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10 April 2014

Mr. David McPeak
Technical Manager
International Accounting Education Standards Board
International Federation of Accountants
529 5th Avenue, 6th Floor
New York, NY 10017
United States of America

RE: Proposed International Education Standard (IES) 8, Professional Competence for Engagement Partners Responsible for Audits of Financial Statements (Revised)

Dear Mr. McPeak,

BDO International Limited¹ is pleased to have the opportunity to comment on the above exposure draft issued by the International Accounting Education Standards Board (IAESB). We have reviewed the exposure draft and are pleased that our initial concerns have been addressed in the re-exposed version of IES 8. We are broadly supportive of the direction of this revised IES and we set out below our responses to the IAESB's questions in the explanatory memorandum accompanying the exposure draft.

As noted in previous submissions, we support the IAESB's project to redraft and revise where appropriate all of the IESs in accordance with the clarity drafting conventions as set out in the Framework for International Education Standards for Professional Accountants.

Question 1. Is the Objective statement (see paragraph 9) of the proposed IES 8 Exposure Draft (December 2013) appropriate and clear?

We agree that the Objective statement is appropriate and clear.

Question 2. Is the Requirement (see paragraph 10) of the proposed IES 8 Exposure Draft (December 2013) appropriate and clear?

We agree with the requirement included in paragraph 10 of the exposure draft; however as Table A is not exhaustive, as noted in paragraph A17, we believe that a statement should be appended such as "..., additional learning outcomes may be required depending on the engagement partner's circumstances."

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Question 3. Do you agree with the proposed learning outcomes provided in Table A?

In general, we believe that the learning outcomes in Table A should all reflect an advanced level of competence through the activity verbs used in the descriptions. The verb "assess" is used in paragraphs (a)(iii), (a)(iv), (b)(iii) and (f)(ii), and we believe that this verb is not clear in its distinction of an "advanced" level description as professionals at lower levels are also expected to assess in certain elements of their job.

We suggest that term "assess" be replaced with a verb that more clearly demonstrates an advanced level such as "evaluate". In addition, and in conjunction with our response to question 2, it may be appropriate to add an additional learning outcome related to the development and maintenance of specialist knowledge as it pertains to an engagement partner's client base across all relevant competences. We believe that these learning outcomes should be added in the technical competence section of Table A for both (a) Audit of financial statements and (b) Financial accounting and reporting.

We understand that the standard was written with the audit engagement partner in mind and as a consequence the greater level of granularity in (a) Audit of financial statements in comparison to the other areas. It would improve clarity if the reasoning accompanying this decision were explained in the Explanatory Material.

In regards to section (a) Audit of the financial statements, we believe that learning outcomes related to advising on the implications to the financial statement audit of pending changes in assurance standards and also regarding the evaluation of misstatements identified should be included.

In relation to Item (a)(i) we believe the outcome would be better stated with reference to the engagement partner and their firm; therefore we suggest that it read "Evaluate the risks to themselves and their firm..." .

In regards to section (a)(ii) we suggest that "oversee" be replaced with "direct, supervise and review" in order to be consistent with ISA 220.

In regards to section (b) Financial accounting and reporting, we feel that a learning outcome should be related to ensuring that the engagement partner is current on new financial reporting standards in general, and specifically those related to industries or reporting requirements for their clients (see earlier comments above).

We also believe that section (c) Governance and risk management would benefit from the inclusion of competences related to identifying those charged with governance and determining the best form of communication, and assessing the level of communication received from those charged with governance and whether it is appropriate in the client circumstances.

In regards to section (e) Taxation, we suggest the inclusion of an additional competence to determine when to engage an auditor's specialist. Different engagement partners will have varying levels of knowledge in this field and therefore it is important for them to identify when the complexity is such that their knowledge alone is no longer sufficient.

In relation to section (n) Professional skepticism and professional judgment, we believe it is key that engagement partners foster this mind-set and skill in their engagement team, therefore we believe that an applicable competence should be added, such as: “[E]ncourage skeptical behaviour in less senior team members and continuously challenge them to be more skeptical.”

Question 4. Do you agree that levels of proficiency for the competence areas should not be included in Table A?

We agree that the levels of proficiency for the competence areas do not need to be included in Table A provided that the activity verbs (i.e. evaluate, approve, etc.) used in the learning outcomes are already reflective of an advanced level of proficiency. Our opinion on the activity verbs has been discussed in Question 3 above. We would however recommend that to show the build from the earlier IESs 2 - 4, that the Title ‘Learning Outcomes’ be amended to ‘Advanced Learning Outcomes’ to indicate the raised level of competence expected of someone performing this role.

Questions 5. Are there any additional explanatory paragraphs needed to better explain the requirement of the proposed IES 8 Exposure Draft (December 2013)?

Other than our above comments in relation to the explanatory paragraphs, we do not believe that there are any additional paragraphs needed.

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 of the Explanatory Material assists in understanding stakeholder responsibilities that impact the professional competence of engagement partners; however we believe that further explanation could be included to improve the clarity of this diagram and overall understanding.

We note that there is no reference to the “Regulator” in the explanatory paragraphs, although they are included in the diagram. We also note the dotted line connecting the regulator to the engagement partner and other stakeholders; however we question whether this should be considered a solid line in certain circumstances. Perhaps one way of achieving greater clarity is to indicate within the Explanatory Materials that the role of the regulator might be direct or indirect depending on the local framework or structure.

We also note that the client is missing from this diagram. We believe that the nature of entities (sector, size, legal structure, etc.) can have a significant impact on the continuing professional development of an engagement partner, as we mentioned in our response to question 3, and the diagram should be reflective of such.

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?

Paragraph A12 discusses small and medium practitioners. We believe that this may require additional explanation regarding how a practitioner would qualify as such.

Other comments:

Often IES 8 appears to address the engagement partner directly despite being addressed to the IFAC member bodies, for example paragraphs A18 - A20.

We note that IES 8 requires that certain skills are developed and demonstrated by learning outcomes (as listed in paragraph 10 of the standard), for example promote and undertake lifelong learning, act as a mentor or coach to the engagement team or act as a role model to the engagement team. While we agree that these are skills that an engagement partner should develop and display IES 8 is silent on how the IFAC member body should control, measure and evaluate such outcomes. We believe additional guidance on the development of these competences and their subsequent measurement and evaluation would be beneficial to the users of this IES.

As noted in our previous comment letters, we would support the development of an electronically integrated set of IESs which when linked directly to an updated glossary would enable the user (online or offline) to navigate successfully the suite of IESs. This would remove the need for the placing of occasional definitions in the text of each IES and would also enable the user of each IES to have an immediate source of information rather than having to seek a glossary. We would also request that the IAESB consider moving towards having a consolidated set of IPD and CPD IESs to aid understanding, usage and implementation.

We would also support continuing efforts to improve the availability of translations in respect of exposure drafts and final pronouncements.

Please contact me should you wish to discuss any of these comments.

Yours sincerely,
BDO International Limited

Wayne Kolins
Global Head of Audit and Accounting