



June 25, 2010

Technical Manager
International Accounting Education Standards Board
International Federation of Accountants
545 Fifth Avenue, 14th Floor
New York, N.Y. 10017, USA

**RE: AICPA Response to International Accounting Education Standards Board -
A Consultation Paper on the Revision of International Education Standard 8:
Competence Requirements for an Audit Professional**

We appreciate the opportunity to comment on the IAESB Consultation Paper on issues to be considered prior to undertaking the re-drafting and revision of IES 8 on Competence Requirements for Audit Professionals. The requirement to revise all IESs, as outlined in IAESB's 2010-2012 Strategy and Work Plan is, in our view, a positive undertaking, and we are pleased to be participants. Given rapid and extensive developments in both accounting standards and accounting education since the establishment of the IESs, such a review and revision is essential if the standards are to include appropriate content and be presented with greater clarity and consistency. The recently revised and improved Framework for International Education Standards for Professional Accountants, and the IAESB Drafting Conventions, should provide a solid foundation for presenting the standards in a fashion which facilitates greater understanding and international implementation in the interest of public protection.

The Consultation Paper identifies three specific issue areas where commentary is sought, and puts forth several questions in each issue area where feedback is solicited. This response will attempt to put forth thoughts pertaining to these and related considerations which are of importance in addressing the Standard and associated implementation concerns.

1. Clarification of the IES 8 target audience.

The clear identification of a target audience raises some very difficult questions:

First, the current Standard reads in a fashion that the development of auditor competencies, by necessity, has to reach beyond the enforcement control of member bodies. While member bodies tend to have influence on Initial Professional Development (IPD) prior to qualification, Continuing Professional Development (CPD) leading to advanced auditor competencies is often the province not only of member bodies, but of audit firms, regulators, and other parties as well. As such, the target audience must include those other participating organization/bodies. Has IAESB considered how to generate the necessary levels of understanding of the Standard's requirements and subsequent efforts at compliance by those outside the member body category? The Standards are often described as "good practice" and IES 8 might be presented to the firms, regulators, and other non-member bodies participating in developing auditor competence in such a manner, essentially as guidance. Feedback from the CAG, various country regulators, and especially the Forum of Firms, is essential to understanding how to approach proper communication and influence with these groups and ultimately influence collaboration. Having said that, the influences, participation, and contributions of the member bodies are central and they must remain the core audience.

Second is the definition of an Audit Professional. The IAESB (and other boards) has struggled endlessly with the definition of a Professional Accountant and, to date, has been left with the rather limiting term “a member of a member body.” The current definition of an Audit Professional is dependent on that insufficient description and currently is described 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.” If this definition is to have meaning, then the foundational definition of a Professional Accountant must change. We are aware that IFAC currently has a task force addressing this issue, and believe that the outcome of its deliberations must be taken into account before a meaningful definition of an Audit Professional can be crafted. Of particular interest will be the ability of the resulting definition to meaningfully include appropriate audit participants.

Third, the term significant judgment, if retained, clearly needs further definition; an issue raised many times in prior questions/comments on implementation of IES 8. However, it is a legitimate question as to whether significant judgment is a proper term to be used at all in the Standard. Audits are generally guided by clear and established methodologies, and are undertaken by teams comprised of individuals at various levels of development and assigned roles appropriate to their training, experience, and competence. And there is extensive supervision and review at all levels. Given that process reality, the term significant judgment becomes almost impossible to define in a meaningful way. A better approach worth considering would be to substitute the language “... a professional accountant who has responsibility, or has been delegated responsibility, for a *significant role* in an audit of historical financial information.”

Fourth, is the question of whether, in the definitions cited for an audit professional, the phrase “... in an audit of historical financial information is appropriate. That will be discussed further in the next area of issues, but suffice it to say that competency in audits today and going forward does and should take into account activity in areas including but not limited to historical financial information.

Finally, related to the first issue area, the clarification of the target audience for IES 8 and the questions posed, we definitely support a principles based standard, believe clarification of the definition of an Audit Professional is necessary, and question the validity and usefulness of the term significant judgment in the standard.

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

The question of and definitions for “advanced level competencies” raises a fundamental question – the scope of the current Standard. In the previous section we noted the composition of an audit team and the various roles involved, each assigned to an individual depending on their level of development. Yet the current IES 8 addresses advanced level competencies over and above those required of an audit professional, and only defines these competencies for audit professionals performing transnational audits and audits in specialized industries. The questions raised by the advanced level competencies are many: What is the relevance, if any, for those members of an audit team below advanced competency, however defined? How is a member body to draw a definitive line for implementing the standard? For those with advanced competency, however defined, but not working on transnational or specialized industry audience, what is the relevance/value of the standard? Put simply, who is this standard aimed at – an audit partner? an audit senior? Other? And what is the potential application of the standard, if any, to audits of SMEs? Not-for-profit enterprises? etc. The current Standard assumes that audit professionals meet the requirements set forth in IESs 1-5, but the consistency across all Standards is not necessarily confirmed, and in fact is one of the objectives of revising all the Standards. Greater clarity regarding the scope of IES 8 and its harmony with the other Standards is desirable.

It seems apparent that to have a useful Standard which can be broadly applied – and across different types of audit engagements than just transnational or specialized industry audits – a principles based Standard should be considered, one based on measurable outcomes using valid assessment tools. Development of competency maps for each level and also each advanced competency would be helpful guidance to

member bodies in being able to implement the Standard. Models of such competency maps exist, and should be easy to obtain and examine for potential utility. The AICPA for example has both a Learning Ladder based on studies of knowledge, skills, and attitudes necessary for success, as well as a CPA Firm Competency Model delineating skills and competencies necessary for each level in a firm.

3. Consistency of IES 8 with IESS 1-7 and other relevant IFAC pronouncements.

The coverage of this request is extraordinarily broad, and likely beyond a totally comprehensive review of all relevant pronouncements at this juncture. We do support the IAESB approach to address and eliminate inconsistencies and will continue to be vigilant for opportunities to identify potential inconsistencies and bring them to the attention of IAESB and its staff.

As for impact on our organization or the wider profession, that is difficult to say with any degree of authority until we see the exposure of the revised IES 8. However, given the occasionally difficult exchanges since IES 8 implementation, it is hoped that a revised standard with greater clarity of scope, accompanied by a broader range of guidance examples, and competency guides for more levels of audit professional will have positive impact.

4. Other considerations.

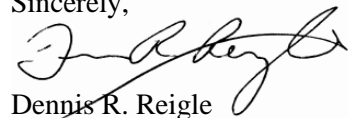
Attached you will find the AICPA's response to the draft on IES 8 dated February 18, 2005. Many of the points made are still valid, and it is particularly worth noting, and positive, that the IAESB is moving more toward principles based Standards, an approach we have consistently advocated and which is included in the February, 2005 attachment. Of particular note is our continuing concern about IES 5 on practical experience requirements. IES 5 as currently constructed includes an input-based/bright –line practical experience requirement of three years or two years with a master's degree. Moving to principle-based Standards, which can include an output based approach and/or greater flexibility for member bodies to determine appropriate approaches to establishing experience requirements will be a significant improvement. We are fully engaged in the review and revision process for IES 5 and are eager for a more flexible outcome to properly account for our education based and state regulatory system.

5. Conclusion.

We applaud the comprehensive efforts being undertaken by the IAESB to revise the current IESs to generate greater clarity, consistency, and ease of implementation. Our comments on the consultation paper on IES 8 are designed to address the issues and questions raised in the paper, and by extension, offer some thoughts to be considered when the revision and re-drafting get underway.

Thank you again for the opportunity to provide thoughts. If there are questions, please do not hesitate to contact me.

Sincerely,



Dennis R. Reigle
AICPA Technical Advisor to IAESB

**AICPA Response to IFAC Education Committee's IES 8:
Competence Requirements for Audit Professionals**

We appreciate the opportunity to respond to the IES 8 draft document. We also appreciate the good work that the IFAC Education Committee is doing and the opportunity to serve on the committee. While there is much good material in IES 8 as drafted, we have several fundamental differences with the approach the document is taking. Our concerns are expressed below:

1. The stated purpose of this Standard is to prescribe the competency requirements for professional accountants working as audit professionals. The document suggests various processes for developing these competencies, but relies heavily on a minimum experience requirement that may be obtained concurrently with the two or three years of experience required for qualification as a professional accountant (IES 5.)

Given that the US model for qualification as a CPA requires five years of education and one year of experience and IES 5 requires a minimum of two or three years of experience, the US cannot comply with IES 5. Therefore, the US will also not be able to comply with the proposed standard on audit professionals.

The regulatory structure in the US differs considerably from that in most other countries around the world. Certification as a professional accountant (CPA) in the US is granted by 54 separate jurisdictions (states), and the regulatory bodies in these states set the standards for entry into the profession. In many of these jurisdictions the license to practice qualifies the holder to perform audits, and the license is often granted concurrently with CPA certification. Having a valid CPA certificate is the primary eligibility requirement for membership in the AICPA, the national professional membership association. The AICPA cannot and does not set the standards of education and experience for certification or licensure.

2. We feel it is imperative that the qualification standards for professional accountants and the proposed audit professional standard recognize the existence of different quality models that combine an appropriate mix of education and experience, whether that experience is on the job training or in a simulated work environment. The US model for qualification of professional accountants is five years of education (at a collegiate institution) that is comprised of two years pre-professional and 3 years professional education, one year of experience and passage of the 14-hour Computerized CPA Examination which is uniformly required in the 54 jurisdictions.

The purpose of the CPA Examination is to measure candidates' competence to practice in the current environment and thereby protect the public interest. Through the use of objective questions and simulations, the exam tests accounting and broad business knowledge as well as the skills generally developed through work experiences. Specifically, the simulations assess the candidates' competencies through the use of realistic scenarios and tasks that approximate the work environment. Therefore, candidates must demonstrate the appropriate depth and breadth of knowledge and skills that are required to protect the public. (See attached documents.)

On the job experiences may vary significantly, regardless of the time period, and should not be considered the only acceptable approach for measuring competence. The US preference for an education-based model with an experience component is embedded in our regulatory structure throughout the 54 jurisdictions. This time-tested model works in the US, which has the largest capital markets in the world. It is unrealistic to expect that it should change to comply with a model that works in other countries.

We, therefore, resubmit for consideration our earlier recommendation that the experience standard in IES 5 require ***a minimum of one to three years of experience depending upon the level of education received, and that the period of combined education and practical experience should be a minimum of six years in total.***

Throughout the qualification standards there are statements in support of flexibility in applying the standards in multi-cultural environments, recognizing the existence of different models and allowing member bodies to make determinations as to their own needs and the requirements of the relevant regulatory

authorities. The proposed audit standard also suggests alternative approaches to ensure compliance with needed competencies and recommends that member bodies determine the appropriate levels of breadth and depth of the relevant knowledge. Yet the standards themselves, by supporting only one model for qualification, do not reflect these notions. We believe the above revision in IES 5 would achieve the objective of flexibility without diminishing the intent of the standards.

3. We also have serious concerns with the approach of the proposed standard to focus on the specific capabilities of the "individual" to work as a competent audit professional. It is not individuals who perform audits. Rather, audit firms (usually teams of individuals) perform audits. We believe it is important, through quality control standards, to ensure that audit firms have the experience, education and competence to perform audits.

We recommend a reorientation of the standards to recognize the importance of firm based competencies and to encourage firms to have appropriate monitoring and quality control processes in place to assure compliance with these competencies and appropriate disciplinary action in cases of noncompliance.

4. A related issue is that not all audits are equal and, therefore, we do not believe that one standard is appropriate for all audits. There are very small firms that perform audits for simple enterprises. Requiring adherence of all audit professionals to the standard could seriously jeopardize the existence of many smaller firms not just in the US, but in other countries around the world.
5. We believe the requirement for all audit professionals to acquire "advanced level" knowledge of all the international standards, including International Standards on Review Engagements (ISREs), International Standards on Assurance Engagements (ISAEs) International Standards on Related Services (ISRSs) and International Financial Reporting Standards (IFRSs) is unrealistic. These are important elements of knowledge for auditors performing transnational audits, but they should not be required knowledge for all audit professionals, particularly those who perform audits for small, non-listed companies. Additionally, in many jurisdictions, including the US and Canada, international standards are not frequently used. While we support convergence, we believe it is inappropriate at this time to require all audit professionals to have advanced knowledge of all international standards.

We recommend that the requirement for advanced knowledge of international standards be addressed in the new section of the document on competences for audit professionals in specialist industries and environments.

6. Given the above discussion, we have an overall concern with the approach of the international education standards to be prescriptive in nature. We believe they should be more principles based, allowing each member body/country to determine how best to comply with the objectives of the standards and to put the necessary controls in place to assure compliance.
7. There are two matters we believe need to be addressed. One is the redundancy between IES 1-7 and content coverage in the proposed audit standard. The other is inconsistency in the definition of the term "auditor."

On the first matter, it is our strong personal preference that the requirements set out in the audit standard should first acknowledge the need to meet the requirements of the relevant IES (1-7.) Then, only additional requirements, e.g., new requirements, should be specifically articulated in the audit professional standard.

On the second matter, there are different references to the auditor as the person with "final" responsibility for the audit (paragraph 31), the engagement partner (paragraph 9) and the inclusion of managers in the definition of auditor (paragraph 83.) Very few managers have "final responsibility" for audits. The definitions and terms used in this regard should be clarified.

We laud the committee's efforts to define standards for audit professionals and feel much progress has been made. However, we believe that given the concerns we have expressed above, the proposed standard needs substantial revision and rethinking before it can be issued for exposure. We also believe it is necessary to revisit IES 5 to consider our recommendation above.