

# EDUCATION OF STATUTORY AUDITORS

*A Position of the Fédération des Experts Comptables Européens (FEE)*

25 May 2004

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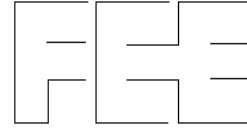
## *1. Introduction*

The Eighth Company Law Directive of 10 April 1984 on the approval of persons responsible for carrying out the statutory audit of accounting documents defines the conditions of education and training required to be approved and registered as a statutory auditor in an EU Member State.

FEE published in December 2002 a comparative study on the admission to the profession of accountant and auditor, demonstrating that the impact of the Eighth Directive was important: fundamental requirements to be admitted to the profession of accountant and auditor are largely convergent in Europe.

FEE has considered the European Commission's communication of 15 May 2003 on Reinforcing the Statutory Audit in the EU, the European Commission indicating:

*To ensure the continued relevance of the educational requirements, the contents of the curriculum should be assessed against relevant developments in business practice and financial reporting (e.g. the IAS Regulation), taking account of international research and developments. Such an assessment should draw upon international education guidelines such as IFAC's International Education Standards for Professional Accountants.*



There are very good reasons to believe that the existing Eighth Directive should be reviewed and substantially amended. The main reasons are:

- a) To fully recognise the substantial changes that have taken place since the Directive was originally drafted in ethical, financial reporting and auditing standards;
- b) To take full account of the convergence in these ethical, financial reporting and auditing standards and ensure that the Directive is robust in the light of any future changes
- c) To take full account of the new education standards issued by the International Federation of Accountants and reflect the approach to curriculum content adopted by most professional bodies with a focus on the ability to perform the task and the roles expected of a statutory auditor rather than simply a list of topics. As mentioned in the Introduction to International Education Standards of IFAC (paragraph 15), “increased emphasis needs to be placed on a set of professional knowledge, professional skills, and professional values, ethics and attitudes broad enough to enable adaptation to constant change”.

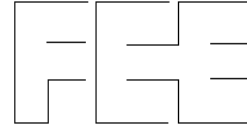
FEE also considers that the Directive should indicate more clearly that the professional training of auditors should be at a high level with significant parts of it at second-degree level defined along the lines approved in the Bologna Agreement. [See appendix A]

The European Commission approved on 16 March 2004 a proposed Directive on Statutory Audit of Annual Accounts and Consolidated Accounts. Articles 6 to 12 of the proposed Directive do not modify substantially the existing provisions of the Eighth Directive. In particular, Article 7 (as the existing Article 5) does not address the competences which are necessary to ensure that the statutory auditor will be highly qualified to carry his tasks in the public interest. Article 8 is slightly amended to include new subjects but it also maintains the presentation of the present Directive.

FEE welcomes Article 13 of the proposal which requires continuous education so that approved persons remain competent to carry out statutory audit after they have passed the initial assessment of professional competence.

The FEE Council, on the proposal of its Education Subgroup, proposes the following changes to the text of the proposal for a Directive on Statutory Audit of Annual Accounts and Consolidated Accounts presented by the European Commission on 16 March 2004.

The objective of the amendments proposed is to improve the education of statutory auditors. Audit quality first starts with a high quality education of auditors. Consequently, the European Union needs to carefully consider the competences which are expected from statutory auditors to perform high quality audits in the public interest.



## ***2. Proposed Revisions to Articles 6 to 10***

### *Article 6*

A natural person may be approved to carry out statutory audits of the documents referred to in Article 1(1) only after having attained university entrance level, then completed a course of theoretical learning, undergone practical training and passed an assessment of professional competence and skills organised or recognised by the Member State. The learning and assessment must be at a level at least equivalent to a three-year university first degree; significant parts of the learning and assessment will be at second-degree level i.e. equivalent to more than a three-year university first degree. [*see Notes 1 and 2*]

Member States shall ensure that such approved persons also demonstrate the maintenance of these competences and skills through continuous professional development.

The further specification of these requirements is set out in Articles 7, 8, 9 and 10.

### *Article 7*

The natural person approved to carry out statutory audits should be able to carry out a statutory audit of company or consolidated accounts according to laws, regulations and standards that are relevant to that audit.

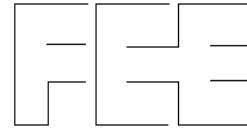
The assessment of professional competence and skills referred to in Article 6 should evaluate the ability of the person being assessed to

- plan, perform and report on an audit of company or consolidated accounts in conformity with relevant laws, regulations, standards and professional codes of ethics
- understand how to account for transactions and other events in both legal entity and consolidated accounts of business enterprises according to relevant laws, regulations and standards
- understand the legal, taxation and business environment in which firms operate
- understand those aspects of strategic and business management, particularly financial management and information technology that are relevant to the audit of the company or consolidated accounts
- understand the processes, systems and controls of the business to the extent required to assess risks to the business and to the audit.

### *Article 8*

The assessment should evaluate the ability of the person being assessed to

- apply relevant theoretical knowledge in practice and integrate knowledge and experience
- exercise the skills of analysis, evaluation, professional judgement and professional scepticism
- act in the public interest in accordance with relevant professional codes of ethics [*see note 3*].



A significant part of the assessment must be written (including computer based).

It should ensure that the person being assessed has knowledge sufficient for the performance of an audit in the areas of

**Audit**

- assurance engagement concepts, processes and management
- international standards and national laws, regulations and standards relating to the statutory auditing of accounting documents and to those carrying out such audits
- analysis and critical assessment of financial statements

**Accounting and financial reporting**

- financial accounting and reporting
- management accounting
- management control
- international standards and national laws, regulations and standards appropriate to the preparation of company and consolidated financial statements and to methods of valuing balance sheet items, of computing profits and losses, reporting cash flows and changes in equity.

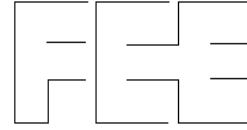
**The legal, taxation and business environment**

- business and commercial law, civil law, the law of insolvency and similar procedures, and the fundamentals of the laws governing capital markets and employment
- business valuations
- taxation and its impact on financial and management decisions
- information technology
- business systems and controls
- organisational and business knowledge including
  - general and financial economics
  - corporate governance
  - management science (including quantitative methods)
  - organisational behaviour
  - financial management
  - international business and globalisation

A substantial part of the knowledge in the areas of audit and accounting and financial reporting must be at second-degree level. The other parts will be at a level at least equivalent to a three-year university degree.

*Article 9*

1. By way of derogation from Articles 7 and 8, a Member State may provide that a person who has passed university or equivalent assessments or holds a university degree or equivalent qualification in one or more of the subjects referred to in Article 8 may be exempted from the assessment of theoretical knowledge in the subjects covered by those assessments or degree.
2. By way of derogation from Article 7, a Member State may provide that a holder of a university degree or equivalent qualification in one or more of the subjects referred to in Article 8 may be exempted from the assessment of the ability to apply in practice his theoretical knowledge of such subjects when he has received practical training in them attested by assessments or a diploma recognized by the State.

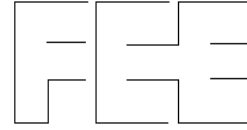


### *Article 10*

1. In order to ensure the ability to apply theoretical knowledge in practice, a test of which is included in the assessment, a trainee must complete a minimum of three years' practical training in *inter alia* the auditing of annual accounts, consolidated accounts or similar financial statements. At least two-thirds of such practical training must be completed under a person approved under the law of the Member State in accordance with this Directive ; the Member State may, however, permit practical training to be carried out under a person approved by the law of another Member State in accordance with this Directive.
2. Member States shall ensure that all training is carried out under persons providing adequate guarantees regarding training.

### **3. Notes and other suggested changes**

1. We believe that the Bologna Declaration of European Education Ministers of June 1999 will influence the structure of education in practice, in most Member States. As pointed out in the appendix to this position paper, one of the elements of the Bologna agreement is that the first level of university degrees (bachelor degrees) should cover a period of three years. Article 6 as proposed in this position paper argue that a substantial part of statutory auditors' education should be at second-degree level, which means that the bachelor degree would not be sufficient in itself. A substantial part of the learning and assessment should be at second-degree level.
2. The present Directive refers throughout to an "examination of professional competence". We believe the word "examination" should be replaced by "assessment", since bodies may choose to assess people in a variety of ways, and particularly since we have added skills to the list of requisites above. This change also helps in the interpretation of Article 9 paragraph 2.
3. Section III of the Directive deals with integrity and independence and so may need to be amended given the inclusion of ethics in the revised Article 8.
4. We think present Articles 9 and 10 are satisfactory as they stand, subject to changing "examination" and "test" to "assessment" as per Note 2.



## **APPENDIX A : The Bologna-Process**

On 19 June 1999, 29 European Ministers in charge of higher education signed in Bologna the Declaration establishing the European Area of higher education by 2010 and promoting the European system of higher education worldwide. On 19 May 2001, the Ministers confirmed in their meeting in Prague that the key points of this process include:

- Simplifying the patchwork of higher education qualifications
- Improving mobility within Europe
- Ensuring high standards

Ministers noted in their Prague Declaration that the objective of a degree structure based on two main cycles, articulating higher education in undergraduate and graduate studies has been tackled and discussed. They added, “It is important to note that in many countries bachelor’s and master’s degrees or comparable two-cycle degrees can be obtained at universities as well as at other higher education institutions”. FEE believes that professional bodies can also play an important role in providing higher education at second-degree level.

Ministers responsible for Higher Education held another meeting in Berlin on 19 September 2003. Their declaration includes a clear commitment to implementing a degree structure based on two main cycles:

*Ministers are pleased to note that, following their commitment in the Bologna Declaration to the two-cycle system, a comprehensive restructuring of the European landscape of higher education is now under way. All Ministers commit themselves to having started the implementation of the two-cycle system by 2005.*

*Ministers underline the importance of consolidating the process made, and of improving understanding and acceptance of the new qualifications through reinforcing dialogue within institutions and between institutions and employers.*

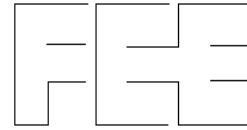
*Ministers encourage the Member States to elaborate a framework of comparable and compatible qualifications for their higher education systems, which should seek to describe qualifications in terms of workload, level, learning outcomes, competences and profile. They also undertake to elaborate an overarching framework of qualifications for the European Higher Education Area.*

*Within such frameworks, degrees should have different defined outcomes. First and second cycle degrees should have different orientations and various profiles in order to accommodate a diversity of individual, academic and labour market needs. First cycle degrees should give access, in the sense of the Lisbon Recognition Convention, to second cycle programmes. Second cycle degrees should give access to doctoral studies.*

### **Interpretation of the existing eighth Directive**

Against the background of the new system, the modernised Eighth Directive should at least clarify the meaning of “an examination of professional competence of university, final examination level”. There is clearly a possibility that a Member State could interpret this requirement in such a manner that a bachelor degree (end of first cycle – 3 years) would be a university final examination level. Such an interpretation would create a problem in Member States which already made it clear that a bachelor degree would not be acceptable because it is lower than what is currently required. This would inevitably create problems of equivalence of qualifications and could become a barrier in the free movement of statutory auditors.

The proposal made by FEE to revise Article 4 aims at clarifying this important issue which could be created by the implementation of the Bologna process. The words “final examination level” in the



existing Directive implies that significant parts of the learning and assessment will be at second-degree level, i.e. equivalent to more than a three-year university first degree against the background of the Bologna process. Other approaches could be analysed as a decrease of the existing requirements.

*The Fédération des Experts Comptables Européens (FEE) is the representative organisation for the accountancy profession in Europe. FEE's membership consists of 41 professional institutes of accountants from 29 countries. FEE member bodies represent more than 500,000 accountants in Europe. Roughly 45% of these accountants work in public practice, providing a wide range of services to clients. The other 55% work in various capacities in industry, commerce, government and education.*

*<http://www.fee.be/>*