

June 30, 2010

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

**Re: IFAC – IAESB – Consultation Paper – IES 8:
Competence Requirements for Audit Professionals**

Dear Sir/Madam:

I appreciate the opportunity to provide comments on the Consultation Paper on the proposed changes to International Education Standard (IES) 8: Competence Requirements for Audit Professionals.

You have stated that the changes to IES 8, among other things, will likely result in a revised structure that clearly sets out the objective of the IES, will clarify obligations imposed on member bodies, will reduce ambiguity about the requirements, and will improve the explanation and guidance to support consistent application of the IES 8 requirements.

The purpose of The Public Accountants Council for the Province of Ontario (the Council) is to ensure that public accounting in Ontario is practised in accordance with internationally respected public accounting standards that reflect the public interest in the delivery of superior quality public accounting services.

As the CEO of the Council, I have an interest in seeing developments to standards that promote the delivery of superior public accounting standards. It is from this perspective that the following comments are made on the proposed changes to IES 8.

Specific Issues of IES 8 Implementation

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 target audiences are the audit professional and the IFAC member bodies, audit organizations, regulatory authorities and other third parties who share responsibility in setting the standards for the development of audit professionals. This presumes that the term “audit organizations” does not include audit firms. I believe the preferred model is

1200 Bay Street, Suite 901
Toronto, Ontario M5R 2A5

T 416.920.1444

F 416.920.1917

E generalinquiries@pacont.org

Toll Free: 1.800.387.2154

www.pacont.org

that audit firms meet the requirements established by their respective country audit organizations and regulatory authorities. In Ontario, it would be expected that IES 8 requirements should be met by newly licensed public accountants. These requirements are not expected to be met by every single individual who happens to belong to an IFAC member body.

The "audit professional" is defined as "... a professional accountant who has responsibility, or has been delegated responsibility, for significant judgments in an audit of historical financial information." This definition does not seem consistent with achieving the purpose of the audit, which is described in ISA 200.03 as "The purpose of an audit is to enhance the degree of confidence of intended users in the financial statements. This is achieved by the expression of an opinion by the auditor on whether the financial statements are prepared, in all material respects, in accordance with an **applicable financial reporting framework**" (*emphasis added*). It seems that an **applicable financial reporting framework** is broader than **historical financial information**, especially with increased use of fair value accounting in financial reporting.

In addition, usage of the term "significant judgment" could lead to confusion or inconsistent application. It would be preferable to define the audit professional as stated but with removal of the term "significant". More will be said about this later in this letter.

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 definition should not be expanded and in fact it is preferable to stay with a basic definition of the audit professional at the entry level to the profession. In Ontario this would mean a newly licensed public accountant.

Further expansion of the term generates greater confusion and the likelihood of inconsistency in application. Once an audit professional moves beyond the entry level, there are simply too many branches to the career path that are possible. These alternatives result from area of practice chosen, individual firm policies and practices, industry categories, country specific factors and many other variations.

These unending permutations and combinations of factors affecting the audit professional's career and related training are better and more effectively dealt with through professional supervision, regulatory oversight, an audit firm's practice inspection and the application of the rules, supervision and quality control policies of audit firms. Taking this approach would allow the IAESB to set the education, experience and examination standards at the entry level for the audit professional. This approach promotes consistency for the entry level requirements if they are set at the appropriate level to facilitate global mobility for audit professionals.

Further support for this approach is provided through the requirements of IES 7 – Continuing Professional Development: A Program of Lifelong Learning and Continuing Development of Professional Competence.

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?

I agree that the use of the term “significant judgment” must be dealt with in the revised IES 8 when defining the professional accountant. It is important to avoid revisions to a descriptor for judgment that may lead to confusion and inconsistent application. The requirements of the various International Standards on Auditing (ISA) differ depending on which ISA is referred to. For instance, the most significant and complex judgment is required for ISA 540 on auditing accounting estimates whereas the judgment requirements for other ISAs are more straightforward. Confusion could be avoided by being consistent with the definition of professional judgment in ISA 200.13(k).

As noted in section 1.A of this letter, it would be preferable to define the professional accountant as an individual who is able to achieve the requirements of ISA 200.03. By taking this approach, there is no need to define words such as “significant”. The audit process then relies on the principle of appropriate audit supervision and second opinions to demonstrate that judgment was applied at a level which meets established audit standards. This approach is further supported by the quality control post review process of an audit engagement by regulatory, audit organizations or individual firms.

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?

Many country jurisdictions have shared or overlapping responsibilities among audit organizations, government legislation and regulatory bodies. In Canada these include national accounting organizations, their respective provincial member bodies, provincial and federal legislation and regulatory bodies such as the Canadian Public Accountability Board and for the province of Ontario, the Council. It should be sufficient to assume that these respective organizations recognize their collective responsibilities to share the changes that occur as standards or requirements change. Research has shown that how standards are applied is significantly influenced by a country's legal and regulatory system.

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?

The area of “advanced level” of competences requires further clarification. In 1.A and 1.B above, reference was made to focusing on defining the education, experience and examination standards for an entry level public accountant. This entry level accountant would then also have to meet the requirements of IES 7 = Continuing Professional Development (CPD).

This suggested approach, entry level standards followed by lifelong CPD, is a more flexible and realistic model that recognizes the vast array of career paths that the audit professional will experience in developing the necessary knowledge and competences to deal with the challenges of today's rapidly changing business environment. As quickly as "advanced level" competences are developed at an institutional level, they will be out of date.

Whether the reference is to accounting and auditing technical skills, or to professional skills, use of the term "advanced" is not likely to provide clarity that will be helpful to the target audience.

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

Please see the previous comments relating to the entry level of standards followed by CPD.

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 spirit of the comments in this letter is that the IAESB should not attempt to define the competences of the audit professional for the myriad of special or complex types of situations that are encountered in public accounting. Reliance on the initial training, followed by CPD, accompanied by appropriate supervision and quality control, and then reviewed by the applicable oversight or regulatory review, provides the most realistic model to deliver high quality public accounting services.

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?

IES 8 paragraph 42 suggests that there should also be consistency with financial reporting standards. What other ways can the auditor "evaluate applications of relevant financial reporting standards"? Perhaps that paragraph should be expanded to note that auditors need to be aware of the goals, conceptual framework, assumptions, and principles of IFRS or other applicable reporting frameworks in order to accomplish this? (See 1A above) Consistent with the general theme of paragraph 42, perhaps more emphasis should be placed on integrating audit thinking with principles based financial reporting (principles based thinking), ability to think flexibly, critical thinking, and professional judgments. The most important integration in audited financial reporting is IFAC pronouncements with the applicable financial reporting framework. Evaluating management assumptions in accounting estimates and applicable reporting frameworks are key professional skills of IES 8 in today's environment.

If "historical financial information" were replaced with "applicable reporting framework" as discussed in 1A above, then you should consider a similar substitution in IESs 1-7.

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?

In order to minimize confusion in implementing IESs, the IESs should use terminology consistent with IFAC pronouncements to the extent feasible. When new concepts are proposed they should be clearly differentiated from similar concepts in IFAC pronouncements or applicable reporting frameworks (e.g., significant judgment vs. professional judgment, as noted in 1A above).

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

I do not see any direct impact on the Council and its standards for public accounting from the proposed changes except to the extent they will be relevant as the Council updates its standards from time to time.

I do see the opportunity for the IAESB to assist in closing the gap between country jurisdictions and the accounting designations on standards that are appropriate for an entry level audit professional. Narrowing this gap would contribute greatly to enhanced global mobility for audit professionals. Raising the standards to qualify as an audit professional in those jurisdictions or organizations where there are deficiencies would also contribute to more consistent high quality public accounting services being available to the public and ultimately could contribute to improving the public perception of the contribution of public accounting services for effective and reliable financial reporting.

I would be please to respond to any questions you have on these comments.

Yours truly,



Keith Bowman
CEO