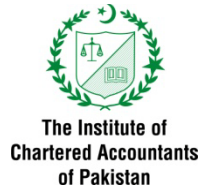


**Comments on Consultation Paper on the Revision of
International Education Standard 8:
Competence Requirement for Audit Professionals**

June 17, 2010

By The Institute of Chartered Accountants of Pakistan



David McPeak
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June 17, 2010

Dear Mr. McPeak

The Institute of Chartered Accountants of Pakistan appreciates International Accounting Education Standards Board for giving it the opportunity to submit its comments on “Consultation Paper on the Revision of International Education Standard 8: Competence Requirement for Audit Professional.

The following pages contain our comments for your kind consideration.

With best regards



Omair Jamal
Director Education and Training

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.¹ 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

¹ 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?

Yes, broadly speaking, the requirements of IES 8 are aimed at auditor of historical financial statements. However, when it requires that an audit professional should have full qualification of member body before he/she takes on audit, the immediate concern that comes to our mind is that IES 8 should restrict the definition of audit professional to only those auditors who have significant responsibility in the conduct of audit. Otherwise the audit team would be required to have only fully qualified staff which is not practical.

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?

Yes, in view of definition of term “auditor” given in ISA which refers to the persons conducting audit, we believe that expansion of term “audit professional” by way of IES own principle-based definition will add more interpretational issues.

We propose that the following hierarchy of audit team given in ISA may be adopted in IES:

- Managing partner
- Engagement partner
- Partner
- Auditor

These terms are well understood in professional circles and will also serve the purpose of principle-based definition approach determined by 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?

The term “significant judgment” is the root cause of confusion in complying with IES requirements. We note that ISA uses the word “professional judgment”.

We understand that the purpose of inclusion of term “significant judgment” in the definition of “audit professional” is to keep application of IES 8 restricted to audit supervisors and managers as is evident from Paragraph 27 of the IES which states that:

“Audit professional will need further development to progress, through supervisory and managerial roles, to acting as the engagement partner.”

However, such intention is not explicitly given in IES, which results in varied interpretations by member bodies.

We are not suggesting that the terms “supervisor” or “manager” be used, which are also not recognized terms under ISA. Moreover, the responsibility of supervision, according to ISA, lies with engagement partner. Therefore, the term supervisor will again refer to engagement partner which is not the intention of IES.

As suggested at (B) above the hierarchy in ISA may be adopted with slight changes as follows:

Managing partner
 Audit Engagement partner
 Audit Partner
 Auditor

The proposed definition of the above are:

- “managing partner” refers to a person who assumes ultimate responsibility for the firm’s system of quality control.
- “engagement partner” refers to audit partner or other person in the firm who is responsible for the audit engagement and its performance, and for the report that is issued on behalf of the firm, and who, where required, has the appropriate authority from a professional, legal or regulatory body.
- “audit partner” refers to individual in the audit engagement team, including employee of the firm, with authority to bind the firm with respect to the performance of audit engagement.
- “auditor” refers to all persons conducting audit, including audit support staff;

IES 8 may prescribe competence requirements of “engagement partner” and “audit partner”. IES may also contain guidance on competencies for other personnel of audit engagement team.

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?

Audit engagements involve serious public interest issue and are well regulated by regulators. The member bodies also share the responsibility of compliance with local regulation with the regulators. Therefore definition of audit professional may create a difference of opinion between the two if not clearly defined or a wider approach is adopted. Moreover, it should also be taken into consideration that in developing nations the large number of audit firms is owned by single member of member bodies and in such firms single member acts as engagement partner and audit professional.

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?

Yes. The clarification of “advanced level” will help member bodies, especially those involved in regulating the audit profession in their respective countries, in complying with requirements of those ISA dealing with quality control of audit of financial statements.

The term “advanced level” is frequently used by many member bodies in their qualification programs with almost similar objectives. We suggest that IAESB may adopt a uniform definition of the term based on generally known and accepted practices of member bodies.

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

We believe that for audit and accounting areas the minimum benchmark for “audit professional” or “audit partner” (as we suggest) should be set at an advanced level.

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?

Yes. However compliance of such requirements may be an issue for member bodies, as it may be practically difficult to ensure competence of an audit professional on the basis of individual assignment he/she is taking on.

We agree with the existing types of audit engagements (transnational and specialized industries) selected by IAESB.

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 220,² ISA 600,³ ISQC 1,⁴ and the International Ethics Standards Board for Accountants (IESBA) Code of Ethics.⁵

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.

² 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.

³ 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.

⁴ 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.

⁵ 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?

We suggest that the following paragraphs can be improved by considering the following:

IES Para	ISA	ISA Para	Remarks
1 (a)	200	7	IES may use the text as it is in ISA.
1 (b)	220	7 (d)	IES may adapt the text of ISA

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

Yes, we agree to this approach.

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?

Complying with requirements for transnational and specialized audit engagements is difficult and explanatory material of IES should contain clear guidance on the same.

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

We do not foresee any impact on ICAP. However, the wider profession may be impacted by the proposed changes to IES 8.