 - a) The scope of the IESs is to prescribe standards of education for ‘professional accountants’ and the scope of IES 8 is to prescribe the minimum competence requirements for ‘audit professionals’. In IES 8, the definitions of both terms are linked with each other.

- b) The scope of the provisions of the IESBA Code of Ethics for Professional Accountants is evidently for 'professional accountants', as covered by the IESs and (indirectly) by IES 8.
 - c) The scope of the provisions of the ISAEs is for 'practitioners', which are defined as 'professional accountants in public practice', as covered by the IESs and (indirectly) by IES 8.
 - d) The scope of the provisions of the ISRSs is for 'accountants', which are also defined as 'professional accountants in public practice', as covered by the IESs and (indirectly) by IES 8.
 - e) However, the scope of the provisions of the ISAs is for 'auditors' which refers to the person or persons conducting the audit, usually the engagement partner, or other members of the engagement team (also referred to as 'staff' or 'professionals') or the audit firm. 'Engagement partners' are presumably a part or a subset of 'audit professionals' and 'professional accountants'. How 'engagement team members', 'staff', or 'professionals' and 'auditors' in general link (or not) into 'audit professionals' and 'professional accountants' is unfortunately less clear.
 - f) As IESs (and the IESBA Code of Ethics) are also meant to be instrumental in performing the role of auditors including members of engagements teams (or staff or professionals), it would be useful if it were further clarified how they are linked or not linked.
13. Management of staff and structuring the organisation in audit firms is however something that can hardly be regulated. FEE 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 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?

14. FEE strongly supports the remark in the consultation paper that IES 8 should consider further the responsibilities of regulatory authorities for the development and assessment of the required competences. This is necessary in particular when implementing the new drafting conventions.
15. 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, FEE would like to draw attention of IAESB on a difference between the European Directive and IES 8. Whereas IES 8 could adopt a competence-based approach, the Directive will remain input-based in defining a list of matters to be included in the curriculum. For different reasons, it was not possible to obtain an amendment of the law on the occasion of the reform approved in 2006.

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?

16. 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”.
17. As far as “areas of competence” are concerned, FEE believes that improvements are possible in the following areas:
- Paragraph 24 (i) of IES 2 defines the audit and assurance subject are in very general terms. Paragraph 36 of IES 8 is not much more developed. It is not clear how far this relates to one or the other standard. Furthermore, the terminology “best practice” does not seem very appropriate.
 - 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.
 - 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 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?

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

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

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?

19. We refer to the answer to question A.

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?**

20. FEE agrees with IAESB that inconsistencies between standards should be eliminated. As discussed in paragraphs 9 and 12 above such inconsistencies could have unintended but nonetheless very important consequences. FEE encourages 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.
21. Concerning in particular the definition of professional accountant, IAESB should take into account the conclusions of the Task Force established by IFAC to develop a common definition of the term professional accountant that can be used throughout IFAC.

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?

22. FEE supports the general policy of the IAESB of producing standards addressed to IFAC member bodies. Paragraph 5 of IES 8 is in that respect fully supported. However, the first sentence of paragraph 11 of IES 8 might give the impression that the standard is addressed to individuals and could thus bear a potential for misunderstandings.

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

23. FEE believes that the answer to this question is very much dependant of 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. As explained above, the ultimate responsibility for registration of statutory auditors is now transferred to public oversight bodies. In compliance with their membership obligations, IFAC Member Bodies will make best endeavours to convince legislators and public oversight bodies to comply with the standard. However, the effect will clearly be different compared to when professional bodies were fully in charge.
