

June 15, 2010

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By E-mail: edcomments@ifac.org

Dear Mark,

Re.: Consultation Paper “A Consultation Paper on the Revision of International Education Standard 8: Competence Requirements for Audit Professionals”

We would like to thank you for the opportunity to provide the International Accounting Education Standards Board (IAESB) with our comments on the Consultation Paper “A Consultation Paper on the Revision of International Education Standard 8: Competence Requirements for Audit Professionals”. Hereinafter, we will refer to the Consultation Paper as “the Paper” and to extant International Education Standard 8 as “IES 8”.

We welcome the redrafting of IES 8 using the “clarity format” developed by the IAASB because it has been shown that this format provides additional clarity to users of standards about the objectives and requirements of standards and delineates these from additional guidance. We also find favor with the objective to make IES 8 consistent with the other IESs.

IES 8 relates to an area of practice – the qualification of auditors – that is regulated in most jurisdictions. Consequently, there are issues arising in relation to the interaction between any requirements in IES 8 and national and European

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page 2/7 to the comment letter to the IAESB dated June 15, 2010

qualification requirements for auditors. Furthermore, the requirements in IES 8 also interact with the quality control requirements for the performance of audits prescribed by the IAASB in ISA 220. For these reasons, the scope and requirements of IES 8 need to be considered carefully.

In this context, we have chosen to answer each of the questions posed by the IAESB in the Paper in turn.

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

We do not believe that the IAESB has identified all of the critical issues related to whom the IES 8 requirements are aimed. The roles and responsibilities of different parties (governments, regulators, professional bodies, academic institutions, firms, etc.) involved in educating audit professionals vary greatly by country and we do not believe it to be possible for IES 8 to provide requirements on guidance on how these responsibilities can, or ought to be, shared. For this reason, the IES 8 requirements are ultimately aimed at “the qualification” by defining the competencies and capabilities needed to be an audit professional, but not by specifying how or where these competencies and capabilities ought to be obtained other than to specify the need for formal assessment and practical experience. What matters is the “content” of the qualification at the end of the qualification process – not the means by which that “content” is obtained. This means that IES 8 – like all of the IESs – is ultimately aimed at all of the parties in a country that share the responsibility for the education of the audit professional qualification in that jurisdiction.

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?

The current definition of “audit professional” in IES 8 is restricted to “professional accountants”, who are defined as “a person who is a member of an IFAC member body.” Since only Wirtschaftsprüfer [German public auditors] are members of both the Institut der Wirtschaftsprüfer (IDW) and the Wirtschaftsprüferkammer (WPK) in Germany, only Wirtschaftsprüfer are affected by this definition and as a rule all Wirtschaftsprüfer are public practitioners with a license to perform audits of financial statements as engagement partners (or sole practitioners, as the case may be). Consequently,

page 3/7 to the comment letter to the IAESB dated June 15, 2010

solely due to the restriction of the scope of the definition of “audit professional” to “professional accountants”, the rest of the definition of “audit professional” has no impact on the scope of those persons affected by the definition in Germany. For this reason, as long as the definition of “audit professional” is restricted to “professional accountants” and the definition of “professional accountant” remains unchanged, expanding or constricting the scope of the rest of the definition of “audit professional” would have no impact in Germany.

However, we are aware that IFAC is currently undertaking a project to examine whether the definition of “professional accountant” is appropriate and to develop an alternative definition that would be used across all IFAC standards setting bodies, including the IAASB and the IAESB. For certain reasons, the IAASB is also considering whether to delink the definition of “practitioner” in ISAE 3000 from that of a “professional accountant”.

If the definition of “professional accountant” were to be broadened beyond members of IFAC member bodies or the definition of “audit professional” delinked from the definition of “professional accountant”, or both, the second part of the definition of “audit professional” becomes critical to the scope of those affected by IES 8. In this case, expanding the “audit professional” definition would cause it to affect professional staff on the audit engagement team. In this case, soft criteria in the definition, such as “significant judgments”, level of experience, complexity and nature of an audit engagement, etc., would make the definition effectively inoperable because it would be impossible to determine compliance with IES 8. Vague terms and definitions do not constitute “principles-based” requirements – they are just vague.

Consequently, the suggestion to expand the definition of “audit professional” causes us great concern and we therefore would not support such an approach.

We are not aware of any jurisdictions that regulate the qualifications of professional staff on an audit engagement team: only the qualifications of the engagement partner that takes responsibility for the audit engagement (and signs the auditor’s report) are regulated.

Likewise, the definitions in ISA 220.07 only closely define the characteristics of partners, engagement partners, engagement quality control reviewers, and suitably qualified external persons. The definitions of engagement quality control reviewers and suitably qualified external persons are not related to the *performance* of audits and are therefore not relevant. ISA 220.07 does not define the characteristics of staff other than to explain that they are professionals (not necessarily professional accountants) employed by the firm. ISA 220.14 requires the engagement partner to be satisfied that that the

page 4/7 to the comment letter to the IAESB dated June 15, 2010

members of the engagement team collectively have the appropriate competence and capabilities to perform audit engagements. Consequently, ISA 220 does not prescribe what the qualifications of individual members of the engagement team other than the engagement partner ought to be.

Consequently, it is apparent that regulators in those jurisdictions that regulate the qualifications of auditors have chosen to regulate, and the IAASB has chosen to define, the qualifications or characteristics of audit engagement partners – not the individual qualifications of other engagement team members. We believe that both regulators and the IAASB have chosen not to regulate the qualification of individual team members because it is the responsibility of the engagement partner to be satisfied that the engagement team is collectively competent to perform the audit engagement, and it is therefore not practicable to regulate the qualifications of engagement team members other than the engagement partner. For this reason, we believe that IES 8 ought to be directed at defining education requirements for audit engagement partners as defined in ISA 220 – not at defining educational qualifications for other audit staff on the audit engagement team.

Hence, we believe that the definition of “audit professional” ought to be narrowed to cover only audit engagement partners. This approach would prevent any expansion of the term “professional accountant” or delinking of the term “audit professional” from the term “professional accountant” from inadvertently causing IES 8 to create requirements that affect individuals (professional staff) that are not regulated in ISA 220 or in national or European qualification requirements. Furthermore, restricting the definition to audit engagement partners as defined in ISA 220 would ease the determination of compliance with IES 8.

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?

In line with our responses to Question B, we believe that a revision of IES 8 as we have proposed would eliminate the need to consider the use of the term significant judgment. Nevertheless, we would like to provide you with the advice that the IAASB considered whether the term “significant judgment” ought to be defined (in particular, in ISA 230, among other standards) and decided that it was too difficult to define in a way that would not lead to counterproductive results. We therefore advise the IAESB not to attempt to try to define such a

page 5/7 to the comment letter to the IAESB dated June 15, 2010

term without having consulted the IAASB, but would prefer not to need to define the term in the first place.

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?

As noted in our response to A, since educational paths, structures, and responsibilities among relevant stakeholders, in relation to the qualification of professional accountants or licensed auditors in different jurisdictions, vary considerably, we do not believe that it will be possible to provide useful requirements or guidance in relation to shared responsibilities among the stakeholder groups mentioned. We therefore recommend that other than stating that such a shared responsibility exists in varying degrees, the IAESB refrain from providing requirements or guidance in this matter.

E. In considering the question of “advanced level” competencies, 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?

We agree that “advanced level” competencies require further definition of clarification. We do believe that reference should not be made to “best practices” because it is unclear what these actually mean from an educational point of view. In this respect it may be helpful to use the distinction applied in the Common Content Project between competencies at a specialist level, competencies at a professional level, competencies at a technical level, and competencies at a generalist level (which would be greater than the competency of a layperson). With respect to types of competencies, we suggest that the IAESB draw upon the professional skills framework developed by the Common Content Project.

F. How would you guide the IAESB during its consideration of appropriate types and level of competencies

Please refer to our response in E.

page 6/7 to the comment letter to the IAESB dated June 15, 2010

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

We do not believe that it would be appropriate for the IAESB to address competencies for different audit engagements because there are numerable different kinds of audit engagements for which the IAESB would need to consider addressing. For this reason, the IAESB ought to address the competencies required for (i.e., that are common to) all kinds of audit engagements. We would therefore not support the example of transnational or “specialized” (whatever that means, since there are different specializations) audit engagements. The competencies for special engagements ought to be obtained by means of continuing professional development – not defined by IES 8.

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

We believe that the IAESB needs to ensure that its definitions and requirements are consistent with the requirements in the IESBA Code of Ethics and IAASB pronouncements. This does not appear to be the case at the present time.

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

We agree with the overall approach to eliminating inconsistencies.

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?

The reliability and credibility of financial statements depends in the first instance on the competencies of preparers and only in the second instance on the competencies of auditors. We therefore believe that the IAESB needs to consider to what extent the competencies in relation to accounting and financial reporting and IT required for audit professionals are also required for professional accountants responsible for preparing financial statements. This implies that the IAESB needs to consider whether standard on competencies for such professional accountants may be desirable.

page 7/7 to the comment letter to the IAESB dated June 15, 2010

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

As noted in our answer to B, the IAESB needs to be careful that its standards can be implemented and whether determining compliance with those standards is practicable. This applies particularly to IES 8, since it appears that it is possible to regulate only the qualifications of engagement partners and not other members of the engagement team.

We would be pleased to provide you with further information if you have any additional questions about our response and would be pleased to be able to discuss our views with you.

Yours truly,

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541/584