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Mr. David McPeak
Principal, IAESB
International Federation of Accountants
529 5th Avenue
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Re: *Proposed Revisions to IESs 2, 3, 4, and 8 - Information and Communications Technologies and Professional Skepticism*

Dear Mr. McPeak

BDO International Limited¹ (BDO) is pleased to have the opportunity to comment on the International Accounting Education Standards Board (IAESB) Exposure Draft (ED) in respect of *Proposed Revisions to IESs 2, 3, 4, and 8 - Information and Communications Technologies and Professional Skepticism*

BDO summary

We support the revision of IESs 2, 3, 4 and 8 to include learning objectives related to information and communications technologies (ICT) and professional scepticism and thank the board for undertaking this important revision project.

Professional scepticism is a cornerstone of our profession, which we believe extends far beyond just auditors. We commend the board for ensuring that this important area will be integrated throughout initial professional development (IPD) and into the careers of all professional accountants. As we have noted in our previous comment letters to IFAC standard setting boards, including the IAESB, we remain committed to supporting changes that ensure all professional accountants have the requisite professional scepticism skills.

ICT has continued to impact the profession in a number of ways; change has continued to progress rapidly, impacting the skills requirements of professional accountants. As changes in ICT have continued to accelerate, more and more technology has become part of everyday life in the workplace. As a result, it is vital that professional accountants are competent, capable and able to adapt to new and emerging technologies in order to stay relevant.

Finally, given the inevitable connection between interrogation of data, and the need to apply professional scepticism in the origination, handling, formatting and communication of information, combined with the ever-increasing volume of data being used and generated by entities, we also appreciate the IAESB's rationale for presenting both elements of change in this combined ED.

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Responses to Specific Questions

1. Do you support the proposed revisions to learning outcomes related to the areas of ICT and professional scepticism provided in Appendices A, B, C & D? If not, what changes would you suggest?

We generally support the proposed revisions and appreciate the work that the board has performed in order to integrate these new topics throughout the suite of International Education Standards (IESs), along with the changes that have been included in order to improve clarity. The promotion of the new learning outcomes in addition to revision of extant learning outcomes reflect the changing skillset required of today's professional accountants. These proposed revisions also help to address the challenges posed by future application of professional scepticism and ICT.

The proposed revisions are also an important statement to address the increasingly complex environment that professional accountants operate in - generated in part by a more inter-connected business environment, globalisation and underpinned by more a more complex set of accounting standards. Continuing to advance and progress the skills required of professional accounts will help develop future generations.

We also support the focus of the board on 'skills' which are not fixed to specific emerging technologies (i.e. blockchain, smart contracts) but which highlight the importance of having professional accountants who have the technological agility to be able to work in a period of change. We are living in a digital age when technology is advancing and innovating at an increasing rate. Many aspects of the traditional professional accountant's role have and will continue to change. Having a body of IES learning outcomes which emphasise the need for aspiring professional accountants not just to respond to change, but to be a willing ambassador for change, is increasingly important. In our view many of the changes highlighted in this ED assist in developing the 'agile' professional accountant of the future.

We lay out the exceptions to this in Appendix I.

2. Are there additional ICT and professional scepticism learning outcomes that you would expect from aspiring and professional accountants (See Appendix E)?

Yes. We identified a few additional learning outcomes that we would expect to see from aspiring and professional accountants.

1. In the context of aspiring and professional accountants who perform a role in audit, there does not appear to be reference to the increasingly important requirement to be able to:
 - Use ICT to assist in assessing risk, performing audit procedures and concluding on the sufficiency and appropriateness of audit evidence; or
 - Develop audit procedures that are responsive to the ICT environment in which an entity operates.

These skills are specific to the audit and assurance competence and we note that other competences where specific ICT learning outcomes apply, such as *(f) Governance, risk management and internal control*, have ICT-related learning outcomes, such as *(iii) Apply ICT to support the identification, reporting and management of risk in an organisation*. As such, we believe the board should review this competence area and ensure that ICT related learning outcomes are included in the update.

2. In relation to the competence (f) *Governance, risk management and internal control* we note that the learning outcome (iv) *Analyse an organization's risks and opportunities using a risk management framework* has been relocated. Connected to this learning outcome, we note that a risk management framework is ordinarily a 'living' document that is reviewed to ensure new and emerging risks and opportunities are identified in a timely manner to enable development of an appropriate response. As such, the identification of risks and opportunities is an important skill and is fundamental to the ability to analyse the risks and opportunities.

While we recognise that this learning outcome is not new or revised, other than the lettering change, as a result of the review undertaken by the board, we believe that consideration should be given to adding an additional learning outcome to identify an organisation's risks and opportunities in addition to the existing learning outcome which references the ability to 'analyse'.

3. In regard to IES 8, we note that in Table A: Learning Outcomes for the Professional Competence of an Engagement Partner, (m) Professional scepticism and professional judgment (or anywhere within Table A), there is no reference to intellectual agility, which we found surprising. Based on the role of the engagement partner, in forming their opinion on an audit engagement, they should be applying intellectual agility in order to consider all the evidence that has been collected and assess whether the financial statements present fairly, in all material respects, in accordance with the applicable financial reporting framework. This includes considering more detailed evidence and also stepping back to look at the overall conclusions. We believe that additional learning outcomes are required in this regard.

In addition to the above, we have also proposed the relocation of one of the learning outcomes as described in our response to question 1 (refer to the appendix).

3. **Do you support the new definitions of Information and Communications Technologies, Intellectual Agility and Professional Judgment added to the IAESB Glossary of Terms? If not, what changes would you suggest?**

We support the change to the definition of professional judgment which adapts the wording from the latest International Code of Ethics for Professional Accountants issued by International Ethics Standards Board for Accountants. As we have noted in previous comment letters, we are supportive of the development and use of consistent definitions that have applicability across the various standards-setting boards.

For the definition of ICT, we understand the need to future-proof the definition as far as possible, however we found the proposed definition to be nebulous and it did not provide clarification over 'what' or 'what was not' included within it. The way it is currently written also suggests that techniques and processes outside of technologies would also be included under this definition (for example, as it relates to capturing, managing, transforming or communicating data or information). This seems to go against the spirit of the intended definition - with the potential for a manual cash book to be captured by this new definition, (even if it is not appropriate).

We recommend that the definition is simplified, removing reference to 'diverse' as this appears to be superfluous and specifically relating the techniques and processes to the technologies previously mentioned. We suggest 'Technology and the related techniques and process used to ...'

In relation to the definition of intellectual agility, we generally support the definition, with the exception of the inclusion of the phrase ‘...re-evaluate conclusions in response to ... existing facts’.

This does raise a number of concerns. Firstly, this seems to imply that aspiring accountants or professional accountants should be encouraged to routinely second-guess decisions that have previously made or conclusions that they arrived at. If this is the approach, then this seems to run counter to the critical thinking, reasoning and decision-making skills that the IES’s include as learning outcomes.

Secondly, while we agree that aspiring and professional accountants should not be anchored to conclusions or decisions they have previously made, we would argue that any changes to such would generally be in response to a triggering event - such as additional facts, or new circumstances or insights that the professional accountant becomes aware of in relation to existing facts. We believe that this clarification of the definition is important to its understandability and for the aspiring professional accountant to be able to perform their role.

Lastly, we believe that ‘re-evaluate’ may not appropriately reflect response from an aspiring or professional accountant. Instead we recommend ‘reflect on’ which we believe better represents the process undertaken by the accountant of stepping back and taking a holistic view of the judgement processes undertaken and conclusions previously reached to determine whether an essential objective, conclusion or information has been omitted and whether the overall conclusion is reasonable from various viewpoints.

We therefore recommend that the definition be edited to read ‘...reflect on conclusions in response to new facts or additional circumstances or insights related to existing facts...’.

4. **Are there any terms within the new and revised learning outcomes of IES 2, 3, 4 and 8, which require further clarification (See Appendix E)? If so, please explain the nature of the changes?**

We have reviewed the new and revised learning outcomes and, with the exception of the terms noted in response to question 3, above, we do not believe that any additional terms that require further clarification.

Other comments in relation to the exposure draft

We note that the competences for *IES 8, Professional Competence for Engagement Partners Responsible for Audits of Financial Statements* (IES 8), as included in the proposed changes to Table A in Appendix D of the ED are listed with competence levels, which are themselves not included in the published version of IES 8, nor included as a tracked change. We do not believe that competence levels should be included in a revised IES 8, as the words used in the specific learning outcomes are clear and already indicative of an Advanced level. However, if it is the board’s intention to include competency areas levels within the published Handbook of IESs for IES 8 - given the importance of the engagement partner role and the public interest - we would support levels that continue to be set at advanced. We would not support competence areas which as highlighted in Appendix D only go to the intermediate level.

The exposure draft indicates that the new IESs are likely to become effective from January 1, 2021 which is likely to be 18 months after the IAESB itself has ceased to exist. For the IESs, including this set of revised IESs, to have legitimacy with IFAC Member Bodies, regulators, firms and other stakeholders, it is important that IFAC ensures appropriate measures are undertaken to provide appropriate custodianship and communication of the revised suite of IESs.

Finally, we noted some inconsistencies with the lettering/proposed lettering of certain of the competence areas/learning outcomes versus the published Handbook of IESs during our review of the exposure draft and ask that the board ensures that these are corrected in the final published version.

We appreciate the opportunity to comment on the ED, which has proven to be a substantial publication by the IAESB. We also congratulate the IAESB on the extensive engagement with stakeholders that has taken place as part of the ICT and professional scepticism task forces - including engagement with other standard-setting boards. We hope that our comments and suggestions will be helpful to you in your deliberations and development of future recommendations.

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

Yours sincerely,
BDO International Limited

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Appendix I

IES 2, Initial Professional Development - Technical Competence

Proposed change		BDO Response
<i>(f) Governance, risk management and internal control</i>	<i>(vi) Assess the adequacy of systems, processes and controls for capturing, transmitting, reporting and safeguarding data and information</i>	<p>On review of this competence, we felt it was unduly broad and as such was stepping into the realm of IT specialists - particularly through use of the word 'assess'. Important data and information can be held in numerous locations, virtual and physical, and in relation to many different business areas. The aspiring professional accountant cannot be expected to have sufficient knowledge of all possible ICT systems, processes or controls, in order to be able to competently achieve this learning outcome. Some ICT systems can be incredibly complex which could make assessing professional competence of aspiring professional accountants for this particular learning outcome, onerous and unproductive.</p> <p>A recent illustrative example is that of the Marriott/Starwood data breach, where sensitive information was held within their booking system/loyalty program. We do not believe that it is reasonable to expect accountants at the IPD stage to have sufficient knowledge of ICT to have been able to assess the systems, processes and controls around the programs and identify the weaknesses in this example.</p> <p>Despite this reservation, we do agree that an accountant should have the expertise to be able look at information provided to them by experts and interpret their assessment. Clearly in a simple ICT system within a less complex entity, there may be an opportunity for an aspiring professional accountant to make an initial assessment.</p> <p>We therefore suggest that you limit the scope of this learning outcome to financial reporting and create a second learning outcome over the interpretation of experts' assessment of other systems.</p> <p>In addition to the above, we note that this area is extremely topical and a focus area for many organisations. However, it is really just one example of a risk area that organisations face. Singling out data and information governance and risk management appears to elevate this above other risks that exist and in need of a governance response (and consequential skill for aspiring and professional accountants). A governance model and risk framework should ideally incorporate all significant strategic and operational risks, including the risks and controls around data and information.</p>

Proposed change		BDO Response
<i>(h) Information and communications technologies</i>	<i>(i) Analyze the adequacy of processes and controls</i>	<p>While this learning outcome is positioned within the (h) competence area, we are not clear if this relates to all (or any) process and controls, or specifically those relating to just ICT. In addition, learning outcome appears to overlap with (f)(vi), above.</p> <p>If this relates to ICT only, the wording provides challenges as accountants may not be sufficiently familiar with emerging technology being used to make such an assessment alone.</p> <p>For example, if a company were to use an internal system based on blockchain technology to record all financial transactions, aspiring professional accountants are unlikely to possess the underlying knowledge to assess the adequacy of controls and processes - especially as entities (i.e. fintech companies who tend to be at the forefront of these developments), adopt emerging technology. This knowledge and skills gap will likely grow.</p> <p>We recommend that the wording of this learning outcome is edited to allow for the possibility of utilising technology experts to assist with such an assessment and to allow for the rapidly changing environment: ‘Analyze processes and controls or interpret the reports of experts to determine their adequacy’.</p> <p>This would also go some way to acknowledging that tomorrow’s professional accountant is likely to be working increasingly alongside ICT-experts, especially given the pace of change in the digital age.</p>
	<i>(iii) Apply ICT to increase the efficiency and effectiveness of processes.</i>	<p>We believe that this should also encompass controls as they may allow the move from a manual control to an automated control or a more efficient or effective automated control and so recommend the change ‘... of processes and controls’. Such a change would also enable the IESs to be more applicable to aspiring professional accountants operating in business (i.e. not just those joining the profession via accounting firms).</p>
	<i>(vi) Use ICT to communicate with impact and influence others</i>	<p>We support inclusion of this learning outcome, however we wonder whether it would be better placed in <i>IES 3 - Initial Professional Development - Professional Skills, under the category of interpersonal and communication</i> as it relates to an aspiring professional accountant’s ability to communicate and not their technical skills.</p> <p>Professional accountants come into contact (and likely generate), through use of ICT, increasing amounts of data and information. As a result, there is a danger of ‘data overload’ both in terms of working with the data but also the ability of an individual to communicate the value of ICT outputs to</p>

Proposed change		BDO Response
		decision-makers or other colleagues within an entity. Professional accountants are sometimes criticised for lacking good communication skills, so having a learning outcomes in this area remains important; however our biggest concern relates to the positioning of it within the ED competence areas.
<i>(i) Business and organizational environment (Intermediate)</i>	<i>(i) Describe the environment in which an organization operates, including the primary economic, legal, political, technological, social, and cultural aspects.</i>	<p>The ability to describe the environment in which an organisation operates is of limited benefit to an aspiring professional accountant, unlike the ability to describe the impact of the environment on the organisation.</p> <p>As such, we recommend that the board changes this learning outcome to ‘Describe the impact of the environment on an organisation, including....’</p>
	<i>(iv) Identify the features of globalization, including the role of multinationals, and emerging markets.</i>	Similar to the above point, the ability to identify the features of globalisation can be somewhat vague and may create a learning outcome that is difficult to assess. It may be more useful to change this to ‘Identify the impacts of globalisation, ...on an organisation’. The importance of being able to assess how these issues affect the way organisations plan, operate and make decisions is an important skill to develop.

IES 3, Initial Professional Development - Professional Skills

Proposed change		BDO Response
(b) <i>Interpersonal and communication</i>	(ii) <i>Demonstrate collaboration skills</i>	We note that this learning outcome does not seem to be related to either professional scepticism or ICT and therefore would be out of the scope of this revision project.
	<i>New</i>	As noted above, we believe that learning outcome (h)(vi) should be included in this category due to it clearly being a skill related to the ability of the aspiring professional accountant to work, interact with and influence effectively others as set out in paragraph A5(b) of this standard.
<p>A5 Within this IES, professional skills are categorized into four competence areas:</p> <p>a) <i>Intellectual relates to the ability of a professional accountant to solve problems, and to make decisions, and to exercise professional judgment;</i></p> <p>b) <i>Interpersonal and communication relate to the ability of a professional accountant to work and interact effectively with others;</i></p> <p>c) <i>Personal relates to the personal attitudes and behavior of a professional accountant; and</i></p> <p>d) <i>Organizational relates to the ability of a professional accountant to work effectively with or within an organization to obtain the optimal results or outcomes from the people and resources available.</i></p>		<p>The board has proposed the removal of the phrase ‘and to exercise professional judgment’ within this paragraph, however we believe it is too simplistic to state that the professional judgment is no longer included in the intellectual competence area and only covered in <i>IES 4 - Initial Professional Development - Professional Values, Ethics and Attitudes</i>.</p> <p>Professional judgement informs our conclusions of when it is appropriate to decide to consult with others and recommend solutions to complex problems, both of which are still included within this competence area. Without the exercise of professional judgement, an aspiring or professional accountant is still able to solve a problem or make a decision, but that does not mean it would be a good decision or the most appropriate resolution to the issue at hand. The use of a thoughtful process underpinned by professional judgement is key to the decision-making process.</p> <p>As such we believe that this phrase should remain.</p> <p>Additionally, we believe that the readability of this paragraph would be improved by the addition of the word ‘competence’ after each of the competence areas, for example, ‘Intellectual <i>competence</i> relates to...’.</p>

IES 4, Initial Professional Development - Professional Values, Ethics and Attitudes

Proposed change		BDO Response
<i>(b) Ethical principles</i>	<i>(vi) Apply ethical principles when accessing, storing, generating, using and sharing data and information.</i>	<p>While we agree that the standards should include learning outcomes on this matter, it is one of the few items where we would expect that the aspiring professional accountant behave in the same way as a professional accountant from the outset. We also note that <i>IES 8 - Professional Competence for Engagement Partners Responsible for Audits of Financial Statements</i> includes '(n) Ethical principles, learning outcome (iii) Act ethically when accessing, storing, generating, using and sharing data and information of the entity' and as such we believe that this learning outcome and (n)(iii) in IES 8, should be identical.</p> <p>In our view the wording used in IES 8 would be preferable as it leaves no room for doubt regarding the requirements of the learning outcome. Although we appreciate that if the IES 8 wording is used within the IPD IESs, this could then remove the need to have an identical learning outcome in IES 8 given that this standard is intended to build on the IPD foundational IESs.</p>

IES 8, Professional Competence for Engagement Partners Responsible for Audits of Financial Statements

Proposed change		BDO Response
<i>(h) Information and communication technologies</i>	<i>(i) Evaluate the ICT environment to identify controls that relate to the financial statements to determine the impact on the overall audit strategy.</i>	<p>On review of this learning outcome, we feel that the inclusion of 'communication technology' within the defined 'ICT' term increases the scope of this requirement to become unreasonably large. This is likely due to the definition of ICT being unclear (as noted in our earlier response) and lacking clarity over what this term encompasses, as it is currently defined.</p> <p>The board should clarify what falls under the definition of ICT, which would likely resolve our issue with this learning objective.</p>