

24 November 2004

CPA Australia

Institute of Chartered Accountants in Australia

Auditing Competency Standard

for

Registered Company Auditors

Auditing Competency Standard for Registered Company Auditors

1.0 Introduction

1.1 Competency refers to the knowledge and skills drawn on in performing tasks in particular work contexts. A competency standard describes the specific tasks required to competently perform a particular function in such work contexts by reference to performance criteria, environmental factors and individual skills and knowledge entailed by the performance of the tasks.

1.2 The Australian Securities and Investments Commission (ASIC) requires members of authorised accounting bodies, including the CPA Australia (CPAA) and the Institute of Chartered Accountants in Australia (ICAA), that have in place an auditing competency standard for Registered Company Auditors (RCAs) that have been approved by the ASIC, to satisfy that standard in order to be registered as a company auditor under the Corporations Law.

1.3 The auditing competency standard for RCAs developed by CPAA and ICAA is based on a series of studies carried out by Professor W.P. Birkett, Professor of Accounting at the University of New South Wales, at the request of the Competency Standards Steering Committee, a committee established by CPAA, ICAA and the Institute of Chartered Accountants of New Zealand (ICANZ). The results of the studies are reported in a publication published by the three accounting bodies and entitled "Competency Based Standards for Professional Accountants in Australia and New Zealand". The auditing competency standard for RCAs has been developed within, and is broadly consistent with, the guidelines established by the Australian National Training Authority (ANTA) as well as the principles underpinning the Discussion Paper issued by the International Federation of Accountants (IFAC) entitled "Competence-Based Approaches to the Professional Preparation of Accountants". Refer also to *Appendix I: Background to development of standard*.

2.0 Competency assessment

2.1 As noted above, competency refers to the knowledge and skills drawn on in performing various tasks in particular work contexts. Competency thus may be evaluated either by assessing whether a person has acquired the necessary knowledge and skills to perform a certain task in a particular context (an assessment of the inputs) or by assessing whether a person is able to competently perform a certain task in a particular context (an assessment of the outcome). Where competency assessment is based on inputs, an underlying assumption is that once a person has obtained the necessary knowledge and skills, the person is capable of performing the desired outcome (i.e. the related task in the particular context). Where competency assessment is outcome-based, it is assumed that if a person is able to competently perform a particular task in a particular context (referred to as a task/context combination) then the person has acquired the necessary related knowledge and skills.

2.2 The assessment of the competency of RCAs is a combination of both an input- and outcome-based assessment, although, bearing in mind the practical nature of auditing, the assessment is based primarily on the assessment of outcomes. Prospective RCAs therefore

are required to demonstrate, to the satisfaction of an assessor, that they are able to competently perform various task in particular contexts (the outcome aspect of assessment). The input aspect of assessment does not relate to the assessment process itself but rather provides guidance to the assessor as to whether an applicant is in a position to be able to demonstrate his or her competency. In this regard, an assessor has access to guidelines that describe the (pre-requisite) knowledge and skills that an applicant requires in order to be able to competently perform the various task/context combinations.

3.0 Acquiring and assessing competency

3.1 Before a prospective RCA (applicant) can demonstrate his or her competence in various task/context combinations, the applicant must firstly acquire the appropriate knowledge and skills necessary to be able to competently perform the various tasks in the particular contexts. Much of the knowledge and many of the skills will be acquired as part of an applicant's formal education (including tertiary and earlier studies), but a significant portion will also be acquired in the workplace. Such prerequisite knowledge and skills (including technical, analytic/constructive, appreciative, personal, interpersonal and organisational skills) are described in *Appendix IV: Guide to assessors*. Having acquired the necessary knowledge and skills, an applicant may then demonstrate that he or she is capable of competently performing the various audit tasks in the particular contexts.

3.2 An applicant is not required to demonstrate competency in all task/context combinations in every possible situation that could be encountered during a career. (Refer *Appendix III: Range of environmental factors* for examples of the different conditions that may be encountered during an audit engagement). An applicant, however, is expected to be able to competently perform certain tasks in particular contexts in all situations that are likely to be encountered by the applicant in the foreseeable future.

3.3 During the course of an audit engagement, and in order to perform an audit in an efficient manner, experienced audit staff is not usually assigned to audit tasks that can be undertaken by a less experienced member of the audit team. Conversely, inexperienced staff, for reasons relating to audit effectiveness, are not assigned to audit tasks requiring a high degree of competence. As a consequence, and bearing in mind (a) the number of task/context combinations in which an applicant is required to demonstrate competency and (b) some tasks require different amounts of knowledge and skills than others, it is not anticipated that an applicant will be able to acquire and demonstrate his or her competencies on either just one audit engagement over, say, five a year period, or on a number of audit engagements over a period as short as, say, two years. It is anticipated that most applicants will acquire and demonstrate their audit competencies on a number of audit engagements over, say, a three to five year period, commencing with the year of their admission as a member of CPAA/ICAA.

3.4 It is important that the demonstration and assessment of competencies takes place on a continuous basis over this period and not simply at the end of the period. In other words, as knowledge and skills are acquired by an applicant, the applicant should, within the constraints of an audit firm's normal operating requirements, be given the opportunity to demonstrate his or her competency in performing tasks in contexts that require that knowledge and skill.

3.5 The actual number of audits and periods of time involved will depend on (a) the nature and complexity of the audit engagements, (b) the length of time taken by an applicant to

acquire the necessary knowledge and skills and (c) the extent to which an employer is able to assign an applicant to audit engagements that require the applicant to demonstrate new tasks, as opposed to audit engagements that only require the applicant to perform tasks previously demonstrated. However, if the actual number of audits on which an applicant is engaged is limited in number or if all audits are straightforward in nature, the applicant may find it difficult to demonstrate sufficient competency.

3.6 Where an applicant has last demonstrated a particular task/context combination more than five years prior to the date of application for registration, it is possible that the applicant's competencies may have lapsed over time. In such an instance, a Statement by Referee should be submitted with the application for registration stating that the applicant has acquired and retained the competencies necessary to perform those tasks (refer *Appendix V: Guidance for Registration as a Company Auditor*). Similarly, where an applicant has demonstrated all tasks within a period of two years from the date of admission as a member (of CPAA or ICAA) or has demonstrated all tasks within a period of five years from the date of first employment by the applicant by an accounting firm in which audit competencies were acquired by the applicant, a Statement by Referee is required that describes the circumstances that enabled the applicant to acquire the necessary knowledge and skills to perform these tasks within such a relatively short period of time (refer *Appendix V: Guidance for Registration as a Company Auditor*).

4.0 Task/context combinations

4.1 There are a total of 20 task/context combinations that an applicant is required to demonstrate to the satisfaction of the assessor. They comprise the four generic tasks of planning, evidence gathering, evidence evaluation and decision making that are performed in each of five different contexts during the course of an audit engagement. The five contexts are: client acceptance/retention, audit planning, control testing, substantive testing and opinion formulation. Each of the 20 tasks is described in more detail in *Appendix II: Tasks and sub-tasks*.

4.2 In order to be able perform a particular task at the required level of competency, a person must also have the ability to competently perform the various tasks that are *indicative of the competent performance of the task*. These *indicative* tasks are referred to as *sub-tasks*. Any given task may be decomposed into a number of sub-tasks, where each of these sub-tasks are indicative of the competent performance of the task at a specific level of competency. The sub-tasks that relate to each of the 20 task/context combinations are also described in *Appendix II: Tasks and sub-tasks*.

4.3 An applicant should demonstrate all of the sub-tasks (that relate to a particular task) on the one audit engagement. In other words, an applicant should not demonstrate one sub-task that relates to a particular task on one audit engagement and another related sub-task on another engagement.

5.0 The assessor

5.1 The assessor is a person within the firm who is an RCA in which the applicant is an employee (or a partner) that is responsible, either directly or indirectly, for reviewing or supervising the applicant's work. The primary obligation of an assessor is to:

5.1.1 ensure that an applicant is given the opportunity to both acquire the knowledge

and skills required to competently perform the various tasks expected of an RCA (refer *Appendix IV: Guide to assessors*), and demonstrate to the assessor that the applicant is competent in performing those tasks;

5.1.2 assess, and attest to, whether the applicant is able to competently perform the tasks;

5.1.3 verify an applicant's performance against each component of the standard; and

5.1.4 have personal knowledge of the applicant's work to be able to give that verification.

5.2 Bearing in mind that one of the primary obligations of the assessor is to assess an applicant's "on-the-job" competency, it is necessary for an assessor to have a detailed knowledge of the clients and related audit engagements on which an applicant is demonstrating competencies. Any such person who is an RCA and either personally, or as a member or employee of a firm, is subject to periodic quality reviews and minimum professional development requirements by either CPAA or ICAA, may (subject to the obligations referred to in 5.1 above) act as an assessor for such an applicant. Note that an applicant should have only one assessor at any point in time. However, due to, for example, a change in employment, an applicant may have more than one assessor over a period of time.

5.3 It should be noted that an applicant is required to demonstrate all tasks to his or her assessor within a five-year period. Therefore, a person should consider carefully, before agreeing to act as an assessor for an applicant, if the person considers it unlikely that the applicant will not have the opportunity to demonstrate the tasks to the person within a five-year period.

5.4 The assessor may assess the applicant's competency in performing the various task/context combinations by one or more methods including:

5.4.1 observing the applicant performing the sub-task.

5.4.2 reviewing written evidence of the performance of the sub-tasks by the applicant.

5.4.3 questioning the applicant as to how the sub-tasks were performed.

5.4.4 questioning the applicant how the sub-tasks would be performed in other situations (refer *Appendix III: Range of environmental factors*), and in unusual circumstances.

5.4.5 observing that the applicant has acquired the skills required to perform the necessary tasks (refer *Appendix IV: Guide to assessors*).

5.4.6 questioning the applicant to determine whether he or she has acquired the knowledge required to perform the necessary tasks (refer *Appendix IV: Guide to assessors*).

5.5 One method alone should not be used as the sole method of assessment. This is because observation of, for example, an applicant competently performing the sub-tasks related to a specific task/context combination is not necessarily evidence that the applicant has acquired all the skills and knowledge necessary to either competently reperform the task on the same audit engagement or competently perform the task in other situations likely to be encountered by the applicant. Two or more methods should be used and where the assessor considers the performance of a task should be documented, the assessor should always review such written evidence. This, and other information relating to the assessment of competency, is included in *Appendix IV: Guide to assessors*.

6.0 Log book

6.1. An applicant is required to maintain a Log Book. The Log Book lists the 20 task/context combinations required to be performed by RCAs, as well as the indicative sub-tasks. For each task/context combination, the applicant is required to record:

6.1.1 the name of the audit engagement(s) during which the task was performed and demonstrated.

6.1.2 the name of the audit firm responsible for the engagement(s).

6.1.3 the name of the person reviewing or supervising the applicant's work.

6.1.4 the dates (months and year) during which the tasks were performed.

6.2 Provision is made in the Log Book for the assessor to attest that he or she considers the applicant to be competent in each of the 20 task/context combinations. In circumstances where either (a) an applicant does not have a person within his or her firm that is eligible to be an assessor, or (b) the applicant, for a period of time, was unable to demonstrate some tasks to an assessor, the applicant should complete, for each of the 20 task/context combinations, all sections of the Log Book and submit with the application for registration a Statement by a Referee attesting that, in respect of each of the tasks not demonstrated to an assessor, the applicant has acquired and retained the competencies required to perform those tasks and, in relation to each task not demonstrated to an assessor, the basis for making such a statement. Refer to *Appendix V: Guidance for registration as a RCA*.

6.3 When the current assessor is satisfied as to the overall competency of an applicant to act as a RCA, and the Log Book has been completed by the applicant and attested to where appropriate by the assessor(s), the current assessor should sign the Statement by Assessor in the Log Book (stating that the assessor believes the applicant is sufficiently competent to be registered as a Company Auditor).

7.0 Application for registration

7.1 When applying for registration as a company auditor, the applicant should submit the Log Book, Statement by Assessor, and Statement by Referee with the application form. Refer to *Appendix V: Guidance for registration as a RCA*.

Auditing Competency Standard for Registered Company Auditors

Appendix I: Background to development of standard

1.0 Minco Report

1.1 The Working Party of the Ministerial Council for Corporations (Minco), in its report issued in July 1997 and entitled "Review of the Requirements for the Registration and Regulation of Company Auditors", has recommended that where an authorised accounting body, such as the Australian Society of Certified Public Accountants (CPAA) or the Institute of Chartered Accountants in Australia (ICAA), has in place a competency standard in auditing that has been approved by the Australian Securities Commission, an applicant for registration as a company auditor must satisfy the audit component of the competency standard in order to be registered.

1.2 CPAA and ICAA have determined that persons who are members of these bodies, and who wish to be registered as company auditors, should satisfy a certain competency standard relating to Registered Company Auditors (RCAs). The standard describes the necessary skills required by RCAs that are relevant to audit tasks in the various audit contexts.

2.0 Report on a competency standard for professional accountants

2.1 In 1992, CPAA (then named the Australian Society of CPAs), ICAA and the Institute of Chartered Accountants of New Zealand (ICANZ, formerly the New Zealand Society of Accountants), established the Competency Standards Steering Committee to pursue the development of competency standards in Australia and New Zealand. Other members of the Committee were the Accounting Association of Australia and New Zealand, the Australian Vice Chancellors' Committee and the Australian Council of Trade Unions. The National Institute of Accountants and the National Office of Overseas Skills Recognition acted as observers.

2.2 The Steering Committee engaged Professor W. P. Birkett, Professor of Accounting at the University of NSW, to carry out an extensive study into the development of competency based standards for accountants. The results of this and other related research carried out by Professor Birkett are reported in a publication entitled "Competency Based Standards for Professional Accountants in Australia and New Zealand", published in 1993 by CPAA, ICAA and ICANZ. The research covers not only representational auditing, but other types of auditing as well as external reporting, insolvency and reconstructions, management accounting, taxation and the treasury function.

2.3 Refer to Appendix VI: Summary of research methods, processes, validation and endorsement in the research study "Competency Based Standards for Professional Accountants in Australia and New Zealand" undertaken by Professor W. P. Birkett.

3.0 Exposure of the draft competency standard

3.1 Professor Birkett's research relating to a 'Proficient Practitioner' in the field of auditing was used as the basis for the development of a single unit of competency, being the competency standard relevant to the level of competence expected of RCAs. It became the initial draft Auditing Competency Standard for RCAs.

3.2 The draft standard was submitted to a number of the larger accounting firms. No significant changes were suggested.

3.3 In addition, the Auditing Standards Board of the Australian Accounting Research Foundation undertook an extensive review of the draft standard. A number of suggested changes were agreed to and were incorporated into the draft standard.

3.4 The draft standard received further exposure through a seminar presentation to members of CPAA and ICAA; inclusion of the draft standard on the web sites of CPAA, ICAA and Macquarie University; distribution of the draft to the National Institute of Accountants; and discussion with senior officers of the then Australian Securities Commission as well as the Companies and Accounting Policy Branch of the Department of Treasury, in Canberra.

3.5 Finally, the revised draft standard (and the Log Book) was field tested by both a large city firm and a country practitioner who trialed the package within their own firms. No significant changes were required and the draft was finalized, subject only to the approval of ASIC.

4.0 Corporate Law Economic Reform Program No.9 (CLERP 9)

4.1 Prior to ASIC's approval of the draft standard, the Federal Treasurer announced in June 2002 a review of audit regulation and the wider corporate disclosure framework as the next phase in the Government's Corporate Law Economic Reform Program. A number of issues were addressed in the paper, referred to as CLERP 9, including issues canvassed in Professor Ramsay's 2001 report entitled "Independence of Australian Company Auditors". These issues included auditor independence and structures for oversight of the profession, including disciplinary procedures, competency standards and educational requirements.

4.2 CPAA and ICAA, along with other interested parties, made a number of submissions to Treasury. Subsequently, in October 2003, the Treasurer released the Corporate Law Economic Reform Program (Audit Reform and Corporate Disclosure) Bill for public consultation.

4.3 In April 2004, ASIC released its policy proposal papers relating to several issues dealt with in the CLERP 9 Bill, including the paper entitled "Auditor Registration: ASIC policy proposal".

4.4 CPAA and ICAA, in close liaison with ASIC, reviewed this policy proposal. A number of suggestions to the proposal, as well as changes to this Auditing Competency Standard, were made in order to ensure conformity with the CLERP 9 Bill.

5.0 Auditing Competency and Registered Company Auditors

5.1 *Competency*: A task has been performed competently when it has been performed at

a specified level of competence. A specified level of competence identifies both the criteria needed to attain that level (the *performance criteria*) as well as the conditions under which the task is expected to be performed (the *range of environmental factors*).

5.2 *Competency standard*: A competency standard describe the *tasks* required to competently perform a particular function as well as including details about the *performance criteria* and the *range of environmental factors*. Accordingly, a competency standard for the function of RCA describe the tasks that should be able to be performed by RCAs and include both details about the criteria needed to attain that level (the *performance criteria*) as well as the conditions under which the task is expected to be performed (the *range of environmental factors*).

5.3 *Tasks*: A task is an activity that is performed in a particular context. RCAs perform numerous activities (for example, planning and evidence gathering activities) in various different contexts (such as control testing and substantive testing) during the course of an audit. Refer *Appendix II: Tasks and sub-tasks*.

5.4 *Performance criteria*: The performance criteria identify (a) the necessary *skills and knowledge* required in order to competently perform a task and (b) the various *sub-tasks* that are said to be indicative of the performance of the task at a specified level of confidence.

5.5 *Skills and knowledge*: In order to be able to perform a particular task at the required level of competency, a person must firstly acquire the skills and knowledge necessary to be able to competently perform the task. For RCAs, these skills include technical skills, analytic/constructive skills, appreciative skills, personal skills, interpersonal skills and organisational skills. The acquisition of perhaps just one skill may be required for some tasks whereas other tasks may require the acquisition of a number of such skills. These are described in *Appendix IV: Guide to assessors*.

5.6 *Sub-tasks*: In order to be able to perform a particular task at the required level of competency, a person must also have the ability to proficiently perform the various tasks that are indicative of the competent performance of the task. These various tasks are referred to as *sub-tasks*. Any given task may be decomposed into a number of sub-tasks that are indicative of the competent performance of the task at a certain level of competency. For example, some sub-tasks performed during the course of a financial statement audit may be indicative of the competent performance of a task by a newly qualified practitioner, others may be indicative of the competent performance of the task by a more experienced RCA while yet others may be indicative of the competent performance of the task by a highly experienced expert auditor. The various sub-tasks that are indicative of the competent performance of various tasks by RCAs are described in *Appendix II: Tasks and sub-tasks*.

5.7 *Range of environmental factors*: The range of environmental factors identifies the conditions under which a task is expected to be performed and assists in providing a focus of assessment. For example, a RCA may be expected to be able to competently perform planning tasks where the auditee is, for example, a small registered club as well as in other environments likely to be encountered by the RCA, such as where the auditee is a large manufacturing company.

6.0 Consistency with guidelines for the development of competency standards

6.1 *ANTA guidelines:* The auditing competency standard has been developed within the guidelines established by the Australian National Training Authority (ANTA). In this regard, CPAA and ICAA have developed a **training package** that incorporates the necessary competency standard and assessment guidelines. Assessors are all members of either CPAA or ICAA, and as such, the assessors and firms with whom they are associated are subject to both existing admission requirements (accredited degree, PY/CPA Programs) and continuing practice requirements (requirements relating to Certificate of Public Practice, professional development, quality reviews). In addition, all assessors and firms with whom they are associated are subject to other Professional and Ethical requirements. The **training package** comprises both a Log Book (in which is recorded details of tasks performed, the audit engagement on which they were performed, when they were performed and the name of the person assessing the proficiency of the performance), as well as this document. This document includes (ANTA terminology is in bold).

6.1.1 **elements of competency**, being 20 activity/context combinations, or tasks, referred to briefly above. Refer *Appendix II: Tasks and sub-tasks*.

6.1.2 **performance criteria**, being the sub-tasks used as indicators of an applicant's proficiency in performing a task at the RCA level. Refer *Appendix II: Tasks and sub-tasks*.

6.1.3 **range of variables**, being a range of environmental factors describing the contexts and conditions to which the performance criteria apply. Refer *Appendix III: Range of environmental factors*.

6.1.4 **evidence guide**, providing information that may be used by assessors to assist in evaluating whether the required level of competency has been achieved. Refer *Appendix IV: Guide to assessors*.

6.2 *IFAC guidelines:* In June 1998, the International Federation of Accountants (IFAC) issued a Discussion Paper entitled *Competence-Based Approaches to the Professional Preparation of Accountants*. Although this paper is directed more towards the competency of newly qualified accountants, the paper does offer guidance in relation to competence-based assessment generally. In this regard, the auditing competency standard for RCAs is consistent with the principles underpinning competency as outlined in that Discussion Paper.

Auditing Competency Standard for Registered Company Auditors

Appendix II: Tasks and sub-tasks

1.0 Context: Client acceptance/ retention

Task 1.1 Planning: Identify the criteria necessary for the client acceptance/ retention decision on a potential/ existing audit engagement.

Sub-tasks: Guide, supervise and review the audit team in (i) the development of a discussion document on the nature of an audit; (ii) the requirements relating to the audit; and (iii) the development of preliminary policies on client acceptance/ retention.

Task 1.2 Evidence gathering: Gather evidence relevant to the client acceptance/ retention decision.

Sub-tasks: Undertake background research on the industry in question to establish industry risk parameters. ! Determine and document the full range of critical requirements applying to the organisation. ! Determine relevance to the audit of specific regulatory requirements. ! Guide, supervise and review the audit staff in (i) the acquisition of data relevant to the acceptance/ retention decision; (ii) the conduct of research related to industry risk parameters; and (iii) the identification of specific regulatory requirements. ! Develop consciousness in key audit staff of the criteria relating to the acceptance/ retention decision. ! As requested, support the negotiation process with the (prospective) client. ! Brief the audit team on applicable regulatory requirements, and the consideration and implications of the treatment of ambiguities.

Task 1.3 Evidence evaluation: Evaluate evidence relevant to the client acceptance/ retention decision.

Sub-tasks: Collaborate in the assessment of criteria relevant to the client acceptance/ retention decision, to identify factors where there might be difficulties in meeting the criteria. ! Develop proposals as to how these difficulties might be met. ! Identify issues or conditions relating to criteria that will be referred for wider consideration. ! After consultation with relevant staff or experts, evaluate (prospective) client criteria in relation to objectives and a risk/return position; negotiate these with leadership of the audit project or review partner. ! In association with leadership of the audit project or review partner, resolve issues, conditions and difficulties relating to the criteria identified.

Task 1.4 Decision making: Decide whether to accept/reject a prospective client or retain/relinquish an existing client.

Sub-tasks: Develop a preliminary discussion document on the nature of the audit engagement, focussing on client activities and risks; negotiate approval of this document with leadership of the audit project or review partner. ! Document the final agreement with the client, including parameters, conditions and liaison arrangements. ! Brief the audit team on the nature of the audit that has been accepted/ retained.

2.0 Context: Audit planning

Task 2.1 Planning: Identify the criteria necessary for the decision as to the appropriate audit plan.

Sub-tasks: Lead the development of audit plan. ! Establish parameters for the development of the audit plan - in terms of objectives, identified risks, regulatory requirements and cost structures. ! Guide, supervise and review the audit staff in (i) the development of preliminary staff profiles (numbers, skills, levels of seniority) related to the audit; (ii) the procedures for the audit engagement; and (iii) the development of resource projections relating to an audit. ! Assign responsibilities for implementation of the audit plan. ! Approve/arrange for necessary staffing, logistical support, and training.

Task 2.2 Evidence gathering: Gather evidence relevant to the determination of the audit plan.

Sub-tasks: Guide, supervise and review the audit staff in (i) the review and documentation of operational and organisational structures and systems in line with audit objectives; (ii) liaison processes used by the audit staff (including its documentation); and (iii) the acquisition and documentation of data relevant to the determination of the audit plan.

Task 2.3 Evidence evaluation: Evaluate evidence relevant to the audit plan.

Sub-tasks: Guide, supervise and review the audit staff in their assessments of both the audit risks associated with the client's organisation and the cost-effectiveness of the preliminary audit plan. ! Lead discussions on possible and relevant audit strategies and in the development of a preliminary audit plan.

Task 2.4 Decision making: Decide the appropriate audit plan.

Sub-tasks: Guide, supervise and review the audit staff in their drafting and documentation of the audit plan. ! Review and finalise the audit plan in the light of best practice or professional standards. ! Overview the documentation of the final audit plan. ! Discuss key implementation issues of the audit plan with relevant staff, including cost-effectiveness issues. ! Discuss acceptance of the audit plan with the leadership of the audit project or review partner. ! Assign preliminary responsibilities in relation to the audit (e.g. for developing file structures and procedures). ! Brief the audit team on objectives, parameters and conditions of the audit.

3.0 Context: Control testing

Task 3.1 Planning: Identify the nature, timing and extent of audit procedures necessary to be able to form an opinion as to whether planned reliance on internal control procedures is appropriate.

Sub-tasks: Guide, supervise and review the audit staff in the development of the audit programs for control testing.

Task 3.2 Evidence gathering: Gather evidence relevant to the effectiveness of operation of internal control procedures upon which reliance has been planned.

Sub-tasks: Guide, supervise and review the audit staff in (i) the liaison processes used by the audit staff (including its documentation) during control testing; (ii) the acquisition of data relevant to the determination of the effectiveness of internal control procedures; and (iii) the budgeting, monitoring and day to day administration of this phase of the audit ! Monitor the implementation of the audit plan, as it relates to control testing, to pre-set schedules/performance indicators.

Task 3.3 *Evidence evaluation:* Evaluate the evidence relevant to the effectiveness of operation of internal control procedures

Sub-tasks: Guide, supervise and review the audit staff's (i) final evaluations of control risk; (ii) evaluation of sufficiency and appropriateness of evidence gathered (iii) qualitative and quantitative analysis of control deviations; (iv) discussion of the consequence of the control deviations with the client organisation; and (v) final evaluations of the control risks associated with the effectiveness of internal control procedures. ! Conclude as to the sufficiency and appropriateness of evidence gathered during control testing. ! Conclude as to the final evaluations of control risk.

Task 3.4 *Decision making:* Decide whether planned reliance on internal control procedures is appropriate.

Sub-tasks: Guide, supervise and review audit staff in (i) work performed during control testing and conclusions prepared by audit staff; (ii) documentation of conclusions as to the effectiveness of control procedures upon which reliance had been planned; (iii) identification of consequent changes, if any, to the audit plan; (iv) briefing of staff of changes to audit plan. ! Monitor performance of control testing against budget and recommend on revised resource allocations/projections. ! Consider and recommend on substantive changes to audit plan. ! Advise leadership of the audit project or review partner on major problems or issues and recommend solutions/actions. ! As necessary, arrange for documented revision of the audit plan, and brief relevant staff on the changes.

4.0 *Context:* Substantive testing

Task 4.1 *Planning:* Identify the nature, timing and extent of audit procedures necessary to be able to form an opinion on the extent of misstatements in account balances and underlying classes of transactions.

Sub-tasks: Guide, supervise and review the audit staff in their development of the audit programs for substantive testing.

Task 4.2 *Evidence gathering:* Gather evidence relevant to the extent of misstatements in account balances and underlying classes of transactions.

Sub-tasks: Guide, supervise and review the audit staff in (i) the liaison processes used by the audit staff (including its documentation); (ii) the acquisition of data relevant to the determination of the extent of misstatements in account balances and underlying classes of transactions; (iii) the budgeting, monitoring and day to day administration of this phase of the audit ! Monitor the implementation of the audit plan, as it relates to substantive testing, to pre-set schedules/performance indicators.

Task 4.3 *Evidence evaluation:* Evaluate evidence relevant to the extent of

misstatements in account balances and underlying classes of transactions.

Sub-tasks: Guide, supervise and review the audit staff in their (i) evaluation of the sufficiency and appropriateness of evidence gathered; (ii) the qualitative and quantitative analysis of misstatements; (iii) discussion of the consequence of the misstatements with the client organisation; and (iv) final evaluation of the extent of misstatements in account balances and underlying classes of transactions. ! Conclude as to the sufficiency and appropriateness of evidence gathered during substantive testing. ! Conclude as to the final evaluation of misstatements in account balances and underlying classes of transactions.

Task 4.4 *Decision making:* Decide the extent of misstatements in account balances and underlying classes of transactions.

Sub-tasks: Advise leadership of the audit project or review partner on major problems or issues and recommend solutions/actions. ! Consider and recommend on substantive changes to the audit plan. ! As necessary, arrange for the documented revision of the audit plan, and brief relevant staff on the changes.

5.0 *Context:* Opinion formulation

Task 5.1 *Planning:* Identify the nature, timing and extent of audit procedures necessary to be able to form an opinion on the financial report.

Sub-tasks: Identify the factors relevant to the determination of materiality for reporting purposes. ! Guide, supervise and review the audit staff in their development of the audit programs for this phase of the audit.

Task 5.2 *Evidence gathering:* Gather evidence relevant to the formation of an opinion on the financial report.

Sub-task: Lead the liaison processes used by the audit team (including its documentation). ! Monitor the implementation of the audit plan during this phase of the audit to pre-set schedules/ performance indicators. ! Supervise the checking and editing of the (draft) final report for the overall audit.

Task 5.3 *Evidence evaluation:* Evaluate evidence relevant to the formation of an opinion on the financial report.

Sub-tasks: Guide, supervise and review audit staff in their evaluation of both the sufficiency and appropriateness of evidence gathered during this phase of the audit and the factors relevant to the determination of the type of opinion to be included in the auditor's report. ! Conclude as to sufficiency and appropriateness of evidence gathered during this phase of the audit. ! Conclude as to factors relevant to the determination of the type of opinion to be included in the auditor's report. ! Discuss with the client organisation the consequence of the evidence gathered on the type of opinion that may issue. ! Advise leadership of the audit project or review partner on major problems or issues and recommend solutions/actions.

Task 5.4 *Decision making:* Decide the appropriate audit opinion on the financial report.

Sub-tasks: Discuss draft report items with appropriate level of client organisation's staff !
Review accuracy, completeness and objectivity of documentation supporting the final report.
! Advise leadership of the audit project or review partner on draft final report, including unresolved issues. ! Review structure of (draft) final report, in terms of audit objectives, structure of underlying evidence/ reasoning, and reasonableness. ! Supervise any redrafting of final report and review its final form. ! Document the final review. ! Monitor issuance of final report.

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Appendix III: Range of environmental factors

Below are examples of environmental factors affecting the conduct of an audit engagement that auditors may encounter during the course of the engagement. Consideration of these factors will impact on the auditor's assessment of audit risk. This is not intended to be a comprehensive list.

1.0 External environmental factors

1.1 *Legislation:* The legislation under which the auditor is required to report may include the *Corporations Law*, *Life Insurance Act 1995*, *Insurance Act 1973*, *Superannuation Industry (Supervision) Act 1993*, State and Territory Financial Institution Codes, State and Territory Associations Incorporation Acts, *National Health Act 1953* (Commonwealth), *Fire Brigades Act 1989* (NSW), *Co-operative Industrial Societies Act 1928* (Tasmania) and the *Dairy Industry Act 1984* (Victoria).

1.2 *Status:* The status of the entities may include both public and proprietary companies (large and small), foreign and local entities, and entities both listed and unlisted (on the Australian Stock Exchange).

2.0 Internal environmental factors

2.1 *Accounting records:* Accounting records, including source documents, journals, ledgers and reports, may be either manually or electronically created and stored. The audit trail may range from well defined to non-existent.

2.2 *Activities:* The type of business or activities carried out by the entity may include mining, oil, farming, other primary production, manufacturing, investment, banking, credit union, securities dealing, insurance and insurance broking, other financial institutions, other services, registered clubs, charities, and local government.

2.3 *Assets:* The assets of the entity may range from liquid to very long term and their value from zero to billions of dollars.

2.4 *Funding:* The source of funding by the entity may be internally generated, owner provided, provided by third parties or a combination thereof. Borrowings may be secured, partly secured or unsecured. Their value may range from zero to billions of dollars.

2.5 *Internal control structure:* The effectiveness of internal control procedures within the entity may range anywhere from completely ineffective (or non-existent) to highly effective.

2.6 *Management pressures, integrity and competence:* The outside pressures on management (for example, from owners, lenders, customers, suppliers, government, competitors, and the economy) will vary between entities. The response by management to

these pressures will also vary depending on, for example, the integrity and competence of the entity's senior management and staff.

2.7 *Nature of entity:* The type of entity, of which the auditor is required to audit the financial statements or accounts, could include a corporation, superannuation fund, co-operative, joint-venture, or a trust. The entity may report as a single entity or as a group of related entities.

3.0 Other environmental factors

3.1 *Audit plan:* The audit plan will vary depending on such matters as the expected scope and conduct of the audit and the auditor's assessment of risk and materiality.

3.2 *Audit procedures:* A variety of audit procedures may be employed on different audit engagements. These include computer assisted audit techniques (CAATs) such as test data and the use of specialised audit software, and manual procedures such as physical examination, observation, confirmation, vouching, inspection, documentation, inquiry and analytical procedures.

3.3 *Evidence:* The reliability of audit evidence gathered by the auditor may range from completely unreliable to highly reliable. In some instances, there may be insufficient evidence upon which to form an opinion on the financial statements. In other instances, there may be a need to engage an expert to evaluate the evidence.

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Appendix IV: Guide to assessors

This guide provides guidance about the required quantity and level of performance as a guide to assessors in their assessment of an applicant's competency.

1.0 Skills

1.1 *Basic skills: Cognitive and behavioural skills which applicants should have acquired but which should not be considered as indicators of competency at the RCA level .*

1.1.1 Technical skills: ability to apply knowledge of Australian law relating to corporations and corporate taxation; ability to apply current Australian accounting and auditing standards; use information technology; communicate by way of structured and literate reports; document audit work; use relevant statistical methods; apply laws and regulations; apply control systems designs and procedures; apply auditing technology and procedures.

1.1.2 Analytic and constructive skills: Analyse accounting reports; reason logically; ability to conceptualise; "problem" analysis; research skills (find and assess data); link evidence to arguments and conclusions; analyse commercial and financial data; analyse control systems; use sophisticated analytic models in support of audit judgment; use industry specific databases in the audit process; use extra-organisational information in the audit process; use non-financial evaluation methods in audit work.

1.1.3 Appreciative and judgmental skills: Sort out relevant from irrelevant (e.g. as in audit evidence); find all that is relevant; judge whether information is sufficient; sort out productive central lines of inquiry; see anomalies and recognise their implications; see the significance of issues; see the audit process as a whole; "locate" particular problems or situations in terms of more global contexts/ responsibilities; , make associations, thinking outside the square; comprehend audit in the context of business; discriminate between substance and form; discipline imagination; sense client needs and expectations; have a sense of practicality, materiality; assess risks associated with an audit; cope with increasingly complex transactions and regulations; adapt to revised expectations about audit processes and outcomes; interpret law and standards relevant to auditing.

1.1.4 Personal skills: Honesty; integrity; a-political; inquisitive; balanced (not blinkered) in line of inquiry; not dogmatic; initiative; self-starter; make it happen; handle pressure; manage time; intelligent; decisive; stand ground; flexible; adapt to circumstances; effect change in self; manage stress; patient; persistent; creative.

1.1.5 Interpersonal skills: Aware of audience; listen; empathise; team player; learn from others; influence, persuade, motivate, change others; lead; present; diffuse and resolve conflict; liaise and negotiate; handle frustration for self and others; calm turbulent situations.

1.1.6 Organisational skills: Put theory into practice; find way around organisations; handle an adversarial role; attain a knowledge of the client's business; adapt audit work to a wide range of accounting systems, methods and standards.

1.2 Indicative skills: Cognitive and behavioural skills which applicants should have acquired and which are necessary to competently perform tasks at the RCA level..

1.2.1 Technical skills: Master new information technologies.

1.2.2 Analytic and constructive skills: Design control systems; analyse organisation (by function and structure); develop technologies for the reduction of audit risk; adapt audit methodologies for evaluating controls in computerised information systems; design technologies for systems analysis and evaluation; develop technologies for assessing business risk; develop methodologies for establishing performance criteria and measuring performance; validate assumptions/ projections underpinning plans and decisions.

1.2.3 Appreciative and judgmental skills: Extend judgement over time (projection); know what should be there; sense what is not there; make syntheses from isolated evidence; employ a sense of perspective; take a strategic view, seeing the macro as well as the micro; be streetwise (applying a sense of commercial reality); develop and use criteria to promote consistency in judgment.

1.2.4 Personal skills: Dedication.

1.2.5 Interpersonal skills: Manage group dynamics; secure control; discrete/tactful.

1.2.6 Organisational skills: Use organisational contacts, networks, power sources and structures; "read" the culture and politics of an organisation; negotiate the application of professional standards; manage the audit process; use sophisticated technologies/ approaches in managing audit work (e.g. project management, time management, performance criteria).

1.3 Advanced skills: Cognitive and behavioural skills that applicants may have acquired but which are not necessary to competently perform tasks at the RCA level.

1.3.1 Appreciative and judgmental skills: Make complex multi-valued judgments in the absence of all data and with probabilistic inferences only.

1.3.2 Organisational skills: Add commercial value; make productivity gains; market auditing services; use consulting/ entrepreneurial approaches in selecting areas of audit work; expand audit work into new areas (requiring new skills); cope with international transactions, structures and legal arrangements.

2.0 Knowledge

2.1 Prerequisite knowledge: Substantive understandings that applicants should have acquired but which should not be considered as indicators of competency at the RCA level

2.1.1 *Knowledge required of an accounting graduate:* Laws relating to corporations and corporate taxation and regulatory requirements that generally impacts audits; current accounting and auditing standards; the purposes served by, and the processes involved in establishing, objectives and terms of reference for an audit; principles and processes involved in developing an audit plan; over-riding criteria governing audit work; types of liaison required in audit work; the crucial roles of client/auditor interactions in the audit process; mechanics of auditing in organisational settings; performance audits and their mechanics; the crucial role of quality standards and processes in audit work; issues that might arise in the final preparation of audit reports; social, political and research processes involved in the development of regulations/standards governing or affecting auditing; contextual influences on audit work.

2.1.2 *Knowledge required of a newly qualified member of CPAA/ICAA:* How over-riding criteria governing audit work have been or might be operationalised; processes that may need to be initiated to address or resolve issues that might arise in the final preparation of audit reports; approaches that can be taken to manage client/ auditor interactions in the audit process; criteria which might govern performance audits; the mechanics of conducting performance audits in organisational settings; the application of quality management (control and improvement) technologies and processes in auditing work; Auditing Function Management (human and other resourcing needs, project management processes and technologies); the internal dynamics of the range of contexts which have a bearing on the work of the audit function.

3.0 Tasks and sub-tasks

3.1 *Basic sub-tasks: Sub-tasks in which applicants should be proficient but which should not be considered as indicators of competency at the RCA level.*

3.1.1 *Client acceptance/ retention context:* Demonstrate an understanding of the purposes served by and processes involved in the acceptance and retention of audit clients; demonstrate an understanding of the professional and regulatory requirements (range and content) that generally impact organisations and audits; demonstrate a working knowledge of the requirements relating to a particular audit; under direction, develop preliminary policies pertaining to the acceptance and retention of audit clients; demonstrate an understanding of over-riding criteria governing client acceptance/ retention, and how these have been or might be operationalised; under direction, undertake background research on the industry in question to establish industry risk parameters; under supervision, determine relevance to the audit of specific regulatory requirements; under direction, acquire other data relevant to the acceptance/ retention decision; demonstrate an understanding of the evaluation of the criteria relevant to the client acceptance/ retention decision; collaborate in the assessment of such criteria, to identify factors where there might be difficulties in meeting the criteria; develop proposals as to how these difficulties might be met, and the criteria operationalised otherwise; in collaboration with superiors, identify issues or conditions relating to criteria that will be referred for wider consideration; under supervision, develop a preliminary discussion document on the nature of a particular audit, focussing on audit objectives and client activities and risks; determine and document the requirements relating to a particular audit; complete all of the above in the agreed time frames.

3.1.2 Audit planning context: Demonstrate an understanding of the principles and processes involved in developing an audit plan; collaborate in discussions aimed at defining the parameters of a particular audit; collaborate in the development of audit strategies; suggest specific actions/procedures that might be used to pursue strategies; develop an understanding of the type of liaison required in this area, and of negotiation processes in general terms; provide assistance in identifying key parties to be involved in the liaison process; under direction, develop preliminary staff profiles (numbers, skills, levels of seniority) related to a particular audit; demonstrate a working understanding of processes and technologies utilised in organisational analysis, with particular reference to the determination of risk profiles; acquire data concerning audit risk components relevant to the determination of the audit plan; under supervision, review and document operational and organisational structures and systems in line with audit objectives) utilising relevant technologies (e.g. flowcharting, risk matrices); under direction, acquire other data relevant to the determination of the audit plan; contribute to assessments of the audit risks associated with the client's organisation; contribute to assessments of the cost-effectiveness of the preliminary audit plan; draft a preliminary audit plan, as a basis for discussion/review; subject to review, document the audit plan; complete all the above in the agreed time frames.

3.1.3 Control testing context: Demonstrate a thorough understanding of the mechanics of control testing in organisational settings; under supervision, and based on the audit plan, develop audit programs for tests of control; supervise and guide the audit team (and review the work done by the team) in the acquisition of data relevant to the determination of the effectiveness of internal control procedures; work (with team) to implement the audit plan to defined timelines; take responsibility for quality and professionalism of work by the team during this phase of the audit; monitor budget, client/audit team liaison and day to day administrative matters associated with this phase of the audit; under direction, evaluate the sufficiency and appropriateness of evidence gathered during this phase of the audit; under direction, undertake a qualitative and quantitative evaluation of control deviations detected in the evidence gathered; under direction, discuss the consequence of control deviations detected with the client organisation; collaborate on the final evaluations of the control risks associated with the effectiveness of internal control procedures; review work performed and conclusions prepared by audit team; document conclusion as to the effectiveness of control procedures upon which reliance had been planned; identify consequent changes, if any, to the audit plan; under direction, brief staff of changes to the audit plan; complete all the above in the agreed time frames.

3.1.4 Substantive testing context: Demonstrate a thorough understanding of the mechanics of substantive testing in organisational settings; under supervision, and based on the audit plan, develop audit programs for substantive audit procedures; supervise and guide the audit team (and review the work done by the team) in the acquisition of data relevant to the extent of misstatements in account balances and underlying classes of transactions; work (with team) to implement the audit plan to defined timelines; take responsibility for quality and professionalism of work performed by the team during this phase of the audit; monitor budget, client/audit team liaison, and day to day administrative matters associated with this phase of the audit; under direction, evaluate the sufficiency and appropriateness of evidence gathered during this phase of the audit; under direction, undertake a qualitative and quantitative evaluation of misstatements detected; under direction, discuss the consequence of

misstatements detected with the client organisation; collaborate on the final evaluation of the extent of misstatements in account balances and underlying classes of transactions; review work performed and conclusions prepared by audit team; document conclusion as to the extent of misstatements in account balances and underlying classes of transactions; identify consequent changes, if any, to the audit plan; under direction, brief staff of changes to the audit plan; complete all the above in the agreed time frames.

3.1.5 Opinion formulation context: Demonstrate an understanding of issues that might arise in the final preparation of audit reports, and processes that may need to be initiated to address or resolve the issues; collaborate in identifying the factors relevant to the determination of materiality for reporting purposes; under supervision, and based on the audit plan, develop audit programs for work to be performed; supervise and guide the audit team (and review the work performed by the team) in the acquisition of data relevant to the compilation and content of the client organisation's financial report; work (with team) to implement the audit plan to defined timelines; take responsibility for quality and professionalism of work performed by the team during this phase of the audit; monitor budget, client/audit team liaison and day to day administrative matters associated with this phase of the audit; within area of responsibility, conduct exit interview's with client organisation's staff to clarify issues or resolve difficulties; under direction, evaluate the sufficiency and appropriateness of evidence gathered during this phase of the audit; collaborate in the evaluation of factors relevant to the determination of the type of opinion to be included in the auditor's report; collaborate in the discussion of the consequence of the opinion type with the client organisation; complete all the above in the agreed time frames.

3.2 *Indicative sub-tasks: Sub-tasks in which applicants should be proficient and which are considered as indicators of competency at the RCA level.*

[Refer Appendix II: Tasks and sub-tasks.]

3.3 *Advanced sub-tasks: Sub-tasks in which applicants may be proficient but are not required in order to assess competency at the RCA level.*

3.3.1 Client acceptance/ retention context: Establish the parameters for, and initiate processes to define both the nature of the proposed audit and related regulatory requirements; establish a climate of mutual understanding with client; secure agreement with the client about the necessity for independence, objectivity, balance and professionalism as overriding criteria governing the audit process, resolving outstanding issues; develop a risk-return position on the client; clarify with client all issues that may lead to subsequent disputes; brief client on the nature of the proposed audit; negotiate agreement with client about audit objectives and parameters (e.g. scope of engagement, scope of reporting), other condition (e.g. timetables, fees), and liaison arrangements; share insights on these matters with senior audit staff; ensure all information relative to the client/acceptance/ retention decision is properly documented; make decision as to whether client is accepted/ retained.

3.3.2 Audit planning context: Initiate the development of the audit plan; approve the criteria upon which the audit plan will be based; review the proposed audit plan in terms of critical parameters including cost-effectiveness; secure understanding by the

client of the audit plan; approve final documentation of the audit plan;

3.3.3 Control testing context: Keep informed (generally) about the conduct of this phase of the audit; review conduct of this phase of the audit in terms of objectives and pre-set schedules/ performance indicators; consider major issues and approve major proposed changes to the audit plan.

3.3.4 Substantive testing context: Keep informed (generally) about the conduct of this phase of the audit; review conduct of this phase of the audit in terms of objectives and pre-set schedules/ performance indicators; consider major issues and approve major proposed changes to the audit plan.

3.3.5 Opinion formulation context: Review conduct of this phase of the audit in terms of objectives and pre-set schedules/ performance indicators; ensure that liaison between audit team and client is open, professional and productive, that liaison processes are used to crystallise and resolve critical or outstanding issues and that outcomes are documented; review the structure of the final (draft) report and its evidential base; receive and review advice on unresolved issues and the interpretability and acceptability of the final (draft) report; discuss the final (draft) report with the client; resolve outstanding issues, including those relating to interpretability and acceptability; establish and approve a final position on the audit report; review this in relation to professionally accepted criteria of independence, objectivity and balance; manage the “political” outcomes associated with the report.

4.0 Substantiating evidence

4.1 An applicant is required to demonstrate to the satisfaction of his or her assessor that he or she has acquired the skills and knowledge to be able to proficiently perform the sub-tasks. The applicant needs to demonstrate that he or she can proficiently perform the sub-tasks in both familiar and unusual situations that are, based on the assessor=s knowledge of the applicant, likely to be encountered by the applicant in the foreseeable future. Assessors should use more than one method to assess whether an applicant is able to proficiently perform a sub-task.

4.2 An applicant is required to demonstrate all of the sub-tasks that relate to a particular task, on the one audit engagement. In other words, an applicant should not demonstrate one sub-task that relates to a particular task on one audit engagement and another related sub-task on another engagement.

4.3 Methods that may be used by assessors to gather evidence include the following:

4.3.1 Observation: The assessor may observe the applicant performing a particular sub-task. Observation is particularly relevant to sub-tasks involving the applicant interacting with other persons, such as members of the audit team or members of the client=s staff. Such sub-tasks include supervision, guidance, liaison, consultation, negotiation, collaboration, briefing, participating in discussion, and leading discussion. Additionally or alternatively, the assessor may observe that an applicant has acquired the skills necessary to competently perform the tasks (refer to *basic* and *indicative skills*, above).

4.3.2 Reperformance: The assessor may ask the applicant to perform again a sub-task previously performed and at the same time describe to the assessor his or her underlying reasoning. Such sub-tasks may include identifying or evaluating criteria, resolving issues, decision making, reviewing or evaluating documentary evidence, and reviewing written conclusions by members of the audit team.

4.3.3 Review of written evidence: The assessor may review written evidence of the performance of a sub-task. Such review is always necessary where the sub-task is required to be documented by the applicant. These include any sub-tasks relating to the activities of planning, evidence gathering, evidence evaluation and decision making that are required to be documented by the applicant.

4.3.4 Questioning: The assessor may question the applicant about a sub-task previously performed. Questioning applies to all sub-tasks, but is a necessary method of obtaining evidence as to how the applicant would perform the sub-task in other situations likely to be encountered by the applicant in the foreseeable future. Additionally or alternatively, the assessor may question the applicant to determine that he or she has acquired the knowledge necessary to perform the tasks (refer to *prerequisite knowledge*, above).

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Appendix V: Guidance for Registration as a Company Auditor

The following may be used as a guide to submitting the application to the Australian Securities and Insurance Commission.

1.0 Documents to be submitted.

1.1 The following documents should be submitted to ASIC as evidence that the applicant has satisfied all the components of this auditing competency standard.

1.1.1 Log Book, including, where applicable, the Statement by Assessor(s).

1.1.2 Statement by Referee. The Statement by Referee is required if:

1.1.2.1 there is no Statement by Assessor(s),

1.1.2.2 the Statement by Assessor(s) is incomplete,

1.1.2.3 the Log Book indicates that all tasks were demonstrated within the two year period commencing with the admission of the applicant as a member (of CPAA or ICAA) and ending with the date of application for registration,

1.1.2.4 the date of application is less than five years after the date of first employment by the applicant by an accounting firm in which audit competencies were acquired by the applicant, or

1.1.2.5 the Log Book indicates that some of the tasks were demonstrated more than five years prior to the date of application.

2.0 The following reports should be submitted to ASIC as evidence that the applicant is capable of performing the duties of an auditor.

2.1 A referee's report from a Registered Company Auditor (registered number to be stated) that knows and has supervised the work of the applicant. That person should not be an employee, a fellow employee or a relative.

2.2 A second report from a referee that also knows the work of the applicant. That person could be a former employer, an audit client or some other person that knows the work of the applicant.

3.0 To assist ASIC in determining whether the applicant is a fit and proper person, the applicant should state in the application whether the applicant:

3.1 has been found guilty of dishonesty, such as theft and fraud; professional misconduct, such as serious breaches of the regulations of CPAA or ICAA; other misconduct, such as other criminal offences.

3.2 has ever been excluded, refused or suspended from practice or registration as an auditor or liquidator.

3.3 is a person who is disqualified from managing a corporation under Pt 2D.6 of the Corporations Law.

3.4 is a resident of Australia.

4.0 Log Book

The applicant should complete all entries in the Log Book, except for the Statement by Assessor(s). The Log Book should state, in relation to each of the 20 tasks, the name of the audit engagement(s) during which the tasks were either performed and demonstrated (or just performed), the name of the audit firm responsible for the engagement(s), the name of the assessor or other person reviewing or supervising the applicant=s work, and the dates (months and year) in or during which the tasks were performed.

5.0 Statement by Referee

5.1 The Statement by Referee should state the number of years during which the referee has known the applicant (minimum of two years), and should be dated no earlier than 3 months prior to the date of application.

5.2 Where the Statement by Assessor(s) is incomplete or not signed, the referee should state:

5.2.1 that he/she is a Registered Company Auditor (registered number to be stated) and is a member or employee of a firm that is subject to quality review by either CPAA or ICAA (name of firm to be stated),

5.2.2 in respect of each of the tasks not demonstrated to an assessor (which should be identified in the referee=s statement), the applicant has acquired and retained the competencies required to perform those tasks,

5.2.3 the basis for making each of the statements referred to in 5.2.2, and

5.2.4 he/she believes the applicant is sufficiently competent to be registered as a Company Auditor.

5.3 Where the Statement by Assessor(s) has been completed in full, but a Statement by Referee is required (refer 1.1.2.3, 1.1.2.4 and 1.1.2.5 above), the referee should state:

5.3.1 that he/she is a Registered Company Auditor (registered number to be stated) and is a member or employee of a firm that is subject to quality review by either CPAA or ICAA (name of firm to be stated),

5.3.2 where the applicant demonstrated a task to an assessor more than five years prior to the date of application (and such tasks, if any, should be identified in the referee=s statement), that the applicant has acquired and retained the competencies necessary to perform those tasks, and

5.3.3 where either:

- all tasks were demonstrated within the two year period commencing with the date of the applicant=s admission as a member, or
- the date of application is less than five years after the date of first employment by the applicant by an accounting firm in which audit competencies were acquired by the applicant,

the circumstances that enabled the applicant to acquire the necessary knowledge and skills to perform these tasks within such a relatively short period of time.

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Appendix VI: Summary of research methods, processes and outcomes in the research study “Competency Based Standards for Professional Accountants in Australia and New Zealand” undertaken by Professor W. P. Birkett, University of NSW, Australia, 1993.

The following has been extracted from information contained in the above publication.

1.0 Objectives of the project

1.1 The project was seen to have three broad objectives:

1.1.1 to develop competency standards for accountants.

1.1.2 to validate these competency standards by reference to a range of specific work settings.

1.1.3 to secure an appropriate level of endorsement of the competency standards.

2.0 Research methods

2.1 Four types of research methods were used in the project: analytical studies, Delphi studies, functional analysis and incident analysis.

2.2 *Analytical studies:* Insights and analytical frameworks were drawn from a number of analytical studies which proposed ways of characterising the individual attributes drawn on in accounting work, and the tasks, contexts, substantive competencies (skills) and bodies of knowledge applicable to particular fields of practice.

2.3 *Delphi studies:* These studies provided consensual data (from close to 400 expert participants) on the functional divisions of accounting work (auditing, external reporting, insolvency and reconstruction, management accounting, taxation, treasury), the tasks performed in each functionally delineated field of practice, related contextual factors in each field, and the competencies required for each task performance.

2.4 *Functional analysis:* This involved leading small groups of experts in ‘top down’ performance oriented analyses of the work of accountants. Functional areas of work were established, along with the tasks and sub-tasks involved in each area. Different dimensions of each task were identified along with contextual imperatives; relative individual attributes were drawn out; and criteria relating to performance in task areas were proposed. Approximately 80 experts were involved in this aspect of the project.

2.5 *Incident analysis:* This is a research method designed to obtain specific, behaviourally focussed descriptions of typical or critical work situations. In effect, this research method results in the generation of examples that can be used to illustrate or validate the outcomes of functional analysis exercises. About 100 individuals participated in the Incident Study.

3.0 Research processes

3.1 The six functional analysis groups in Australia were constituted and each were provided with a briefing and extracts from the relevant analytic study (dealing with the descriptions of the field of practice, functional delineation of the area of work, task sets relating to the function, and competencies associated with the task set) and Delphi studies (dealing with the field of practice as a specialisation, its functional delineation and component tasks). The material was to be considered at the first meeting of the group.

3.2 Three four-hour meetings were held at spaced intervals and for some groups a fourth meeting was held. Feedback on the outcomes of each meeting was provided as input to the next meeting. As a result, the process was organic: provisional outcomes were redefined progressively.

3.3 At relevant points during the process, data were introduced from the Delphi studies and the Incidents Study.

3.4 Through a range of interactive processes, each group achieved the following outcomes: a functional definition of the field of practice; an outline of the contextual variables; definitions of the units of competency; definition of the elements of competency; definition of the performance criteria; list of cues relating to each performance criterion; definition of the work roles relating to the category of Competent Practitioners; a list of individual attributes relating to the functional area and its units of competency together; and identification within the listing of individual attributes of those applying to the collective work roles of Competent Practitioners.

3.5 The output of the six Australian groups became the initial input to the six New Zealand groups. These groups refined the work of the Australian groups and extended to encompass the categories of Proficient Practitioner and Expert Practitioner.

3.6 Again through a range of interactive processes, each group achieved the following outcomes: definition of the work roles relating to Proficient Practitioner and Expert Practitioner for each element of competency; and identification within the listing of individual attributes of those applying to the collective work roles of Proficient Practitioner and Expert Practitioner respectively.

4.0 The competency standards

4.1 Six fields of practice were delineated and defined functionally: auditing, external reporting, insolvency and reconstructions, management accounting, taxation, and treasury.

4.2 Units of competency were established for each field of practice; performance criteria were defined for each element of competency; and cues were developed for each performance criterion to guide the performance of assessment against them.

4.3 The individual attributes associated with each field of practice were also identified using a special skills taxonomy that categorised particular types of cognitive and behavioural skills.

4.4 As a result, it was possible to define the competency standards relating to competent

practice in each field by reference both to performance outcomes and individual attributes drawn on selectively in producing those outcomes.

4.5 Range indicators were used to delineate three types of work relating to each field of practice, based around 'normal' patterns of career progression. The labels Competent Practitioner, Proficient Practitioner and Expert Practitioner respectively were given to these types of work role. Specific work roles were identified for person falling into these categories, for each element of competency in a field of practice.

4.6 The individual attributes associated with each field of practice were subdivided in terms of the range indicators. The use of range indicators made it possible to define competency standards for the three career levels as well as competent practice overall.

5.0 Validating the standards

5.1 The independent corroboration of outcomes is usually a central aspiration, if not a necessary feature, of most research methodologies. Bearing in mind the nature and constraints of the study, complete validation was not possible. Nevertheless, a focus on validation was sustained during the project in six ways.

5.2 First, where possible, independent corroboration was sought within the processes used by each functional analysis group; second, the New Zealand functional analysis groups acted as independent validators of the outcomes produced in the Australian groups; third, data introduced from the Delphi studies had been validated already; fourth, comparisons were made between the outcomes produced by the functional analysis groups with the independently produced Incident Study outcomes, which were not conclusive, but were indicative and suggestive; fifth, comparisons were made between the work roles and individual attributes assigned to Competent Practitioners in each field of practice, which tended to confirm that the Competent Practitioner category had been set at an appropriate stage of career progression; six, comparison of the results of overseas studies was made in an attempt to confirm the functional divisions of accounting work, units of competency, elements of competency, performance criteria and individual attributes developed in this project. Although substantive comparisons were difficult, no significant anomalies or omissions were uncovered.

6.0 Endorsing the standards

6.1 In order to obtain an "endorsement" of the standards, the standards were exposed to, and received an informed consensus from, relevant academic and professional communities.

6.2 This included endorsement from the project's Steering Committee comprising representatives from the three sponsoring organisations (ASCPA, ICAA, and ICANZ), Accounting Association of Australia and New Zealand (AAANZ), the Australian Vice Chancellors' Committee and the Australian Council of Trade Unions.

6.3 In addition, a number of educational and communicative activities were undertaken including a series of five short articles published concurrently in the professional journals of CPAA and ICAA; a keynote paper addressed to an annual conference of AAANZ, a briefing to the heads of academic departments in Australia and New Zealand; regular progress reports made to the governing councils of the sponsoring organisations by their representatives on the Steering Committee; and the joint Standing Committee of the

sponsoring organisations was briefed on the project by the technical consultant.

7.0 Conclusion

7.1 The competency standards stand as an independently produced occupational point of reference or benchmark. Hence, they can be used by a range of independent parties: by professional associations as a basis for accreditation, certification and definition of continuing education needs; by accounting educators as a basis for defining the potentialities and limits associated with particular styles of formal education; by employers or work organisations in assessing their own competency needs and developmental proposals; and by governments in assessing manpower development, immigration claims and resourcing needs associated with accounting as an occupation.
