



**The Japanese Institute of
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Mr. David McPeak
IAESB Technical Manager
International Accounting Education Standards Board
International Federation of Accountants
529 Fifth Avenue 6th Floor New York, NY 10017

Dear Mr. McPeak :

Comments on the IAESB Exposure Draft, *Proposed International Education Standard (IES) 8, Professional Competence for Engagement Partners Responsible for Audits of Financial Statements (Revised)*

The Japanese Institute of Certified Public Accountants (JICPA) is pleased to comment on the IAESB Exposure Draft(ED), Proposed International Education Standard (IES) 8, *Professional Competence for Engagement Partners Responsible for Audits of Financial Statements (Revised)* (hereinafter referred to as the “December 2013 IES 8 ED”), as follows.

Question 1

Is the Objective statement (see paragraph 9) of the proposed IES 8 Exposure Draft (December 2013) appropriate and clear?

It is appropriate and clear.

Question 2

Is the Objective statement (see paragraph 9) of the proposed IES 8 Exposure Draft (December 2013) appropriate and clear?

It is appropriate and clear. We do have one concern, however, regarding the description of Table A in paragraph 10: “Such professional competence is demonstrated by the achievement of the learning outcomes listed in Table A.” This statement could be construed to mean that professional accountants can perform the role of engagement partner simply by achieving the learning outcomes listed in Table A. To clarify that the development of the professional competence entails, but is not limited to, the achievement of the learning outcomes listed in Table A, we propose the following wording for Table A.

Proposed change:

“Such professional competence is demonstrated by the achievement of learning outcomes, which shall include those listed in Table A.”

Question 3

Do you agree with the proposed learning outcomes provided in Table A?

We agree with the proposed learning outcomes, but also see a need for several improvements:

- (1) Learning outcome (vi) of the competence area “(a) Audit of financial statements” states, “Approve or establish an appropriate audit strategy...,” while learning outcome (ii) of the competence area “(f) Information technology” states, “Assess the effect ... on the audit strategy...,” and learning outcome (i) of the competence area “(h) Finance and financial management” states, “...design the corresponding audit strategy...” All of these learning outcomes refer to the same term “audit strategy,” but the position of an engagement partner seems to differ from one competence area to another. We believe these descriptions should be reviewed to make the position of an engagement partner more consistent.

- (2) The term “audit strategy” is used in the learning outcomes of competence areas “(a) Audit of financial statements,” “(f) Information technology,” and “(h) Finance and financial management.” We believe that the learning outcomes related to “audit strategy” should be added to the other competence areas. To that end, we propose that all of the descriptions in Table A be reviewed comprehensively from an “audit strategy” perspective and that the descriptions of learning outcomes in each competence area make reference to “audit strategy,” as appropriate.
- (3) Since the competence area “(c) Governance and risk management” relates to technical competence, the learning outcomes for this competence area should relate to items regarding knowledge and techniques of “governance and risk management.” Yet the learning outcome “(i) Manage communications with those charged with governance of an entity” under “(c) Governance and risk management” seems to fall into the competence area “(j) Interpersonal and communication.” We therefore propose that learning outcome (i) be moved to an appropriate competence area.
- (4) In relation to the learning outcome of the competence area “(e) Taxation,” August 2012 IES 8 ED clearly referred to “the assistance of a tax professional.” Yet now, for unexplained reasons, the December 2013 IES 8 ED has been changed to: “Evaluate procedures performed, including the work of others...” Meanwhile, learning outcome (i) of the competence area “(f) Information technology” in the December 2013 IES 8 ED clearly advises professional accountants to seek “the assistance of an IT professional.” For this reason, we propose that the learning outcomes of the competence area “(e) Taxation” explicitly advise professional accountants to seek the assistance of a “tax professional.”
- (5) The learning outcomes of the competence area “(f) Information technology” only include items related to IT controls. We believe that information technology within the context of an audit encompasses more than merely items related to IT controls. From the viewpoint of audit strategy, we believe that the use of information technology is helpful, for example, in dealing with any form of fraud that leads to material misstatements. We therefore propose that professional accountants also be advised to “consider using the computer-assisted audit techniques (CAATs)”

- (6) Learning outcome (iv) of the competence area “(j) Interpersonal and communication” states: “Manage negotiations effectively with the entity.” When a negotiation is managed effectively, the negotiators will naturally “present, discuss, and support views effectively,” “resolve conflict,” “resolve audit issues,” etc. as a matter of course, as described in the learning outcomes (i) to (iii). We therefore see no need to include “manage negotiations” as a learning outcome.
- (7) The learning outcomes of the competence areas provided in the December 2013 IES 8 ED are all written in the context of audit procedures. None of the descriptions address the knowledge underlying the audit procedures. We therefore propose the addition of learning outcomes that relate to the knowledge, etc. required for performing the audit procedures.
- (8) The competence areas “Management accounting,” “Economics,” and “Business strategy and management” listed in Table A of IES 2 (revised) are not included in Table A of the December 2013 IES 8 ED. If professional accountants are to act as engagement partners, we are uncertain whether they will be required to achieve a level of proficiency prescribed in Table A of IES 2 (revised) for those competence areas. If they are to be subject to such a requirement, we believe that the requirement should be explained in the Explanatory Material section or elsewhere. If the IAESB has no such intention but intends to require professional accountants to achieve an advanced level of proficiency for the competence areas “Management accounting,” “Economics,” and “Business strategy and management” when they perform the role of engagement partner, the IAESB should add those competence areas to Table A of the December 2013 IES 8 ED.
- (9) Items performed during audit procedures are described within the learning outcomes of the competence areas “(b) Financial accounting and reporting” to “(h) Finance and financial management.” If those competence areas are intended to be different from the competence area “(a) Audit of financial statements,” the learning outcomes within those competence areas should focus on the attainment of the knowledge and skills required to perform the audit procedures. For example, learning outcome (i) of the competence area “(b) Financial accounting and reporting” states: “Evaluate whether an entity has prepared, in all material respects, financial statements in accordance with the applicable financial reporting

framework.” Here, the description following “whether” (“...an entity has prepared, in all material respects, financial statements in accordance with the applicable financial reporting framework”) seems to be the audit opinion itself (i.e., that the financial statements are prepared in accordance with the financial reporting framework). We wonder why this is listed as a learning outcome in a competence area other than “(a) Audit of financial statements”. We recommend a review of each of the learning outcomes in each competence area from this perspective.

Question 4

Do you agree that levels of proficiency for the competence areas should not be included in Table A?

We agree. We believe, however, in spite of the explanations that appear in the significant issue section of the Explanatory Memorandum, that it is difficult to construe, from the body of the standard, that professional accountants acting in the role of engagement partner should have already attained an advanced level of competence during IPD with respect to all of the competence areas prescribed in IES 8. The verbs used to describe the learning outcomes do not seem sufficient to express this point. We believe this point should be either explained in the Explanatory Material sections or stated as a note to Table A.

Question 5

Are there any additional explanatory paragraphs needed to better explain the requirement of the proposed IES 8 Exposure Draft (December 2013)?

We recommend a review of the descriptions on practical experience during Continuing Professional Development (CPD) in IESs 7 and 8, and the addition of a few paragraphs to enhance the understanding of practical experience during CPD. Once those descriptions are completed and organized, we would like the IAESB to consider developing some guidance on practical experience during CPD.

IES 7 makes no reference to practical experience during CPD whatsoever. Paragraph A4 of IES 8 notes the importance of practical experience in achieving the professional

competences prescribed in IES 8, and paragraphs A10 and A16 also have relevant descriptions. Yet all in all, these paragraphs fail to convey a clear understanding of practical experience during CPD. We believe these descriptions on practical experience during CPD should be reorganized and that a few paragraphs should be added to enhance the understanding of practical experience.

In addition, paragraph 5 of IES 5 states that “this IES specifies requirements for practical experience during IPD” and notes that IES 8 specifies requirements for practical experience for engagement partners. This can be construed to mean that practical experience during CPD is prescribed outside IES 5. Yet as noted above, there are no detailed descriptions on practical experience during CPD in other standards. We suggest that the IAESB develop guidance on practical experience during CPD.

Question 6

Does figure 1 of Explanatory Material section for the proposed IES 8 Exposure Draft (December 2013) assist in understanding which stakeholders have responsibilities that impact the professional competence of engagement partners?

We believe that figure 1 contributes to a better understanding of the responsibilities of each stakeholder.

Question 7

Are there any terms within the proposed IES 8 Exposure Draft (December 2013) which require further clarification? If so, please explain the nature of the deficiencies?

We have no further comments on this point.

Question 8

Do you anticipate any impact or implications for your organization, or organizations with which you are familiar, in implementing the requirement included in this proposed IES 8 Exposure Draft (December 2013)?

No, we do not. We are, however, planning to look into some of the minor changes made during the revision of IES 8.

Question 9

What topics or subject areas should Implementation guidance cover?
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We believe it should cover matters such as learning methods and practical experience to achieve the competences prescribed in Table A.

IES 7 has some descriptions on learning methods, but these descriptions are aimed at professional accountants other than engagement partners. In our view, the Implementation guidance should address the learning methods by which engagement partners can further develop their competences.

Moreover, for the reason described above in our comment for Question 5, we believe that the Implementation guidance should also cover the practical experience engagement partners require to further develop their competences.

[Comments on other matters]

- Paragraphs 5 and 10 are similar in nature but quite different in wording. To enhance the readability of the standard, we propose the following change of wording in paragraph 5: from “to develop and maintain competence” to “undertake CPD that maintains and further develops the professional competence.”
- With regard to the term “audit strategy” used for several learning outcomes in Table A, we have noted that the term “overall audit strategy” is generally used in ISAs. Given that the revised IES 8 is intended to be read in conjunction with related pronouncements such as ISAs, we propose that the term “audit strategy” be aligned with “overall audit strategy” used in ISAs and that the definition of “overall audit strategy” be included in Table B.
- Lowercase letters are used for the competence areas in Table A, while lowercase Roman numerals are used for learning outcomes. This can be confusing, given that some lowercase letters are identical to lowercase numerals (e.g., competence area

(i) and learning outcome (i)). It may be better to change the numbering for the learning outcomes to Arabic numerals.

- For certain terms in Table B referring to the definitions used in IAASB, some definitions are taken from ISA 220 and others are taken from the IAASB Glossary of Terms. The IAASB Glossary of Terms is a list of terms that are defined in ISAs, ISQCs, etc., and it gives definitions for all of the terms listed in Table B. As such, we propose a revision of Table B to ensure that all of the definitions used are the definitions prescribed in the IAASB Glossary of Terms.

We trust you will find our comments of assistance to you.

Sincerely yours,

Kazutomi Asai

Executive Board Member - CPE

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