

March 8, 2016

IFAC Small and Medium Practices (SMP) Committee Response to the International Accounting Education Standards Board (IAESB) Consultation Paper: *Meeting Future Expectations of Professional Competence: A Consultation on the IAESB's Future Strategy and Priorities*

INTRODUCTION

The SMP Committee (SMPC) is pleased to respond to the IAESB (the Board) on this Consultation Paper (CP). The SMPC is charged with identifying and representing the needs of its constituents and, where applicable, to give consideration to relevant issues pertaining to small-and medium-sized entities (SMEs). The constituents of the SMP Committee are small-and medium-sized practices (SMPs) who provide accounting, assurance and business advisory services principally, but not exclusively, to clients who are SMEs. Members of the SMP Committee have substantial experience within the accounting profession, especially in dealing with issues pertaining to SMEs, and are drawn from IFAC member bodies representing 18 countries from all regions of the world.

GENERAL COMMENTS

The SMP Committee (the Committee) recognizes the importance of the establishment and maintenance of high-quality professional accountancy education standards and guidance. It supports the IFAC Board's commitment to the goal of developing a set of Standards of Membership Obligations (SMOs) that provide clear benchmarks to current and potential IFAC member bodies and to assist them in ensuring high-quality performance by professional accountants. The Committee supports the promotion of the adoption and implementation of international standards as required by IFAC's SMOs.

The global environment is changing rapidly and many of the trends identified will impact the profession and may have potential implications for the IAESB's International Education Standards (IESs) in the future. Businesses are evolving and innovating more quickly than ever before. The [IFAC Strategic Plan for 2016-2018 *Charting the Future of the Global Profession*](#) identified Information and Communications Technology (ICT) as one of the key future macro trends. For example, it is forecasted that there will be 25 billion devices connected by the end of 2020, or three for every person on the planet. In addition, [McKinsey & Company](#) research recently found that 45% of work activities could be automated using already demonstrated technology. The [2015 IFAC Global SMP Survey](#) found that 72% of respondents viewed keeping up with technology to be a moderate, high or very high challenge and technology developments were the third highest environmental factor considered to have a potential impact on SMPs over the next five years, after regulatory environment and competition.

In addition to technology, there are many changes in the business environment (e.g. internationalization and rising complexity) and increasing demands by society (e.g. for non-financial information and integrated reporting). Professional accountants will need to maintain their relevance by equipping themselves to help clients and employers proactively manage the rapid change and innovation.



Continuing professional development (CPD) is very important to ensure that accountants are able respond to these developments.

SPECIFIC COMMENTS

We have outlined our responses to each question (*in italics*) in the CP below.

1. What enhancements, if any, do you feel should be made to the existing International Education Standards (IESs)?

In order to establish a robust basis for any enhancement to the IESs, we recommend that the Board undertakes work to assess the current implementation of the existing IESs. This exercise may include obtaining information on specific challenges with the standards and evidence of current implementation difficulties. The results can be used to inform the Board's future strategy and provide detail on which standards may need to be addressed. We recommend that the Board contacts the International Auditing and Assurance Standards Board (IAASB), as it completed its own implementation monitoring of the Clarified International Standards on Auditing (ISA) in July 2013 and should be able to provide some useful advice.

It is recognized that IFAC member bodies may have direct responsibility for the implementation of IESs, no responsibility, or shared responsibility with government, regulators, educational institutions or other appointed authorities. As a result the final competencies can be very different, even within the same jurisdiction, which may have implications for the IESs. It is acknowledged that this is a complex matter and different roles require different competence levels, but given professional accountants cross border mobility is greater, a more similar or consistent training system may help to improve the mutual recognition of qualifications.

Globalization, interconnectivity, technology and a changing regulatory environment are impacting the role of accountants. For example, recent research identifies an increase and diversification in the provision of business advisory services by SMPs. The [evidence base](#) suggests that “trust” is a crucial underpinning of the relationship between SMPs and SMEs. There is a greater need for “soft skills” and for accountants to have a high-level of people and communication skills, besides technical knowledge and professional values. The development of the former skills through education and CPD is critical and can be undervalued during an accountants training.

The [International Integrated Reporting Council \(IIRC\)](#) mission is to establish integrated reporting and thinking within mainstream business practice as the norm in the public and private sectors. Organizations are now focused on communicating how all their resources are creating value and thinking more holistically about their strategy and performance. There is an evolution in corporate reporting and a greater focus on non-financial information. One of the learning outcomes under Financial Accounting and Reporting in IES 2 *Initial Professional Development – Technical Competence (2015)* is “Interpret reports that include non-financial data, for example, sustainability reports and integrated reports”. As the demands for accountants are evolving, the IESs could include more emphasis on the skills to analyze non-financial information.



The Board could also give some consideration to enhancing the IESs with respect to specific training content for accountants in the public sector. IFAC's Nexus 1 report, [*The Accountancy Profession, Behind the Numbers*](#), found that 7.9% of IFAC PAO members are employed in the public sector and their role is increasingly important to society. The wording of many of the existing IES refer only to private-sector oriented accountants (e.g. accounting, law and reporting primarily related to business) and the IESs may need a stronger emphasis on the public sector, including how to address corruption.

2. How can the IAESB align the requirements of IES 7, Continuing Professional Development (2014) to support the learning outcomes approach of the other IESs, including IES 8, Professional Competence for Engagement Partners Responsible for Audits of Financial Statements (Revised)?

Accountants now work in a rapidly changing environment and there are high demands for new and updated competences. In addition, the role and skills required of accountants evolve over the course of their careers and result in diverse CPD needs. The SMPC recognizes that it is not possible for the IAESB to establish the learning outcomes for each of these roles and flexibility is necessary for CPD to effectively operate in all jurisdictions. We consider that the current requirements of IES 7 are sufficiently principles based to permit IFAC member bodies to implement and design their respective CPD systems.

However, we acknowledge that some jurisdictions may benefit from a more standardized approach including where IFAC member bodies specify the number of CPD hours. The Board may wish to consider whether the current requirements, such as paragraph 15 in IES 7 to "complete 20 hours (or equivalent learning units) of relevant professional development activity each year", should remain the same in response to the significant trends and developments impacting the accountancy profession. This includes the variety of ways in which accountants can now access information and development courses.

We appreciate that there are risks with the input-based CPD approach, perhaps creating an obligation to fulfill minimum requirements which may be achieved, but is not focused on the areas necessary to be updated. However, there may also be significant difficulties in implementing and assessing a learning outcomes approach. It is important that accountants are encouraged to train on new developments and regulations affecting the profession and they strongly embrace a learning attitude.

3. What action, if any, should the IAESB take to improve professional competence related to the appropriate exercise of professional skepticism and professional judgment?

Both professional skepticism and professional judgment are difficult to encourage and enforce by standards alone. The concepts are closely related. For example, professional skepticism can facilitate an individual being able to appropriately exercise professional judgement and the application of professional skepticism requires professional judgement. We welcome the joint working group which has been established to consider professional skepticism by the Board, the IAASB and the International Ethics Standards Board for Accountants (IESBA) to make recommendations to each standard setting board whether there is standard-setting or related work that can be undertaken. We believe that coordination on this issue is important and any action the Board decides to take should be aligned with the treatment of these matters by the other boards.



The Committee considers that the development of practical tools, such as short video case studies, may assist member organizations with fewer resources for use in their training materials. It may also be particularly helpful if these can be provided on-line, most notably for members who are located at long distances from their member body central offices. Both concepts can be difficult to understand, especially for students, and material with examples and guidance on how to effectively exercise professional judgment and skepticism may be useful. However, we believe that the establishment of the joint working group is currently sufficient and the IAESB itself should take no further action on these topics at this stage. In general, the SMPC believes that standard setting boards such as IAESB are not the appropriate party to produce practical tools, such as described above.

4. What new IESs, if any, do you suggest be developed to address emerging matters related to the education of aspiring professional accountants and professional accountants?

The SMPC does not believe that any new IESs should be developed at this time to address emerging matters. In our opinion, the Board should focus its resources on a robust implementation monitoring exercise and continue promoting the adoption of the newly revised IESs.

5. What other activities, if any, do you suggest the IAESB prioritize for the period 2017-2021 (for example, implementation support; guidance; communications; thought leadership publications)?

The SMPC believes that the IESs are important to ensure that different countries apply minimum educational standards and there are similar training curriculums resulting in a common initial level for all professional accountants. We acknowledge that factors such as the qualification and the size of the firm where the practical training is undertaken can result in distinct differences between individuals once they have qualified. In addition, once qualified, depending on how and where the individual is practicing, the gap between different professionals may enlarge. We consider that the employer and the individual professional accountant are best placed to determine their specific CPD needs. Member bodies are also best positioned to be able to react to national developments, for example, the introduction of new accounting standards in a particular sector.

CONCLUDING COMMENTS

We hope the IAESB finds this letter helpful in informing the Board's deliberations on its future strategy and priorities. Please do not hesitate to contact me should you wish to discuss matters raised in this submission.

Sincerely,

A handwritten signature in black ink, which appears to read 'Giancarlo Attolini', is positioned below the word 'Sincerely,'.

Giancarlo Attolini
Chair, SMP Committee