

Professional Oversight Board

Aldwych House, 71-91 Aldwych, London WC2B 4HN

Telephone: 020 7492 2341 Fax: 020 7492 2359

www.frc.org.uk/pob

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

21 June 2010

Dear Sir

A Consultation Paper on the Revision of IES8: Competence Requirements for Audit Professionals

Introduction

1. The Professional Oversight Board (Oversight Board), an operating board of the Financial Reporting Council (FRC), welcomes the opportunity to comment on the IAESB's paper, "A Consultation Paper on the Revision of IES8: Competence Requirements for Audit Professionals", to make IES8 more user-friendly and more consistent with other standards to encourage uniform adoption.
2. The gaining and maintaining of competence of auditors is important to the Oversight Board and we are therefore pleased to see the IAESB reviewing IES8 with a view to enhancing audit quality. We welcome the IAESB's aim to clarify the obligations imposed on organisations responsible for the development and assessment of IES8, eliminate ambiguities over requirements, and improve explanations and guidance to support consistent application. We believe that the IAESB should work with the other IFAC standard setters to ensure a coordinated approach to audit quality and consistency between standards. (We have provided examples of inconsistencies in the appendix).

General comments

3. Audit quality has been at the forefront of the FRC's objectives for some time. In 2006, the FRC consulted on Promoting Audit Quality which highlighted the importance of the personal qualities of partners and staff to audit quality. This led to the publication of the Audit Quality Framework (AQF) which aims to identify the key drivers of audit quality. Responses to the consultation highlighted concerns about staff undertaking fieldwork

being insufficiently experienced to audit the increasingly complex transactions undertaken by modern global businesses.

4. IES8 recognises that there are competency requirements beyond those obtained by members in qualifying which are necessary for audit engagement staff to exercise significant audit judgements and that these are likely to be obtained sometime between qualification and becoming engagement partner. However, whilst the current definition of 'audit professional' is insufficiently clear, we believe that it is helpful in emphasising the need for professionals to continue their professional development post qualification and identifying milestones between different levels of competence.
5. The Oversight Board believes that all audit professional should be encouraged to develop a wide array of skills and competencies, not just technical ones. Recent economic conditions together with changes in the measurement requirements within accounting standards increases the need for auditors to approach their work with appropriate scepticism and to challenge management assumptions with appropriate rigour. We therefore believe that scepticism should feature more specifically in IAESB standards.
6. Auditor scepticism is an important topic both for the FRC's Auditing Practices Board (APB), which issues auditing standards and guidance, and the Oversight Board. The APB and the Oversight Board are currently working together to develop a Discussion Paper which explores the nature of auditor scepticism and will probe what more may be done to increase the amount and/or consistency of auditor scepticism as demonstrated in practice.

Conclusion

7. The Oversight Board has responsibility for ensuring that the professional bodies recognised in the UK for providing audit training and supervision of audit services meet the requirements of the UK's Companies Act 2006 (the Act). The Act requires these bodies to set and maintain standards of training and examinations for individuals qualifying as Auditors. Any strengthening of international standards which seek to raise audit quality at proportionate cost is welcomed by the Oversight Board.
8. We hope our response is helpful and ask the IAESB to publish it alongside other responses. If you would like further clarification on the points raised by us, please contact Paul George on +44 (0) 207 492 2340.

Yours sincerely



Paul George
Director of Auditing

Examples of inconsistent use of terminology between standards

The Oversight Board believes that elimination of inconsistencies would encourage uniform adoption and more effective compliance with standards. Any work to develop IES8 should be closely linked to the requirements of other existing standards such as the ISAs. For this to be possible, the IAESB should work closely with the IAASB.

A brief review of relevant standards highlights some of the complexities in ensuring a consistent approach:

- ISA 220 para 14 refers to 'competence and capabilities'. Does IES8 deal with both or, if not, what is the distinction between the two? A11 provides a list of the areas in which 'competence and capabilities' are needed but is this complete?
- ISQC1 also talks about 'competence and capabilities' but Application note 25 only provides guidance on how 'competence' may be developed. There is no mention of where the 'capabilities' come from. ISQC1 could be developed to require firms to develop both 'competence' and 'capabilities' through mentoring programmes.
- ISA600 para 19 refers to 'professional competence'. Is this somehow different from 'competence and capabilities'. Application note 36 provides limited guidance - basically understanding standards (accounting and auditing) and special skills - whatever they may be.