Education Committee

Exposure Draft

April 2005

Comments are requested by July 15, 2005

Proposed International Education Standard for Professional Accountants

Competence Requirements for Audit Professionals



International Federation of Accountants

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REQUEST FOR COMMENTS

This IFAC Education Committee exposure draft was approved for publication in April 2005. The proposed International Education Standard for Professional Accountants (IES) may be modified in light of comments received before being issued in final form.

Comments should be submitted in time to be received by July 15, 2005, preferably by email or in writing. All comments will be considered a matter for the public record. Comments should be addressed to:

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Email responses should be sent to: Edcomments@ifac.org

The approved text of this exposure draft is published in the English language. To achieve maximum exposure and feedback, IFAC encourages the reproduction of this publication in any format.

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EXPLANATORY MEMORANDUM

Introduction

This memorandum provides some background to, and an explanation of, the proposed International Education Standard for Professional Accountants (IES), "Competence Requirements for Audit Professionals," approved for exposure by IFAC's Education Committee in April 2005.

Background

The first seven International Education Standards for Professional Accountants prescribe the education requirements for all professional accountants, irrespective of their specific area of work (e.g., management accounting, financial reporting or audit) or sector (e.g., public practice, corporate environment or public sector). This proposed standard is the first IES that prescribes competence requirements for a specific area of the profession.

The aim of the proposed standard is to require professional accountants to acquire the specific capabilities (i.e., the professional knowledge, professional skills and professional values, ethics, and attitudes) they need to carry out their work as competent audit professionals. The proposed standard applies not only to auditors (i.e., engagement partners, those with final responsibility for the audit report), but also to those who have a substantial involvement in the audit assignment, and are responsible for making significant judgment decisions contributing to the overall audit opinion. Audit professionals must, of course, also meet the requirements prescribed in IES 1 to 7.

A specific IES for audit professionals is necessary not only because of the specialist knowledge and skills required to perform competently in this area, but also because of the reliance the public and other third parties place on the audits of financial statements. The proposed standard is restricted to only the competence required of those involved in the audits of financial statements. It does not cover other assurance engagements.

Significant Proposals

The Audit Professional

The proposed standard includes a new defined term: "audit professional." This new term describes those who have a substantial role in the audit assignment and whose judgments are relied on in arriving at the overall audit opinion. The proposed definition makes it clear that an audit professional should be a professional accountant (i.e., a person who is a member of an IFAC member body) who has met the requirements prescribed in IES 1 to 6.

General Requirements

It is proposed that before an individual can assume the role of an audit professional they should first qualify as a professional accountant, (i.e., they would already have met the requirements prescribed in IES 1 to 6), hold an undergraduate degree and have the additional knowledge, skills, practical experience, professional values, ethics and attitudes prescribed in those standards.

EXPLANATORY MEMORANDUM

Knowledge Requirements

This proposed standard prescribes the specific knowledge audit professionals require in addition to what IES 2 prescribes for all professional accountants. This additional knowledge is in three key areas: financial statement audit; financial accounting and reporting; and information technology. The knowledge is to be at an advanced level, which is deeper than that expected of professional accountants.

Professional Skills

The proposed standard outlines the application and development of professional skills specific to financial statement audits. While IES 3 prescribes some of these skills for all professional accountants, it is expected that audit professionals should develop and apply them in an audit environment.

Practical Experience

The proposed standard prescribes that individuals must gain a period of relevant practical experience before having substantial involvement in a financial statement audit assignment. They can acquire this experience before, during or after qualification as a professional accountant; this practical experience should be gained under the guidance of an auditor in a suitable organization. The experience needs to be of sufficient depth and duration to enable individuals to demonstrate they have the necessary capabilities and competence prescribed in the proposed standard.

Assessment

It is expected that, before they assume the role of an audit professional, individuals' capabilities and competence will be assessed. This assessment can be carried out by an IFAC member body, a third party (such as a work place assessor, government or regulatory authority), through the member body's peer review process, an audit firm's quality control systems or a combination of these. Some member bodies are likely to include the requirements of this standard within their qualification process. In that case, individuals would qualify as audit professionals at the same time as they qualify as professional accountants and the assessment could take place immediately prior to qualification. In other environments, the capabilities prescribed in the proposed standard will be acquired after qualification as a professional accountant but before an audit license is issued, in which case the member body might rely on an audit firm or its own peer review process to carry out the assessment.

The Auditor

The proposed standard includes some discussion about different audit licensing regimes and the range of additional capabilities and competence required to move from the role of an audit professional to an auditor.

Specific Environments and Industries

The proposed standard states that audit professionals involved in financial statement audits in specific environments and industries require professional knowledge and experience relevant to those environments or industries. The proposed standard also prescribes the competence requirements for audit professionals involved in transnational audits.

EXPLANATORY MEMORANDUM

Guide for Commentators

The Education Committee would like to receive comments on all matters addressed in this IES exposure draft. Anyone offering comments should refer to specific paragraphs, include the reasons for the comments, and, where appropriate, make explicit suggestions for proposed changes to wording. The Education Committee would also like hear from respondents agreeing with the proposals in this exposure draft.

Recognizing that the proposed standard applies to the profession in all stages of development, and to audit professionals working in firms of all sizes, the Education Committee is also interested in comments on the matters set out below.

Special Considerations for Small and Medium Entities and Small and Medium Practices

The proposed standard offers no special considerations for small and medium entities and small and medium practices. The Education Committee believes that the requirements prescribed in the standard set out the minimum competence requirements for all audit professionals, irrespective of the size and nature of financial statement audits. Respondents are asked to comment on whether they find this judgment appropriate. If respondents do not agree, they should set out their reasons.

Special Considerations for the Developing Profession

The proposed standard also does not set out special considerations for the profession in developing and emerging economies. The Education Committee believes that all audit professionals, irrespective of the environment they work in, should have the same minimum level of competence. Respondents are asked to comment on any aspects of the standard that cannot be implemented in their jurisdictions, the reasons why and any suggested alternatives.

Translations

Recognizing that many respondents intend to translate the proposed IES for circulation and for influencing governments and regulators in their own environments, the Education Committee welcomes comment on potential translation issues noted when reviewing this exposure draft.

PROPOSED INTERNATIONAL EDUCATION STANDARD FOR PROFESSIONAL ACCOUNTANTS

IES 8 COMPETENCE REQUIREMENTS FOR AUDIT PROFESSIONALS

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SECTION 1: GENERAL

Purpose of this Standard

- 1. This International Education Standard (IES) prescribes the competence requirements for audit professionals and auditors (engagement partners), including those working in specific industries and environments. IFAC member bodies need to establish policies and procedures that will allow interested members to satisfy the requirements of this standard before they have any substantial involvement in a financial statement audit. The responsibility for the development and assessment of the required competence is shared by IFAC member bodies, audit firms, regulatory authorities and other third parties.
- 2. A specific IES for audit professionals has become necessary not only because of the specialist knowledge and skills required to perform competently in this area, but also because of the reliance the public and other third parties place on the financial statement audit function. This standard is based on the platform for all professional accountants established by IES 1 to 7.
- 3. The aim of this standard is to ensure that professional accountants acquire the specific capabilities (i.e., the professional knowledge, professional skills and professional values, ethics and attitudes) required to work as competent audit professionals. Once they have achieved this competence, audit professionals need to maintain the level of competence the public expects of them. Life-long learning will be required to develop and maintain this professional competence (see also IES 7, Continuing Professional Development: A Program of Lifelong Learning and Continuing Development of Professional Competence).

Definitions

4. **Auditor** is the engagement partner.

<u>Explanation:</u> This term is consistent with that established by the International Auditing and Assurance Standards Board (IAASB) in its "Glossary of Terms." The IAASB definition is also used to refer to an audit firm.

5. <u>Audit professional</u> is a professional accountant who undertakes the audit function and has substantial involvement in a financial statement audit assignment.

<u>Explanation:</u> This definition does not apply to specialists who undertake specific tasks within an audit (e.g., taxation, information technology or valuation specialists).

- 6. **Professional accountant** is a person who is a member of an IFAC member body.
- 7. <u>Substantial involvement</u> in a financial statement audit requires a professional accountant to be responsible for significant audit judgment decisions contributing to the overall financial statement audit opinion.

<u>Explanation:</u> "Significant audit judgment decisions" refers to material judgments that are relied on in forming a financial statement audit opinion.

8. Definitions and explanations of other key terms used in this standard and in other International Education Standards for Professional Accountants are set out in the *Framework for International Education Statements*.

Effective Date

9. This standard is effective from January 1, 2008.

Scope of this Standard

- 10. This standard is restricted to prescribing the competence requirements for the audit of financial statements as described in the International Auditing and Assurance Standards Board's "Framework for Assurance Engagements." It does not address competence requirements for internal audit assignments or for other assurance engagements (such as those related to performance or compliance with regulatory requirements).
- 11. This standard focuses on the minimum professional knowledge, professional skills and professional values, ethics and attitudes audit professionals should have. It does not address the full range of capabilities or competencies needed by the entire audit engagement team.
- 12. IFAC recognizes that audit licensing regimes differ: in some jurisdictions, IFAC member bodies have the legal authority to license auditors whereas, in others, independent licensing bodies have this authority. Where IFAC member bodies have the legal authority to issue audit licenses, they should ensure that licensed individuals meet the requirements prescribed in this standard. Where other bodies have that authority, they, too, should ensure that the requirements for licensing include those prescribed in this standard.
- 13. In jurisdictions where other bodies license auditors, IFAC member bodies are obliged to notify their legislative and regulatory authorities about this standard and try to harmonize it with authoritative local pronouncements as much as possible.
- 14. Professional accountants who perform specialist roles in supporting the audit function (such as tax, computer systems review or specialist valuation) will require capabilities and competencies relevant to their own specialization. This standard does not apply to such individuals.
- 15. Section two of this standard applies to all audit professionals. Section three discusses the competence requirements for auditors. Section four applies to audit professionals involved in specific industries and environments, including transnational audit assignments.

Introduction

Specialization

- 16. While some professional accountants may deliver a wide range of accounting and business-related services, others will choose to specialize in one (or more) area(s) of the profession. No one professional accountant can master all areas of accountancy. Specialization within the profession is necessary to ensure that a range of services can be provided with a sufficient depth of knowledge and expertise in each area.
- 17. The audit of financial statements is one area in which professional accountants may specialize. To perform competently in this specialist area, professional accountants will require a higher level of education and training in audit and related areas than what is required of those who do not have substantial involvement in financial statement audits.
- 18. Professional accountants involved in financial statement audits in specific industries may be more specialized yet. The nature of the industry, any applicable specific laws and accounting treatments may require professional knowledge and professional skills in addition to that required for all other audit professionals.

Educational platform

- 19. International Education Standards for Professional Accountants establish the essential elements of the content and process of education and development of professional accountants (e.g. subject matter, skills, ethics and practical applications). Although the Standards cannot override authoritative local pronouncements, they are prescriptive in nature.
- 20. This standard prescribes the minimum competence requirements IFAC member bodies are expected to require any members to obtain before they undertake substantial involvement in a financial statement audit assignment. This standard sets out the specific knowledge, skills and experience that the public might reasonably expect professional accountants to have before having a substantial involvement in audit assignments. Different levels of responsibility within an audit assignment will demand different levels of competence. This standard sets the minimum benchmark for all audit professionals.
- 21. Before members of an IFAC member body may become substantially involved in a financial statement audit, they will have to qualify as professional accountants (in accordance with IES 1 to 6 and any other requirements set by the IFAC member body) as well as satisfy the requirements of this standard.
- 22. In addition to acquiring the necessary knowledge and skills, professional accountants will have to be assessed (as outlined in paragraphs 76 and 77) to demonstrate that they have the capabilities and competence for having a substantial involvement in financial statement audits and making significant audit judgments. The IFAC Education Committee recognizes that, when capabilities and competence are assessed, output measures are likely to be superior to input measures. Output-based approaches concentrate on

measuring the development and maintenance of competence achieved through learning, rather than measuring the various learning activities completed.

Financial statement audits

23. The term "financial statement audits" used in this standard corresponds to the term "audit" established in the *International Standards on Auditing* issued by the International Auditing and Assurance Standards Board (IAASB) in its *Glossary of Terms*:

The objective of an audit of financial statements is to enable the auditor to express an opinion whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework. An audit of financial statements is an assurance engagement.

24. This standard is restricted to the independent, external audit of financial statements as described in paragraph 23. This standard does not address competence requirements for internal audit assignments or for other assurance engagements, such as audits of performance or compliance with regulatory requirements.

Nature of audit

- 25. Auditing is a structured process that:
 - (a) involves the application of analytical skills, professional judgment and professional skepticism;
 - (b) is usually performed by a team of professionals, directed with managerial skills;
 - (c) uses appropriate forms of technology and adheres to a methodology;
 - (d) complies with all relevant technical standards, such as International Standards on Auditing (ISAs), International Standards on Quality Control (ISQCs), International Financial Reporting Standards (IFRS), International Public Sector Accounting Standards (IPSAS), and any applicable international, national or local equivalents as appropriate; and
 - (e) complies with required standards of professional ethics.
- 26. Auditing is also an integral part of the evolving systems of accountability and responsibilities within organizations and society worldwide. Although financial statement audits may be mandated by regulation and laws, they may also be required for other reasons, such as a condition of borrowing or a matter of contract. In addition, organizations may voluntarily undertake audits to ascertain the fairness of financial representations and assertions and provide a credible report of the financial stewardship of their resources to their stakeholders.
- 27. Entities subject to audit operate with diverse organizational structures in public, private and not-for-profit sectors. Auditing has to adapt to complex and changing environments. Within an audit assignment, many factors must be understood and evaluated appropriately, including:

- (a) the entity and its environment;
- (b) the industry, regulatory and other external factors;
- (c) the applicable financial reporting framework.
- 28. Globalization of business has dramatically increased the need for consistent and high-quality financial reporting within countries and across borders. This directly affects both accounting and auditing. Many stakeholders in today's global business environment expect compliance with recognized international standards in accounting and auditing. The audit of financial statements is undertaken within an identified accounting framework. To help achieve internationally accepted standards in accounting and auditing, it is desirable to establish internationally accepted benchmarks for the competence of professional accountants, including audit professionals.

Developing and maintaining audit capabilities and competences

- 29. A broad knowledge of the business environment in which public, private and not-forprofit entities are structured, financed and managed is essential to the competence of audit professionals.
- 30. To acquire the capabilities required of audit professionals, professional accountants may need to take education and development programs and activities in addition to those they needed to qualify as professional accountants. The additional education and development requirements for audit professionals can be fulfilled either subsequent to, or at the same time as, the education and development program for qualifying as a professional accountant.
- 31. The education and development process for developing the capabilities of audit professionals can include advanced professional education pursued at academic institutions or through the programs of professional bodies; on-the-job training and experience programs; off-the-job training; and continuing professional development (CPD) courses and activities. IFAC member bodies may wish to impose specific requirements, in addition to the minimum benchmarks required in this standard, for professional accountants working as audit professionals. In particular, IFAC member bodies may consider prescribing specific CPD activities for audit professionals.
- 32. IFAC recognizes that each member body will need to determine not only how best to comply with this standard, but also what emphasis to place on the various parts of the education and development process. While member bodies need to consider the wide range of development and assessment options available, this standard prescribes requirements relating to practical experience and the assessment of capabilities and competence.
- 33. All members of the global accountancy profession are obliged to engage in life-long learning and to keep up to date on developments influencing the profession and the quality of the services they provide. IES 7, Continuing Professional Development: A Program of Lifelong Learning and Continuing Development of Professional Competence,

sets out the fundamental requirements for CPD for all professional accountants, including audit professionals.

Audit professionals

- 34. The professional job titles audit professionals sometimes use include the following:
 - (a) Audit Seniors,
 - (b) Audit Supervisors,
 - (c) Audit Managers (often divided into grades such as Assistant Manager, Manager and Senior Manager),
 - (d) Audit Partners, Directors and Principals, and
 - (e) Engagement Partners.

This list of job titles is one representation of the progression of seniority among audit professionals. In some cases, individuals will hold a particular job title before qualifying as a professional accountant or audit professional.

- 35. Audit engagements vary in complexity and size with different requirements for experience and competency of personnel involved in the engagement. An audit team could include audit professionals, qualified professional accountants and individuals working towards qualification as professional accountants. It is the auditor's responsibility to make sure that any individuals assigned to an audit engagement who are not audit professionals will not be responsible for making significant audit judgment decisions.
- 36. After satisfying the minimum requirements to work as audit professionals (as prescribed in this standard), such professionals will need further development to progress, through supervisory and managerial roles, to the level of an auditor with final responsibility for an audit (i.e., the engagement partner). The auditor usually holds an audit license. Audit professionals may be eligible to conduct, supervise and manage audits without being the auditor (as defined in paragraph 4). In all instances, IFAC's *Code of Ethics for Professional Accountants* requires that all professional accountants (including auditors and audit professionals) may not misrepresent their expertise or experience, nor may they undertake assignments for which they are not competent. In addition, the market for audit services will generally discriminate among auditors to ensure that an auditor's expertise is appropriate for the type and complexity of a specific audit assignment.
- 37. Once professional accountants have acquired the capabilities and demonstrated the competence required of audit professionals, further development of a more specific nature may be required before they can have a substantial involvement in the financial statement audits of specific industries (such as banking and finance, extractive industries, and insurance) and specific environments (such as transnational audits).

SECTION 2: QUALIFICATION REQUIREMENTS FOR AUDIT PROFESSIONALS General

- 38. Before individual members of IFAC member bodies assume the role of audit professionals in a financial statement audit assignment, they should:
 - (a) qualify as professional accountants;
 - (b) hold an undergraduate degree; and
 - (c) satisfy all other requirements prescribed in this section.
- 39. Individuals qualify as professional accountants by meeting, as a minimum, the requirements of IES 1-6 (and thereafter IES 7), as well as any other requirements set by their IFAC member body.
- 40. Audit professionals need to acquire professional skills in addition to those required of professional accountants not substantially involved in financial statement audits. The appropriate level of education and learning of the intellectual and personal skills necessary to become an audit professional is generally found in undergraduate degree programs.
- 41. The requirements in paragraph 38 (c) may be fulfilled either subsequent to, or at the same time as, the requirement in paragraphs 38 (a) and (b).

Knowledge Content

- 42. The knowledge content within the education and development program for audit professionals should include the following subject areas at an advanced level:
 - (a) financial statement audit;
 - (b) financial accounting and reporting; and
 - (c) information technology.
- 43. IES 2, *Content of Professional Accounting Education Programs*, sets out the professional knowledge requirements for all professional accountants. In the context of paragraph 42, "advanced level" refers to a level of knowledge that is:
 - (a) deeper than that expected of individuals qualifying as professional accountants outside the fields listed in paragraph 42(a) to (c); and
 - (b) sufficient to enable audit professionals to competently perform their role.

The knowledge content areas applying specifically to audit professionals are prescribed in greater detail as follows: financial statement audit (paragraph 47), financial accounting and reporting (paragraph 50) and information technology (paragraph 53).

44. IFAC member bodies may determine the appropriate levels of breadth and depth of knowledge content coverage and the means for gaining that knowledge.

- 45. All audit professionals need to be able to recognize when specialist expertise is required, either from within their firms or from external parties.
- 46. Audit professionals are expected to keep up to date on current issues and developments in the field of financial statement audits. The public also expects them to be responsive to current issues in the business environment. The public generally has a higher expectation of audit professionals in this regard because of the reliance users of financial statements place on the independent assurance provided by the audit process. It is important, therefore, that the education and ongoing development programs for audit professionals include coverage of relevant current issues and developments.
- 47. The knowledge content of the financial statement audit subject area should include the following at an advanced level:
 - (a) best practices in the audit of financial statements, including relevant current issues and developments; and
 - (b) International Standards on Auditing (ISAs) and International Auditing Practice Statements (IAPSs); and/or
 - (c) any applicable national and/or local equivalents to the statements listed in (b) above.
- 48. In the context of paragraph 47, "advanced level" refers to a level of knowledge that is:
 - (a) deeper than that expected of individuals qualifying as professional accountants outside the specialist field of audit; and
 - (b) sufficient to enable audit professionals to competently perform their role.

In addition to knowledge of the statements listed in paragraph 47, audit professionals may also require knowledge of International Standards on Review Engagements (ISREs); International Standards on Assurance Engagements (ISAEs); and International Standards on Related Services (ISRSs), or local equivalents.

- 49. In determining the appropriate breadth of content coverage set out in paragraph 47, the following topics are to be considered:
 - (a) quality control of audit work;
 - (b) audit documentation;
 - (c) audit planning;
 - (d) audit materiality and risk assessment;
 - (e) audit evidence;
 - (f) audit sampling and selective testing procedures;
 - (g) going concern, including the effect of insolvency or liquidation;
 - (h) using the work of others;

- (i) risk assessment and internal control; and
- (j) audit conclusions and reporting.
- 50. The knowledge content of the financial accounting and reporting subject area should include the following at an advanced level:
 - (a) financial accounting and reporting processes and practices, including relevant current issues and developments; and
 - (b) International Financial Reporting Standards (IFRSs)¹; and/or
 - (c) any applicable international, national and/or local equivalents to the statements listed in (b) above.
- 51. In the context of paragraph 50, "advanced level" refers to a level of knowledge that is:
 - (a) deeper than that expected of individuals qualifying as professional accountants outside the specialist fields of financial reporting or audit; and
 - (b) sufficient to enable audit professionals to competently perform their role.

To support the implementation of the standards referred to in paragraph 50, professional accountants will require a knowledge of the accounting for underlying transactions and financial instruments.

- 52. If an audit client is required to prepare financial reports in accordance with standards specific to the public sector, statements equivalent to those listed in paragraph 50 will include International Public Sector Accounting Standards (IPSAS), International Public Sector Guidelines and any applicable international, national and/or local equivalents of these.
- 53. The knowledge content of the information technology subject area should include the following:
 - (a) information technology systems for financial accounting and reporting, including relevant current issues and developments; and
 - (b) principles and practices for evaluating financial accounting and reporting systems, including evaluating controls and assessing risk; and
 - (c) computer-assisted auditing packages and techniques.
- 54. In the context of paragraph 53, "advanced level" refers to a level of knowledge that is:
 - (a) deeper than that expected of individuals qualifying as professional accountants outside the specialist field of audit; and
 - (b) sufficient to enable audit professionals to competently perform their role.

The term "International Financial Reporting Standards" refers to IFRSs, IFRIC Interpretations, IASs and SIC Interpretations." *IASB Handbook* (New York: International Federation of Accountants, 2004).

Guidance on the information technology knowledge and competences for all professional accountants is set out in International Education Guideline (IEG) 11, *Information Technology for Professional Accountants*.

Professional Skills

- 55. The skills requirement within the education and development program for audit professionals should include:
 - (a) The application of the following professional skills in an audit environment:
 - ability to identify and solve problems;
 - ability to undertake appropriate technical research;
 - ability to work in teams in a consultative process;
 - ability to gather and evaluate evidence;
 - ability to present, discuss, and at times defend views effectively through formal, informal, written, and spoken communication; and
 - ability to treat sensitive and confidential information appropriately.
 - (b) The development of the following professional skills at an advanced level in an audit environment:
 - ability to apply relevant audit standards and guidance;
 - · capacity for inquiry, abstract logical thought, and critical analysis;
 - professional skepticism;
 - · professional judgment; and
 - ability to withstand and resolve conflicts.
- 56. IES 3, *Professional Skills*, sets out the professional skills requirements for all professional accountants. In the context of this standard, "advanced level" refers to a level of skill that is:
 - (a) higher than that expected of individuals qualifying as professional accountants outside the field of audit; and
 - (b) sufficient to enable audit professionals to competently perform their role.
- 57. IFAC member bodies may determine the appropriate levels of skills development and the means for developing those skills.

Professional Values, Ethics and Attitudes

58. Individuals should be able to apply the required professional values, ethics and attitudes in an audit environment before they undertake substantial involvement in financial statement audit assignments.

- 59. IES 4, *Professional Values, Ethics and Attitudes*, sets out the professional values, ethics and attitudes all professional accountants must have. IFAC member bodies need to establish a program of education that provides a framework for exercising professional judgment and for acting in an ethical manner in the best interests of both society and the profession.
- 60. All professional accountants need a thorough understanding of the potential ethical implications of professional and managerial decisions. They need to be aware that decision makers can be under tremendous pressure when it comes to upholding ethical principles. This is true in industry, commerce, the public sector, education and public practice.
- 61. As with all professional accountants, audit professionals are expected to apply the professional values, ethics and attitudes outlined in IES 4 throughout their professional careers. During their period of practical experience, they should receive guidance on the professional approach to ethics, the practical application of the fundamental principles, the consequences of unethical behavior and the resolution of ethical dilemmas.
- 62. The fundamental ethical principles, which apply to all professional accountants, assume an added dimension in the audit domain because of the heavy public reliance and public interest in this aspect of the profession worldwide.
- 63. The fundamental principles are essential to the development of the profession and society as a whole. The IFAC Code of Ethics for Professional Accountants sets out the fundamental principles as:
 - (a) integrity;
 - (b) objectivity;
 - (c) professional competence and due care;
 - (d) confidentiality; and
 - (e) professional behavior.
- 64. Learning about professional ethics needs to continue after qualification. Audit professionals need to see this as a career-long process.
- 65. It is important that audit professionals are sensitive to change, are aware of potential new ethical dimensions and conflicts in their work and keep current on what both their professional bodies and the public expect in terms of professional ethics.

Practical Experience

66. A period of practical experience relevant to an audit professional should be gained before an individual may assume the role of an audit professional. This period should be 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.

- 67. IES 5, *Practical Experience Requirements*, sets out the practical experience requirements for all professional accountants. In addition to those requirements, professional accountants undertaking a substantial involvement in financial statement audit assignments are required to demonstrate the application of knowledge and skills specifically required by this section of this standard, and to apply that knowledge and skills in accordance with the professional values, ethics and attitudes set out in IES 4 in an audit environment.
- 68. The period of practical audit experience may come before, during, or after qualification as a professional accountant.
- 69. To develop the required competence, the period of relevant practical experience would normally be a minimum of three years. A substantial proportion of those three years should be in the area of financial statement audit work under the guidance of an auditor.
- 70. If a professional accountant transfers to audits from a non-audit work environment, the period of relevant practical experience may be reduced if the individual has practical experience in another field of accounting.
- 71. Practical experience relevant to an audit professional is work that appropriately contributes to the competence of an audit professional. It needs to be relevant to the type and size of audit assignments aspiring audit professionals are, or are likely to be, involved in. The experience should permit them to apply, in a properly supervised environment, the requisite knowledge and skills and to develop and demonstrate the requisite competence prescribed in this standard
- 72. The required practical audit experience should be obtained with an organization that can provide suitable audit training under the guidance of an auditor.
- 73. Organizations making available suitable audit training may include private and public sector audit firms and organizations. IFAC member bodies need to be satisfied that audit organizations being used for training have in place the policies and procedures necessary to provide an environment that will allow individuals to develop, and demonstrate they have gained, the professional knowledge, professional skills and professional values, ethics and attitudes that will permit them to make significant judgments during financial statement audit assignments.

Continuing Professional Development

74. IES 7, Continuing Professional Development: A Program of Lifelong Learning and Continuing Development of Professional Competence, sets out the CPD requirements for all professional accountants, including audit professionals.

75. Professional accountants wishing to become audit professionals may rely on CPD activities to help ensure they meet some of the capability and competence requirements set out in this standard. CPD will also be necessary to ensure audit professionals develop and maintain further competence. IFAC member bodies may consider prescribing specific CPD activities for audit professionals or professional accountants training to become audit professionals.

Assessment

- 76. Professional capabilities and competence should be assessed before individuals assume the role of audit professionals.
- 77. The assessment should be comprehensive enough to permit individuals to demonstrate that they have the professional knowledge, professional skills and professional values, ethics and attitudes required to competently perform the work of audit professionals.
- 78. IES 6, Assessment of Professional Capabilities and Competence, sets out the assessment requirements for all individuals qualifying as professional accountants. The assessment methods for individuals training to become audit professionals will generally differ in their range and emphasis from those used for individuals qualifying as professional accountants. This is especially true for individuals becoming audit professionals after qualifying as professional accountants. In such circumstances, assessment is likely to be based more heavily on workplace evidence (e.g., real work assignments and training exercises) than on academic assignments and exercises, and the assessment is more likely to be conducted by the employer, supervisor, mentor, or other work place-based assessor than by an academic examiner.
- 79. The assessment of the competence and capabilities of audit professionals may be carried out by: the IFAC member body of which an individual is a member, another IFAC member body, a third party (e.g., education or training organization, government or regulatory authority, or workplace assessor under the authority of the member body), a member body's own peer review process, through an audit firm's quality control systems, or a combination of these. IFAC member bodies responsible for making these assessments must ensure that the requirements of this standard are met. If external agencies are responsible for the qualification of auditors, member bodies should encourage them to follow IFAC Standards.
- 80. IFAC member bodies and organizations offering suitable audit training and experience need to consider the variety of assessment options available and select methods that will effectively determine whether audit professionals possess the requisite capabilities, and have demonstrated the requisite competence, for performing their role.

SECTION 3: THE AUDITOR

Licensing

- 81. Different audit licensing regimes exist in different jurisdictions. To be recognized as an auditor, and to be issued with an audit license or be permitted to sign financial statement audit reports, it is expected that, as a minimum, professional accountants will have met the requirements prescribed in Section 2 of this standard. Regulators, IFAC member bodies and others responsible for issuing audit licenses have a public interest responsibility to ensure that the requirements to obtain an audit license are appropriate for their environment. It is expected, therefore, that those responsible for setting the requirements for obtaining an audit license or permission to sign an audit report will, as a minimum, follow the requirements prescribed in this standard.
- 82. In some jurisdictions, professional accountants are licensed to sign financial statement audit reports at the time of qualification, and may not have gained the practical experience prescribed in this standard. In such cases, IFAC member bodies and the public accounting firms need to ensure that anyone with a substantial role in the financial statement audit assignment has the required practical experience and competence. This obligation may be fulfilled through a member body's quality assurance review program (i.e., practice inspections) and through a firm's quality control procedures.
- 83. It is expected that audit professionals permitted to sign statutory audit reports will acquire practical audit experience in addition to what this standard prescribes. As well, all audit professionals have a professional and ethical obligation to develop and maintain competence appropriate to their professional responsibilities.
- 84. IFAC recognizes the different types, size and complexities of financial statement audits, and the different levels of professional competence required to perform such engagements. It is the obligation of individual professional accountants to comply with the Code of Ethics and not accept assignments they are not competent to perform.

Competence Requirements for the Auditor

- 85. The greater responsibilities of the auditor may require the development of additional professional knowledge, professional skills and professional values, ethics and attitudes.
- 86. As audit professionals progress into positions such as audit managers and audit partners, they will need to develop capabilities and demonstrate competences at a broader and deeper level than what was required before. To ensure their ongoing development, audit professionals will need to develop the following capabilities and competences:

Audit process

- (a) develop, in conjunction with the client, client expectations;
- (b) understand the entity and its environment;
- (c) assess the level of audit risk;

- (d) assess the risk within an organization's internal control structure;
- (e) prepare an audit work plan;
- (f) understand and evaluate internal processes and related controls;
- (g) perform risk assessments and customize audit solutions;
- (h) perform analytical procedures;
- (i) perform general audit procedures;
- (j) review the performance of an audit;
- (k) reach conclusions and communicate the results of an audit.

Client handling

- (a) represent their audit firms and explain the audit process to existing and potential clients;
- (b) explain the responsibilities for completing audit work and need for executive review;
- (c) discuss key issues regarding auditing in an IT environment;
- (d) describe to audit entities the steps involved in completing audits and best practice in conducting audits;
- (e) apply and evaluate the requirements of relevant national and international standards of accounting and auditing;
- (f) explain procedures and resources available for resolving judgmental and contentious issues;
- (g) communicate with the client's senior management and governance body to ascertain their expectations and report the findings of completed work; and
- (h) demonstrate the ability to retain clients and secure new clients.

Development of these capabilities and competence would usually be achieved through practical experience.

- 87. Many audit professionals will progress to positions with more managerial responsibility. To assist in the development of managerial competence, IFAC member bodies may consider the need to require coverage of, or provide educational support for, developing the following knowledge content and professional skills related to the subject area of practice management:
 - (a) quality control policies and procedures;
 - (b) controlling resources to ensure service delivery;
 - (c) maintaining the security of audit documentation and information;
 - (d) professional relationships and personal development;

- (e) recruitment, supervision, development and training of personnel;
- (f) risk management;
- (g) setting fees.

SECTION 4: COMPETENCE REQUIRED FOR AUDIT PROFESSIONALS IN SPECIFIC ENVIRONMENTS AND INDUSTRIES

General

- 88. IFAC member bodies and audit firms need to ensure audit professionals involved in financial statement audits of specific industries or environments have the required professional knowledge and practical experience relevant to that industry or environment.
- 89. Once professional accountants have acquired the capabilities, and demonstrated the competence, required of audit professionals, they may need further development of a more specific nature before they have a substantial involvement in the financial statement audit of a specific industry (such as banking and finance, extractive industries and insurance) or environment (such as transnational audits²).

Transnational Audits

- 90. Before professional accountants have substantial involvement in transnational financial statement audits they need to:
 - (a) qualify as professional accountants;
 - (b) satisfy the requirements to assume the role of an audit professional (Section 2 of this standard); and
 - (c) satisfy the requirements in this section.
- 91. The knowledge content within the education and development program for audit professionals involved in transnational audits should include the following subject areas:
 - (a) applicable financial reporting and auditing standards;
 - (b) controlling of multi-location and group audits;
 - (c) applicable listing requirements;
 - (d) applicable corporate governance requirements;
 - (e) national regulatory frameworks; and
 - (f) the global and local economies and business environments in which the audit professional is involved as part of a transnational audit.
- 92. Audit professionals engaged in a transnational audit may find that the application of professional values, ethics and attitudes might be complicated by different cultural

.

Transnational audits of financial statements are, or may be, relied upon outside the entity's home jurisdiction, They may be used for investment, lending, regulatory or other purposes.

- contexts (e.g., norms, customs, behaviors and expectations) compared to an audit within a single jurisdiction.
- 93. Professional capabilities and competence should be assessed before individuals assume the role of transnational audit professionals.
- 94. The assessment should be comprehensive enough to permit individuals to demonstrate that they have gained the professional knowledge, professional skills and professional values, ethics and attitudes required to competently perform the work of a transnational audit professional.

Specific Industries

- 95. Some entities operate in heavily regulated industries (such as banks and chemical companies). Laws and regulations governing financial statements may vary considerably in specific industries and environments. Furthermore, accounting treatments may differ, resulting in different recognition and measurement practices.
- 96. While it is not practicable to prescribe the additional knowledge required of those operating in specific industries, IFAC member bodies, individual professional accountants and audit firms share the responsibility for ensuring that audit professionals have the required competence for their roles.
- 97. The skills requirement within the education and development program for audit professionals involved in specific industries and environments includes the ability to apply the required professional knowledge and professional skills in that specific industry or environment.
- 98. Audit professionals need to be able to apply the required professional values, ethics and attitudes in the specific industry or environment before they have substantial involvement in the audits of that industry or environment.
- 99. Audit professionals need a period of practical audit experience in a specific industry or environment before making significant audit decisions in that industry or environment. This period should be long enough and intensive enough to permit audit professionals to demonstrate that they have gained the necessary professional knowledge and can apply the professional skills and the professional values, ethics and attitudes required to competently perform the work in that specific industry or environment.
- 100. Audit professionals can use a variety of means for developing the capabilities required for specific industries and environments. The education and development processes may include advanced professional education, on-the-job training and experience programs, off-the-job training and CPD courses, activities and assessments.
- 101. It is expected that auditors involved in a specific industry would acquire practical experience in that industry or environment in addition to what is prescribed elsewhere in this standard.



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