

## FACT SHEET

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# COMMON CONTENT PROJECT POSITIONS ON EU PROPOSALS ON AUDIT POLICY IN RELATION TO EDUCATION

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### **Overall Issues**

The Common Content Project believes 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 proposals from the European Commission on audit quality related to education in the draft directive, the content of education and training of auditors is only generally alluded to in relation to the requirement that audit oversight authorities cooperate on the convergence of education for statutory auditors. The final proposals did not appear to specifically address:

- the relevance of education and training to the performance of high quality audits, 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.

The items below address particular Articles in the proposed Directive that could have been improved to further enhance auditor education to support high quality audits. Overall, the concerns of the Project related to the fact that the proposals in the Directive did not recognise what the profession has already achieved. Furthermore, the application of the "assessment" was unclear and the reference to a "list of subjects" would not be in line with the Professional Qualifications Directive, which speaks of "knowledge, skills and competencies".

The analysis below includes a short description of the final proposals resulting from the triologue in comparison to the position taken by Common Content. Overall, Common Content concerns had a major impact on the final triologue proposals.

## Proposed Article 3a of Directive

*“By derogation from Article 31 (1) of this Directive, a statutory auditor who is approved in a Member State shall be entitled to perform statutory audits in another Member State on a temporary or occasional basis. Articles 5 to 9 of Directive 2005/36/EC of the European Parliament and of the Council shall apply.”*

Common Content position:

- Unlike other professional services, statutory audits cannot be performed on a “temporary or occasional basis”: a company will not change its auditor every year.
- Unlike users of other professional services, users of audit services other than the company (shareholders / board / management) have no influence on the choice of auditor: they have an overriding interest in competence in “national content”.

*Final Trialogue Position:*

*Proposed Article 3a was deleted. Consequently, the critique of Common Content was taken into account.*

## Proposed Article 6 of Directive

*“The competent authorities referred to in Article 32 [national audit oversight authorities] shall cooperate in view of achieving a convergence of requirements set out in this Article [educational qualifications].*

*They shall involve the European Securities and Markets Authority (ESMA) and the competent authorities referred to in Article X of Regulation [XXX] of [XXX] in so far as such convergence relates to the statutory audit of public interest entities.”*

Common Content position:

- No consideration of harmonisation already achieved by the profession – bureaucrats reinventing a wheel they do not understand.
- See 2nd sentence of paragraph 3 of proposed Article 14!
- Involvement of ESMA counterproductive (neither SEC nor PCAOB involved in education), since audit of some PIEs not qualitatively different than that of others!

*Final Trialogue Position:*

*A sentence was added after the first sentence that states: “When engaging in such cooperation, these competent authorities shall take into account developments in auditing and the audit profession, and in particular, convergence that has already been achieved by the profession.”*

*This is in line with suggestions by Common Content. Furthermore, reference to ESMA in the new third sentence was replaced with a reference to the CEAOB (the European organisation of audit oversight bodies). Consequently, the critique of Common Content was taken into account.*

## Proposed Paragraph 3 of Article 8 of Directive

*“The competent authorities referred to in Article 32 [national audit oversight authorities] shall cooperate in view of achieving convergence of the requirements of the adaptation period and the aptitude test.*

*They shall enhance the transparency and predictability of requirements.*

*They shall involve ESMA and the competent authorities referred to in Article [XXX] Regulation [XXX] of [XXX] in so far as such convergence relates to statutory audits of public interest entities.”*

Common Content position:

Welcome 2nd sentence, but:

- involvement of ESMA counterproductive (neither SEC nor PCAOB involved in education), since audit of some PIEs not qualitatively different than that of others!

- no consideration of basis for harmonisation already achieved by the profession (framework for national content)

*Final Trialogue Position:*

*This paragraph was moved to Article 14 of the Directive. In line with Common Content suggestions, reference to ESMA in the new third sentence was replaced with a reference to the CEAOB (the European organisation of audit oversight bodies). Consequently, the critique of Common Content was taken into account, even if not in its entirety.*

## **Proposed Paragraph 2 of Article 14 of Directive**

*“Member States shall offer the applicant the choice between an adaptation period in point (g) of Article 3(1) of Directive 2005/36/EC and an aptitude test as defined in point (h) of that Article. ... The adaptation period shall not exceed three years and shall be subject to an assessment.”*

Common Content position:

- No test in national content required: effective elimination of concept of national content!
- Unlike users of other professional services, users of audit services other than the company (shareholders / board / management) have no influence on the choice of auditor: they have an overriding interest in competence in “national content”.
- What does the “assessment” of the adaptation period entail?
- Member State, rather than applicant option preferable.

*Final Trialogue Position:*

*In line with Common Content suggestions, the applicant choice was replaced with a member state option. National content is therefore preserved. Consequently, the critique of Common Content was taken into account.*

## **Proposed Paragraph 3 of Article 14 of Directive**

*“The Commission shall be empowered to adopt delegated acts in accordance with Article 48a for the purpose of adapting the list of subjects to be included in the test of theoretical knowledge referred to in paragraph 1 of this Article.*

*When using such powers, the Commission shall take into account developments in auditing and the audit profession.”*

Common Content position:

Welcome 2nd sentence, but:

- a list of subjects without learning outcomes and further specification of knowledge levels and skills will NOT lead to harmonisation, which is not in line with the Professional Qualifications Directive, which refers to “knowledge, skills and competencies”
- no mention of a common platform as envisaged by proposed Professional Qualifications Directive using learning outcomes to further harmonisation
- no mention of IES or of harmonisation already achieved in EU by private initiatives
- how does this relate to proposed Article 6?
- why is only theoretical knowledge being tested: what about competencies, skills and experience?

*Final Trialogue Position:*

*This proposal is not in the final trialogue position. Consequently, the critique of Common Content was taken into account.*

## **Proposed Article 32a of Directive**

*“Member States may allow the competent authority referred to in Article 32 [national audit oversight authorities] to delegate tasks to other authorities or bodies designated by law only as regards the approval and registration of statutory auditors and audit firms.”*

Common Content position:

- Education of statutory auditors is not within competence of national oversight authorities under Article 32.
- However, harmonisation of education would be within their competence under Articles 6, 8 and 14.
- No tasks with respect to harmonisation of education can be delegated!
- Implication: Educational requirements de facto responsibility of audit oversight authorities, not member states or others.
- Potential impact on universities, professional accountancy bodies and other providers of education.

*Final Trialogue Position:*

*This Article was completely rewritten to restrict the competent authority to oversight of various tasks. Consequently, the Common Content critique was taken into account.*