



The Professional Oversight
Board for Accountancy

Review of Training and Education in the Accountancy
Profession

Findings and Consultation over Recommendations

11 November 2004

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Foreword

This is the Professional Oversight Board for Accountancy's first major review as part of our duty to provide independent oversight of the regulation of the accountancy profession. The objective of this Review is to support public and investor confidence in financial reporting through evaluating the adequacy of training and education of accountants, auditors and members of audit committees.

Financial reporting by large companies and the associated audit work probably has the greatest impact on public and investor confidence, so it is right that there is a particular focus in this Review on individuals who are trained in the accountancy firms and either stay in audit or move on to have significant responsibility for financial reporting in business. It is also important, however, that the public should have confidence in financial reporting from smaller firms, the public sector and accountants generally.

The current arrangements for training and educating accountants help attract many of the brightest graduates and other talented people to the profession and, through a combination of theoretical and practical training, produce many highly competent individuals who are able to progress to senior positions in business and the public sector. The professional accountancy bodies are also working to develop the commitment to career-long learning within their membership.

In addition to noting the strengths of the existing arrangements we have also identified concerns that we consider do need to be addressed in order to maintain public confidence in the profession and to ensure that the profession develops a training and education strategy for its future success. In particular, we consider that trainees need to have a stronger understanding of the importance of the accountancy profession to capital markets and the wider public interest in order to imbue a commitment to the profession's values and codes of conduct, including career-long learning. There is also a need for trainees to have a better understanding of business (including public sector) issues so they can analyse critically and assess financial data. We have proposed recommendations that, taken together, address these concerns.

During the course of our Review we have consulted widely, through a panel of academics specialising in the field, through an Expert Group with representatives from a wide range of organisations involved in designing and delivering training and through our first consultation in July. We are most grateful to the large number of individuals and organisations who have already contributed and we look forward to receiving further views and advice on the contents of this second consultation.

Sir John Bourn
Chairman, The Professional Oversight Board for Accountancy

Background

Formal training of accountants can be traced back to the forming of the first accountancy societies in Edinburgh and Glasgow in 1853. A full history of the development of training since then is well beyond the scope of our Review except to note that it has been closely linked to the overall success of the accountancy profession.

“The most probable explanation as to why accountants reached the top in management in increasingly large numbers is that, doubtless with one or two exceptions, only the bright and dedicated qualified, while their training was the best and, until very recently, almost the only management training available in Britain.”

Matthews, D., Anderson, M., & Richard Edwards J.,
The Rise of the Professional Accountant in British Management,
Economic History Review 1997

Today, training new accountants is a significant activity for the professional bodies. The bodies have over 300,000 students worldwide. 45 per cent of students are based in the UK and the Republic of Ireland. Worldwide the number of students has been growing at around 7 per cent per year, although most of this growth is taking place overseas.

	ACCA	CIMA	CIPFA	ICAEW	ICAI	ICAS	TOTAL
UK & Republic of Ireland	62,524	54,064	2,378	9,360	3,392	2,324	134,042
Rest of the world	142,575	23,859	34	288	-	3	166,759
TOTAL	205,099	77,923	2,412	9,648	3,392	2,327	300,801

Table 1 Student numbers 2002 for the largest professional bodies

Each Professional body is responsible for ensuring that those admitted to membership have, and maintain, sufficiently high skills for their roles. Among the many activities involved in achieving this they set relevant syllabi, operate examination systems and either provide their own education and training or oversee specialist tuition providers.

In general each body is free to design its training as it sees appropriate in the light of their duties to their members and to the profession. However the EU Eighth Directive and the Companies Act 1989 define minimum levels of

training and education for accountants providing auditing services. POBA will perform periodic assessments of each body to confirm compliance with the requirements of the Act. The education directives of the International Federation of Accountants (IFAC) define further non-statutory requirements for training of all accountants.

The activities of the bodies in training and educating accountants are not limited to training new accountants. The six bodies have around 320,000 members worldwide, with around 250,000 of these in the UK and Republic of Ireland. From 2006, all non-retired members will be required to maintain appropriate levels of competence for their work by carrying out ongoing professional education.

Issue 1: Existing training arrangements

In our first consultation, we asked whether the current arrangements for accountancy training are appropriate. We invited views on the strengths and weaknesses of these arrangements and whether they lead to new members of the profession having appropriate attributes.

At present, most trainees study whilst working, with the training typically provided by the employer in the case of accountancy firms or sponsored by the employer in the case of many other private and public sector organisations. This “employer pays” model has some clear advantages. The practical nature of work-based training complements the focus of classroom training on passing examinations. The financial support to students and the associated career prospects make accountancy an attractive option for talented university graduates. Possible concerns with the model that we included in our consultation are shown below.

Accountancy students are taught that all aspects of their work, including financial reporting activities, should follow professional standards that encompass public interest responsibilities. However, in their work-based training the students may experience a strong focus on the needs of their employer or their audit client. Members of the profession are expected to make a clear distinction between the interests of a single organisation and the wider public interest where this is relevant. However, if messages delivered in the classroom environment are not consistent with messages from the workplace there is a risk that professional standards including public interest responsibilities may not be properly absorbed or followed.

Organisations providing or sponsoring accountancy training will wish to control the significant costs involved. This might be particularly relevant to accountancy firms where significant numbers of employees leave the organisation soon after qualifying. One way of managing the cost of training could be to limit the time that students spend in formal training by focusing tuition providers and students on examination success. As a result there could be a risk that key professional values may not be properly taught, absorbed or followed.

POBA Consultation July 2004

Many of those replying to our consultation emphasised a need to see any concerns in the context of a model that has served the profession and the public interest well.

Generally the system of education in the UK works well compared to other countries and it is notable that the standard of people entering and remaining within professional firms is well regarded. In short the current system is not broke and as such does not require fixing to a major extent. What we need to do

in the UK is to keep evolving in response to the challenges that arise.

Accountancy firm

We consider that the approach taken to training future members is both current and relevant. The balance between work experience and the breadth of the syllabus provides the attributes required by new entrants of the profession at an appropriate level.

Professional body

There was also little evidence from our consultation of a significant inconsistency between messages in the classroom and those in the workplace:

I believe that the professional standards and integrity demonstrated in the classroom are at least equally promulgated in the offices of professional firms and I have little doubt that the efforts made by professional bodies and by accountancy firms themselves have, over the recent years, contributed substantially to a significant enhancement of professional standards both technically and ethically.

Accountancy firm

However concerns were raised in relation to the overall effectiveness of the teaching and learning of professional standards in the current arrangements:

The syllabuses of the accounting bodies do not devote much space to ethics, governance or accounting principles. Moreover, the mode in which these topics are taught is one in which knowledge is transmitted to be learned rather than one in which the students are asked to reflect, study in depth and internalise such material.

Educational body

We are aware, through the experiences of graduates and through academic research, of the extent to which learning for professional examinations can still end up as 'cramming', and of the variability of the workplace experience. The consequent danger is that the mix of instrumental examination-focused learning with an impoverished working environment will lead both to the inculcation of a defective sense of professionalism and to the failure to retain good people in the profession.

Educational body

To help us to understand these views, we asked small groups of trainees working in a range of different sized accountancy firms and in a public sector

organisation about their experience both in the classroom and in the workplace.

Trainees with a large Accountancy firm told us that they felt part of their employer first, and their allegiance with their Professional body and the accountancy profession were “tagged on” to this. Most of those we met had chosen accountancy because they did not know exactly where they wanted their career to take them. To them, training meant “a three year stint of being able to earn money whilst gaining a qualification”.

Trainees with a range of smaller accountancy firms told us that they were proud to be training to be accountants because people respect the hard work involved. Many looked upon their studies primarily as a “passport to the future” but the training was also proving to be directly relevant to their work and was “excellent professional training”. Many graduates “fall into accountancy with pound signs in their eyes” one trainee told us, “rather than an interest in what the profession stands for”. “If there was a stronger sense of a profession I might be more inspired to stay,” this trainee said.

Trainees in the public sector felt a stronger allegiance to the values of public service than to those of the accountancy profession. “I came here to make a difference, I didn’t come to be an accountant” one trainee told us, “I don’t feel part of [the Institute], let alone part of the Profession”.

Recognising that we met only a small number of trainees we also discussed these concerns with the Expert Group. The Group confirmed that generally trainees identify with their employers to a much greater extent than with the accountancy profession. In audit, many students take things one step at a time, focusing first on qualification and only then deciding whether their future is in audit, accountancy or other areas of management. Many new trainees know little about what they are embarking on.

This lack of identification with the accountancy profession may not be a concern, it was suggested at the Expert Group, because becoming a professional takes many years and is based on experience combined with tuition and mentoring. However, the Group considered that it was important to strengthen and promote the profession to head off substitution from MBAs and finance qualifications at the top end and unqualified accountants at the bottom end of the market.

Conclusions

The current arrangements for training new accountants have many advantages. They provide students with a valuable combination of theory and practical experience in the workplace. Many of the best graduates are attracted to become trainees with the firms and the quality of those entering through this route is undoubtedly critical to the success of the profession and should not be neglected.

However it is important that new trainees have an early understanding of the importance of the accountancy profession to the public interest. This is needed to ensure that the framework for professional values, social responsibility and career-long learning is instilled up-front. This important knowledge is too often poorly introduced. While a full identification with the profession will not happen instantly, even at the start of their training new entrants need a better grounding in the key linkages between accounting principles, standards, sound business management and the public interest.

By the time that trainees qualify they should have a well-rounded understanding of the importance of the accountancy profession to the public interest, including a strong foundation in the values of the profession and practical aspects of how these relate to the needs of users of accounts including the capital markets. This understanding is too often inadequately developed during training and in our view this can lead to a weak foundation for a meaningful commitment to the profession's values and codes of conduct.

Our first two recommendations are therefore targeted at improving the current levels of understanding of the importance of the accountancy profession to the public interest among new entrants. This should be achieved outside of the examination arrangements to give trainees a less time pressured and less regimented environment in which to explore the professional's responsibilities to users of accounts and to the public as well as the consequences of unprofessional conduct. Further, to be effective at imbuing a sense of the wider profession, the education would need to be seen as being part of the profession rather than any individual firm or body.

Recommendation 1

We recommend that the professional bodies arrange for new trainees to participate in a training workshop that would provide a basic grounding in the key linkages between accounting principles, standards, sound business management and the public interest.

Recommendation 2

We recommend that the professional bodies arrange for trainees to participate in a training workshop at or near the time of their qualification that would consolidate new entrants' knowledge of the importance of the profession to users of accounts including the capital markets and to the wider public interest.

It would be for the professional bodies to plan how to implement these recommendations. POBA, while available to participate in the debate, would wish to leave the bodies as much flexibility as possible because we recognise that the success of these events will depend on the creativity and quality of planning that goes into them and how well they are integrated into other aspects of professional training, both examination and workplace based. However if there were a need to stipulate more details behind these recommendations then we would do so in our final report. We would

therefore welcome views on whether POBA should specify any of the following:

- a. Whether all trainees should participate in workshops or only certain groups;
- b. What other types of training might also be appropriate, taking into account the need for trainees to feel part of the wider profession;
- c. Whether participation of different groups of trainees in workshops or other types of training should change over time;
- d. Whether trainees should be expected to participate in their own or their employer's time and who should pay;
- e. How to integrate these workshops with other aspects of professional training, including the technical content of the syllabi and mentoring arrangements in the workplace;
- f. When the first workshops should be run (taking into account that the IFAC guideline on ethics training is expected to be published in towards the end of 2005); and
- g. Any other aspects of what should be covered during these workshops, how it should be covered and what types of organisations should be involved in planning and running the events.

Issue 2: Principles versus detailed regulations

We consulted on whether there is an appropriate balance between training the detail of accounting regulations versus training broad concepts and transferable skills such as “knowing where to look”. We asked whether an increasing quantity of financial reporting, governance and related audit requirements was contributing to a risk of inadequate training outcomes and, if so, whether this should lead to changes in the approach to accountancy training.

Accountancy training has to cover an increasing quantity of financial reporting, governance and related audit requirements. At present a key area of change is in relation to international reporting standards. The potential concerns that we included in our consultation are shown below.

There are a number of possible implications of the growing scope of financial reporting, governance and related audit requirements. Firstly, individuals might struggle to keep adequately up to date. Secondly, less time might be available for training in professional values and the interpretation and analysis of financial information. Thirdly, individuals might get “lost in the detail” of reporting and could fail to provide appropriate insights into an organisation’s performance using their analytical skills. Therefore the growing scope of training may contribute to a risk of inadequate outcomes of training, either in terms of technical skills or professional values.

POBA Consultation July 2004

Many of those replying to our consultation told us that there was no significant risk of inadequate training outcomes due to growing regulation. Professional bodies regularly review their syllabi to achieve a balance between breadth of technical knowledge of accounting regulations and depth of understanding of the concepts and principles behind the regulations, we were told. Several accountancy firms told us that training experienced staff in new regulation was far more of a problem than training new accountants.

A change that we are making in the background of the expanding technical base is to move away from a “body of knowledge” approach to a “competency based” education and assessment process. This seeks to ensure that trainees are better equipped with the necessary competencies at the outset of their careers, competencies that will be developed further over their careers.

Professional body

We have moved away from a training approach that requires students to memorise material towards an approach that is more about understanding and being able to apply principles. It is fair to say that the

approach adopted for professional exam training has changed accordingly to focus more on understanding and application of principles, recognising that it is increasingly difficult to cover the quantity of technical content.

Accountancy firm

However others were concerned about the effects of growing accounting regulation and its effects on the outcomes of training.

We currently face an enormous volume of new standards with greater complexity at a time when tolerance for non-compliance or simply getting it wrong is approaching zero. Arguably, complacency and/or the inability to respond to the changing paradigm is our biggest danger. We, therefore, urge a root and branch review of the Chartered Accountancy Education Model, not because it has served us badly in the past, but because we are not convinced it will sustain the quality needed in the future in an environment that is changing at such a rapid pace.

...It would be unrealistic to expect auditors and accountants to know everything, but students must have covered enough in sufficient breadth and depth to be able to recognise and identify situations where further research and/or consultation is necessary. Moreover, students need to develop the skill and capability to analyse the issue at hand, to undertake reliable research, and to apply their findings and prior knowledge to a situation. It is this broader skills knowledge of "knowing what they don't know", knowing where to find answers, and possessing the ability to perform relevant research which we believe is fundamental.

Accountancy firm

We have noticed a significant shift in professional training over the last 5 years away from training the detailed regulations towards the training of broad concepts and transferable skills such as "knowing where to look". Whilst we understand the reasons for this shift, it has become apparent that students in this current era have both a weaker grounding in some of the fundamental accounting skills (for example, double entry bookkeeping) and have a less trained eye for spotting areas where they should use their skill of "knowing where to look" (for example, disclosure errors in a set of statutory accounts).

Accountancy firm

One body told us that it would be helpful to have guidance on where the balance should lie between teaching the ability to interpret and apply standards and teaching the detailed content of each standard:

Our strong preference would be to allow bodies the discretion to limit the number of standards deemed as essential pre-qualification material and focus on developing the students' ability to read, understand and apply standards. This will develop transferable skills which they can then use throughout their careers as new standards are issued.

Professional body

The professional bodies told us that they have taken steps to ensure that their qualifications demand more than just a technical knowledge of accounting and related subjects. The introduction of case studies requires candidates to be able to integrate expertise from different subject areas, whilst the introduction of open book examinations helps to free trainees from memorising material and enables them to take a broader perspective. However, in the workplace, with the growth in IT-enabled reporting and auditing, we were told that trainees in the accountancy firms were often used on routine “tick box” audit work that involves limited exposure to the people in the businesses they are auditing. Training records generally show the same information regardless of the extent to which the work gives the trainees an understanding of the business.

Members of the Expert Group told us that the existing training model is coping with new international standards but that it cannot *keep* expanding to cope with new regulation. To some, this meant a watching brief; to others, a need to question the appropriateness of the system of three-year training contracts in accountancy firms. This would be not so much to expand the training (which could make accountancy less attractive to graduates), but rather to introduce greater flexibility in the content and timing of training activities, such that “what *every* accountant will need to know will reduce, but what *each individual* accountant will know will increase”.

Conclusions

The process by which the professional bodies rebalance the content of their syllabi is currently enabling the training arrangements to cope with changes to accounting regulation. The challenge is to ensure that there is space in the syllabus to focus on the principles whilst ensuring that trainees retain the ability to apply basic accounting skills and, critically, to understand what the numbers that come out of the reporting process are telling them.

The practical effect of this rebalancing is that, over time, there is a growing distinction between those standards which are used in routine transactions, where trainees can be expected to be able to apply their knowledge, and those standards which are specific to complex transactions or particular industries, where only a familiarity with the key aspects may be needed at entry level.

We consider this to be appropriate although we would not expect to see any standards excluded from training.

We consider that it would be helpful if the handling of different standards was made more transparent by the bodies and this is the objective of our third recommendation. This would help to avoid a risk of following the “middle ground” where all regulations are taught but trainees could finish with either an inadequate foundation in the most important technical areas or an inadequate understanding of the underlying principles.

Recommendation 3

We recommend that the professional bodies set out in their syllabi the knowledge and understanding of each standard that trainees are expected to have upon qualification, making a clear distinction between standards (or parts of standards) where trainees are expected to be familiar with key aspects and those where trainees should be able to apply their knowledge to particular situations. Examiners should then test the understanding of the underlying principles as well as technical abilities relating to those standards that trainees are expected to know in detail at entry level.

We recognise that this recommendation involves a codification of existing practice. However, the increased clarity that this approach brings should help accountants to identify where they might need further training and so contribute to the integration of pre- and post-qualification education. The professional bodies and tuition providers might offer diplomas or other programmes to develop and test the higher level of understanding of standards that are specific to complex transactions or particular industries.

In addition to ensuring a better understanding of the conceptual basis of accounting, we are also concerned that the existing arrangements may not be giving some trainees in accountancy firms sufficient exposure to business issues to enable them to critically analyse and assess financial and other data. We consider that a greater understanding of business and public sector issues needs to be reintroduced among trainees in the accountancy firms. This is needed not only to help ensure that they are able to make sound judgements during their careers in audit or elsewhere but also to ensure that future senior audit professionals are able to engage widely with management teams, boards and audit committees on company operations, risks and their mitigating factors. Accountants should not be limited to technical discussions within the finance department on technical points of accountancy, but rather need to be able to apply their knowledge and expertise to a wide range of business issues and environments.

We recognise that this is an issue that will require solutions to be developed over several years because any solution of the type identified by the Expert Group (see page 12) would require a systematic re-thinking of the training model in the accountancy firms.

One change to the model that was suggested by a small number of accountancy firms was in relation to the three-year training model and contracts. A longer contract could allow trainees to develop a deeper understanding of technical and business issues. However we concluded that the disadvantages of such change, particularly in relation to the attractiveness of the profession to new entrants, currently outweigh the advantages. In addition, we note that the other measures that we recommend should help to integrate pre- and post- qualification training, reinforcing the concept that achieving a qualification is a key milestone in the career of a professional accountant rather than the end of the journey.

The very positive experience of our two expert group workshops suggests to us that solutions to the need for a greater understanding of business and public sector issues are significantly more likely to be identified through further integration of effort across the different types of organisation involved in the training and education of accountants including professional bodies, accountancy firms, tuition providers, accounting academics in universities and employers. Encouraging further such integration across all aspects of theoretical and practical training is therefore the aim of our fourth recommendation.

Recommendation 4

We recommend that the professional bodies through the Consultative Committee of Accountancy Bodies (CCAB) coordinate a process by which a wide range of organisations involved in training and educating accountants integrate their efforts to develop solutions to long-term issues regarding the training and education of accountants. This process, which might be based around an annual one-day conference, would deal with issues including:

- Improving the exposure of trainees and newly qualified accountants to business issues and the associated decisions and responsibilities faced by their employer, customers and suppliers, including an examination of whether introducing greater flexibility to the training model could enable some trainees to gain more exposure to business issues through spending some time working 'on the other side of the fence'; and
- Ensuring that training records demonstrate clearly the level of practical training and business understanding that trainees have achieved.

Issue 3: Continuing professional education

We consulted over whether the current arrangements for the design and delivery of continuing professional education for qualified accountants and auditors are appropriate.

We identified in our consultation a number of potential concerns with the current training and education arrangements in this area, which are shown below:

Recent and pending changes to the Continuing Professional Development (CPD) requirements for members of the professional bodies have focused on a combination of inputs (for example, number of hours of training) and outputs (the competencies that are developed or maintained). These measures are intended to encourage a healthy increase in CPD activity and to help demonstrate the profession's commitment to high quality financial reporting. Within the new CPD frameworks it might however still be difficult for individuals, particularly those working in organisations that do not have training departments able to support accountants, to identify the best way of structuring their personal training programmes. This might lead to members of the profession not participating in education that would be of value to them or updating themselves on something of an 'ad hoc' basis.

Certain aspects of accountancy training now consider risk management, including fraud or other inaccuracy in financial reporting and the need for an appropriate level of 'professional scepticism'. There is a continuing need for reinforcement and updating of knowledge in understanding the causes of fraud and inaccuracy. Some ongoing training in these areas is common in accountancy firms but those working in other organisations may need to update their skills.

A second area covered in pre-qualification training that could be reinforced in CPD is professional values, ethics and attitudes. We note that the International Federation of Accountants is planning to issue guidelines as to how these topics can be incorporated into training and education.

A variety of organisations are involved in the provision of CPD training and the assessment of its effectiveness. Accountancy firms and large private and public sector organisations have in-house training and tuition providers, universities and business schools run open courses. The different organisations each have different strengths. Some co-operate in delivering programmes but generally they work alone.

POBA Consultation July 2004

Designing and delivering effective CPD programmes

We asked first what issues there are in designing and delivering effective CPD programmes for individuals, who should have responsibility for helping to address these issues and what their priorities should be.

The professional bodies in UK and Ireland are in the process of implementing International Education Standard 7 of the International Federation of Accountants that calls upon every professional accountant to develop and maintain competence relevant and appropriate for their work and professional responsibilities. The current arrangements for the design and delivery of continuing professional education and development can be expected, therefore, to change significantly over the next two years as verifiable CPD requirements are extended from around 60,000 accountants in public practice to over 200,000 working across the private and public sectors.

The professional bodies told us that they are implementing mandatory CPD systems that will lead to their members undertaking relevant, high quality and value for money programmes. Individual members will have a key role in assessing the effectiveness of the programmes they have set for themselves, but support will be available. Each body will have monitoring arrangements in place.

The design of effective and relevant CPD programmes for qualified accountants relies upon a combination of: the individual accountant taking professional responsibility for the identification of their CPD requirements; their host Institute providing the appropriate guidance and framework to facilitate, monitor and enforce this; interventions on the provision by a mixture of organisations who are encouraged for commercial and public interest reasons to work with the Institutes and their members to design CPD relevant to their and the public interest needs; and an appraisal model that is open to scrutiny for the effectiveness of this approach to be measured.

Professional body

Large accountancy firms have the critical mass and strong technical and training departments to design and deliver effective CPD programmes. Accountants working in other areas will rely to a greater extent on the training market to provide suitable opportunities to help meet their CPD requirements. Some of those responding to our consultation noted that it could be more difficult for individuals working outside of the accountancy firms to find relevant, high quality and value for money programmes. The professional bodies told us that they would provide guidance and direction to members to help them source high quality CPD programmes. This may include endorsing or marketing providers or programmes that meet certain quality standards, although it was also suggested that it could be beneficial to allow market forces to determine the success of different programmes.

Assessing the effectiveness of CPD

We then asked how important it is to assess the effectiveness of CPD programmes, how should this be done and by whom.

There has been considerable debate as to the merits of an “input” measure of the effectiveness of CPD that is focused on either time spent or units of training completed, and an “output” approach that attempts to assess the fit between the individual’s training needs to ensure their continued competence and the training undertaken. The IFAC Standard deals with the alternative approaches that the professional bodies may adopt.

Most of those responding to our consultation felt that the monitoring arrangements that are currently being designed and implemented should be suitable for assessing the effectiveness of CPD.

Fraud and inaccuracy in financial reporting

We went on to ask how accountants and auditors update their knowledge of the causes of fraud and inaccuracy in financial reporting, and in what ways these arrangements should be improved.

Accountancy firms told us that they notify their staff of relevant cases where feasible, for example through presentations at team meetings. Professional bodies have issued relevant material to their members. It was suggested that for accountants working in industry there might have been insufficient attention to this area although the new CPD schemes should help to ensure that any gaps in education are filled.

Our expert group told us that learning from experience is a particularly effective way to cover fraud and inaccuracy within CPD at all levels of seniority within the profession. The availability of “real-life” case studies to facilitate this is currently limited because experience is not usually shared outside of each firm. To attempt to overcome the considerable issues around confidentiality, it was suggested that the professional bodies or business schools at the universities might be able to research and publish cases that could then be shared across the profession. For example, the Foundation for Independent Directors, based at Bristol Business School, produces case studies for use in workshops with directors and boards in the private and public sectors. At present there is no direct involvement from representatives of the accountancy profession in the Foundation’s work or, as far as we are aware, the work of any other organisation that produces relevant cases.

Professional values, ethics and attitudes in CPD

Finally under this issue, we asked how accountants and auditors update their understanding of professional values, ethics and attitudes, and in what ways should these arrangements be improved

The accountancy firms told us that they update their staff via internal training programmes, often involving the completion of CD or on-line based tutorials. It was noted that this is also driven by the “tone at the top” of the firms. Many other programmes and resources are available outside of the firms, although:

This is a topic that recent internal research has shown areas where improvement is possible. There are certainly not as many educational products to update and develop skills in professional values and ethics as there are in other areas.

Professional body

The IFAC Education Committee has published a Standard on Professional Values, Ethics and Attitudes, IES 4. IFAC currently has a project underway to develop a Guideline to assist in the design and development of programmes in this area for both entry level and qualified accountants. The Guideline will be published in mid- 2005.

Conclusions

The implementation of IES 7 can be expected to improve the existing arrangements for CPD. To ensure its success, however, we believe there is a need for a strong commitment across members of the profession to the concept of career-long learning. Ideally this should contribute to the demise of the existing separation between training for qualification and ongoing professional education, and help avoid the risk that accountants might see CPD as a burden and feel forced to attend courses for the sake of demonstrating their compliance. Recommendations 1 and 2 should help strengthen this commitment while Recommendation 3 should help accountants to “know what they don’t know”.

Case studies are widely accepted as a particularly valuable way of learning about areas such as fraud as well as ethics at all levels of seniority. There is an understandable obstacle around confidentiality to sharing “real-life” experience across the profession. However by working through independent intermediary organisations we believe that greater sharing of experience can be achieved. This could be in the form of cases for use in seminars targeted at all levels of seniority or for publication. Professional bodies are well positioned to coordinate the setting-up of these intermediary arrangements, and this is the objective of our fifth recommendation.

Recommendation 5

We recommend that the professional bodies, working with the accountancy firms and business schools, coordinate the establishment of arrangements that would enable the experiences of the accountancy firms and business managers in dealing with ethical issues or fraud to be developed into non-confidential case studies for use across the profession.

POBA plans to review the CPD monitoring arrangements as part of our ongoing work, including the adequacy of the arrangements to provide sufficient education to meet the needs of accountants across the profession. We also plan to carry out a survey in around two years’ time to help ascertain the degree to which accountants are maintaining and updating their skills and the extent to which Recommendations 1, 2, 3 and 5 are beginning to have an impact in this area.

Issue 4: Finance directors, audit partners and audit committee members

We consulted over how to identify appropriate training and education specifically for finance directors in the private and public sectors, audit partners and audit committee members.

We identified in our consultation a number of potential concerns with the current training and education arrangements in this area, which are shown below:

Many audit partners and some finance directors reach their positions by achieving rapid promotion within their organisations. These individuals will bring significant experience from within the organisation to their senior role, but may be lacking in wider business experience compared to external appointments. Many accountancy firms and companies already seek to arrange secondments or other opportunities to widen the experience of individuals moving towards the top of their organisations.

Surveys suggest that audit committee members find that they benefit from training, as this helps them to form independent views on the information provided by management and auditors. The nature of audit committee appointments is that every individual has a different background and is likely to have different training needs.

POBA Consultation July 2004

Audit partners and finance directors

We asked whether the steps already being taken to ensure that audit partners and finance directors have suitably wide experience were adequate.

Most of those responding to the consultation from the professional bodies and firms said that this is not an issue.

We do not see this as a significant issue affecting the confidence in corporate reporting and governance today. The UK professional bodies all require three years practical experience before membership plus another two years for an audit licence. The market not the professional bodies then decides who is to become audit partners and finance directors. The market appears to have become more demanding in terms of the breadth of experience of individuals as competitive pressures have increased.

Professional body

In general audit partners will bring a broad range of experience built up during their career with the firm.

Many will have been seconded to another part of the organisation, and some will have had experience working with business and Government. Breadth of experience and depth of expertise are considered as part of our partner nomination process.

Accountancy firm

However representatives of business told us that more training may be needed:

Accountants trained and with life-time careers in the profession need much more exposure to management and the actual processes by which managers manage. This means training in the working of Boards, management reporting, management accounting and the transaction into the most distant externally reported financial accounts.

Chairman

Finance directors and senior managers should be encouraged to enrol on business management and strategic management courses.

Professional association

Audit committee members

We also asked whether audit committee members be offered assistance in identifying appropriate training and education, and if so how should this assistance be provided and by whom.

The definition of the appropriate level of training and education for audit committee members is a matter for corporate governance policy that is outside the scope of this review. Our interest is therefore limited to whether audit committee members have good access to the education they need, rather than the content of that education or the information available to stakeholders on whether audit committee members have appropriate experience. It was pointed out to us that this is also relevant to the public sector, where elected members or volunteer members carry out a large part of the equivalent of the audit committee's role.

Many considered that the training market – including the accountancy firms – already provides a range of training opportunities. Others told us that there are simple practical difficulties in arranging training and education for audit committee members. Surveys suggest that most non-executive directors already work considerably more than their contracted number of days and therefore, it was suggested to us, the optimum way to deliver training is in the form of short modules that can be delivered on-site before or after their audit committee meetings. The accountancy firms and certain other services such as The Non-Executive Director give some guidance on the availability of such modules although there is no centralised listing of resources at present.

Last year, the Tyson Report on the recruitment and development of non-executive directors found that there were possible gaps between what providers of board training were offering and what companies needed. The Report recommended an initiative to bring together companies and training providers to establish guidelines to ensure that training programmes for directors were providing what was needed and that useful information about such programmes was easily accessible on a timely basis.

Several of the professional bodies told us that they are working to support non-executive directors in identifying appropriate training and education:

Such assistance is essential. The CCAB bodies have a responsibility to communicate the need for education and training and could co-operate in the public interest to do so. The responsibility is that of the individual companies who will create the market for (hopefully) high quality blended learning resources. Individual Member Bodies may or may not choose to participate directly in this provision or may work with partners to meet market needs should they exist.

Professional body

We are actively exploring additional training programmes for our members to ensure that they are appropriately qualified for these roles. Members are always encouraged to seek appropriate training prior to taking up such roles.

Professional body

Conclusions

We agree that the market acts as a control over the adequacy of the training and education of finance directors in larger organisations. In achieving such an appointment in competition with external candidates it is very likely that wide experience will have been gained in the career until that point. For finance directors in smaller organisations the new CPD requirements may help to ensure a suitable wide experience.

The accountancy firms have many programmes in place to ensure that their potential audit partners benefit from a wide experience of business. We note that the success of these programmes is vital to ensuring that audit partners are able to continue to function effectively at Board level within organisations rather than being constrained to dealing only with the finance department. The firms have every incentive therefore to make these programmes successful.

It seems important to recognise the simple, practical difficulties faced by all those involved in arranging training for audit committee members. We note and fully support the efforts being made by accountancy firms and other

organisations to help overcome these difficulties, in particular the intention by the professional bodies to build their involvement. We consider that the bodies and the accountancy firms have an important role to play in facilitating easier access to appropriate training opportunities for audit committee members. In addition to their existing activities in this area they could, for example, establish arrangements whereby finance directors and others could identify and learn from each other's experience of using different types of training for their audit committees. Linked to this, we will be feeding into those responsible for the development of practices on corporate governance the advantages of showing how Board members update their expertise.

Other issues

We consulted over whether there were other issues that we should consider. The Board has taken note of all of the issues raised and will consider them as part of its prioritisation of future projects. The main themes that were suggested are summarised below:

Several respondents raised the issue of unqualified accountants who are able to offer services without obtaining any qualifications or complying with any quality standards. There is currently nothing to stop an individual from offering accountancy services to the public and calling herself / himself an 'accountant'. Although this is not wholly a training and education issue, we note that the steps we are recommending should strengthen the image of the profession and, in so doing, help to demonstrate the value of employing appropriately qualified individuals.

It was suggested that there is a need for regulators to consider training implications of new regulation to a greater extent. This may involve allow time for training when determining effective dates, not having totally separate national and international standards and making a logical progression from small company standards to large company ones. Different regulations should work together in a joined-up way rather than being alternatives, it was suggested.

A lack of training in 'professional scepticism' was highlighted to us. We believe that the capabilities of accountants in this area will be improved by several of our recommendations, including the additional education in professional values and the development of case studies.

Our expert group highlighted a problem for employers of dealing with similar requirements of different professional bodies that are aimed at achieving the same goal. For example, an employer with accountants affiliated with more than one professional body might have to apply to each body for accreditation of its counselling and CPD systems. It was suggested that a process of joint accreditation should be possible. This could be incorporated into the items to be addressed by the process that we have proposed under Recommendation 4.

Summary of Recommendations

Our formal recommendations are targeted at the most significant issues that have been identified in this review. We have not made recommendations in areas where we believe that the existing or expected arrangements (including market forces) are likely to deal with issues.

The first two recommendations are intended to ensure that new entrants have a clear understanding of the importance of the profession to the public interest in order to imbue a commitment to the profession's values and codes of conduct.

Recommendation 1

We recommend that the professional bodies arrange for new trainees to participate in a training workshop that would provide a basic grounding in the key linkages between accounting principles, standards, sound business management and the public interest.

Recommendation 2

We recommend that the professional bodies arrange for trainees to participate in a training workshop at or near the time of their qualification that would consolidate new entrants' knowledge of the importance of the profession to users of accounts including the capital markets and to the wider public interest.

The third recommendation further builds the understanding of the importance of the profession to the public interest by ensuring that accounting principles are a clear focus of training. It also builds on the commitment to ongoing education by increasing clarity about what further training is needed post-qualification ("knowing what you don't know").

Recommendation 3

We recommend that the professional bodies set out in their syllabi the knowledge and understanding of each standard that trainees are expected to have upon qualification, making a clear distinction between standards (or parts of standards) where trainees are expected to be familiar with key aspects and those where trainees should be able to apply their knowledge to particular situations. Examiners should then test the understanding of the underlying principles as well as technical abilities relating to those standards that trainees are expected to know in detail at entry level.

The fourth recommendation is designed to integrate long-term efforts across the profession to improve business understanding and so to ensure that accountants are able to analyse critically and assess financial data.

Recommendation 4

We recommend that the professional bodies through the Consultative Committee of Accountancy Bodies (CCAB) coordinate a process by which a wide range of organisations involved in training and educating accountants

integrate their efforts to develop solutions to long-term issues regarding the training and education of accountants. This process, which might be based around an annual one-day conference, would deal with issues including:

- Improving the exposure of trainees and newly qualified accountants to business issues and the associated decisions and responsibilities faced by their employer, customers and suppliers, including an examination of whether introducing greater flexibility to the training model could enable some trainees to gain more exposure to business issues through spending some time working 'on the other side of the fence';
- Ensuring that training records demonstrate clearly the level of practical training and business understanding that trainees have achieved; and
- Ensuring that professional bodies avoid duplication of requirements on employers where possible, for example joint accreditation of counselling and CPD systems for multiple bodies (*see page 23*).

The fifth recommendation is designed to support training at all levels (from trainees to finance directors and audit committee members) by enabling the profession to learn from experiences of dealing with ethical issues and fraud.

Recommendation 5

We recommend that the professional bodies, working with the accountancy firms and business schools, coordinate the establishment of arrangements that would enable the experiences of the accountancy firms and business managers in dealing with ethical issues or fraud to be developed into non-confidential case studies for use across the profession.

We will carry out an assessment of the costs and benefits of our recommendations based on the responses to this consultation. However, on the working assumptions that our first two recommendations may involve up to five additional days training per individual, and that other recommendations would be relatively inexpensive to implement and operate, our provisional view is that this would be the most practical and effective set of recommendations that would address the issues we have identified at the lowest cost.

We believe that these five recommendations, taken together, represent the minimum level of change necessary in the area of training and education to ensure high quality financial reporting and to protect the reputation of the profession.

Consultation

Comments on any aspect of this paper are invited. In particular we invite comments on:

1. Whether the analysis of each issue is accurate and complete.
2. Whether the logic for the Board's conclusions is clear and reasonable.
3. The likely costs and benefits of the recommendations and any implementation difficulties or unintended consequences that may arise.
4. The overall effectiveness and proportionality of the recommendations.
5. Any alternative recommendations that we should consider that may be more practical, effective or cost-effective.
6. Whether the recommendations proposed are consistent and will work together in a joined-up way with other existing or proposed regulations, including IFAC standards and guidance.
7. The specific questions in relation to the implementation of our first two recommendations that are listed on page 9, points *a* to *g*.

Responses should be sent to Julian Rose (j.rose@frc-poba.org.uk) by 28 January 2005. The postal address from 6 December 2004 will be Professional Oversight Board for Accountancy, 71-91 Aldwych, London, WC2B 4HN. Telephone 020 7956 2465 (before 6 December 2004) or 020 7492 2342 (after 6 December 2004). The Board would then hope to issue its final report and recommendations by March 2005. In our final report we will publish a summary of responses to this consultation. Respondents are therefore asked to mark any information that we should treat as confidential.