

August 12, 2005

Ms. Claire Egan  
Technical Manager  
Education Committee  
International Federation of Accountants  
545 Fifth Avenue, 14<sup>th</sup> floor  
New York 10017  
New York  
USA

Dear Ms. Egan:

**IFAC Education Committee – Exposure Draft – Proposed International Education Standard 8 for Professional Accountants – Competence Requirements for Audit Professionals**

We appreciate the opportunity to comment on the Education Committee’s Exposure Draft (ED) on the proposed International Education Standard for Professional Accountants – Competence Requirements for Audit Professionals (IES 8). This response is made on behalf of the PricewaterhouseCoopers network of member firms.

Overall, we support the direction of IES 8. However, we have a concern about three aspects of the Exposure Draft which, in our opinion, should be re-considered before the IES is issued. In addition, there are a few important matters on which, in our opinion, there is a need for greater clarity before finalising the IES. Other suggestions for improvement have also been included. These areas are set out in three sections below.

**Section 1 – Areas of re-consideration:**

**Paragraph 5 – Definition of ‘audit professional’ and paragraph 7 – Definition of ‘material judgement’**

The definitions of ‘audit professional’ and ‘material judgement’ are central to the applicability of the standard to audit staff of different levels. In our opinion, these definitions should be reconsidered as currently they do not reflect the way an audit team is structured or the reality of how audit judgement decisions are made.

Whether or not a professional accountant makes ‘material judgements that are relied upon’ is effectively the criteria for determining whether a professional accountant is undertaking the role of an audit professional. We would argue that only the engagement leader (a PwC term encompassing the engagement partner and, in some jurisdictions, director) makes material judgement decisions. More junior members of the engagement team (both qualified and unqualified) will make initial judgements, but these are made under appropriate supervision. All audit judgements are reviewed by more senior members of the engagement team, with the final responsibility for material judgement remaining with the engagement leader. In our opinion, the current definitions should be redrafted so that they reflect this reality. This will make the definitions clearer and enable the issue which is central to the application of the standard to be consistently understood.

**Paragraph 38 – The requirement to hold an undergraduate degree**

We do not support the black letter requirement in paragraph 38 for audit professionals to hold an undergraduate degree. Currently, in some jurisdictions, member firms are reworking the traditional engagement team structure to include resources who may not have an undergraduate degree, for example, accounting technicians or industry experts. Many of these will be expected to complete an audit qualification as part of their development and the combination of skills that they acquire through these combined programmes will enable them to contribute as a member of an audit team as effectively as a graduate.

In addition, IFAC member bodies in some countries may currently offer professional qualifications to those who have not pursued a university education, reflecting more lack of opportunity for university education than the academic potential of their candidates.

For these reasons, it is our opinion that the requirement for an undergraduate degree unnecessarily restricts the human resource strategies of audit firms and developing economies, without specifically driving audit quality. International Standards of Auditing (ISAs) – in particular ISA 220 – and International Standard of Quality Control 1 set out matters relating to the competence requirements for audit personnel and IES 1 to 6 set out education standards for professional accountants. In our opinion, compliance with these standards creates an appropriate quality threshold. The requirement to hold an undergraduate degree also appears inconsistent with the philosophy of IES 7 which promotes an output approach to measurement of competence as often more reliable.

**Paragraphs 93 and 94 – The assessment of the audit professional’s capabilities and competence in relation to Transnational Audits**

The black lettering in Paragraphs 93 and 94 create a post qualification assessment requirement, which is new. In our opinion, this will be extremely difficult to implement consistently since, for example, there are no licensing processes currently in place for transnational auditors. We consider that the licensing processes, with associated competence frameworks, should be in place before assessment of competence can take place effectively and consistently.

As a minimum, more guidance on how existing, or new, assessment processes should be used at a post qualification stage would add greater clarity to the intent of this section of the IES 8. The interaction with the requirements of IES 7 should also be explicitly stated.

In addition, paragraph 91 appears to be written from the perspective of the head office engagement team – since engagement teams working on a subsidiary of a transnational engagement would not necessarily require knowledge in the areas noted (b) and (e). The education requirements for head office versus subsidiary engagement teams should be differentiated.

**Section 2 – Areas where greater clarity is required:**

**a) Implementation of the requirement to hold an undergraduate degree**

IES 8 requires that audit professionals hold an undergraduate degree. Should this requirement be in the final standard, we believe that detailed implementation guidance should be provided. This should include our assumption that the requirement is not retrospective. (There are audit professional within PwC member firms – including ‘auditors’ as defined in IES 8 – who are appropriately qualified, skilled and licensed but who currently do not hold an undergraduate degree).

**b) Paragraph 1 – The responsibility for the development of requirement competence**

The responsibility for the development of the required competence is also shared by individual members of IFAC member bodies and paragraph 1 could state this.

**c) Paragraph 50 – The knowledge content of the financial accounting and reporting subject area**

Currently the standard makes no reference to tax knowledge. Although this is a specialist area, it is also a fundamental business knowledge and skill area which can have a material impact on financial statements. It is not clear whether this subject matter is intentionally excluded from the standard or whether is covered by paragraph 50 (a). If the intent of the standard is that it is included, it should be explicitly stated.

**d) Paragraph 53 – The ‘advanced’ level of knowledge to be included in the education and development programme**

Greater clarity around the definition of an ‘advanced’ level of knowledge is required, particularly in the area of Information Technology (IT). We believe that many accounting qualifications already have an appropriate level of knowledge in some of the areas that are set out in the standard and we do not believe that these areas should be expanded further on the basis of the need for auditors to know more than a general accountant. Further guidance on the knowledge expectations and how these link into the expectations in IES 7, would therefore be useful.

We do recognise that IT knowledge and skills are important and assume that the specialists included in paragraph 45 include IT specialists. We see an inconsistency between paragraphs 45, 53 and 54 (b). If an audit professional can competently identify where an IT specialist is needed, then we question whether they also need an advanced knowledge of:

- information technology systems [paragraph 53 (a)] and
- computer-assisted auditing packages and techniques [paragraphs 53 (c)]

These areas are the domain of the IT specialists which the audit professional utilises on an engagement. In our opinion, requiring an advanced education programme in the areas of paragraph 53 (a) and 53 (c) creates unnecessary, and uneconomic, duplication of skills within the engagement team. Perhaps the intent of IES 8 would be clearer if it were clear how comparable the knowledge and skills of an audit professional, having completed the advanced education programme in this area, would be to an IT specialist.

We agree that audit professionals require the knowledge set out in paragraph 53 (b).

**Section 3 – Other suggestions for improvement:**

- Paragraphs 53 and 54 could benefit from consistent use of the term ‘advanced’, as currently paragraph 54 includes it, but paragraph 53 does not. We have assumed that paragraph 54 is correct.

- Paragraph 90 (a) is redundant since it is covered by the phrase ‘Before professional accountants’ in the first sentence of the paragraph. There is also an element of redundancy with paragraph 38, although the requirement for an undergraduate degree is not repeated.
- The purpose of paragraph 92 is not clear. It is also not complete as there are other factors which also complicate the application of professional values, ethics and attitudes (for example, language).
- We noted examples of inconsistent terminology which could be removed. For example, paragraph 72 introduces the term ‘training’. Elsewhere in the standard the term ‘education and development’ is used. Paragraph 79 uses the term ‘audit firms’. Paragraph 82 uses the term ‘public accounting firms’. Paragraph 97 introduces the concept of application (‘the ability to apply’). The focus in other sections of the standard is on a ‘level of knowledge’.
- The standard should include a formal definition of ‘transnational audits’. It should be clear whether complex, national audits (which are not cross border yet require additional auditing skills) are included in the definition.

### **Special considerations for small and medium entities and small and medium practices**

Subject to our comments in Section 1 on the definition of an audit professional (which can have particular implications for small and medium entities, we agree that all audit professionals, irrespective of the size of the entity should have the same minimum level of competence.

### **Special considerations for the developing profession**

We agree that all audit professionals, irrespective of the environment they work in, should have the same minimum level of competence. We do not think it is necessary for the standard to set out special considerations for the profession in developing and emerging economies.

### **Closing remarks**

We do not underestimate the importance of this Exposure Draft and commend the Education Committee for drafting a standard which specifically focuses on the skills and knowledge of the audit profession.

We would be happy to discuss our views further with you. If you have any questions regarding this letter, please contact Rob Taylor, Global Assurance Learning and Education Leader (+1 416 8155074)

Yours faithfully,

PricewaterhouseCoopers