

Technical Manager
International Accounting Education Standards Board
International Federation of Accountants
277 Wellington Street West
Toronto Ontario Canada M5V 3H2

June 15, 2010

Dear Madame/Sir

**IFAC International Accounting Education Standards Board (IAESB) – Consultation Paper –
International Education Standard 8: Competence Requirements for Audit Professionals**

We appreciate the opportunity to respond to the IAESB's Consultation Paper on the proposed changes to International Education Standard 8: Competence Requirements for Audit Professionals (IES 8). This response is made on behalf of PricewaterhouseCoopers. "PricewaterhouseCoopers" refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

We recognize that IES 8 is intended to serve the public interest in establishing standards to better ensure the competence of audit professionals. We welcome the consultation process as parts of IES 8 have proved contentious or confusing. We believe that the important areas for consideration in the redrafting of IES 8 have been identified in the questions posed in the Consultation Paper and have provided our comments as responses to those questions.

We support the intent of the standard that

- (1) auditors must be competent to perform the audit work required of them (see point 2 in the next paragraph)
- (2) it is appropriate for IFAC member bodies to establish the competences required of auditors appropriate to their environment
- (3) a global standard is useful to improve consistency in this area among IFAC member bodies and to establish minimums

while recognizing that

- (1) IES 8 principles and terminology should be consistent with the other IESs, the ISAs, ISQC1 and the Code of Ethics for Professional Accountants. Matters which might be inconsistent should be consulted with the Boards responsible for those standards.
- (2) In particular, IES 8 should recognize that performing work to these various standards often occurs within the context of an audit team which includes processes of supervision, review, reliance on specialists, consultation and quality control. Usually the work itself develops or contributes to developing the knowledge, skills and experience of the auditor.

We have used these principles to guide the detailed comments below. Our comments support revisiting the scope IES 8, the definition of a professional auditor and the concept of "significant judgment" as the defining criteria. We believe that the revision of IES 8 can draw useful direction from IES 2. We also believe that the current IES 8 requirement of competences of those working on transnational audits is inconsistent with ISA requirements and should be revised. Similarly, the

requirements for those working on audits in a specific environment or industry should be revisited and revised.

Most of the comments in this response deal with IES 8 as currently worded. We express here our full support for the recommendation in the Consultation Paper that IES 8 become a principles-based standard. A principles-based standard will likely render some of the comments below obsolete.

Paragraph references (e.g. Para 22) in our comments below refer to paragraphs in IES 8 unless specifically referenced to another standard.

Comments on the Specific Issues presented in the Consultation Paper

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?

Yes, the IAESB has correctly identified that the definition of an “Audit Professional” and the concept of “significant judgment” as the defining criteria of an Audit Professional are critical issues.

We also agree that the shared responsibility by IFAC member bodies, audit organizations, regulatory authorities, and other third parties for the objectives of the standard, that is, the development and assessment of the required competence of an Audit Professional, should be clarified.

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 do not support “expansion” of the “Audit Professional” definition if the result would be a more complex and granular definition as that would almost certainly increase confusion.

We realize that in drafting IES 8, the IAESB struggled with setting a standard which comprehensively addresses the theoretical questions relevant to auditor competence: when is a public accountant competent to be an auditor? when do auditors assume responsibility for significant judgments? when are auditors licensed? when do auditors assume the role of engagement partner? As these milestones often do not coincide and the norms may vary widely for IFAC member body jurisdictions, IES 8 attempts to address all eventualities.

Our recommendation is that all auditors should be competent to perform their work within the context of appropriate supervision, review, reliance on specialists, consultation and quality control as required by the ISAs and ISQC 1. The audit team environment is mentioned in Paras 13, 14, 21 and 72 d but it is not mentioned in defining the competence requirements of the individual auditor. IES 8 should address the quality control environment on an engagement and its dynamic relationship with the competence of any individual member of the audit team.

Further, the IAESB should consider if the standard should apply only to the auditor whose work is not subject to higher level review and approval. This principle is fully flexible from a sole practitioner to a large team working on a complex audit.

If, rather, the standard is to focus on the minimum education required to license an audit practitioner, it should be possible to indicate the academic level required and knowledge areas to be addressed. IES 8 attempts to do this in Paras 29 and 32 but then the requirements are complicated by reference to “an advanced level” in Paras 36 and 38. See further comments regarding education requirements in response to Question E below.

We recommend that the IAESB limit the scope of IES 8 to the education requirements to license an audit practitioner as this creates the appropriate foundation for the audit profession. The responsibility for education after that point is subject to the requirements of IES 7. We recognize that IFAC member bodies often do not have the authority to grant licenses to audit but believe that IES 8 so drafted will impact their own standards for their members and, through the IFAC member bodies' influence, the standards of other licensing bodies.

We note that IES 1 – 6 set out the *education requirements* for an individual to begin a program of professional accounting education and the knowledge content to be acquired, the appropriate mix of skills and the professional values required, the ethics and attitudes to be acquired and the practical experience to be obtained before granting membership of an IFAC member body (also described as “qualifying as a professional accountant”). IES 7 prescribes *actions by IFAC member bodies* to foster, facilitate, monitor and enforce the continuing development and maintenance of professional competence for professional accountants. The IAESB should revisit the scope and purpose of IES 8 as part of consideration of the target audience. If IES 8 were redrafted to set out the *education requirements* and the *required actions by IFAC member bodies* as in IES 1- 7, it would likely be clearer and more useful in impacting member body compliance.

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?

We agree that revision of IES 8 necessitates consideration of the use of the term “significant judgment”. IES 8 attempts to distinguish the three concepts of the audit professional (significant judgment), licensing and the engagement partner. Since these are not distinct categories for most individuals or jurisdictions, the conceptual framework of IES 8 becomes obscure. This has led to confusion in that (1) all members of an audit team have responsibilities and (2) in gathering and documenting audit evidence, all use their faculty of judgment. The risk exists of widely varying interpretations by member bodies, audit organizations and/or regulators.

It may be appropriate to use the term “significant judgment” in some way in IES 8. If so, the term should be used in a manner consistent with the ISAs. The term “significant judgment” is used in relation to engagement quality control review (ISA 220.20, for example). ISA 230 on documentation refers to “significant matters” and “significant professional judgments” (ISA 230.8(c)). Presumably this required documentation brings such matters to the attention and therefore final responsibility of the engagement partner. Accordingly, we believe that responsibility for significant judgments should be defined to operate at the highest level of review and concurrence on the engagement.

Further, we note that IES 8 requires a period of relevant practical experience before taking on the role of an audit professional (Para 54). The standard recommends at least two years of experience in audit work under the guidance of an engagement partner. It appears therefore that IES 8 recognizes that an auditor working under the guidance of an engagement partner is not making significant judgments. It would be consistent to extend this concept to any auditor working under the guidance of an engagement partner. This would clarify many of the issues regarding the definition of “significant judgment” if the term remains in IES 8.

The corollary principle is that all persons working on an audit should be subject to supervision and review appropriate to the responsibilities and competence of the individual.

It may prove that in shifting the focus of IES 8 to the combined competence of the audit team and/or to the minimum education to be required to license an audit practitioner the term “significant judgment” will no longer be useful.

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 the requirement currently in IES 8 (Para 67) that where other bodies license auditors, IFAC member bodies are obliged to notify them about this IES, encouraging its adoption. If the

redrafted standard satisfactorily deals with the issues raised in the consultation paper, this should be a sufficient statement regarding those licensing bodies.

The IAESB should consider whether any education or processes required for audit organizations beyond those currently required in ISQC1 should be incorporated in ISQC1 or should be dealt with in a separate ISQC standard as this would seem the more appropriate home for a standard addressed to audit organizations and their quality.

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 agree that the concept of “advanced level” competences requires clarification.

Accounting Technical Skills

We note that there are IFAC member bodies which, in concert with local regulators and licensing bodies, effectively develop and assess the competence of an individual to be a professional accountant and a publicly licensed auditor simultaneously. While the member bodies may not grant the license to audit, licensing bodies often rely on the IFAC member bodies’ programs, assessment processes and experience requirements. In these regimes, the accounting technical knowledge required to qualify as a professional accountant and as licensed auditor is the same. As this approach includes some of the more prestigious accounting designations and auditor qualifications, it becomes difficult or impossible to attribute a meaningful interpretation to the concept of the “advanced level” knowledge required by the professional auditor.

Rather, as with a professional accountant, the process of continuing development and life-long learning (IES 7) and the professional responsibility to not accept assignments they are not competent to perform (IFAC Code of Ethics for Professional Accountants) are the principles governing behavior of a professional auditor.

Also, it would seem a strange result if a professional auditor was deemed not to have adequate accounting technical skills to audit the work that was deemed to be within his or her competence as a professional accountant.

Professional Skills

Similar principles can be proposed regarding Professional Skills. IES 3 contains an extensive list of professional skills required of a professional accountant. Some of these are given special mention in IES 8 as being required either to “apply ...in an audit environment” (Para 42 a) or to “develop at an advanced level in an audit environment”. We agree that the training of a professional auditor should include professional skills in an audit environment. However, the list of professional skills in IES 3 is comprehensive and special mention of a professional skill should be made in IES 8 only if there is a new dimension or a new skill which is not comprehended within the phrase “in an audit environment”. Here as above for accounting technical skills, the distinction of “advanced level” is not helpful.

Professional Values, Ethics and Attitudes

We note that IES 8 currently deals with professional values, ethics and attitudes in the manner which we recommend above for professional skills.

Information Technology Skills

We note that the approach to information technology skills in IES 8 appears appropriate in that it avoids the use of the term “advanced level” and rather identifies specific skills required of the professional auditor above the IT skills expected of the professional accountant.

Auditing Technical Skills

Since IES 8 deals with competence requirements for audit professionals, how it addresses audit technical skills is very important. IES 8 currently refers to advanced level knowledge of “best practices...current issues and developments” in Para 36 a and of “ISAs and IAPs” in Para 36 b and/or “any other applicable standards and laws” in Para 36 c.

Besides the confusing “advanced level” concept dealt with above, Para 36 introduces the concept of best practices and current issues and developments. At the point when one becomes an audit professional, presumably these concepts would largely overlap. Beyond that point, the principles of IES 7 apply or should be reflected and reinforced in IES 8 as they apply in an audit environment.

It is appropriate that IES 8 distinguish the audit knowledge needed by an audit professional from that required of a professional accountant. IES 2 (Para 24) recommends that the education of a *professional accountant* include the following at least at the level of an *accounting* degree:

- (c) national and international ... auditing standards;...
- (i) the nature of auditing and other assurance services, including risk assessment and fraud detection, and the intellectual and procedural bases for performing them;

Arguably, a strong working knowledge in these two areas comprises the technical audit knowledge required of an audit professional since the ISAs are comprehensive.

IES 8 currently assumes the audit knowledge required in IES 2 and builds on that knowledge with the concept of “advanced level”. However, rather than attempting to indicate the undefined *level* of audit technical knowledge, the IAESB should consider whether IES 8 should mirror IES 2 regarding the content of professional accounting education programs. If this approach were taken, IES 8 might require that:

Professional auditing education should be part of the development program for professional auditors. This study should be long enough and intensive enough to permit candidates to gain the professional knowledge required for professional competence. (see IES 2 Para 11)

The professional audit knowledge component of education for professional auditors should consist of at least...(indicate the minimum full-time study equivalent) (see IES 2 Para 12)

The content of professional auditing education should consist of (see IES 2 Para 14):

- ISAs and IAPs and their application
- Information technology skills in an audit environment
- Professional skills in an audit environment
- Professional values, ethics and attitudes in an audit environment

These requirements could then be supplemented by the requirement to develop and maintain competence appropriate to their professional responsibilities and to not accept assignments they are not competent to perform, as is currently covered in Paras 69 and 70.

Also, it may be appropriate that in the future IAESB develop a supporting Education Practice Statement on developing and maintaining professional audit skills.

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

We believe that IES 8 should focus on the development of a professional accountant to the minimum standard expected for licensing as an auditor (which, as Para 66 recognizes, determines who may act as an engagement partner). The current requirements of IES 7, various ISAs, ISQC1 and the Code of Ethics for a Professional Accountant, properly guide the acceptance of responsibility, the development of skills and the requirements for engagement team quality and competence throughout the auditor's career.

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?

We agree that it is appropriate to recognize (as in Paras 79, 80) that the complexity of audits may vary significantly for a variety of reasons. Consistent with the principles expressed above, all engagements should be staffed and supervised appropriately with appropriate consultation with specialists. Individuals should be competent to perform the work they are given in the context of the quality control environment surrounding the audit.

We believe that the attempt to prescribe the competencies of one who "takes on the role of an audit professional in transnational audits" (Para 76) or for "audit professionals involved in transnational audit" (Para 77) has serious shortcomings. There is no reference to head office responsibilities vs. the audit of components of an entity. In contrast, the ISAs require that the auditor understand whether the component auditor possesses "an understanding of auditing and other standards applicable to the group that is sufficient to fulfill the component auditor's responsibilities in the group audit". (ISA 600.A38). IES 8 appears to require a much higher standard.

Further, we note that the term "transnational audit" is not otherwise used in IFAC professional standards. Defining it by reference to a TAC guidance statement which is itself not authoritative and presently subject to change is unhelpful.

The requirement for practical experience in a specific environment or industry (Para 81) is similarly overstated. Consider, for example, that the audit profession as a whole, and individuals from time to time, must deal with completely new industries as business evolves. The core competences of the auditor and reliance on the competences of others on the team are relevant in properly determining the requirement for practical experience in these circumstances.

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?

None noted other than mentioned above.

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?

Inputs vs. Outputs

We have recommended above that if IES 8 continues to be focused on inputs and that they be expressed in terms similar to IES 2. However, the IAESB should also consider whether this

standard should rather focus on outputs (assessment, review of work) than on inputs (education program and content, experience requirements).

Para 63 requires assessment before individuals take on the role of audit professionals. Para 65 d says that such assessment may be carried out by an audit organization. Para 68 says that where professional accountants are licensed as auditors without the practical experience prescribed in Para 54, the quality assurance review program of the member body or the quality control procedures of an audit organization may confirm that the audit professional has the required competence. If these activities of assessment and review, in the end, are the measures of auditor competence, perhaps the focus of the standard should be there rather than on the inputs.

Practical Audit Experience

The intent or impact of the first sentence of Para 69 is unclear. If it is simply recognition that those who continue as audit professionals gather more experience, then it appears gratuitous. The second sentence of Para 69 is clear and important.

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

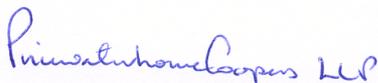
We assume that the primary impact of IES 8 is on those IFAC member bodies which have members (professional accountants) practicing as auditors without an appropriate minimum level of training and practical experience. We do not foresee any impact on our organization or the wider profession, excepting those deficient member bodies, of the proposed changes to IES 8 pending, of course, the actual nature of the changes regarding the definition of audit professional, regarding the concept of "advanced level" skills and regarding the revision of transnational audit competences.

Closing remarks

We commend the IAESB for issuing this Consultation Paper to support the revision of IES 8.

We would be happy to discuss our views further with you. If you have any questions regarding this letter, please contact Christine Adshead, Global Assurance Learning and Education Partner on (44 (0) 161 245 2529).

Yours faithfully,



PricewaterhouseCoopers LLP