



December 10, 2012

Technical Manager
International Accounting Education Standards Board
International Federation of Accountants
277 Wellington Street West, 4th Floor
Toronto, Ontario, M5V 3H2

Re: Proposed International Education Standard 8: Professional Development for Engagement Partners Responsible for Audits of Financial Statements (Revised)

Thank you for this opportunity to comment on revised International Education Standards 8. Our comments are based on consultation with a number of our members who have responsibility for pre- and post-qualification professional learning and development, both at the CICA and the Provincial Institutes of Chartered Accountants/Ordre des Comptables Professionnels Agréés du Québec.

We congratulate the IAESB on producing an IES that addresses the competency requirements for auditors and for addressing the comments on the original IES 8. A statement on the competencies of the individual(s) responsible for the work is an essential piece of the assurance standards, which include ISAs, the Quality Control Standards and Ethics Standards.

We also commend the IAESB for taking a learning outcome approach to describing professional competence in the proposed IES 8, along with the other revised IESs. We agree that the learning outcome approach is consistent with the development of principles-based standards and with the content and terminology used in the IAESB Framework (2009) document which refers to the development of competence. We support the IAESB's consistent application of the same framework across all these standards. Because these standards are interrelated, a consistent application helps ensure a cohesive set of standards.

Please find enclosed our detailed responses to the exposure draft questions. Our main concern relates to an issue that was raised in our comments on revised IES2 and 3. We are concerned about the proficiency level definitions, found in Appendix 1, which define the minimum learning outcomes and related proficiency levels for **“Professional Accountants who are aspiring to be, or are newly appointed to the role of, Engagement Partner”**. In particular, we are concerned that the framework cannot easily be applied to the full spectrum of “professional accountants”, that is from the newly-certified professional accountant (who may also be the aspiring engagement partner) to an engagement partner, without some explanation of the circumstances and relative complexity of the situation in which they apply.

In our view, the difference in professional ability and competence required of a newly-certified professional accountant varies significantly from that of an experienced engagement partner. We are uncertain the scale used in Table A appropriately reflects the increase in level of competence required. In particular, the ability to handle complexity is not clearly captured. The standard refers to a “low



complexity audit” as being the setting for the Table A learning outcomes. And yet, Table A uses the same proficiency level definitions as for IES 2, 3, and 4, requiring an Advanced or Intermediate level of proficiency for the newly appointed auditor. The definitions to these proficiency levels, found in Appendix 1, refer to “high complexity” for the Advanced level and to “medium complexity” for the Intermediate level. An apparent disconnect in the degree of complexity expected of the newly-appointed auditor.

In our previously submitted comments on IES 2 and 3, we stated that our belief is that critical thinking ability, and thus the ability to deal with ambiguity, complexity and uncertainty, are not fully developed by the end of IPD/beginning of CPD, and that the proficiency level definitions should be adjusted to reduce the expectation for the newly-certified professional accountant. When looking at the definition of the Advanced level, we still believe this may be true as it applies to the newly-appointed engagement partner.

However, we found the opposite when reviewing the list of learning outcomes set for the newly-appointed engagement partner in Table A. There are certain levels that in our view should be increased, as they relate to the assessment of audit risk (see our specific comments attached). These items need to be set at a higher proficiency level to be able to understand the audit environment, and complete the audit of a company appropriately. It is a question of “equating” these competencies with others that are set at Advanced levels. This appears to be further evidence of a disconnect in the levels expected from the one end to the other of the professional spectrum.

We wonder if there is a need to define an additional level of competence, between Intermediate and Advanced, which reflects the higher level of competence required for a professional accountant newly appointed as an auditor. Or, it may be a matter of better explaining the “normal circumstances/complexity level” that is expected at the various points along the professional spectrum.

It is important to note that our recommendation for changes in the levels and for further clarification of how complexity/the circumstances should be interpreted, for the purposes of this IES, is based on the assumption that the scale used for complexity is one that applies from the point of entry into IPD through to becoming a seasoned engagement partner. If the Advanced Level is the highest level achievable by the engagement partner, then the level set for the newly-qualified partner, with a lower level of competency, must be set lower. With that in mind, we question why the mastery level is included in Appendix 1, if it is never used to help frame the competency level. We believe the mastery level could be expected of a seasoned partner. It would be helpful to understand the role of the mastery level and the role it plays within the context of IES. We recommend that the level be clearly explained in Table A.



We strongly encourage the IAESB to define the levels of complexity/the set of circumstances that are expected in IES 8 and the other IESs. It is our opinion that the level of expectation may not be interpreted in the same way by all readers, as the level of complexity may not be put on the same scale by the different readers. In Canada, for example, the level of complexity associated with what an entry-level professional accountant, who may also be a newly-appointed engagement partner, would be the level expected to be encountered in “normal circumstances”, those circumstances expected to be encountered by most newly-appointed accountants.

Sincerely,

A handwritten signature in black ink that reads 'Tashia Batstone'. The signature is written in a cursive, flowing style.

Tashia Batstone, FCA, MBA
Vice-President, Education Services
The Canadian Institute of Chartered Accountants

IES 8- Specific Questions and our responses

Question 1: Does the proposed change to focus on the engagement partner provide greater clarity, improve the effectiveness and implementation of the proposed IES 8 (Revised)? If not, explain the nature of any deficiencies?

Yes. We agree with the overall approach of defining the requirements of the role of engagement partner and find the graphic representation in Schedule 1 that is provided to be most helpful in understanding the application of IES 8.

Note: For those of us reading the standard for the first time, it took several reads to fully comprehend the flow from one role to the other, and to understand where the roles overlap within the terms: “aspiring professional accountant”, “aspiring engagement partner”, “newly appointed engagement partner” and “engagement” partner. The number of different terms caused some confusion at first, and required several reads to fully comprehend, particularly when reading the explanatory material.

It is our understanding that IES 8 builds on IES 2 through 5 (stated in A1) to define the requirements for “an engagement partner”. Based on A15, an “engagement partner” includes both the “aspiring” and “serving” engagement partners. Here again, it took some effort for those of us reading the standard for the first time to comprehend that parts of the standard were directed to the aspiring/newly-appointed engagement partner (Table A), while other sections were directed to the engagement partner (CPD). Perhaps a clarification can be made in the Introduction to explain that certain parts are relevant to each.

We recommend finding a way to better distinguish the different roles as they need to be more clearly articulated to help the reader understand the progression through the various roles over time. Although Schedule 1 is already very helpful, ensuring all the roles are represented on it by adding the aspiring professional accountant would add clarity. Clarifying who a serving partner can be would also be helpful.

Question 2: Does Table A of the proposed IES 8 (Revised) on learning outcomes provide clarity with respect to the competence areas and levels of proficiency you would expect to see of a newly appointed engagement partner? Are there any learning outcomes you would expect to see included or eliminated?

Yes. The Table of learning outcomes is helpful.

We agree with the idea of building on IES 2-5 for IES 8 for a newly appointed engagement partner on the basis that the auditor will acquire additional competencies to become an auditor in addition to being certified as a professional accountant. Taking into account our previous comments on the levels of proficiency set in IES 2, IES 3, and IES 4, where we suggested that the expectation levels may be too high for the aspiring professional accountant based on their critical thinking ability, it is difficult to judge the proficiency levels being suggested for IES 8. When applying our comments on IESs 2, 3 and 4 to IES 8, a decrease in the levels set for the newly-appointed engagement partner is recommended (since they can be newly appointed in Canada at the same time as they certify as a professional accountant). However, we recognize that the team setting and added assurance experience results in increased levels of competence. We are therefore unclear on the level of complexity expected of the newly-appointed auditor (see our response to Question 3).

In our view, certain items listed as “Intermediate” we would expect to be higher:

(e) Business and organizational environment; economics; business management- items (ii) Apply knowledge of the entity (e.g. group, parent, or components) in order to identify and assess the risks of material misstatement.

Unless specialist assistance is needed to understand the entity, which is sometimes the case, we would expect that the newly-appointed engagement partner would have advanced knowledge of the entity and be able to apply this knowledge to identify and assess the risk of material misstatement.

(i) Finance and Financial Management –item (ii) Analyze and audited entity cash flow, budgets, and forecasts, as well as working capital requirements to assess going concern.

We would expect that an engagement partner would be able to assess going concern at an advanced proficiency level, especially when the analytical tools used involve analyzing an audited cash flow, budgets and forecasts.

Questions 3: Does Appendix 1 of the proposed IES 8 (Revised) Exposure Draft provide adequate clarification to assist in the interpretation of the learning outcomes that are listed in Paragraph 13 of the proposed IES 8 (Revised)? If not, what changes do you suggest?

We are uncertain how to apply Table A’s proficiency levels. Paragraph A5 supports the complexity described in Table A, whereas paragraph 5b suggests the opposite.

Paragraph A5 states *“Only those professional accountants with a wide range of technical competence and professional skills will be able to deal with the complex situations that engagement partners may face during their careers. A professional accountant aspiring to be an engagement partner will usually serve for several years on engagement teams, and may progress through supervisory and managerial roles under the supervision of a serving engagement partner. These roles may be performed before, during, or after meeting requirements in paragraphs 13–17 of this IES. This progression through increasing levels of responsibility is the usual path by which a professional accountant prepares to assume the role of an engagement partner. Those serving as engagement partners continue to develop and enhance their professional competence through leading or serving on audit engagements, and through other professional development.”*

This paragraph implies a level of competence that needs to be attained takes years to get to and that newly qualified engagement partners need to be able to deal with complex situations.

However, later in the standard, A18 states *“Competence areas, learning outcomes and minimum levels of proficiency identified in Table A of this IES build on the professional competence components identified within IPD. As a result, the required learning outcomes may be achieved, in whole or in part, concurrently with the requirements of IPD or subsequently as part of CPD.* And, A20 also supports there being a lower level of complexity at entry: *“The learning outcomes are the minimum to be achieved by an individual appointed to the role of an engagement partner. The minimum learning outcomes are those that provide the base to enable professional accountants to develop a specialization such as an audit engagement partner.”* These paragraphs seem to contradict the above statement in terms of the time required to develop the skill to be able to handle more complexity.

In addition, paragraph 5 b) states: *“The minimum professional competence requirements for newly appointed engagement partners are those considered necessary to address less complex audits.”*

Combine 5 b) above with Table A where the Intermediate level relates to “*moderate levels of ambiguity, complexity and uncertainty*” and the Advanced Level relates to “*work situations that are characterized by high levels of ambiguity, complexity and uncertainty*”, and noting that most of the learnings outcomes require intermediate or advanced levels of proficiency, and we are uncertain of the level of complexity actually associated with the minimum learning outcomes listed in Table A.

On the one hand, A5 implies a need for a professional accountant to be able to handle complexity to be able to qualify as an engagement partner, and yet there is an acknowledgement in 5 b) that at the point of being newly appointed the complexity of the audit is likely low. When we take note that an “advanced” proficiency level is expected for Financial Accounting and Reporting i.e., item (a) requires an advanced level which by definition requires an ability to handle high complexity and then we consider the restriction imposed by 5 b) to low complexity audits, we are unsure how to interpret the outcome. Is 5 b) in effect bringing the level down to “foundational” i.e. *low levels of ambiguity, complexity and uncertainty*? There appears to be a contradiction, and disconnect between these descriptions from a “complexity” view point.

In addition, paragraph A5 seems to imply several years being required. Yet, there seems to be an acceptance of three years (the practical experience requirement) being sufficient, and in other places (A18) a suggestion that the outcomes can be achieved during IPD. These apparent contradictions make it difficult to assess what is actually required, and when it is expected to be achieved, in Table A.

It is mentioned in Appendix 1 that none of the learning outcomes are classified at Mastery level, and that Mastery has been included in the Classification in order to demonstrate the relative positioning of the Foundation through Advanced levels. If “Advanced” is effectively the highest level in the suite of IESs, including IES 8, then expecting Advanced for the newly qualified professional accountant (which could possibly be at the end of IPD or with little CPD) seems high. The level of competency would have developed further, would it not, to become an engagement partner, while working on a team, over several years? How can the advanced level apply to both the newly-appointed and the more experienced engagement partner? Again, there appears to be a disconnect in the levels. In reality, we believe the mastery level can easily be applied to the more senior engagement partners, those that handle the complex audits. We believe the mastery level can and should be used in IES 8 to illustrate the level of complexity expected to be achieved over the entire spectrum of auditors and ability levels.

When looking at Table A’s learning outcomes on a more instinctive level, it appears logical and necessary to expect an Advanced level from the engagement partner for (a) audit of financial statements and the other areas listed at the Advanced level. It appears that the IAESB is trying to provide a one-size-fits-all standard for competence. However, we believe competence depends to a degree on the circumstance in which the skill/knowledge is applied. Perhaps there needs to be a level of proficiency established between Intermediate and Advanced that better reflects the ability to do the same as advanced skills but in more normal circumstances/ the same verbs/skills applied in more moderate levels of complexity? At a minimum, clarification of the level of complexity expected to be encountered in the circumstances associated with Table A and the proficiency level defined in Appendix 1 would be helpful.

Question 4: Do the revised requirements in respect of more complex audits provide greater clarity and assist with implementation of the proposed IES 8 (Revised)?

Generally, we like what has been done with respect to complex audits. We believe that A18 and A19 reflect what a Member Body's responsibility should be with respect to CPD.

Question 5: Does the inclusion of a number of references to Small and Medium Practitioner ('SMP') engagement partners and their context provide appropriate coverage of their professional development needs? Do you have any further recommendations in respect of how the proposed IES 8 (Revised) could be more aligned toward the needs of SMPs?

Why distinguish SMP versus other firms if taking a learning outcome approach and establishing a "minimum" requirement for an auditor? Would the learning outcomes not be the same for a low complexity audit regardless of the environment the person is in if they are establishing a "standard"?

There is a sense of 'inequity' between large firms and small firms in the wording of parts of the standard, almost giving a sense that the smaller firm is a "lesser" firm. It is preferable, in our view, to speak in terms of more or less complex audits rather than firm size (as is done in A38 for example).

We note specific instance of the sense of "inequity" in the wording of A5 and A6 (see below). We prefer the wording of A10 and A11. A5/A6 make the SMP route sound like a "lesser" route, rather than simply a different route. In terms of establishing minimum standards it should not matter which route is taken. There should be no relationship to firm size but rather to the engagement's complexities. Small firms can work in complex specialized industries. The environment makes a difference only in terms of the complexity of the engagements they present and the relationship to PD/training, which is touched upon elsewhere in the standard.

A5. Only those professional accountants with a wide range of technical competence and professional skills will be able to deal with the complex situations that engagement partners may face during their careers. A professional accountant aspiring to be an engagement partner will usually serve for several years on engagement teams, and may progress through supervisory and managerial roles under the supervision of a serving engagement partner. These roles may be performed before, during, or after meeting requirements in paragraphs 13–17 of this IES. This progression through increasing levels of responsibility is the usual path by which a professional accountant prepares to assume the role of an engagement partner. Those serving as engagement partners continue to develop and enhance their professional competence through leading or serving on audit engagements, and through other professional development.

A6. This IES does, however, recognize that there may be situations in which engagement partners operate within small-or medium-sized practices (SMPs), and may not progress through increasing levels of responsibility. In jurisdictions where SMPs are more common, the IFAC member body may consider how to set the professional competence requirements for newly appointed and serving engagement partners.

Compared to:

A10. This IES assumes that an engagement partner most commonly works with an engagement team that he or she oversees as required by ISAs.^s This engagement team can comprise individuals who perform less complex tasks, as well as specialists who will address some specific areas of the audit that require particular expertise (internal

technical departments, valuation specialists, actuaries, IT professionals, etc.) The expected minimum learning outcomes described in paragraph 13, Table A have been defined in this context.

A11. There are situations in which the engagement partner operates as a sole practitioner. In these situations, this may mean that the engagement partner may be operating without the support of an engagement team, including those engagement team members with specialist skills. As a consequence, the engagement partner may undertake a much wider range of tasks in performing the audit than would otherwise be the case. Irrespective of the size or nature of the audited entity, and the firm of the engagement partner providing the audit, this IES indicates that engagement partners continue to undertake CPD appropriate to the complexity of the audits in which they serve as engagement partners.

In looking at A5 and A6 we believe these two paragraphs could be deleted in their entirety. In our view, other parts of the standard express the same content as A5 and A6 but do so more clearly and coherently.

Question 6: Do you anticipate any impact or implications for your organization, or organizations with which you are familiar, in implementing the new requirements included in this proposed IES 8 (Revised)?

No. Since this IES applies not to “Partners” (in the Firm sense) but to “the partner or other person in the firm who is responsible for the audit engagement and its performance, and for the auditor’s report...”, we can adapt the definitions to the certification model in Canada. In our situation, we can therefore interpret this standard as applying to a professional accountant who has met the regulatory requirements to practice public accounting – someone who is eligible to sign the audit report. In a large Firm, it could actually be someone at the audit senior level but who has met the regulatory requirements. Of course, as the IES suggests, the Firm requirements would delay their signing a report. However, in Canada, it also means the sole practitioner, with three years of practical experience, who has met the regulatory requirements to practice public accounting, can practice as an engagement partner immediately.

Question 7: If the IAESB was to issue implementation guidance together with this IES (Revised), what would you envisage the guidance look like?

We do not see the need for any particular implementation guidance, if the issue we have raised with respect to complexity can be clarified within the standard. In particular, we do not believe there is a need for competency requirements to be an Audit Senior, to be an Audit Supervisor and to be an Audit Manager, which we understand some stakeholders are seeking, based on information from our prior representation of the IAESB.

Question 8: In respect of your jurisdiction, in which areas of the proposed IES 8 (Revised) would you consider it useful to have implementation guidance to help you meet the requirements of this IES?

Knowing what best practices are around the world today would be helpful. E.g., What are the practical experience requirements for public accounting around the world? Is there a consensus on pre- and post-practical experience requirements? What are Member Bodies doing in CPD for engagement partners working in complex areas? Etc.

In addition, the inclusion of examples to illustrate the level of complexity expected in Table A would be helpful in understanding and meeting the requirements.

Question 9: Would you consider examples of current practice in developing competency models useful in helping you meet the requirements of the proposed IES 8 (Revised)?

Yes, they would be.

Question 10: Is the objective to be achieved by a member body, stated in the proposed revised IES 8, appropriate?

The following may be simply a matter where more clarification is needed.

Paragraph 11- The Objective states that the objective of a Member Body is to provide professional development required in the engagement partner role. We do not believe the objective is to be a provider of professional development, even though we do that. In our view, the objective of the member body is to **“ensure engagement partners are competent to perform their role.”** We do that by putting in place education, experience, assessment requirements plus a code of conduct, discipline and enforcement standards. But we do not necessarily provide the PD or even make sure that it is available.

We believe all of the Requirements (paragraph 13 to 19) support the above re-stated objective. However, those Requirements do NOT achieve the Objective as it is currently stated. In particular, Requirements 18 and 19 will not achieve the objective of “providing professional development” in all CPD situations.

And, if the expectation is that member bodies would provide professional development in all complex industries, operations and reporting requirements as stated in Paragraph 19, the impact and implications would be immense. We are certain it was NOT the intention that we would provide CPD in all complex situations, rather as 19 now says, we would require that some of the current mandatory CPD be spent in certain areas. Maybe the Objective needs to be re-thought/ reworded to be clear on this.

Paragraph 2 of the IES makes the same statement...”member bodies have responsibility for the professional development necessary to become an engagement partner”. Technically, we do not believe that to be true – member bodies have responsibility for the standards for engagement partners, not the professional development.

Similarly, the first sentence in Paragraph A15 does not appear logical with its reference to professional development. Perhaps it would read better if it said, “Requiring that aspiring and serving engagement partners achieve professional competence through professional development and appropriate learning outcomes serves several purposes.” This would serve the public interest better than achieving professional development (which is what it now says).

Question 11: Have the criteria identified by the IAESB for determining whether a requirement should be specified been applied appropriately and consistently, such that the resulting requirements promote consistency in implementation by member bodies?

Yes.

Question 12: Are there any terms within the proposed IES 8 (Revised) which require further clarification? If so, please explain the nature of the deficiencies.

We found only two instances where the wording might be considered an implied requirement
A13- “IFAC member bodies should consider the best approach”. A13 could perhaps be reworded to: “The best approach will take into account”

A40-“IFAC member bodies are encouraged to develop guidance”. A40 might be better reworded as follows: Delete the first sentence. Start the current second with “Engagement partners, in planning appropriate CPD, may consider aspects of their more complex engagements, including...”

In A5- ...A professional accountant aspiring to be an engagement partner will usually serve for several years on engagement teams, and may progress through supervisory and managerial roles under the supervision of a serving engagement partner. These roles may be performed before, during, or after meeting requirements in paragraphs 13–17 of this IES. This progression through increasing levels of responsibility is the usual path by which a professional accountant prepares to assume the role of an engagement partner. Those serving as engagement partners continue to develop and enhance their professional competence through leading or serving on audit engagements, and through other professional development.

If paragraph A5 is kept (see our earlier recommendation to delete it), a point of clarification may be required. Is “several years” meant to refer to the three year practical experience requirement? If the intention is that it be more, then the point should be clarified as to why it would be more than the required three years. [This is a place where ‘big firm feel’ seems more apparent in the wording, and can perhaps be played down to be more neutral.]

A6-The use of the word “however” seems unnecessary– it makes it seem like SMPs are an afterthought. We suggest changing the sentence to read “This IES recognizes that there may be situations in which...”

That being said, we are unclear as to what this sentence is actually trying to communicate. Should it be referring to “aspiring engagement partners” rather than “engagement partners”? But what does it mean to say someone may not progress through increasing levels of responsibility because they are in an SMP? It seems to us that “of course they do”, just not in the same way as in a larger firm.