

6 December 2010

Michel Barnier
European Commissioner for Internal Market and Services
European Commission
BERL 10/034
B - 1049 Brussels

By E-mail: markt-greenpaper-audit@ec.europa.eu

Dear Commissioner Barnier

Re: Response to the European Commission's Green Paper "Audit Policy: Lessons from the Crisis"

As chair and secretary of the Steering Group of the Common Content Project, on behalf of the Steering Group, we would like to thank you for the opportunity to respond to the European Commission's Green Paper "Audit Policy: Lessons from the Crisis".

What is the Common Content Project?

The Common Content Project is a collaboration between premier accountancy bodies to develop, maintain and unify high quality professional accountancy education benchmarks, reflected in the distinct qualifications of these bodies and recognised internationally, as meeting the challenges posed by globalisation and the needs of diverse stakeholders. This objective of Common Content encompasses developing, maintaining and unifying those education benchmarks for auditors of financial statements, including statutory auditors, in the EU and worldwide.

Currently, nine leading accountancy bodies from six major EU member states are members of Common Content:

France	Compagnie Nationale des Commissaire aux Comptes (CNCC) Ordre des Experts-Comptables (OEC)
Germany	Wirtschaftsprüferkammer (WPK) Institut der Wirtschaftsprüfer (IDW)
Ireland	Chartered Accountants Ireland (CAI)
Italy	Consiglio Nazionale dei Dottori commercialisti e degli Esperti contabili (CNDCEC)

The Netherlands Koninklijk Nederlands Instituut van Registeraccountants (NIVRA)
United Kingdom Institute of Chartered Accountants in England and Wales (ICAEW)
 Institute of Chartered Accountants of Scotland (ICAS)

Common Content seeks to internationalise and harmonise the high quality educational outcomes for relevant skills of professional accountants, including statutory auditors, that are subject to globalisation and changing public expectations, while retaining the strength of local educational structures, qualifications and designations. Participation in the Project is currently open to any accountancy body, within or outside of the EU, that shares these goals and has a reasonable likelihood of meeting Common Content requirements.

The Importance of Education and Training of Statutory Auditors

We note the fundamental issues raised in the Green Paper in relation to statutory audits of financial statements performed in the EU. From the Paper, it is apparent to us that the Commission has a keen interest in the quality of statutory audits in the EU (Questions 3 to 12 in the Green Paper), in facilitating the operation of the internal market in the EU for such audits by improving auditor mobility (Question 33 in the Green Paper), and in audit market concentration (Section 5 of the Green Paper). We believe that the single most important factor in the quality of audits is the quality of the statutory auditor, which depends, in the first instance, to a significant extent upon the auditor's education and training. One of the most important factors affecting the mobility of auditors within the EU is the degree of harmonisation of their education and training.

However, in the Green Paper, the content of education and training of auditors was only generally alluded to in relation to "maximum harmonisation" with a "European passport" for auditors, and the creation of a European-wide registration of statutory auditors with common professional qualification requirements (Question 34 of the Green Paper). The Green Paper does not appear to specifically address:

- the relevance of education and training to the performance of high quality audits,
- the need to harmonise education and training to effectively increase mobility, and
- the need to continue to maintain high standards in the education and training of statutory auditors of small and medium-sized firms to hinder further market concentration.

We are writing this letter to you to make you aware of the real progress that has been made through the Common Content Project in developing high quality benchmarks for the education and training of statutory auditors, harmonising professional qualification requirements for statutory auditors in the EU among the participating accountancy bodies within the major EU member states, and ensuring that the education and training for all of these statutory auditors is of equivalent quality.

The letter is therefore divided into two sections. The first section explains how the development of high quality benchmarks for the education and training of statutory auditors through the Common Content Project helps address some of the issues raised by the Commission in the Green Paper. The second section explains in greater detail how the Common Content Project is organised, how its high quality qualification benchmarks are structured, and what the advantages and challenges of the Project are.

Issues Relevant to Common Content in the Green Paper

The Quality of Audits and the Role of Statutory Audits

Question 3 of the Green Paper asks whether the level of audit quality could be further enhanced. This is augmented by a further discussion in Section 2 on having audit opinions focus on “substance over form”. Question 6 in the Green Paper also emphasises the exercise of professional scepticism by statutory auditors.

The ability of statutory auditors to evaluate substance, rather than form, and to exercise professional scepticism, is dependent upon their ability to exercise reasoned professional judgment. A prerequisite for the ability to exercise such judgment is the quality of the education and training of the statutory auditor. In particular, not only is an auditor required to possess considerable education and training in financial reporting and auditing, but the auditor must also be in a position to understand the business strategy and financial and management practices of the entity being audited to understand the business rationale of management decisions underlying the transactions and events that financial statements present. For this reason, in addition to requiring considerable competencies in auditing and financial reporting, Common Content emphasises learning outcomes and related knowledge in such areas as strategic and business management, and financial management.

The ability to exercise professional judgment and professional scepticism is also dependent upon the interdisciplinary and other professional skills of auditors, such as cognitive skills (analytical and appreciative skills), behavioural skills (personal skills, interpersonal skills, and organisational skills), integrated and multidisciplinary skills and professional ethics, values and attitudes. Common Content underlines the importance of these professional skills in its Skills Framework. The approach to skills requirements builds on the International Education Standards (IES) 1-8 issued by the International Accounting Education Standards Board.

Hence, the Common Content Project emphasises those aspects of education and training of statutory auditors that are central to audit quality.

The further discussion on audit quality in Section 2.1 of the Green Paper and Questions 8 to 12 thereafter addresses whether the scope or role of audits of financial statements ought to be broadened in some way. Issues addressed include whether there should be auditor involvement or reporting in such areas as the appreciation of elements of internal control, company exposure to future risks (including risks to intellectual property and intangible assets), future development and risks facing the company, corporate social and environmental responsibility (integrated reporting), and assessment of forward looking financial information.

Without taking any position in this letter on whether auditor involvement or reporting in these areas is desirable or possible, given the current legal and technical environment in different EU member states, we would like to point out that an important factor in auditors' ability to address, or report in relation to, these issues will depend upon auditor education and training. Required Common Content learning outcomes and related knowledge for strategic and business management, financial management, and performance measurement and reporting specifically address internal control, risk management, compliance management, sustainability reporting, and prospective financial information. Furthermore, the required

learning outcomes and related knowledge for assurance and related services deal with potential services that could be provided in these areas. The Common Content Skills Framework also supports the ability of an auditor to work in evolving business and reporting areas by emphasising the integration of skills and knowledge, based on the requirements of IES 3 and IES 8 in relation to professional skills.

Market Concentration

One of the major concerns of the Commission expressed in Section 5 of the Green Paper is concentration in the audit market. In particular, in Question 30 the Commission addressed the difficulty in overcoming the “big four is best” bias. This bias may involve unsupported user perceptions of differential audit quality between the large versus the small and medium-sized audit firms. Since audit quality depends primarily on auditor education and training, ensuring that there is a more or less “level playing field” in terms of education and training for statutory auditors is a key means for ensuring a consistently high level of audit quality between large versus small and medium-sized audit firms and therefore, in the long run, in combating user perceptions about differential quality and hence the “big four is best” bias.

The Common Content Project sets a high educational benchmark for the education of statutory auditors that applies to qualifications of participating accountancy bodies regardless of jurisdiction or the size of firm. Consequently, Common Content contributes to the maintenance of a level playing field for the education and training of auditors.

Facilitation of the European Market, including the Mobility of Auditors

Section 6 and Questions 33 and 34 of the Green Paper seek the creation of a genuine single market for the provision of audit services based on enhanced harmonisation of rules and the creation of a “European Passport” for auditors allowing them to provide services on an EU wide basis. The Green Paper then mentions supposed barriers to integration of the audit market and the cross-border mobility of audit professionals, including

- National approval and registration
- The aptitude test.

These provisions in the Directives are considered by the Green Paper as barriers to the operation of cross-border firms, especially smaller and medium-sized firms.

A single market for the provision of audit services within the EU depends upon harmonising not only accounting standards, auditing standards, quality control standards, ethical (including independence) requirements, but also the harmonisation of business law (in particular company law) and tax law. Since all companies within the EU requiring a statutory audit are subject to national company law, it is the national laws and standards that apply. The difference between statutory auditors and other professions, such as lawyers, in this respect is the fact that for other professions, clients are able to choose those that provide professional services themselves (e.g., a client can choose a lawyer to represent them or for legal advice) and must bear the risk of an inappropriate choice alone. Users of financial statements, on the other hand, depend on the company (i.e., shareholders, those charged with governance or management) to choose the auditor upon whose audit report those users rely. There is therefore a public interest dimension to ensuring that statutory auditors are competent in national law and standards that does not exist for other professions. For this reason, the prerequisites for a “European passport” permitting auditors to provide audit services on an EU-wide basis have not yet been achieved.

The member bodies of the Common Content Project have considered what the real barriers to cross-border mobility are and have consulted with the audit firms in their jurisdictions on this matter. In our view, the primary barriers to cross-border mobility are:

- The language barrier
- Personal and social issues related to personal taxation, healthcare benefits, pension plans, career development and culture
- Lack of complete harmonisation of accounting standards, auditing standards, quality control standards, and ethical (including independence) requirements,
- Lack of harmonisation of business law, tax law and business customs and practices
- Lack of knowledge about national qualification programs and effective lack of harmonisation of the content of those programs for those areas that are common to some degree (e.g., IFRS, auditing standards based on ISAs, quality control standards based on ISQC 1, etc.)
- Difficulties in contacting, or in obtaining certified copies of documentation from, some jurisdictions to prove status as a qualified statutory auditor

Despite these barriers, the larger firms regularly move staff from one EU member state to another without significant difficulty, particularly when such staff deal with matters that have some degree of harmonisation (e.g., IFRS for listed entities). This is because the common policies and procedures (e.g., IFRS policies, auditing methodologies, quality control and independence policies and procedures) within the larger networks together with their in-house education and training of those common policies and procedures provide for a significant degree of standardisation of competencies among their staff. Large firms are also able to deal more easily with the personal and social issues affecting the mobility of individuals. National approval, registration and the aptitude test only become relevant in a few instances when such staff decide to stay in the new EU member state and therefore seeks to become “audit qualified” so that they can become the engagement partner that signs the audit report. Based on information received from the firms, these “barriers” are negligible to the cross-border mobility of staff.

In our view, it is the small and medium-sized firms and the looser cross-border alliances of such firms that are less likely to move staff from one EU member state to another, but not because of national approval, registration or the aptitude test. The real barriers are:

- the language and cultural barriers become more acute for the small and medium-sized entities served by small and medium-sized audit firms
- Personal and social issues related to personal taxation, healthcare benefits, pension plans, and cross-border career development are more difficult to overcome
- international standards (e.g., IFRS) are less relevant to small and medium-sized entities in some jurisdictions
- lack of a common benchmark for education and training for those matters that are common, which makes small and medium-sized firms less likely to seek staff from outside of their member state, or for staff to seek to move to another EU member state.

The Common Content Project cannot resolve all these barriers to mobility, but it can make a contribution to the amelioration of the lack of a common benchmark for education and training by focusing on content and enhancing the comparability of different national qualifications. At the same time, such a common benchmark must recognise that significant

parts of the education and training (national accounting law and standards, national ethical – including independence – requirements, national auditing law and standards) are not yet completely harmonised, and that business law, tax law, and national business practices and customs are not harmonised at all.

The auditing profession in different EU member states developed differently historically, and so, there are services that the profession traditionally provides in some EU member states but not in others or the emphasis placed within a service provided is different. Furthermore, the delivery systems for education, training, and assessment (examinations) are very different from one EU member state to another. The stage of development of the country, the sophistication of its education system and the proximity of the education system to the profession are all matters of difference. Hence, uniform professional qualification requirements for European-wide registration of auditors under the oversight of a single regulator at a European level cannot be established at an EU level in the near future. However, it is possible to establish improved comparability of auditor qualifications in the EU through increased harmonisation of educational content by means of Common Content.

The Common Content Project recognises both the similarities and differences needed in the education and training of statutory auditors by not seeking to unify educational and assessment structures and delivery systems, but to harmonise the educational content for those areas that are common (IFRS, ISAs, ISQC 1, IFAC Code of Ethics, management accounting, strategy and business management, financial management), and to only provide a framework for those areas that are national in content (national accounting law and standards, national auditing and ethical requirements, business law, tax law, etc.). This system allows optimal harmonisation without losing the strengths of the national qualifications, which is entirely in line with the principal of subsidiarity of the European Union.

The Common Content Project

The Common Content Project is governed by a Constitution, which stipulates that an accountancy body shall be considered for membership as a Participating Institute only if its entry-level professional qualification:

- meets or exceeds relevant national and international requirements for professional accountants;
- meets or exceeds examination requirements at national, EU and international levels for statutory auditors of financial statements;
- meets or exceeds IAESB International Education Standards 1-8;
- requires integrity and a commitment to the public interest;
- requires compliance with the highest ethical standards including the IESBA Code of Ethics for Professional Accountants;
- requires holders of its qualification to meet or exceed national, EU and IFAC requirements for continuing professional development; and
- meets the criteria for membership established by the Steering Group.

Members are obligated to implement Common Content requirements in their qualifications. The Project is governed by a Steering Group with one member per accountancy body (if two

accountancy bodies represent the same profession, they have two members with one collective vote). A simple majority is required for decisions, but changes to the Constitution or education requirements require a three-quarters majority. In practice, consensus is achieved.

Overarching educational requirements are set forth in the document “Qualification Requirements”. The detailed educational requirements are set forth in the documents “Learning Outcomes and Knowledge” and the “Skills Framework”. The Learning Outcomes and Knowledge document covers the professional and other knowledge needed to achieve the learning outcomes (professional values and ethics, law, information technology, and business environment, economics and quantitative methods). The learning outcomes are divided into the five service areas of professional accountants (assurance and related services – which include audits of financial statements, performance measurement and reporting – which include financial reporting, strategic and business management, financial management, and tax and legal services). The required knowledge, and knowledge level, are set forth for each learning outcome. Required professional skills are defined in the Skills Framework document.

The Common Content Project has a functioning compliance system under the oversight of an Oversight Committee that is independently chaired by M. Jules Muis, former Director General of the Internal Audit Service of the European Commission. The compliance system is described in the Compliance Manual. Under the Compliance Manual, each member body is required to perform a self-assessment of its compliance with Common Content requirements. This self assessment is then subject to independent review through a multinational review team drawn from outside of the jurisdiction of the reviewed body. The compliance process is overseen by the Oversight Committee of five members, two of which, including the chair, are independent of the member bodies. Once the Project has matured, it is the intention of the Steering Group to have the Oversight Committee composed of a majority of independent members.

A full self assessment and review process under the oversight of the Oversight Committee for all participating Institutes was undertaken in 2008-2009. This included the observation by the independent members of the Oversight Committee of selected review visits. The results of the review process indicated that all of the participating Institutes have met the requirements for continuing membership, but that more or less remedial action is required by the Institutes as applicable. The experience gained from the compliance process led to the revision of the Common Content educational requirements (including creating the distinction between requirements and guidance) and to strengthening the compliance process through a compliance manual.

For further information, the following documents in relation to Common Content can be found on the website of the Project (www.commoncontent.com):

- Organizational document
- Qualification requirements
- Learning Outcomes and Knowledge
- Skills Framework
- Compliance Manual

The primary barriers to new members to the Common Content Project from accountancy bodies from other EU member states and from other developed countries have been the following issues:

- The time involved in performing a self assessment
- the cost of a high quality review process
- The fact that there is no official pressure for harmonisation of education and training from regulators from within or outside of the EU
- For accountancy bodies from outside the EU, the fact that national regulators in EU member states and the EU do not have a harmonised system in place to provide credit for at least the common portion of the qualifications from outside the EU.

The Steering Group surmises that these issues would be surmountable if the European Commission were to view Common Content as a model for the harmonisation of the education and training of statutory auditors in the EU.

Summary

In summary, the advantages of the Common Content Project as a means of harmonising a high level of education and training of statutory auditors include:

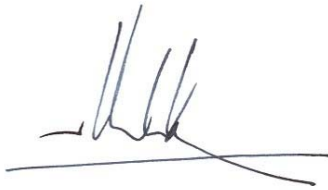
- it represents a common platform for harmonising education and training that recognises both the areas that are common and the areas that need to be different in national qualifications under application of the principle of subsidiarity, but is not a uniform qualification with uniform educational delivery systems
- the common content portion of the Project provides detailed requirements and guidance on those areas that are common (e.g. IFRS, ISAs, etc.)
- the national content portion of the Project provides a framework for considering what is national (e.g., law and tax) and provides a firm foundation for the aptitude test and therefore for portability of auditor qualifications within the EU
- the skills framework, which helps ensure that auditors are able to apply their competencies in practice and is important for the adaptability of education and training
- through its compliance system, it ensures real harmonisation – rather than just on paper
- through its oversight system with some independent members, there is assurance that the compliance system is applied fairly
- the educational requirements, compliance system, and oversight have been proven to work in practice through the application of compliance and oversight processes in 2008-2009
- the Project can serve as a model for the mutual recognition of audit professionals between the European Commission and countries from outside of the EU under comprehensive economic treaty and trade agreements

The by-products of the Project should not be overlooked. The Common Content Project fosters the cross-border exchange of views of those involved in the education and training of auditors in the EU – including academics, the profession, professional bodies and regulators – on such matters as educational programs and courses, examinations and training. Such cross-fertilisation helps improve the quality of education of auditors on an EU-wide basis to the benefit of all stakeholders.

The Steering Group of the Common Content Project believes that the Common Content Project is a model for the harmonisation of professional qualifications of statutory auditors within the EU and on a worldwide basis.

Together with other members of the Steering Group, we would be pleased to answer any further questions you may have and would be pleased to have the opportunity to visit your offices in Brussels, or to invite you, or one or more representatives of DG Market, to one of the cities in which our member bodies reside, to discuss the contribution that the Common Content Project can make to the quality of statutory audits in the EU and the facilitation of the European internal market for audit services.

Yours sincerely



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