

**A Consultation Paper on the Revision of  
International Education Standard 8:  
Competence Requirements for Audit  
Professionals**



## REQUEST FOR COMMENTS

**The IAESB welcomes comments on the proposals in this Consultation Paper.** Please submit your comments, preferably by email, so that they will be received by **June 15, 2010**. All comments will be considered a matter of public record. Comments should be addressed to:

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

Email responses should be sent to: [edcomments@ifac.org](mailto:edcomments@ifac.org).

Copies of this consultation paper may be downloaded free-of-charge from the IFAC website at <http://www.ifac.org>.

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## **Introduction**

### **Purpose and Scope**

This Consultation Paper seeks views on a number of specific issues that require consideration in relation to the IAESB's planned revision of *International Education Standard (IES) 8: Competence Requirements for Audit Professionals*. These views will also inform the development of implementation guidance for this standard. This Consultation Paper also addresses the redrafting of IES 8 in line with the IAESB's *Framework for International Education Standards for Professional Accountants* (Framework) and *IAESB Drafting Conventions* (Drafting Conventions), which will likely result in:

- a revised structure that clearly sets out the objective of the IES, clarifies obligations imposed on member bodies, eliminates ambiguity about the requirements, and improves the explanation and guidance to support consistent application of IES 8's requirements; and
- an IES that is consistent with the other IESs, because it will be based on a common set of concepts relevant to the accounting education of professional accountants.

In addition, the IAESB is seeking commentary from third parties on:

- specific issues that may advance or impede the practical application of this IES; and
- the impact any changes to this IES would have on member bodies and other relevant stakeholders, for example, regulators or auditing firms and their constituencies.

The IAESB will consider the views expressed by respondents in determining a way forward that will best meet the needs of member bodies and key stakeholders such as: public accounting firms, regulators and employers.

## **Background Information for this Consultation Paper**

The IAESB's *2010-2012 Strategy and Work Plan* includes a requirement to revise all IESs, including *IES 8*. All IESs are expected to be revised by 2012, with the authority of the existing IESs continuing to apply until they have been revised and redrafted in accordance with the new Drafting Conventions.

The revision of the IESs was conceived following release of the IAESB's Framework and the Drafting Conventions in December 2009. During 2009 and early 2010, the IAESB started to develop a project scope, the requirements of which included:

- drafting a revision of IES 8 in line with the IAESB's Framework and Drafting Conventions;
- addressing issues of interpretation and application of IES 8 that were identified after its effective date of June 30, 2008.

### **Redrafting IES 8 in line with the Drafting Conventions**

The impact of the Drafting Conventions will lead to a redrafting of IES 8 to provide a clearer structure, with the ultimate aim of improving the consistent application, adoption, and international implementation of all IESs. This will lead to the specific requirement to redraft IES 8 using the following structure:

- (a) Introduction;
- (b) Objectives;
- (c) Requirements; and
- (d) Explanatory Materials.

Redrafting IES 8 in line with the Drafting Conventions should also lead to:

- (a) improved clarity of the obligations imposed on member bodies by IES 8, and of the language used to communicate those requirements;
- (b) elimination of possible ambiguities about IES 8 requirements; and
- (c) improvement in the explanation and guidance that supports consistent implementation of IES 8.

### **Specific Issues of IES 8 Implementation**

IES 8 became effective July 1, 2008. Since that date, and as part of the revision process of this IES, the IAESB has also considered a number of specific issues regarding the implementation of IES 8 identified by IAESB members, member bodies, and other stakeholders.

These specific issues include:

1. clarification of IES 8's target audience;
2. clarification of the knowledge and skills required to work as a competent audit professional, and clarification of advanced level competences required by the identified target audience; and
3. consistency of IES 8 with IES 1 – 7 and other relevant IFAC pronouncements.

## **Informational Resources for the IAESB**

The IAESB anticipates that this Paper will result in commentary and advice as part of its information-gathering process. The IAESB will analyze responses to this Paper to ensure that it is adopting an appropriate strategy for revising IES 8. The IAESB will also use this Paper to help identify specific areas or topics for discussion as part of a more targeted consultation process scheduled to take place from June to November 2010.

In addition, a number of informational resources will also be consulted, including:

- the Drafting Conventions;
- the Framework;
- commentary received during the original exposure period for IES 8;
- specific, practical application issues identified after IES 8's issuance;
- comments received on the IAESB's 2010-2012 Strategy and Work Plan, which supported an in-depth review and timely revision of IES 8;
- comments received from the Standards Working Group, comprised of several large audit firms, requesting greater guidance on the practical application of IES 8 for the audit profession;
- Directive 2006/43/EC on Statutory Audits of Annual and Consolidated Accounts; and
- relevant pronouncements from other IFAC Public Interest Activity Committees, as well as publications from regulators and other stakeholders.

Comments received following the issue of this Paper, as well as input gathered via targeted consultation, will be discussed by the IAESB; in addition, the IAESB Consultative Advisory Group (CAG) will be consulted. Any future Exposure Draft on the proposed revision of IES 8 will follow normal due process.

The IAESB views the revision and redrafting of IES 8 as a collaborative project that will be led by members of the IAESB, with input from a number of member bodies, regulators, other IFAC Boards, national standard setters, and auditing firms.

## **Request for Comments**

The IAESB welcomes comments on all matters addressed in this Paper. Comments are most useful when they include reasons for agreeing or disagreeing. If you disagree, please provide alternative proposals.

## **Comments on Specific Issues Identified by the IAESB**

The IAESB has identified three specific issue areas that will require consideration as part of any revision of IES 8. These are identified on pages 7-11 of this Consultation Paper. The IAESB particularly welcomes comment on each of these specific issues, as well as the IAESB proposals in respect of each area. A series of questions have been provided in respect of each specific issue, however respondents are welcome to provide the IAESB with responses that cover additional concerns.

### **Impact Analysis of IES 8 Revision**

Public consultation also represents an opportunity for the IAESB to obtain information for an impact analysis of proposed changes. In considering the impact of the IAESB proposals, the IAESB would welcome feedback from respondents in respect of:

- commentary on the specific three issues noted below, identifying any additional issues that should be addressed; and
- commentary on the potential impact on the member bodies and other stakeholders of any proposed changes to this IES. Commentary on impact can be thought of as a qualitative consultation of the benefits and costs associated with a proposed change.

## Specific Issues of IES 8 Implementation

### 1. Clarification of IES 8 target audience

IESs generally target member bodies, providing standards of accountancy education to be established for and maintained by their members, including the competences for professional accountants.<sup>1</sup> IES 8, however, states that: “The responsibility for the development and assessment of the required competence is shared by IFAC member bodies, audit organizations, regulatory authorities, and other third parties.” As this is the first IES that has not been addressed specifically to member bodies, there may be a need for the IES to expand on member body and other stakeholder responsibilities.

IES 8 also appears to focus on the competences of the individual professional accountant involved in the audit of historical financial information, without reference to overall team competences, as described in the International Standards on Auditing (ISAs). This inconsistency may further confuse the issue of exactly who is the intended audience of IES 8.

IES 8 also makes use of two significant definitions that may require additional clarification as they are applied to the audit of historical financial information:

- The term “Audit Professional” is currently defined in IES 8 as “...a professional accountant who has responsibility, or has been delegated responsibility, for significant judgments in an audit of historical financial information.” This definition can be interpreted to limit the target audience of IES 8 to more senior members of an engagement team. At the same time, IES 8 suggests (in paragraph 27) that audit professionals may need further development to progress through supervisory and managerial roles to acting as the engagement partner. Therefore, IES 8 is unclear who on the engagement team is intended or should be considered to be an “Audit Professional.”
- The current definition of an “Audit Professional” depends on what is meant by “significant judgments” and upon the definition of a “Professional Accountant,” a term that is not defined according to a set of competences held by an accountant, but rather by an accountant’s membership in an IFAC member body.

Therefore the IAESB will:

- recommend that IES 8 become a principles-based standard directed towards auditors of historical financial information.
- clarify who is an “Audit Professional,” and consider other criteria such as the relationship between an auditor’s level of experience, the complexity and nature of an audit engagement, the use of specialists, and the audit professional’s role during the engagement;
- revise the definition of an “Audit Professional.” In doing so, we will consider if “significant judgment” requires further definition as a required component of the definition of “Audit Professional,” or if there are other criteria that better define to whom the Standard applies; and

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<sup>1</sup> Framework for International Education Standards for Professional Accountants, section 7 notes: “The IAESB achieves its mission primarily by developing and publishing IESs and promoting the use of those standards through IFAC member bodies.”

- clarify how the shared responsibility among IFAC member bodies, audit organizations, regulatory authorities, and other third parties for developing audit professionals may be considered in practice.

#### Questions

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



**2. Clarification of the knowledge and skills required to work as a competent audit professional, and clarification of advanced level competences required by the identified target audience.**

IES 8 requirements for specific knowledge and skills to work as a competent audit professional are defined as an “advanced level” of competences, i.e., competences over and above those required of an audit professional, as identified in IES 1 to 5. “Advanced level” competences could include both technical accounting and auditing skills as well as non-technical skills, such as supervision and review, coaching and performance management, on-the-job training, and project management.

Within the current Standard, audit competences are defined relative to audit scenarios of increasing complexity. The choice of scenarios and competence requirements may require clarification. All audit professionals may require specific “advanced” knowledge and skills commensurate with the nature of the engagement. However IES 8 only defines specific competences required for audit professionals performing transnational audits and audits in specialized industries, but does not consider competency requirements for other types of entities, for example, large or small complex engagements at the national level.

Therefore the IAESB will:

- consider the definition of “advanced level” competences;
- consider whether the types of competences and degree of proficiency currently included in IES 8 for audit professionals are appropriate and consistent with experience levels; and
- consider whether the expansion of specific competences beyond those required in transnational audits and audits in specialized industries is necessary.

**Questions**

- E. **In considering the question of “advanced level” competences, 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?**
- F. **How would you guide the IAESB during its consideration of appropriate types and levels of competences?**
- G. **Do you believe that the IAESB should address competences for different types of audit engagements? If so, what types of audit engagement should the IAESB consider? Should these examples be limited to transnational and specialized engagements?**

### 3. Consistency of IES 8 with IESs 1–7 and other relevant IFAC pronouncements.

IES 8's references to activities and working practices required to be performed by an audit professional may be inconsistent with other IFAC standards, such as the recently released ISA 220,<sup>2</sup> ISA 600,<sup>3</sup> ISQC 1,<sup>4</sup> and the International Ethics Standards Board for Accountants (IESBA) Code of Ethics.<sup>5</sup>

For example, IES 8 states that the objective of setting competence requirements is to “ensure that professional accountants acquire and maintain the specific capabilities required to work as competent audit professionals.” Paragraph 29 of IES 8 states that before an individual takes on the role of an audit professional, member bodies shall require individuals to qualify as a professional accountant, hold an undergraduate degree or its equivalent and satisfy certain requirements relating to knowledge, skills, values, and practical experience. An “audit professional” is defined in paragraph 9 of IES 8 as a professional accountant who has responsibility, or has been delegated responsibility, for significant judgments in an audit of historical financial information.

On the other hand, ISA 220 requires the engagement partner to be satisfied that the engagement teams, including experts who are not part of the team, collectively have the appropriate competence and capabilities to (a) perform the audit in accordance with professional standards, and (b) enable an appropriate auditors' report to be issued.

Further, IES 8's view of the roles to be played by the primary engagement team and local teams in a transnational audit may be inconsistent with ISA 600.

Therefore, the IAESB will:

- compare terminology, definitions, and competences within IES 8 to other IESs and IFAC pronouncements, and publications from regulators, to identify inconsistencies;
- eliminate inconsistencies where appropriate; and
- ensure harmonization with other redrafted or revised IESs.

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<sup>2</sup> International Standards on Auditing (ISA) 220 “Quality Control for an Audit of Financial Statements,” which deals with the specific responsibility of the auditor regarding quality control procedures for an audit of financial statements.

<sup>3</sup> International Standards on Auditing (ISA) 600 “Special Considerations-Audits of Group Financial Statements (Including Work of Component Auditors),” which deals with special considerations that apply to group audits, in particular those that involve component auditors.

<sup>4</sup> International Standards on Quality Control (ISQC) 1 “Quality Controls for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements,” which deals with a firm's responsibilities for its system of quality control for audits and reviews of financial statements, and other assurance and related services engagements.

<sup>5</sup> IESBA Code of Ethics, which establishes ethical requirements for professional accountants.

**Questions**

- H. **Are there any other definitional inconsistencies that you would like the IAESB to consider?**
- I. **Do you agree with the IAESB's 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?**
- K. **Finally, do you foresee any impact on your organization or the wider profession of the IAESB's proposed changes to IES 8?**



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