

July 2006

Basis for Conclusions: IES 8, Competence Requirements for Audit Professionals

*Prepared by the Staff of the International Accounting Education
Standards Board*



**International Federation
of Accountants**

**BASIS FOR CONCLUSIONS:
IES 8, COMPETENCE REQUIREMENTS FOR AUDIT PROFESSIONALS**

This Basis for Conclusions has been prepared by staff of the International Accounting Education Standards Board (“IAESB”) and has not been discussed by the IAESB. It does not form part of IES 8.

Background

1. The IAESB, formerly the IFAC Education Committee, considered and approved a project to develop an International Education Standard for audit professionals in August 2003 for a number of reasons, including:
 - The reliance the public places on audits of historical financial information;
 - The need for a specific standard because of the specialist knowledge and skills required to perform competently in this area;
 - A request from the Forum of Firms and the Transnational Auditors Committee that the IAESB develop a standard in this area.
2. The IAESB issued an exposure draft of IES 8 (“ED IES 8”) on April 15 2005, with a comment deadline of July 15, 2005. This deadline was subsequently extended to August 15, 2005. The IAESB received 36 comment letters from a variety of respondents, including regulators, IFAC member bodies, and firms. As a result of these comments, the IAESB implemented a number of changes to ED IES 8 in finalizing the text of the revised IES 8. The following summarizes the more significant issues raised by respondents, and how the IAESB addressed them.

Issues Raised During Exposure Period

3. The most significant issues raised by respondents in their submissions to the IAESB related to:
 - The definition of “audit professional,”
 - The effective date of the standard;
 - The requirement for audit professionals to hold an undergraduate degree;
 - The definition of “advanced level” knowledge content;
 - The prescribed knowledge content for audit and financial reporting;
 - The IT knowledge requirement;
 - The content of professional skills requirements;
 - The proposed practical experience requirement;
 - Competence requirements for engagement partners;
 - Requirements for assessment of transnational audit professionals.

BASIS FOR CONCLUSIONS:
IES 8, COMPETENCE REQUIREMENTS FOR AUDIT PROFESSIONALS

Changes made to IES 8 since exposure are now discussed in turn below. Paragraph numbers refer to IES 8 as issued, unless otherwise stated.

Definition of “Audit Professional” (Paragraph 9)

4. ED IES 8 offered a definition of “audit professional” focusing on individuals with “substantial involvement” in the audit of financial statements. A number of respondents commented that the proposed definition did not adequately identify those professional accountants responsible for making significant audit judgments, and that the proposed definition was either confusing or open to differing interpretations.
5. In response, the IAESB has developed a revised definition of audit professional, focusing on professional accountants with responsibility or delegated responsibility for significant judgments. The IAESB has also clarified that IES 8 applies to professional accountants responsible for significant judgments in the audit of historical financial information, drawing its definition from International Auditing and Assurance Standards Board (IAASB) pronouncements.

Effective Date of Standard (Paragraph 10)

6. ED IES 8 prescribed an effective date of January 1, 2008. One respondent asked for guidance as to whether the standard would apply to all audit professionals from the proposed effective date, or only to audit professionals qualifying on or after the proposed effective date.
7. Despite two respondents’ views that IES 8 should only apply to new audit professionals from the effective date, after lengthy debate the IAESB concluded that the public interest required the application of IES 8 to all audit professionals, the IAESB clarified that IES 8 would apply to all audit professionals from the effective date. It was decided that the effective date be postponed to July 1, 2008, however, to allow member bodies sufficient time for implementation.

Requirement for Undergraduate Degree (Paragraph 29)

8. The proposed requirement for audit professionals to hold an undergraduate degree was identified as a key issue in the explanatory memo that accompanied the exposure draft. A significant proportion of commentators (16 of 36) disagreed with the requirement that audit professionals hold an undergraduate degree. Only 3 commentators expressed support for this proposal. Arguments against the proposed degree requirement included:
 - Inconsistency with EU 8th Directive;
 - Lack of quality standards for undergraduate degrees worldwide;
 - Requirement for undergraduate degree was an input rather than output measure;
 - Requirement would discriminate against individuals unable to obtain degree because of personal/economic circumstances;
 - It would create an unnecessary barrier to entry to the profession.

BASIS FOR CONCLUSIONS:
IES 8, COMPETENCE REQUIREMENTS FOR AUDIT PROFESSIONALS

9. The IAESB noted the extent of comments received disagreeing with this proposal, whilst recognizing that a number of commentators acknowledged that the professional knowledge and skills prescribed in the standard should be developed to a level which is equivalent to an undergraduate degree.
10. Provision for a measure of equivalency to an undergraduate degree is therefore included in IES 8. The burden of proof is placed on the IFAC member body to demonstrate that the knowledge and skills required by audit professionals have been developed to the required level.

Definition of “Advanced Level” Knowledge Content (Paragraphs 32-34)

11. A total of 13 respondents felt that references to “advanced level” knowledge throughout ED IES 8 appeared ambiguous, and required further clarification and elaboration. References to “deeper and broader” knowledge also caused concern. Was “advanced level knowledge” intended to mean a depth of understanding in areas which were familiar to other accountants, or knowledge and skills which were distinct to that required by other accountants, or some combination of both?
12. The IAESB has therefore developed a definition of advanced level knowledge based on the concept that the advanced level knowledge is broader and deeper than that expected of individuals qualifying as professional accountants in IES 2. Each IFAC member body is to determine the levels of depth and breadth of knowledge, and the means for gaining that knowledge, as appropriate for their environment.

Prescribed Knowledge Content for Audit and Financial Reporting (Paragraphs 36-39)

13. In addition to comments received on the definition of “advanced level” knowledge (see above), a number of respondents suggested changes to the advanced level knowledge content requirements for audit and financial reporting subject areas proposed in ED IES 8. In particular, respondents argued that ED IES 8 gave too much emphasis to knowledge of international standards, and that some of the specific knowledge content proposed for the audit subject area could conflict with current or future IAASB pronouncements.
14. In response to these concerns, the IAESB has removed the list of suggested topics (former paragraph 47) from IES 8. The Standard also allows for the knowledge content of audit and financial reporting subject areas to include coverage of any other relevant/applicable standards or laws. This reflects what happens in practice, especially in those jurisdictions which do not adopt international standards, and/or may have additional regulatory and other requirements which regulate auditing and financial reporting practice.

IT Knowledge Requirement (Paragraph 40)

15. ED IES 8 proposed that the knowledge content within the education and development program for audit professionals should include IT at an advanced level, in addition to

BASIS FOR CONCLUSIONS:
IES 8, COMPETENCE REQUIREMENTS FOR AUDIT PROFESSIONALS

advanced level knowledge of audit and financial reporting subject areas. It also proposed that this advanced level knowledge include knowledge of CAATs.

16. Eight commentators expressed concern about the applicability and relevance of the IT knowledge component. In particular, respondents questioned whether an advanced level knowledge of IT (i.e. broader and deeper than that required by IES 2) was required by audit professionals, especially those operating in the SMP/SME sector. Respondents also disagreed with the requirement for a specific knowledge of CAATs.
17. In response, the IAESB has removed the requirement for “advanced level” knowledge of IT. IES 8 requires audit professionals to have knowledge of information technology systems for financial accounting and reporting, and of frameworks for evaluating controls and assessing risks in accounting and reporting systems.

Professional Skills Requirements (Paragraphs 42-44)

18. There was general support for this section of ED IES 8 from respondents, and a number of respondents suggested additional skills areas for inclusion in the final standard.
19. In response to comments received, an additional skills area has been added to IES 8 (“evaluating applications of relevant financial reporting standards”). The requirement in ED IES 8 for audit professionals to develop the ability to treat confidential information appropriately has been removed as it was considered this was already adequately covered in the “Professional Values, Ethics and Attitudes” section of the Standard.

Professional Values, Ethics and Attitudes (Paragraphs 45-53)

20. Following comment from a number of respondents to ED IES 8, specific reference (in paragraph 52) has been added relating to independence as an important requirement for audit professionals.

Practical Experience Requirements (Paragraphs 54-60)

21. ED IES 8 required audit professionals to undertake a period of practical experience long enough and intensive enough to permit them to demonstrate that they have acquired the professional knowledge, professional skills and professional values, ethics, and attitudes required to competently perform the work of an audit professional. Five respondents suggested that the experience requirement be made more rigorous, and in particular that parameters for practical experience should be prescribed.
22. In response, the IAESB included a requirement in bold letter paragraph 54 for a substantial proportion of practical experience to be in the area of audit of historical financial information. This was included in ED IES 8 as a gray letter paragraph. In addition, three years practical experience, of which two should normally be spent in the area of audit of historical financial information is now proposed in paragraph 58. The concept of equivalency where this is not met is also introduced in the same paragraph.

Competence Requirements for Engagement Partners (Paragraphs 71-72)

23. ED IES 8 contained detailed lists of capabilities and competences required for auditors (ED paragraphs 85 and 86). A number of respondents expressed concern both at the specific content of these lists, and their potential lack of consistency with International Standards on Auditing. In particular, concern was expressed at the content of lists of capabilities and competences with respect to the “audit process” and commercial aspects of the engagement partner’s role.
24. In response, the IAESB has substantially revised this section of IES 8. Capabilities and competences relating to audit process and commercial aspects of the engagement partner role have been deleted. The focus of this section is now on leadership, managerial and communicative competences expected of engagement partners.
25. In addition, three commentators pointed out that the IAESB’s usage of “auditor” in ED IES 8 was inconsistent with IAASB usage. The IAASB term “engagement partner” now replaces “auditor” throughout IES 8.

Requirements for Assessment of Transnational Audit Professionals (Paragraphs 76-78)

26. ED IES 8 required transnational audit professionals to be assessed before assuming that role. Two respondents expressed strong concern about how competence could be assessed for transnational audit professionals. Two separate respondents requested further guidance be given as to the nature and extent of any assessment process that was prescribed. There was also a suggestion that, as written, ED IES 8 required double assessment of audit professionals becoming transnational audit professionals.
27. After consideration, the IAESB decided to delete the specific requirement for assessment of capabilities and competence of audit professionals involved in transnational audits (former bold letter paragraphs 93 and 94) from IES 8. The IAESB believes that assessment of all audit professionals is adequately addressed in paragraphs 63-65 of the standard.