

## ICAS RESPONSE TO IES8 CONSULTATION PAPER ON REVISION OF IES 8: COMPETENCE REQUIREMENTS FOR AUDIT PROFESSIONALS

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

Yes, the IAESB has identified the critical issues in respect of “whom” the IES8 requirements are aimed at.

In addition, there are matters related to IES 8 that are appropriate to non-member bodies and the IAESB should consider the most appropriate mechanism to address this.

**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?**

The current definition of “Audit Professional” is not sufficiently clear and this raises interpretation issues. Whilst it may not be necessary to expand the definition ICAS would welcome more clarification on the definition of “*audit professional*” and “*significant judgements*”. ICAS is of the view that the definition of “Audit Professional” should be principle based.

As an important element in the definition of “Audit Professional” is the definition of “professional accountant” recognition also requires to be given to the wide variation in the education and practical experience requirements to be a “professional accountant” (and therefore a member of an IFAC member body) across different jurisdictions. Consideration should be given to defining the term “professional accountant” on a competency basis.

The interpretation issues with the current IES 8 triggered ICAS to issue two sets of guidance, guidance to audit firms and guidance to audit professionals, to assist with the interpretation of these. The definition of “*audit professional*” as being “*a professional accountant*” i.e. “*a member of an IFAC body*”, means that, as currently written, IES8 appears to be aimed at qualified persons at a more senior level in the audit team. ICAS considered, at the time of IES8 initial publication, that this could be at odds with those potentially exercising “*significant judgements*” on an audit engagement i.e. that is likely that other members of the team, not qualified or member of an IFAC body, could exercise significant judgements, albeit that the overall responsibility for the audit would rest with more senior, qualified personnel. ICAS considers that this could be the case particularly in smaller, less complex audits.

In addition, ICAS identified that the definition was at odds with ISQC1 which was aimed, rather than at an individual level, to the competences of the team. For example, ISQC1 on client assignment states that is required to “*to assign appropriate personnel with the necessary competence, and capabilities*”.

ICAS therefore advised firms, in guidance, to extend IES8 considerations to those individuals who were not members of an IFAC member body but were exercising significant judgements in the team.

ICAS therefore considers that IES8 should be revised to consider the competences of the team, including those unqualified persons who may be exercising significant judgements.

**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?**

In ICAS’s view there should be guidance on what “*significant judgements*” might entail given that this is key to defining who falls within the scope of IES 8. There are a number of practitioners who would argue that as the audit engagement principal is ultimately responsible he/she is the only person exercising “significant judgements”. Clearly, IES 8 is intended to go beyond this and, therefore, further guidance and clarification is important.

ICAS considers this to be a difficult area and is of the view that a strict definition would not be useful given that “*significant judgements*” has a different meaning on different audits, depending on the nature and complexity of the audit.

ICAS considers that a principle-based approach should be used and should allow the audit firm to exercise their professional judgement in determining which individuals on which audits exercise “significant judgements”. This should not be formulaic. Consideration should be given to who is responsible for the identification of significant risks and responding to those risks through the design of suitable audit procedures which could include the exercise of significant judgment.

This was one of the main issues addressed in the ICAS 8 guidance issued to firms in 2008. The ICAS guidance states:

*“This needs to be assessed across all of the firm’s audits, because the extent of involvement of managers and audit staff will vary from office to office, and audit to audit, depending on the size and complexity of each audit engagement. The term “significant judgements” is, unfortunately, not defined in IES8.*

*It is not sufficient to say that the audit engagement partner is the sole individual making such judgements. Whilst the engagement partner has overall responsibility, much of the operational responsibility will be delegated to other members of staff. It is highly probable that any members of the audit team who directly report to the audit engagement partner are likely to exercise significant judgement, unless their work is confined to only basic tasks.*

*There are a number of indicators of significant judgements being exercised, including the following types of judgements:*

- *planning:*
  - *an initial assessment of the entity's risks (e.g. fraud risks, assertion risks, significant risks);*
  - *setting materiality levels; or*
  - *determining the audit approach at the planning stage of an audit;*
- *conclusions over significant fieldwork areas, such as:*
  - *accounting treatments or significant financial statement disclosures;*
  - *the evidence obtained over key or critical audit areas;*
- *assessing what matters are reported to the audit engagement partner;*
- *making preliminary judgements on:*
  - *unadjusted/adjusted errors;*
  - *what is reported to those charged with governance; and/or*
  - *the type of audit report to be issued.*

*This list above contains examples only, and is not exhaustive. You will, therefore, need to apply common sense in considering who exercises significant judgments on audit engagements.*

*On some assignments, and for some small firms, it may be that the audit engagement principal (or Responsible Individual) is the only person involved in the audit or the only person making significant judgements (say, for example, the staff member is only conducting basic tests over non risky areas, such as bank and cash). In other assignments the senior managers, managers or supervisors are likely to be exercising significant judgements, given their responsibility for reviewing other audit team members' work and making assessments of information to be referred to the audit engagement partner for consideration. Firms may also find that on some small audits some personnel who are not at manager/supervisor level, may be responsible for all of the audit work and making decisions as to what is reported to the partner for follow up (for example, where there is no manager involvement), and in this case this person would be exercising "significant judgements."*

The purpose of an International Education Practice Statement (IEPS) as set out in the IAESB Framework is to assist IFAC member bodies to implement and achieve good practice, as prescribed by the IESs. ICAS is of the opinion that the original IES8 should have been issued with a Practice Statement. In relation to the revised IES 8 there are likely to be a number of areas which would benefit from further interpretation, illustration and expansion and an IEPS will, therefore, be required for the revised IES8. ICAS is also of the view that to be of most benefit, the Board must develop and issue an IEPSs on a timely basis with a Standard.

- 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?**

No comment.

- 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?**

ICAS favours a principles-based approach and considers that IES8 should provide a “framework” only of core competences and should not be going further than this. It is important to recognise that competences will depend on the nature of the assignment. In some cases they might include technical knowledge e.g. derivatives or currency options; in others they might include communication skills amongst a large audit team. It is suggested that providing specific examples should be avoided as it will be difficult to capture a comprehensive set of examples.

ICAS therefore considers that IES8 does not need to go further in creating any further “advance level” competencies – adding further competences results in the standard becoming more rules based and less principles based. ICAS is satisfied with the “framework” as it currently stands, except for the issue of IT competence as explained below.

The ICAS guidance issued in 2008 made it clear to ICAS firms that the level of competency depended on the nature of the audit engagement, this should be made clearer in the standard.

In the view of ICAS’ the “IT” competence was a stage too far given that many of the audits conducted in the UK require no significant level of IT competence. This requirement makes the standard too prescriptive.

Many of the areas considered previously as IT (risks, processes, controls etc) are now often taught as an integral part of an auditing course and the Board should consider rewriting IES8 to reflect this.

- 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?**

Providing more specific competencies for different types of audit engagements will make the selection of audit teams too restrictive and, therefore, a principle- based standard would be preferable.

Having additional responsibilities for transnational and specialised engagements is acceptable but expanding this to other types of clients runs the danger of making things more complex, particularly given that the level of risk in audit engagements is not an exact science. There are cases where smaller engagements which are expected to be straightforward give rise to some of the more complex technical matters. Giving firms as much flexibility as possible in

determining competencies would be preferable and the Standard allows for this currently.

Consideration should be given to whether IES 8 should be supplemented by issuing separate guidance relevant to different types of audit engagements. This could take the form of practice-note like pronouncements specific to specialised audit engagements and transnational audits.

**H. Are there any other definitional inconsistencies that you would like the IAESB to consider?**

ICAS agrees that there are a number of inconsistencies between this standard and the ISAs and ISQC1. The ISAs and ISQC1 are based on consideration of the impact of the audit engagement by the audit team and the revised IES8 requires to consider this and not just the individual.

Improving internal consistency in terminology and definitions across IFAC pronouncements is extremely important to ensure those who are applying the pronouncements will interpret them appropriately.

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

Yes, ICAS agrees 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**

No

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

It is hoped that the impact should be a positive one, moving towards a global standard of educational and practical experience requirements for audit professionals. The greater challenge for the IAESB and IFAC, once the IES has been amended, will be ensuring compliance by member bodies to be confident that audit professionals across the globe are equally and comparably competent to perform audits of historical financial statements.