

QUALITY THROUGH EDUCATION IN AUDITING

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Abstract:

The authors try to argue that quality of audit mission depends on competence of auditors. The differences in perception the results of statutory audit in Romania and the perception of the results of audits in the world show how many must be develop in Romania in educational system, in client firms, and in financial audit framework. In this context, the authors appreciate that developing and implementing International Education Standards for Professional Accountants can contribute to desirable outcomes, including: reduction in international differences in the requirements to qualify as a professional accountant, facilitation of the global mobility of professional accountants and provision of international benchmarks against which International Federation of Accountants member bodies can measure themselves. At the same time, even if the International Education Standards for Professional Accountants cannot legally override local laws and regulations, they will provide an authoritative reference for informing and influencing local regulators regarding generally accepted "good practice". It is desirable like Romanian organizations of professional accountants to work towards implementation of all International Education Standards and to incorporate in their education programs the essential elements of the content and process of education on which International Education Standards are based.

Key words: auditing, competence, accounting profession, education standards, audit quality.

JEL Classification: M41, M42, M48.

INTRODUCTION

Today, the audit covers a field increasingly large, where independent offices and employees often perform complementary activities. Studying the practice of auditing, we can define multiple criteria for the auditors' grouping. Thus, considering the auditor's relationship with the audited company, we can distinguish between internal audit and external audit; considering auditor status, it is reasonable to distinguish between contractual audit and statutory audit; if the criteria are represented by the objectives assigned to an audit mission, it is reasonable to make distinction between statutory audit (leading to certification of annual financial statements) and operational audit (leading to improve performance of the entity). In addition, it is reasonable to show that, in present, one of the objectives of statutory audit is to express an opinion on company's managers, i.e. about the performance of companies they manage. These audit forms suggests the diversity of issues which a professional accountant have to face. In this context, the emergence of International Education Standards for Professional Accountants must provide a general framework allowing professional organizations to deal with the Professional Accounting Education Programs.

This paper takes as its starting point the auditing rules, represented mainly by the International Standards on Auditing and Quality Control, the IFAC Code of Ethics and the researches and studies undertaken in Romania and abroad about the current status of professional accounting; these studies try to show the possible development of the profession, that means keeping the status, increasingly questioned, of the auditor. Our research is focused on the content of International Education Standards for Professional Accountants because is generally accepted that an appropriate level of professional competence can be achieved and maintained only by a rigorous theoretical education and a strong practical experience followed by continuing development of professional competence.

WHAT DOES THE COMPETENCE IN AUDITING MEAN?

In our opinion, the first criterion for the assessment of competence in any field is given by compliance with rules. So, in a very simple manner, we can say that an auditor is competent if he is trained to satisfy his employers and clients needs or if he acts in accordance with applicable professional standards. This assertion is supported by the IFAC Code of Ethics, which, referring to competence, show that for respect the principle of professional competence, professional accountants have the following obligations (1):

- to maintain professional knowledge and skill at the level required to ensure that clients or employers receive competent professional service;
- to act diligently in accordance with applicable technical and professional standards when providing professional services.

In accounting, in general, and in auditing, in particular, these rules are very stringent and quite numerous. First, it's about the rules applied by the professional accountants when they carry out activities. Accounting and audit rules are a guide for the work of auditors and other professional accountants, giving them the tools necessary to meet the more extensive requirements of the financial reporting process. But these rules have been supplemented in recent years with rules that define the rules of "good practice" in training professional accountants. These rules, namely International Education Standards for Professional Accountants set the benchmark for training members of the accountancy profession, both those seeking membership of a professional body, and those who already have this status.

In the general framework of the Council for International Education Standards for Professional Accountants does exist a section (2) reserved for the relationship between capacity and competence, which may represent the starting point in discussing the contents of International Education Standards for Professional Accountants. The two concepts are described as two sides of a coin. Capacities are considered professional knowledge and skills, as well values, ethics and attitudes required to demonstrate competence. In other words, capabilities are rendering an individual able to perform tasks. Possession of these capacities provides an indication that a person has the ability to be competent in what he does. Competence is the ability to work on clearly defined standards, with reference to a real working environment. It refers to actions that people undertake to determine if they can be made to the required standards. When a person relies on its capacity to perform tasks according to standards, it is assumed that she has the necessary competence to perform those tasks.

Assuming that is acceptable the meaning given above to the notion of competence in auditing, we might ask ourselves: *Who can make an assessment of competence in the audit?*

A detailed response, which we concur, was given by Elisabeth Bertin (3).

First, the author makes a distinction between the internal and external cabinet actors whose activity must be evaluated.

Thus, assessment of competence is achieved by the auditor himself when make decisions to accept or not an assignment, to appoint to the audit team the persons that he consider competent, etc. Practical way of assessing the competence of its work involves comparing information about the activities of the professionals accounting who work in the same sector and analysis of so-called "file" which allows the auditor to decide on the need to maintain their competence and professional development. The "file" is a record of professional and personal activities and achievements of the auditor confirming his professional competence. Also, an internal assessment will be deemed to be made by the audit firms through the quality internal control, which allows comparisons both between the members of audit team and the evaluations of audit missions by supervisors. This rating is considered to be more formal as long as all the great offices practice this assessment in the assurance quality program. The person who assesses competence in audit see in competence the ability of the auditor to perform their duties in compliance with rules, contributing to grow cabinet efficiency, ensuring customer satisfaction and aiming at human resource development.

Turning to the assessment of competence by outside "actors", we find that the auditors' assessment of competence could be achieved by the audited company. If business is bound by law to audit the annual financial statements, we can not say with certainty that the assessment of competence is based on objective criteria. How it will be appreciated that an auditor who, in compliance with the rules, issues a qualified opinion, by comparison with another auditor who, with violation of professional obligations, issued an unqualified opinion?

Since the auditor serves public interests, we may assume that an assessment of competence may be made by the public. This appreciation is based on the opinions of financial analysts, on the information conveyed in the press (with effect on the reputation of the cabinet), on the fact that auditors received their status from an authority and they are subject of rigorous professional standards. For public, the competence is the ability of auditor to issue an audit report on the quality and veracity of reliable accounting and financial information submitted by the audited company.

If for most types of operations, effectiveness is a criterion for assessing quality, this criterion is useless in assessing the competence of the audit because the audit is not an obligation of result, but a means. Observable result of the audit is the opinion issued, but its relevance is hard to predict. A qualified opinion is not for anyone interested in the audit report a cause for concern, but if it is, it can be the starting point in making correct decisions. But if an audit report should contain a qualified opinion and it presented incorrectly an unqualified opinion, may be more serious consequences. Such audit opinions, in the context noted, may be caused by lack of competence of the auditor. So, not the efficiency prevail in audit, but competence, which requires the auditor to achieve all tests and procedures so that the opinion issued, favorable or not for the client company to provide a high level of assurance about the quality and veracity of financial information.

Although it is left ultimately in some countries (among which we can qualify Romania), the main criterion for assessing the competence of the audit is the reporting on compliance with rules. As a court in assessing the competence the professional organization intervenes by establishing quality control programs and continuing training requirement.

In this stage, it is necessary to describe the rules governing quality control.

QUALITY CONTROL FOR ACCOUNTING PROFESSION

It should be noted that not always a person who engages in an activity is necessarily competent. Situations of possible lack of competence of professional accountants engaged in audit led to concern for the national and international organizations of professionals in accounting and auditing for develop programs and define rules to prevent and eliminate situations of lack of competence of those working in their regulatory field.

Thus, International Federation of Accountants has issued, in addition to the International Standard on Auditing (ISA) 220 "Quality Control for an Audit of Financial Statements", the International Standard on Quality Control (ISQC) 1 "Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements" as a sign of commitment to ensuring an adequate level of quality for all work performed by auditors.

With reference to jurisdiction, the International Standard on Auditing (ISA) 220 "Quality Control for an Audit of Financial Statements" determines that the audit team and any other auditor's experts participating in the mission, but are not part of the team, it should have "competence and collective ability to make an audit in accordance with professional standards and legal requirements and applicable regulatory" (4). At the same purpose, the International Standard on Quality Control (ISQC) a "Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements" refers, inter alia, to the policy of human resources in the firms who provide audit service (5). The policies and the procedures for selection and training of employees must be designed to provide a reasonable assurance that company has enough employees who have the ability, skills and commitment to follow ethical principles necessary to conduct the mission in accordance with professional standards and with applicable legal and regulatory requirements. Also, are shown elements relating with the competence of the

company personnel who must be checked to decide if a new or existing audit engagement will be contracted, namely: if company employees have experience to carry out their duties or if they have the ability to obtain necessary skills and knowledge effectively and the number of employees with sufficient skills and competence necessary is enough. Beyond these circumstances, the appointment of engagement team involves a number of other elements that must be taken into account for obtaining insurance that the people who will be part of the audit team have capability and competence to carry out a quality audit.

Such elements, covering engagement teams, can refer to (6):

- Understanding of, and practical experience with, engagements of a similar nature and complexity through appropriate training and participation;
- Understanding of professional standards and applicable legal and regulatory requirements;
- Technical knowledge and expertise, including knowledge of relevant information technology;
- Knowledge of relevant industries in which the clients operate;
- Ability to apply professional judgment;
- Understanding of the firm's quality control policies and procedures.

In addition to these international standards, the Chamber of Financial Auditors of Romania has been developed rules governing quality control of audit work and related services.

In fact, these rules do not cover for first time the requirement of quality control for activities mentioned, but harmonizes rules issued by the Chamber of Financial Auditors of Romania with another law (8) that has established the public oversight of statutory audit. This piece of legislation set up a The Public Oversight Board for the Statutory Audit Activity. The duties of this Board require amendment of rules for conducting quality control. It should be emphasized, in this context, that the last act was intended to transpose Directive 2006/43/CE from 17 May, 2006, issued by the European Parliament and the Council, on statutory audit of annual accounts and consolidated accounts, published in Official Journal EU no. L 157 of June 9, 2006, in the Romanian legislation.

The Directive 2006/43/CE 17May, 2006 realized a harmonized approach to statutory audit in the European Union, but Government Emergency Ordinance no. 90 of 24 June, 2008 aimed to ensure compliance with statutory audit requirements of European directives in Romania, through ongoing review of legislation, and creating a public oversight system for statutory auditors and audit firms based on European principles.

Operational structure through which quality control of audit and related services is represented by Monitoring department and professional competence of the Chamber of Financial Auditors of Romania, which aims, on line assessment of professional competence of auditors, covering issues (9):

- compliance with professional standards and regulatory and legal requirements;
- compliance with law in conduct financial audit in accordance with Minimum audit standards of the Chamber of Financial Auditors of Romania and the International Standard on Auditing,

In addition, the same department verifies if the audit company inspected has implemented policies and procedures for internal quality control, as required in ISQC 1 and ISA 220, and compliance with these standards.

INTERNATIONAL EDUCATION STANDARDS FOR PROFESSIONAL ACCOUNTANTS

As we shown at the beginning, our research aimed also training requirements provided by the International Federation of Accountants through International Education Standards for Professional Accountants (IAESB).

The framework published by the International Accounting Education Standards Board indicates the potential users of these standards, namely (10):

- Universities, employers, and other stakeholders who play a part in the design, delivery, or assessment of education programs for accountants;
- Regulators who are responsible for oversight of the work of the accountancy profession;
- Government authorities with responsibility for legal and regulatory requirements related to accounting education;
- Accountants and prospective accountants who undertake their own learning and development;
- Any other parties interested in the work of the IAESB and its approach to developing publications on accounting education.

To better understand the role of the Council for International Education Standards for Professional Accountants we present in a short manner the content of these standards and their accompanying documents issued by this organization in its regulatory domain.

IES 1 – *Entry Requirements to a Program of Professional Accounting Education*. The entry requirement for an individual seeking to begin a program of professional accounting should be at least equivalent to that for admission into a recognized university degree program or its equivalent.

IES 2 – *Content of Professional Accounting Education Programs*. The content of professional accounting education should consist of:

- accounting, finance and related knowledge;
- organizational and business knowledge;
- information technology knowledge and competences.

IES 3 – *Professional Skills and General Education*. The skills that professional accountants should acquire are grouped under five main headings:

- a. intellectual skills;
- b. technical and functional skills;
- c. personal skills;
- d. interpersonal and communication skills;
- e. organizational and business management skills.

IES 4 – *Professional Values, Ethics and Attitudes*. The Standard prescribes the professional values, ethics and attitudes professional accountants should acquire during the education program leading to qualification.

IES 5 – *Practical Experience Requirements*. The aim of the Standard is to ensure that candidates seeking to qualify as professional accountants have acquired the practical experience a minimum three years.

IES 5 – *Assessment of Professional Capabilities and Competence*. The Standard prescribes the requirements for a final assessment of a candidate's professional capabilities and competence before qualification.

IES 6 – *Assessment of Professional Capabilities and Competence*. The Standard prescribes the requirements for a final assessment of a candidate's professional capabilities and competence before qualification.

IES 7 – *Continuing Professional Development: A Program of Lifelong Learning and Continuing Development of Professional Competence*. The Standard promote lifelong learning and make recommendations to member bodies to promote the importance of continuous improvement of competence for all professional accountants.

IES 8 – *Competence Requirements for Audit Professionals*. Describing the nature of the audit process, the standard prescribes competence requirements for audit professionals, including those working in specific environments and industries.

IEPS 1 – *Approaches to Developing and Maintaining Professional Values, Ethics, and Attitudes*. IEPS 1 sets out two possible approaches to the development of professional values, ethics and attitudes and also contains guidance on a number of methods for the delivery of ethics education, stressing the importance of workplace learning and assessment.

IEPS 2 – *Information Technology for Professional Accountants*. IEPS 2 has two section:

- Section 1 provides good practice guidance for IFAC member bodies on teaching and assessing IT at the pre-qualification stage.

- Section 2 provides guidance for IFAC member bodies on implementing IES 7, in relation to the post-qualification development of IT knowledge and competences.

IEPS 3 – *Practical Experience Requirements — Initial Professional Development for Professional Accountants*. This IEPS describe the objectives of a period of practical experience and the requirements for practical experience set by IFAC member bodies.

We appreciate that can be made several observations regarding the content of these standards. These standards were regarded as recommendations, so that the requirements of some of them are much less restrictive than national legislation. For instance, comparing to recommendations of IES 1, in Romania the law establishes that, to enter the training system to become member of the Chamber of Financial Auditors of Romania, a person must have a university degree in economics. On the other hand, if in the most part of rules there is a different degree of similarity between International standards and the rules issued by Romanian professional organizations, regarding IEPS 2 “Information Technology for Professional Accountants”, distance between requirements and reality is quite high, meaning that training and skills in information technology required for future Romanian accounting professionals are much less "hard" than those in IEPS 2.

CONCLUSIONS

This study shows that capacity is required to demonstrate competence. To reach the level of competence required by the audit engagement should be pass trough several stages of preparation, which generally include elements of theoretical education, professional accounting education and practical experience. To obtain quality of auditor or certified professional accountant and to become member of a professional organization member of IFAC is possible after completing all stages of theoretical and practical training and promoting a final exam. In addition, to enter the training cycle to be completed with this examination, the future professional accountant should prove a level deemed sufficient of knowledge, professional skills, and professional values, ethics and attitudes. These conditions are imposed by national laws. The significant differences between the requirements imposed by the national legislations in different countries regarding the conditions of access to the profession led international standardization body in accounting and auditing - IFAC - to issue International Education Standards for Professional Accountants, which may lead to the establishment minimum requirements of professional knowledge, including theoretical knowledge, practical experience and continuing professional development, and this can be considered a benchmark internationally.

If the educations rules are followed to obtain the desired quality, the importance of International Standards on Audit retain the auditor's attention throughout the performance of audit missions covered by these rules. The reasons for considering the rules like having a paramount importance to the auditor are set out below. First, they allow auditors to justify to the customer the nature and scope of work (tests, inspections, surveys) to complete. In other words, the standards support the auditors when confronted with attempts to limit their work by the client company managers. Secondly, if the cabinet works in compliance with the standards it is safely, meaning that it is under an obligation of means and not an obligation of results. In other words, the auditor is protected, for instance, from any client's attempts to request reductions of fees, by invoking the obligation to perform audits according to professional standards.

So we can say that an auditor who has became auditor respecting requirements of International Education Standards for Professional Accountants and who perform audits in compliance with International Standards on Auditing and IFAC Code of Ethics has adequate competence to conduct audits at an appropriate level of quality.

NOTES:

- (1) *International Federation of Accountants, Handbook of the code of ethics for professional accountants, 2010 edition, section 130, p. 17, at <http://web.ifac.org/publications/international-ethics-standards-board-for-accountants/code-of-ethics>*
- (2) *International Accounting Education Standards Board, Handbook of International Education Pronouncements, 2009, p. 23, at <http://web.ifac.org/publications/international-accounting-education-standards-board>*
- (3) *Bertin, Elisabeth, Reflexions sur la competence en audit, pp. 185-213, în Cahier de Recherche du Le CERMAT (Centre d'Etudes et de Recherche en Management de Touraine), at http://cermat.iae.univ-tours.fr/IMG/pdf/CAHIER_2004-119_BERTIN.pdf*
- (4) *Standardul Internațional de Audit (ISA) 220 "Controlul calității pentru un audit al situațiilor financiare", pct. 14, în: Federația Internațională a Contabililor, Manual de Standarde Internaționale de Audit și Control de Calitate. Audit financiar 2009, Editura Irecson, 2009, București, p. 13*
- (5) *Standardul Internațional privind Controlul Calității (ISQC) 1 "Controlul calității pentru firmele care efectuează audituri și revizuri ale situațiilor financiare, precum și alte misiuni de asigurare și servicii conexe", pct. 29 și A18 în: Federația Internațională a Contabililor, Manual de Standarde Internaționale de Audit și Control de Calitate. Audit financiar 2009, Editura Irecson, 2009, București, p. 45 și p. 56*
- (6) *Standardul Internațional privind Controlul Calității (ISQC) 1 "Controlul calității pentru firmele care efectuează audituri și revizuri ale situațiilor financiare, precum și alte misiuni de asigurare și servicii conexe", pct. A31 în: Federația Internațională a Contabililor, Manual de Standarde Internaționale de Audit și Control de Calitate. Audit financiar 2009, Editura Irecson, 2009, București, p. 60*
- (7) *Normele privind controlul calității activității de audit financiar și a serviciilor conexe, aprobate prin Hotărârea Consiliului Camerei Auditorilor Financiari din România nr. 139 din 24 martie 2009, publicată în Monitorul Oficial al României nr. 308 din 11 mai 2009*
- (8) *Ordonanța de urgență a Guvernului nr. 90 din 24 iunie 2008 privind auditul statutar al situațiilor financiare anuale și al situațiilor financiare consolidate, publicată în Monitorul Oficial al României nr. 481 din 30 iunie 2008*
- (9) *Normele privind controlul calității activității de audit financiar și a serviciilor conexe, aprobate prin Hotărârea Consiliului Camerei Auditorilor Financiari din România nr. 139 din 24 martie 2009, publicată în Monitorul Oficial al României nr. 308 din 11 mai 2009, art. 11, pct.1 și 2*
- (10) *International Accounting Education Standards Board, Framework for International Education Standards for Professional Accountants, p.4-5, at <http://web.ifac.org/publications/international-accounting-education-standards-board>*
- (11) *International Accounting Education Standards Board, Handbook of International Education Pronouncements, 2009 edition, p.46-204, at <http://web.ifac.org/publications/international-accounting-education-standards-board>*

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3. International Accounting Education Standards Board, *Framework for International Education Standards for Professional Accountants*, at <http://web.ifac.org/publications/international-accounting-education-standards-board>
4. International Federation of Accountants, *Handbook of the code of ethics for professional accountants*, 2010 Edition, at <http://web.ifac.org/publications/international-ethics-standards-board-for-accountants/code-of-ethics>
5. International Accounting Education Standards Board, *Handbook of International Education Pronouncements*, 2009, at <http://web.ifac.org/publications/international-accounting-education-standards-board>
6. *Normele privind controlul calității activității de audit financiar și a serviciilor conexe*, aprobate prin Hotărârea Consiliului Camerei Auditorilor Financiari din România nr. 139 din 24 martie 2009, publicată în Monitorul Oficial al României nr. 308 din 11 mai 2009
7. *Ordonanța de urgență a Guvernului nr. 90 din 24 iunie 2008 privind auditul statutar al situațiilor financiare anuale și al situațiilor financiare consolidate*, publicată în Monitorul Oficial al României nr. 481 din 30 iunie 2008