

ICAI's Comments on Proposed IES 2 Exposure Draft (July 2012)

Initial Professional Development – Technical Competence

- 1. Do the 11 competence areas listed in paragraph 7 of the Proposed IES 2 (Revised) capture the breadth of areas over which the aspiring professional accountants need to acquire technical competence? If not, what do you suggest?**

Yes, the competence areas listed in paragraph 7 capture not only the core competence areas of professional accountancy education but also the ancillary areas, like Information Technology, in which the aspiring professional accountants need to develop their competence.

It would be appropriate to consider inclusion of a new competence area covering quantitative aptitude, mathematics and statistics, with at least foundation level of proficiency, in order to facilitate better understanding and application of related theories and principles of finance and financial management.

Further, the competence areas "Business and organisational environment" and "Business Management" may be grouped together under one competence area.

- 2. Do the learning outcomes listed in Paragraph 7 of the Proposed IES 2 (Revised) capture adequately the minimum levels of proficiency to be achieved by an aspiring professional accountant by the end of IPD? If not, what changes do you suggest?**

As per Table A of Para 7, an advanced level of proficiency is expected from aspiring professional accountants before completion of IPD in respect of the competence area "Financial accounting and reporting".

The following learning outcomes may be added in this competence area to achieve an advanced level of proficiency –

- (1) Prepare financial statements after applying accounting standards and accounting policies to give effect to business restructuring transactions like amalgamation, absorption, slump sale, demerger etc. *(This is very important since these transactions are likely to have a significant impact on the financial position of the entity and consequently, have an effect on the interest of various stakeholders.)*
- (2) Apply valuation principles for valuation of shares and financial instruments, valuation of business, tangible fixed assets, intangible assets and liabilities.
- (3) Understand the accounting treatment for specialised financial products and financial instruments like mutual funds.
- (4) Understand the principles of revenue recognition of services of various financial intermediaries like stock brokers, NBFCs, merchant bankers etc.

3&8. Does the Appendix provide adequate clarification to assist in the interpretation of the learning outcomes that are listed in Paragraph 7 of the Proposed IES 2 (Revised)? If not, what changes do you suggest?

Are there any terms within the Proposed IES 2 (Revised) which require further clarification? If so, please explain the nature of deficiencies?

The Appendix 1 gives a fairly exhaustive description of the focus of learning outcomes for each level of proficiency along with a list of indicative verbs.

- (i) However, it may be noted that the verb “understand” used to describe the learning outcome under competence area “Audit and Assurance” in Table A does not find place in the indicative verbs as per the classification of proficiency levels for learning outcomes developed by IAESB in Appendix 1. The same may be included in the list of indicative verbs used to describe learning outcomes to be demonstrated for an intermediate level of proficiency.
- (ii) Further, the verb “interpret” has been included in the list of indicative verbs to describe the Foundation level of proficiency, along with verbs define, list explain, indentify, state etc.. However, interpretation is certainly a higher level skill which can be expected at the intermediate or advanced level of proficiency and not at the foundation level of proficiency. In fact, in Table A, for competence area “Financial accounting and reporting” where an advanced level of proficiency is expected, one of the learning outcomes is to “interpret specialised reports including sustainability reports and integrated reports”. In this case the verb “interpret” has rightly been used to describe a learning outcome to demonstrate an advanced level of proficiency.

4. Overall, are the requirements in paragraphs 7, 8 and 9 of the Proposed IES 2 (Revised) appropriate for ensuring that aspiring professional accountants achieve the appropriate level of technical competence by the end of IPD? If not, what changes do you suggest?

- (i) Paragraph 7 lists the learning outcomes for each competence area and also prescribes the minimum level of proficiency to be acquired in respect of each competence area by the aspiring professional accountants by the end of IPD.

(a) Finance and Financial management

An intermediate level of proficiency has been prescribed for the competence area “Finance and Financial management”.

Considering that financial considerations play a significant role in strategic business decisions, it would be appropriate if the minimum level of proficiency is raised to an advanced level.

The following learning outcomes may also be included in this competence area to achieve an advanced level of proficiency –

- (1) Understand the methods of valuation of firm, equity and other financial instruments.
- (2) Understand the factors affecting dividend decisions as well as the application of theories on dividend policy;
- (3) Understand the various forms of derivatives (futures, options, forwards, interest rate derivatives etc.) as well as the hedging strategies;
- (4) Understand the different forms of structured financial products;
- (5) Understand portfolio management and application of portfolio theories.
- (6) Evaluate the various schemes of mutual funds, including money market mutual funds.

(b) Taxation

- (1) *An intermediate level of proficiency has been prescribed for competence area “Taxation”.*

The minimum level of proficiency may be raised to “advanced” level, considering that in most developing economies, tax considerations play a significant role in strategic business decisions. In these economies, tax laws are still evolving and are prone to frequent changes making them quite complex. Therefore, an advanced level of proficiency in taxation is desirable, for which the following learning outcomes may be included –

- (a) Understand the taxation impact of e-commerce transactions.
 - (b) Understand the differences between accounting income and taxable income as well as the differences between the value of a transaction relevant for taxation purposes *vis-à-vis* the value recorded in the books of account.
 - (c) Identify and apply ethical principles to taxation.
- (2) *The learning outcome described in point (iii) under competence area “Taxation” is to “analyse the taxation issues associated with **non-complex** international transactions”.*

The learning outcome may be modified as follows to include the ability to analyse taxation issues relating to domestic transactions and complex international transactions as well, in line with the increase in minimum level of proficiency to “advanced” level –

“Analyse the taxation issues associated with **domestic transactions** and ~~non-complex~~ international transactions **and apply the principles of transfer pricing to international transactions.**”

- (3) *The learning outcome described in point (i) under competence area “Taxation” is to “**Explain** domestic taxation **compliance** and filing requirements”.*

The above learning outcome could be more aptly defined if “comply” is used as a verb to elucidate the learning outcome rather than as a noun. The learning outcome can be spelt out as “**Comply with domestic taxation procedural and filing requirements**”, to define the requirement more clearly.

- (4) *The learning outcome described in point (iv) under competence area “Taxation” is to “**Explain** the difference between tax planning, tax avoidance and tax evasion”.*

The verb “Explain” would be relevant only in the context of written examinations and not work place assessments. Therefore, it would be more appropriate to use a combination of verbs, like, “Understand and explain” to describe the above learning outcome.

(c) Audit and Assurance

- (1) *An intermediate level of proficiency is prescribed for competence area “Audit and Assurance”.*

Since audit and assurance is not only the core competence area but also one of the principal functions of a professional accountant, the level of proficiency prescribed should ideally be an advanced level. The following learning outcomes may be included for attaining an advanced level of proficiency –

- (i) Understand and explain the statutory requirement for audit under different legislations;
- (ii) Understand and explain the Code of Ethics laid down for the profession;
- (iii) Understand and explain the professional liabilities of an auditor, as a member of an accountancy body;
- (iv) Understand and explain the legal liabilities of an auditor under different statutes.

- (2) *One of the learning outcomes prescribed under this competence area is to “**identify applicable auditing standards, laws and regulations relevant to an audit engagement**”.*

This requirement can be modified to also require application of such standards, laws and regulations relevant to an audit engagement. The learning outcome can accordingly be modified as follows –

“**identify and apply** applicable auditing standards, laws and regulations relevant to an audit engagement”.

- (5) *Some of the learning outcomes listed under competence area “Audit and assurance” are to “Describe the objectives of an audit of financial statements” and “Describe the activities involved in performing an audit of financial statements”.*

The use of the verb “describe” is relevant only in the context of written examinations and not in the context of workplace assessments. Therefore, a combination of verbs may be used to define these learning outcomes, for example, “**Identify, understand and describe**”, so that they are relevant both in the context of workplace assessments and written examinations.

(d) Business laws and regulations

- (1) *The minimum proficiency level prescribed for this competence area is “Foundation” level.*

Since an advanced level of proficiency is expected in the competence area “Financial accounting and reporting”, and a sound knowledge of business laws and regulations is an essential pre-requisite for understanding the accounting implications arising therefrom, the level of proficiency in business laws and regulations should correspondingly be raised to at least an intermediate level. The following additional learning outcomes may be included for an intermediate level of proficiency –

- (i) Analyse the legal issues associated with non-complex situations at workplace and/or simulated case studies;
- (ii) Ensure compliance with the relevant legislations relating to registration, filing of returns, filing of reports, statements etc.

- (2) *The learning outcomes described in this competence area are to “**Explain** the laws and regulations that are relevant to the environment in which professional accountants operate” and “**Explain** different legal forms of businesses and the legislation and regulations that govern each form”.*

As mentioned earlier, the verb “Explain” is relevant only in the context of written examinations and not work place assessments. Therefore, it would be more appropriate to use a combination of verbs “Understand and explain”, so that the learning outcomes can be demonstrated both in the workplace assessments and written examinations.

(e) Economics

The minimum level of proficiency prescribed for this competence area is Foundation level.

The minimum proficiency level may be increased from foundation to intermediate since a sound understanding of the concepts of economics is required to appreciate other competence areas like taxation, business environment and business management, in respect of which an intermediate level of proficiency is expected. Therefore, the minimum level of proficiency in economics may be raised to intermediate level, by including additional learning outcomes.

Here again, the verbs “describe” and “explain” have been used to define learning outcomes. A combination of verbs, “Understand and explain” may be used so that the learning outcomes are relevant both in the context of workplace assessments and written examinations.

(ii) Paragraph 9 of Proposed IES 2 (revised) deals with assessment of technical competence. It provides that “IFAC member bodies shall establish appropriate assessment activities to assess the achievement of the technical competence of aspiring professional accountants”.

The requirement in para 9 may be reworded as follows to require assessment of achievement of specific learning outcomes that demonstrate technical competence –

“IFAC member bodies shall establish appropriate assessment activities to assess the achievement of the learning outcomes prescribed for each competence area, which demonstrate the technical competence required to be achieved by an aspiring professional accountant by the end of the IPD”.

5. Do you anticipate any impact or implications for your organisation or organisations with which you are familiar in implementing the new requirements included in this proposed IES 2 (Revised)?

The chartered accountancy course of the ICAI is compliant with the new requirements of this standard. At all the levels, the knowledge of the students is tested through formal assessments in written format. The range and depth of questions required to be attempted by the candidates is quite vast and relate to the level of knowledge expected of the candidates at each stage – CPT, Intermediate (IPC) and Final. The candidates are expected

to write answers to questions ranging from multiple choice (at CPT level), short-answer type, long-answer type, solve computational problems (at the Intermediate (IPC) level and Final level), apply the concepts to solve practical problems (at Final level) in different areas of accounting, finance and taxation, to name a few.

Working knowledge is required at the Intermediate (IPC) level and Advanced knowledge is required at the Final level. The Intermediate (IPC) level examination seeks to test whether the candidates possess working knowledge of accounting, business laws, ethics and communication, cost accounting and financial management, taxation, advanced accounting, auditing, information technology and strategic management. The Final examination seeks to test whether the candidates possess advanced knowledge of Financial Reporting, Strategic Financial Management, Advanced Auditing and Professional Ethics, Corporate and Allied Laws, Advanced Management Accounting, Information and Systems Control Audit, Direct Tax Laws and Indirect Tax Laws. The questions set at the Final level are largely application-oriented and aim to test the analytical and interpretational skills of the students. Therefore, the range of professional knowledge tested in the examinations is quite vast.

A candidate who passes the Final examination would have acquired advanced knowledge in all the above subjects of the chartered accountancy course. Only when the candidate clears the Final examination he attains the membership of the Institute.

Further, the Committee for Review of Education and Training (CRET) periodically reviews the syllabus to ensure that the same is in line with the developments in the national and international scenario. Since the scheme of education of ICAI is in line with the requirements included in the proposed IES 2 (Revised), we do not anticipate any significant impact in implementing the new requirements included in proposed IES 2 (Revised).

6. *Is the objective to be achieved by a member body, stated in the proposed IES 2 (revised) appropriate?*

*As per para 6 of proposed IES 2 (Revised), the objective of an IFAC member body is to **provide** aspiring professional accountants with the technical competence required to perform a role of a professional accountant.*

Technical competence has been defined as the ability to apply professional knowledge to perform a role to a defined standard.

It is the “professional knowledge” which can be provided by an IFAC body, and not the technical competence, which refers to the ability to apply the professional knowledge to perform a role to a defined standard. This ability can only be **developed** by the IFAC body and cannot be “provided” by it. Therefore, the requirement in the objective of this standard to “provide” aspiring professional accountants with technical competence does not seem to be appropriate.

In our opinion, it would be more apposite if the objective is redrafted in the following manner -

“The objective of an IFAC member body is to have aspiring professional accountants develop the technical competence required to perform a role of a professional accountant.”