



8 June 2010

Technical Manager  
International Accounting Education Standards Board  
International Federation of Accountants  
277 Wellington Street West  
Toronto, Ontario  
Canada  
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Dear Sir / Madam

### **Consultation paper on the revision of International Education Standard 8**

We welcome the consultation paper on the revision of IES 8 *Competence requirements for audit professionals*, particularly in its aims to clearly set out the objective of the standard and eliminate ambiguity about the requirements.

Our overall comment is that the standard needs to be appropriate to apply to a very wide range of audit situations, and that there is therefore a risk of over-complication and misinterpretation. Other IESs relate to training in accountancy and are not so specific to particular roles or to types of work. There is a major risk of a revision to IES 8 introducing an inappropriate licensing system with various competences relating to a wide range of different audit scenarios. Identifying the required competences for individual audit professionals would be extremely complex and the resulting restriction on firms would be unacceptable.

Clarity of the objectives of the standard and the adoption of a principles-based approach is, in our view, the way to reduce this risk.

We believe that IES 8 should be reclassified as a guidance document for firms.

Our answers to your questions are as follows.

#### **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, unlike other IESs, IES 8 is aimed at IFAC member bodies, audit firms and regulators. However, it is our belief that the standard should be a guidance document aimed at firms: firms have responsibility for appointing a competent team to carry out an audit, as is set out in ISA 220 and ISQC 1.

**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 would be concerned if the definition of an ‘audit professional’ were expanded. The current definition within the standard is, to our assessment, already open to a wide interpretation and moreover sets higher requirements for those signing statutory audit reports, those acting as engagement partners and those working in specific industries.

We would see an audit professional as a senior member of an audit team, either the auditor who is personally responsible for signing the audit report or someone with the capability to take on this role. We recognise that in very large firms or specialist audit firms there may be more professional accountants working as audit professionals and that, because of this, experienced (but less senior) staff may act as audit professionals.

We also recognise that there could be a difficulty in any attempt to regulate the proportion of audit professionals on an audit team, where firms make decisions about team composition based on the type of engagement and level of risk.

**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?**

Yes. Our view is that the term ‘significant judgement’ should be removed from the standard. We believe that the inclusion of this term takes away from rather than adds to the clarity of the IES. There is not an agreed view on what constitutes a ‘significant judgement’ and no likely prospect of reaching agreement given the number of variables, including the size of the firm, the nature of the audit work to be performed, the decisions concerning the importance or materiality of the results of audit work or decisions about the form of the audit conclusion. There is also the potential for further confusion with certain ISAs over how they define a significant judgement. In our view, an audit professional would be better defined through meeting the educational criteria set by IES 8, but with no reference to the making of significant judgements.

**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 suggest that it might be helpful for the Exposure Draft to offer additional clarification and guidance on the respective division of responsibilities among stakeholders for ensuring compliance with the Standard.

We suggest that a revised standard should be clearer that individual auditors bear a personal responsibility through their ethical codes and CPD obligations to ensure that they have the required knowledge and skills to perform their duties.

The responsibility of firms is to appoint a competent team to conduct the audit. Firms should have processes in place to ensure that the person leading the team – the ‘audit professional’ or engagement partner – has the required skills. Firms consider both technical skills and management skills when appointing engagement partners.

The role of regulatory bodies should be to ensure that firms have policies and processes to ensure the competence of those appointed as engagement partners, and to assess the quality of completed audits.

**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?**

No: we believe that the competences required of audit professionals are sufficiently clear in the current standard. We would not support the development of additional competences for all audit professionals; the range of types of audit and situations is in our opinion too wide for this to be a practical or useful development. Professional accountants and auditors are already subject to a code of ethics which requires them to restrict their activities to those areas where they are competent, and this demonstrates the possibility that a principles-based approach is more appropriate. There are also other requirements (in ISA 220 and ISQC 1) about consultation and these assist in deploying an enhanced range of competences on an audit.

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

We would guide the IAESB away from further work in this area. We think there is a real risk of developing a revised standard which is over-complicated and burdensome.

**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?**

No. As stated above, the types of audit engagements vary so widely that the standard would become unwieldy and bureaucratic were this to happen. While we recognise that transnational audits may be a special case, we would caution against the development of a series of additional competences for different types of audit engagement.

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

We agree that IES 8 should indeed be consistent with ISAs and ISQC 1 (see our answer to question E).

We believe that it could be helpful for the Exposure Draft to offer additional clarification and guidance on the respective division of responsibilities among stakeholders for ensuring compliance with the Standard (see our answer to question D).

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

We welcome the IAESB’s approach to identifying inconsistencies, but it is not clear to us from this paper how it is intended to resolve them. We would welcome further detail in regard to, for instance, how it is planned to resolve the fact that IES 8 applies to individuals whereas ISAs and ISQC 1 apply to teams.

**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?**

Three additional issues:

Paragraph 57 of IES 8 currently states that practical experience gained for the purposes of meeting the requirements of IES 5 may ‘contribute’ to meeting the requirements for an audit professional. We believe this would be improved by stating that it may ‘contribute *significantly*’.

We would welcome additional clarity in Paragraph 58 of IES 8 that two years’ personal experience in the area of audit is not mandatory for someone to assume the role of an audit professional. To explain, in a European Union context, EU law requires someone seeking eligibility to act as a statutory auditor to

have spent two years within a firm of registered auditors but not necessarily to have personally undertaken two years' audit experience. IES 8 might therefore be wrongly interpreted as requiring member bodies to increase the experience required by law for those training to become audit professionals.

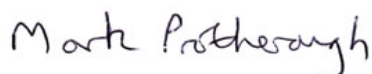
The wording of Paragraph 69 of IES 8 suggests that an audit professional who is signing a statutory audit report would be required to have additional experience beyond that specified in IES 8. We do not see why this should be automatically so and feel that compliance with the normal audit professional requirements may be sufficient.

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

The answer to this question depends very much upon the content of the revised standard. We would welcome improved clarity, but not the creation of additional requirements for audit professionals.

We hope that the above is helpful and we look forward to the forthcoming Exposure Draft. Please do not hesitate to contact Jonathan Jones, Head of Policy and Strategy, Learning and Professional Development on [jonathan.jones@icaew.com](mailto:jonathan.jones@icaew.com) or +44 (0) 1908 248292 if you would like any further clarification or information about our views at this stage.

Yours faithfully



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