

15 June 2010

Technical Manager
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International Federation of Accountants
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Dear Sir

Consultation Paper: International Education Standard (IES) 8: Competence Requirements for Audit Professionals

Thank you for the opportunity to comment on this Consultation Paper. CPA Australia, the Institute of Chartered Accountants and the National Institute of Accountants (the Joint Accounting Bodies) have considered the paper and our comments follow. The Joint Accounting Bodies represent over 180,000 professional accountants in Australia. Our members work in diverse roles across public practice, commerce, industry, government and academia throughout Australia and internationally.

The Joint Accounting Bodies note the importance of IES 8 in recognising the specialist nature of auditing services. We strongly support the view that competence in the area of auditing of historical financial information requires a higher level of education and training in audit and related areas than is required of other professional accountants.

General Comments

The Consultation Paper notes that the IAESB recommends that IES 8 becomes a principles-based standard directed towards auditors of historical financial information. With the growing suite of International Auditing and Assurance Standards (IAASB) pronouncements, many of which are focused on assurance of information other than historical financial information (e.g., the IAASB's '3000' series), we recommend that consideration be given to extending the coverage of IES 8 to assurance professionals. This would recognise that competency, along with other key factors such as independence and quality control, are critical components of all assurance engagements.

Furthermore, in many jurisdictions, including Australia, a range of audit engagements for smaller and medium sized entities (SMEs) are conducted by audit practitioners who operate as sole practitioners or as part of smaller professional firms. The IAESB should be cognisant of these arrangements when revising IES 8, and ensure that the standard can be applied to audit practitioners across the entire spectrum of audit practices and engagements. One matter worth noting is the suggestion in the explanation following the definition of "Audit professional" in IES 8 that the definition applies only to the engagement partner. It is not clear that it applies to all professional accountants involved in an audit engagement.

Finally, although the current definition of audit professional excludes experts who undertake specific tasks within an audit, there may be circumstances where such an expert may be deemed to be part of the engagement team.

Representatives of the Australian Accounting Profession



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Specific Questions

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

Subject to our comments above, we believe that the IAESB has identified the critical issues in respect of at “whom” the IES 8 requirements are aimed. It is important that the definition applies to all audit professionals, who are required to exercise professional judgement and scepticism in all aspects of the audit engagement. Therefore, we recommend that the IAESB consider that the definition utilise the term “professional judgement”, rather than significant judgement.

The Consultation Paper makes the point that IES 8 is focused on the competencies of the individual professional accountant involved in an audit of historical financial information, without reference to overall team competencies as described in the International Standards on Auditing (ISAs). We agree that the focus of the IES should be on the individual audit professional, and note that appropriate reference to working in a team environment is made within the section dealing with the professional skills requirements.

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 support the approach to expand the definition of the audit professional to potentially cover a wider range of professionals involved in an audit engagement. The current focus on engagement partners would seem to be too limited in scope, as other professionals working on an audit engagement (who are not the engagement partner) would typically also need to demonstrate proficiency and competency, and exercise appropriate levels of scepticism and professional judgement.

We recognise that there will be audit professionals with differing levels of experience and can envisage how competency requirements can be structured to address these different levels. For example, as an audit professional becomes more experienced the demonstrated competencies outlined in paragraph 72 of IES 8 will become relevant. However, we are unclear how competency requirements can suitably address matters such as the complexity of an audit engagement, other than to recognise the important link between experience and complexity. Likewise, where the nature of an audit engagement requires specific subject matter knowledge we suggest that a revised IES should recognise this point. It is impracticable to expect that a range of specific competencies can be developed to encompass a range of specialised engagements.

Furthermore, as noted in our general comments above, we suggest that consideration be given to broadening the coverage of IES 8 from audit professionals to assurance professionals. This is particularly relevant in light of the IAASB’s current work program, which includes projects examining assurance for subject matter other than historical financial information, such as greenhouse gas emissions.

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?

Refer response to Question A above.

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?

Regulatory and professional aspects of the audit environment vary between jurisdictions. In recognition of this the IAESB should ensure that competency requirements can be effectively applied by different types of organisations – for example professional accounting bodies in one country, a Government regulator in another. With this in mind, it is appropriate for a revised IES to focus upon, and describe, what may be considered to be more generic, base level competency requirements. Matters pertaining to specialist industries and specific types of audit engagements may be best addressed by separate jurisdictions through registration arrangements that reflect contextual circumstances.

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?

Currently, IES 8 does not satisfactorily address the requirements for what the IAESB has termed “advanced level competences”. The knowledge content for audit professionals involved in transnational audits (outlined in paragraph 77 of IES 8) are similar to those required for all audits. Furthermore, in respect of specific industries, IES 8 prescribes no requirements and notes that it is not practicable to do so (paragraph 80). Therefore, further clarification of what is meant by “advanced level competencies” is required.

We recommend that the IAESB consider removing Section 4 of IES 8 as a separate section of the standard dealing specifically with “advanced level” requirements. Most of the requirements pertaining to transnational audits would be better located in Section 2 of the standard, within the sub-section entitled “Knowledge Content”. Furthermore, we agree with the conclusion reached in paragraph 80 of IES 8 that it is impracticable to prescribe specific knowledge for specific industries, and therefore recommend that a comment to this effect be located within Section 2 of the standard, in the sub-section entitled “Knowledge Content”.

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

Refer responses to Questions B and E above.

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?

The Joint Accounting Bodies believe that the IAESB should not aim to address competencies for different types of audit engagements. Refer responses to Questions B and E above. In our view knowledge of, and the ability to apply, all the auditing standards are fundamental requirements for all audit professionals (i.e., “an audit is an audit”) and audit professionals must have this knowledge. We recognise that subject matter knowledge is a separate matter, which the IAESB could address separately.

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

We are not aware of any other definitional inconsistencies that the IAESB should consider.

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

The Joint Accounting Bodies agree with the IAESB’s approach of comparing terminology, definitions and competencies within IES 8 to other IESs and IFAC pronouncements, and eliminating inconsistencies where appropriate.

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?

We offer the following comments in respect of other specific issues that the IAESB may wish to consider as part of its revision of IES 8:

- Paragraph 17 and 62 – both of these paragraphs note that IFAC member bodies may consider prescribing specific CPD activities for audit professionals. The second sentence of paragraph 62 states that: “CPD will also be necessary to ensure that audit professionals develop and maintain further competence”. Given that this sentence suggests that relevant CPD activities are mandatory, we recommend that the IAESB considers making the prescription of specific CPD activities for audit professionals a mandatory requirement in a revised IES 8.
- Paragraph 42 – we recommend that the IAESB include in the list of professional skills requirements in sub-paragraph (b) specific reference to: (i) demonstrated capacity for risk

assessment, including fraud risks; and (ii) applying relevant ethical requirements, especially those pertaining to independence.

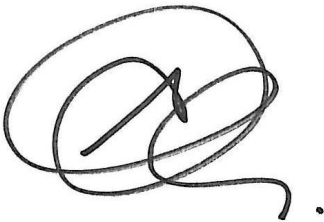
- Paragraph 50 – we recommend that when discussing the added dimension relevant to audit professionals, when considering fundamental ethical principles, that specific reference also be made to the importance of independence.

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

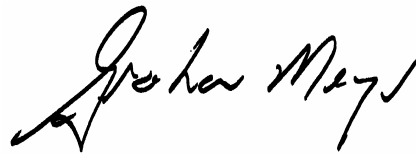
We do not foresee any significant impact on the professional accounting bodies in Australia or the wider profession of the IAESB's proposed changes to IES 8.

The professional accounting bodies are committed to assisting where possible in the development and implementation of the highest quality auditing and assurance arrangements and regulatory standards around the world. We hope that the comments provided are of assistance to IAESB. If you have any questions regarding this submission, please do not hesitate to contact either Gary Pflugrath (CPA Australia) at +61 2 9375 6244, Andrew Stringer (Institute) at +61 2 9290 5566, or Tom Ravlic (NIA) at +61 3 8665 3143.

Yours sincerely



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