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Dear Mr McPeak

Meeting Future Expectations of Professional Competence: A Consultation on the IAESB's Future Strategy and Priorities

The Financial Reporting Council (FRC) welcomes the opportunity to comment on the IAESB's consultation on Meeting Future Expectations of Professional Competence, set out in the above document. The FRC has oversight responsibilities in respect of both the quality of audit work carried out by members of professional bodies (professional accountants) and of the audit qualification that professional accountants must hold if they wish to sign audit reports. Accordingly we have a wide interest in the work of the IAESB both as it relates to professional accountants and to those seeking to achieve that status.

Your consultation paper was issued at a time when each of the international standard-setting Boards is considering carefully how they can respond to a number of significant challenges to the delivery of high quality audits. The current IAASB ITC¹, for instance, covers professional skepticism, quality control and group audits. The IAASB's other major projects address accounting estimates and innovation both in the use of information technology in audit and in external reporting of non-financial information by entities and evolving demand for assurance in this area.

Many of these challenges are rooted in increasing complexity, uncertainty and ambiguity in the subject matters that auditors address and the environments in which audited entities operate. They are a reflection of similar challenges faced by professional accountants in business and in practice more widely. Considering the underlying competency and proficiency issues that these challenges pose should be a key part of the debate in considering how best to address them, and we believe the IAESB should be a key contributor in addressing these challenges.

The IAESB focuses on: the capabilities that underpin professional competence (technical competence, professional skills, and professional values, ethics and attitudes); how these are integrated and the manner in which competence is developed and maintained; and how to enable a professional accountant to deliver a particular role with the necessary competence and proficiency in a given environment. We would like to highlight two areas that we believe to be of strategic importance in considering of professional competence.

¹ <http://www.ifac.org/publications-resources/invitation-comment-enhancing-audit-quality-public-interest>

Evaluating the competence of other professionals whose work is used by the professional accountant in performing their role

In an increasingly complex, uncertain and ambiguous environment, which demands deeper individual expertise and specialization and broader multi-disciplinary and geographically dispersed expertise to deliver professional services, there is an already significant, and growing, need for the professional accountant to use the work of other professional accountants and other professionals in delivering their own roles.

The application of professional judgment and of professional skepticism are defining characteristics of the role and necessary competence of a professional accountant. To take personal responsibility and accept accountability for their own professional judgments, it is critical that professional accountants are able to evaluate the competence of other professionals whose work they use. Unless they do so, they may not identify risks of weakness in that work and respond to them appropriately in performing their own role. As a result, the work of those other professionals may be flawed and taint the professional accountant's judgments that are derived, in part, from that work.

The need to evaluate the competence of such professionals and respond to identified weaknesses is an important aspect of quality control. In the IAASB's standards, quality control is recognized to have a firm level component and an engagement level component. This thinking is reinforced in the ITC and questions are also raised about how quality control should operate across a network of firms.

The IAESB's standards are primarily directed towards IFAC member bodies, and it is the IAASB that establishes requirements for: quality control by firms, including over competence of its professionals involved in performing engagements under the International Standards; and requirements that address the competence of other professionals whose work is used in performing such engagements. However, we believe that the IAESB has an important role to play in working with the IAASB to consider (in the context of responses to its ITC) how best to respond to challenges relating to quality control (at the network, firm or engagement level) over the capabilities and competence of its own professionals and other professionals whose work is used in its engagements.

We also believe that, whilst it is important to have a range of evaluation tools available to support an assessment of development activities and their effectiveness (that measure the inputs and outputs of such activity), what will really matter in terms of evaluating a professional's capabilities or competence in the context of quality control will be whether those activities have in fact given rise to the necessary development, not whether the activities took place. The IAESB standards seem to us to reflect a similar viewpoint, in general, in emphasizing the relative benefits of 'output' over 'input' assessment methods. However, these standards stop short of requiring output based assessments and leave to individual IFAC member bodies the decision as to the CPD assessment model that they implement (input, output or combination).

In the context of enhancing quality control over the capabilities and competence of its own and other professionals whose work is used in an engagement, we believe there should be further debate about whether a stronger emphasis on output based assessment may be necessary to ensure that such quality control is effective. Whilst we appreciate that this could result in a significant change for many, which would require careful consideration of the impact and benefits of any such action, we believe it is in the public interest for the matter to be further considered and addressed jointly by the IAASB and IAESB.

Acquiring and maintaining behavioural competence

We believe that responding to the challenges described earlier in this letter will inevitably require a clear focus on how to secure the necessary behaviours of professional accountants that, integrated with other capabilities, enable professional accountants to deliver high-quality audits and other professional engagements and to fulfil other roles in a manner that will meet the increasingly salient public interest expectations of professional accountants.

Behaviours and attitudes are identified as important factors in a number of places within the IAESB's capabilities and competence model. For example, behaviours and attitudes are addressed under professional skills, most explicitly as personal skills. In addition, professional values, ethics and attitudes are defined as the behaviours and personal characteristics that identify professional accountants as members of a profession. Behaviour is in effect the way in which an individual acts or conducts himself or herself and, we believe, underlies all other aspects of competence.

Knowledge and understanding of behaviour and the ability to apply that knowledge and understanding is important to professional accountants in self-regulating their own behaviour, in the face of factors that may influence it (e.g. ethical threats), and also in recognizing and responding to factors that may influence others' behaviour. Behaviour is also important in learning and development itself (for example in understanding what it takes for an individual to deliver a commitment to life-long learning to develop and maintain professional competence). It is a subject, the knowledge and understanding of which continues to develop, particularly in relation to the influence of heuristic processes. The joint (IAASB, IESBA and IAESB) working group on professional skepticism has recently been considering such processes and their impact on behaviours such as the application of professional skepticism.

These considerations lead us to suggest that behaviour may be sufficiently important to warrant treatment as a separate competence area and to explain how it interacts with other competence areas to enable delivery of a role. Under the IAESB's standards, the practitioner needs to demonstrate that they are able to understand, and apply, appropriate values, ethics and attitudes in the performance of their duties. However, the IAESB could be more ambitious, and seek to understand those behavioural influences which are necessary for, or that may inhibit, the delivery of particular behaviours such as the appropriate application of professional scepticism. In addition, we would encourage the IAESB to consider more generally how an individual's professional skills can be developed to better enable them to self-regulate their own behaviour and to understand and influence others' behaviours.

Candidates seeking qualification as professional accountants

The registration and initial training of professional accountants are areas of constant innovation and development as professional bodies compete. It is important that existing IAESB standards are kept under review so that they remain relevant. Whilst we have no specific suggestions at this point for changes to the standards, the following are some of the main risks and opportunities in relation to accounting education and training as we currently see them:

- Competition between professional bodies for students should be driven by measures taken by professional bodies to deliver high quality training and development;

- There are constant pressures to include additional material in the syllabus. Professional bodies need to ensure that they provide sufficient coverage of all key areas to continue to develop and support the professional accountant;
- Changes in the audit market will increase the demand for audit firms to offer a broad and challenging range of training. The standards need to accommodate the needs of smaller firms to allow them to provide sufficient high-quality training in audit work for their staff, as well as larger firms which may find it easier to offer a more diverse range of experience;
- Training and assessment methods are becoming increasingly computer-based – this needs to be recognized, and further thought needs to be given to how higher-level skills are adequately tested; and
- Business globalization has brought an increasing demand for reciprocal recognition of qualifications across jurisdictions. Demands to improve access to the accounting profession has led to an increase in the number of entry and training routes for those seeking to become professional accountants – where this happens, standards should ensure that all training routes are able to support high-quality training.

Having considered your consultation paper, there are two further points of detail that we wish to make:

- If the Board considers that it should develop additional standards and guidance material during the period under consideration then it should continue to seek to do so in a principles-based way. If additional, more detailed guidance is required, then we recommend that it should be developed by a member's professional body in a way that is appropriate to the circumstances of that professional body; and
- Currently, in the UK and Ireland context, professional bodies specify the achievement of continuing professional development in both input and output based requirements. This may be as a result of the apparent inconsistency between IES's 2, 3 and 4 which are competency based in their approach to the development of the professional accountant, and IES 5 which allows the input basis to be used for practical training. Although we consider this is a matter best left to the discretion of professional bodies, the Board should seek to adopt a consistent approach, and should ensure that the range of approaches currently permitted demonstrate that the outcomes specified by the Board will be achieved.

I hope that you find these comments helpful

Yours sincerely,



Melanie McLaren
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Financial Reporting Council