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Dear Sir,

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

BDO is pleased to have the opportunity to comment on the above consultation paper issued by the International Accounting Education Standards Board (IAESB).

We support the decision of the IAESB to make revisions to International Education Standard 8 (IES 8). We strongly agree that IES 8 should be principles-based to reflect the differing education and qualification criteria in each IFAC member body jurisdiction.

We have responded below to the specific questions set by the IAESB. In summary, we recommend that the IAESB remove the ambiguities from IES 8 in respect of whom the requirements are aimed at and also the use of terms such as 'Audit Professional', 'Advanced Level' and 'Significant Judgements'. We believe that the IAESB should instead use IES 8 to give guidance on the training requirements for different roles and levels within an audit team.

We would also ask that IFAC conduct a review of the definition of 'Professional Accountant' which has a wide-ranging effect on IFAC pronouncements.

Reponses to Specific Questions
1. **Clarification of IES 8 target audience**
   A. **Do you consider that the IAESB has identified the critical issues in respect of "whom" the IES 8 requirements are aimed at?**

   We consider that there remains ambiguity regarding to whom IES8 is directed. It is unclear as to whether it is member bodies, engagement partner or all audit team members.

   If IES 8 is directed towards the engagement partner, then it is not automatically the case that the engagement partner would be trained on all technical matters to a level substantially higher than other members within the team. Nor does it follow that the engagement partner of large complex entities should be required to have significantly more training than that undertaken by the engagement partner of smaller less complex entities.

We do not consider it practical to suggest that the engagement partner must have extensive training on all technical aspects of an industry, nor on the details of specific IT systems. Rather, it is important that individuals within the team are appropriately trained to perform the tasks assigned to them, taking into account their role within the team and the particular environment that both the client and the auditor operate in. Implicit in this are factors, such as the teams' ability to access certain experts (examples being industry experts, information technology experts and technical accounting experts on the application of GAAP when needed).

Our proposed solution to this issue is to revise IES 8 so that it reflects current practices when undertaking an audit and is also consistent with the approach taken within the International Standards on Auditing (ISAs). Specifically, we propose that the standard considers the audit team as a whole rather than focussing on 'the audit professional'. One consequence of this approach will be to provide greater clarity about the necessary skills and knowledge that will be required to perform an audit.

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?**

We believe that, rather than using the term 'audit professional', a better approach would be to identify roles within the audit team and then harmonise them in line with the ISAs. The ISAs refer to the role of the audit engagement partner but not to the role of 'Audit Professional'. The role of 'Audit Professional' only appears in IES 8 making the IES requirements appear more onerous than the ISA requirements which we do not believe was the intention of the IAESB.

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?**

It is not clear to us whether there is a place for the term 'significant judgment' in an education standard. Ultimately the judgement to allow a particular accounting treatment or to pass an unadjusted error as not material is that of the engagement partner. The nature of delegated authority within an audit team may lead to 'significant judgments' being made by individuals at all levels of the team, with each member being responsible for evaluating the results of his or her own audit procedures. Given this high level of subjectivity and variance from engagement to engagement and across the spectrum of roles, we do not agree with using 'significant judgement' as a differentiator in respect of training requirements.

We recommend that the IAESB consider using IES 8 to give guidance on the training requirements for different roles and levels within the audit team. The audit profession as a whole uses largely consistent terms to identify these roles and levels as well as a hierarchical level of review requirements.

Although for smaller assignments some roles may be combined, typical roles that can identified within an audit team, include:

- Assistant
- Senior
- Manager
- Partner

Generally the large and medium size firms have well-established competences for individuals fulfilling these roles. Auditing relies largely on practical, supervised experience for which classroom teaching is no substitute. Many first year assistants commence their role with limited training in auditing or financial reporting, but they are assigned appropriate roles within the team and most importantly are appropriately supervised, which includes extensive review of their work.

Auditing not only requires technical and academic prowess but also strong interpersonal skills which cannot be taught or refined in the classroom. Effective development relies on 'hands on' experience and on–the-job training. These practical skills are likely to include being able to:

- Ask open and probing questions
- Deal with matters of client conflict
- Recognise when individuals are concealing the truth
- Coordinate the various components of the audit
- Review and interpret work performed by other members of the team
- Coach and mentor audit team members.

From a technical training perspective, although there may be few additional training requirements for those who fulfil the manager and partner roles, in reality it is the nature of the practical experience of respective individuals within the audit team which differs. In order to ensure sufficiency of competence under IES 8, consideration needs to be given to the practical experience provided to individuals as part of their initial and continuing professional development.

It is common in many countries for the assistant and senior roles to be performed by individuals who have not yet obtained professional qualifications. This properly reflects delivering training at the appropriate stage in that individual's career. As such, these individuals are not technically qualified nor are they full members of a professional accounting organisation (though they may have associate or trainee status with a member body). The requirements in IES 8 should recognise this and avoid the circular definition of 'professional accountant'.

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?**

We support a principles-based approach such that any guidance will take into account the differing education and qualification criteria in each jurisdiction and so will help with consistent application of IES 8.

In order to ensure improved clarity and focus, we continue to support the notion that IES 8 be targeted towards auditors of historical financial information. Although elements of the revised IES 8 may assist or provide guidance to those engaged in other assurance assignments, we believe it is important that IES 8 remains focused on its 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.**
   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?**

We consider that the use of the term 'advanced level' leads to some ambiguity within IES 8. It is more likely to be the case that the 'Audit Professional' may not have an 'advanced' level of competency in all technical issues relating to an audit, particularly in the case of larger, more complex entities, but instead will know how and where to access the knowledge required and be capable of consulting specialists as anticipated by ISAs.

Again, we believe it would be more reflective of current practices within the global audit profession for individuals to be required to have the most appropriate level of competence based on their role within the team and the work that they are required to perform.

F. **How would you guide the IAESB during its consideration of appropriate types and levels of competences?**

Following on from the points made above, we would recommend that the IAESB focus on the skills and different roles within the team and how the team has access to additional skills, support and expertise.

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?**

As noted in our response to Question D, we support a focused approach regarding those roles within audit teams and specifically in the context of an audit of historical financial information.

We also support the removal of the current examples of transnational and specialized engagements as the use of these terms can cause ambiguity as many engagements could be defined as 'specialized'.

3. **Consistency of IES 8 with IESs 1-7 and other relevant IFAC pronouncements.**
   H. **Are there any other definitional inconsistencies that you would like the IAESB to consider?**

We believe that definitions used within IES 8, and other IAESB pronouncements, should be consistently used and applied in line with other IFAC pronouncements. We are not aware of any other definitional inconsistencies.

We would ask the IAESB to ensure that if a role approach to competence is adopted, that any role definitions (such as Engagement Partner, Auditors Expert and Engagement Quality Control Reviewer) are consistent with those used in the ISAs.

I. **Do you agree with the IAESB's approach to eliminating inconsistencies?**

Yes.

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?**

There are a number of areas that we would like the IAESB to consider outlined below.

International Competency Framework
We believe that, given the move away from national accounting and auditing Standards, the IAESB could consider whether qualifications for accountants could be

harmonised. This would require collaboration with the member bodies from around the world and could result in the development of an international competency framework which could act as a benchmark. This could take the form of a defined competency framework or high level syllabus that member bodies could then apply in the most appropriate manner within their jurisdiction.

Role of Member Bodies, Audit Firms and Individuals
It is important that the IES 8 revision considers the respective roles of member bodies, audit firms and individual auditors in the context of identification, delivery and monitoring of education in respective jurisdictions. The revised IES 8 will need to cater to and acknowledge the variety of systems that are in place on a worldwide basis and to consider how an education standard can be applied within member body jurisdictions.

Global Movement of Auditors
A clearer IES 8 may also have the desired effect of enabling greater opportunities for auditors to move across jurisdictions. This may lead to an improved consistency of skills being demonstrated on a global basis and may ultimately provide greater support in respect of developing nations.

K. **Finally, do you foresee any impact on your organization or the wider profession of the IAESB's proposed changes to IES 8?**

A revised IES 8 based on a role/competence model is unlikely to have a major impact on our firm in terms of extra costs or new processes; rather it is likely to provide a check on existing audit-firm competence models.

Across the wider profession the adoption of this method of analysing and identifying the education requirements of audit roles may also act as an aid to those member bodies and relatively new audit firms who require more guidance and support in this area of their development.

If an international competency framework as mentioned in answer to Question J is adopted, then member bodies, audit firms and regulators will need to be consulted in order to help draft the framework and support successful implementation.

Please contact me should you wish to discuss any of these comments.

Yours sincerely,
BDO International Limited

Wayne Kolins
Global Head of Audit and Accounting
Member of the Executive