

April 16, 2014

Senior Technical Manager
International Accounting Education Standards Board
International Federation of Accountants
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Dear Mr. McPeak

We appreciate this opportunity to comment on the re-exposure Draft of the Proposed Revised International Education Standard 8 Professional Competence for Engagement Partners Responsible for Audits of Financial Statements, (IES 8). We appreciate the level of work that has gone into developing this re-exposure draft and are fully support the objectives of the IAESB's project to improve the clarity of its Standards.

General Comments

We recognize the many challenges and complexities present in drafting this important standard, and note the careful thought that has gone into the preparation of this Re-Exposure Draft, and the resulting progress. Our comments below focus on what we believe to be the remaining issues together with our suggestions for improvement.

1. CPD as the vehicle for the development of professional competence

The draft standard clearly identifies continuing professional development (CPD) as the way in which engagement partners maintain and further develop professional competence. We are concerned that CPD is widely understood, primarily, to represent structured learning activities such as attendance at a training course, and that many will read and interpret the requirements of IES8 in this context. *IES 7 Continuing Professional Development* which sets an input based requirement for professional accountants of 120 hours over a three year period reinforces this interpretation. Our view is that professional competence, particularly for engagement partners, occurs in many different ways, and that practical experience will be the most substantial and important activity. While we believe that the Board took a broad view of CPD when drafting the standard, and made reference to practical experience in paragraphs 4 and A4, we do not believe this is sufficient to help users of the standard appreciate the breadth of CPD anticipated for engagement partners.

We therefore recommend the Board reviews the way it has positioned CPD as having an exclusive role in development of professional competence and consider carefully how to represent a broad view of the range of developmental activities likely to be involved, beyond structured learning. We note that paragraph 5 of IES 7 details the components of CPD as including coaching and mentoring, networking, observation, feedback, reflection and self-directed and unstructured gaining of knowledge. These aspects should be referred to within this IES to make the broad definition very clear.

See also the related point below on ‘Learning Outcomes terminology’.

2. *Learning Outcomes terminology*

Related to the point above, we note that the Board has chosen to use consistent terminology from IESs 2, 3 and 4 for Table A, referring to ‘learning outcomes’ that demonstrate the achievement of professional competence. While we understand the Board’s desire for consistent approach across its standards, we think this terminology is unhelpful when (as noted above) a substantial contributor to the development and maintenance of professional competence of an engagement partner will be practical experience. The term ‘learning outcome’ places emphasis on the role of formal education, and structured learning activities. This emphasis is appropriate for the period of initial professional development (IPD) for the professional accountant when such activities play a central role, but is unhelpful when discussing the development of the engagement partner, much of which takes place in the work environment away from formal learning activity.

We therefore recommend that the Board replace the term ‘learning outcomes’ with ‘behavioral outcomes’ or a similar term – recognizing the qualitatively different nature of development at this point in an individual’s career when compared to IPD.

3. *Applicability to interim reviews*

We note that the standard is applicable to the audit of financial statements and is not required to be applied to other assurance work. We agree on the need to be clear on the scope of the standard, but recommend that the Board considers whether the scope of the standard should be extended to include engagements performed under 2410 Review of Interim Financial Information Performed by the Independent Auditor of the Entity. We believe there is significant overlap between the professional competence required to perform reviews of interim financial information and to perform audits of financial statements and believe interim reviews should be mentioned specifically.

Specific Questions

With respect to the specific questions outlined in the Explanatory Memorandum to the Re-Exposure Draft our comments are as follows:

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

In general we support the Objective paragraph, but have concern about the final phrase 'maintain and further develop through CPD'. The concept that an Engagement Partner needs to have achieved and therefore to continue to maintain professional competence in the areas listed in Table A is understood. However we are unsure of the Board's intention when describing the need for further development of professional competence through CPD. We are concerned that this could be interpreted to mean that the current level of professional competence (i.e. that set out in Table A) is insufficient or incomplete. For example does the Board envisage that further development of professional competence would occur in areas not currently listed in Table A? Or does the Board envisage development of professional competence would be needed beyond the level described by the learning outcomes in Table A?

We note that there has been a decision to move away from the phrase 'develop and maintain' used throughout other IESs. We encourage the Board to revisit that decision and consider if 'develop and maintain' would be more helpful terminology to use here.

We recommend the Board clarifies the concept of further development of professional competence and revisits the wording of the objective paragraph (and elsewhere in the standard where this term is used). The Board may also consider if further explanation in the explanatory material is required.

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

In general we support the requirement, but our comments in response to Question 1 related to the concept of 'maintain and further develop' are also applicable to the requirement in paragraph 10.

Questions 3: Do you agree with the proposed learning outcomes provided in Table A?

We have a number of comments on Table A. In addition to these points we have made a number of more detailed points under 'Specific drafting points' below.

Section (a) Audit of Financial Statements

In our view all competence areas and learning outcomes listed in Table A contribute to the competence needed to conduct an audit of financial statements, not just those listed in Section (a) – however Section (a) is titled 'Audit of financial statements'. We recognise that those learning outcomes listed in Section (a) are specifically related to audit technical knowledge and activities, but we encourage the Board to reconsider the title of this section, and avoid conveying the impression that only those competences in Section (a) relate to an audit of financial statements.

Consistency of learning outcomes

We note that the learning outcomes are a mixture of high level concepts and more detailed points. For example (a) (ii) is a high level learning outcome, but (a) (iii) is much more detailed. We recommend the Board conduct a general review the content of Table A to confirm that the level of detail is appropriate for each learning outcome.

Inclusion of specialists

We are concerned that there is insufficient emphasis on the use of specialists within the audit and recommend the Board carefully reviews this area, particularly given the focus this area has from a range of stakeholders in the profession. There is reference in (f)(i) to the 'IT professional', but that is the only explicit reference within Table A to use of a specialist. We would expect to see consideration of the use of a range of specialists, including those involved in fair value measurement, review of management estimates and impairment related issues. Learning outcomes in this area would need to cover both planning the use of specialists, and also reviewing and evaluating their work.

We also recommend that there should be an additional learning outcome addressing the need for the Audit Engagement Partner to assess whether the engagement team as a whole has the right mix of skills and knowledge to perform the engagement.

Internal Controls

In our view the coverage of internal control concepts within Table A is insufficient. We would expect to see a clear progression in Table A through the assessment of risks, the identification of controls to address these risks, and then development of the response to the risk based on the result of testing internal controls.

We also note that (a) (vii) refers to the evaluation of significant deficiencies. We recommend the Board should consider adding a similarly constructed learning outcome relating to the evaluation of misstatements.

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

Yes. We agree that the levels of proficiency for the competence areas should not be included in 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 have the following comments on the coverage of the current explanatory material and recommendations for improvement. In addition to these points we have made a number of more detailed points under 'Specific drafting points' below.

Paragraph A4

This paragraph seeks to emphasise the importance of practical experience as a component of CPD. We believe that it does not cover in sufficient breath or depth the importance of practical experience in achieving professional competence. Please also see further comments under General comments above.

Paragraph A9

The current wording of this paragraph implies that, by meeting the requirements of IES 8, firms and engagement partners will be in compliance with the requirements of ISQC1 and ISA 220. We recommend the Board review this wording, as there are many other actions needed to ensure compliance with ISQC1 and ISA 220 beyond the meeting the requirements of IES 8.

We suggest that the final sentence should read:

“...As a consequence, it assists firms in complying with the requirements of ISQC1 and engagement partners in complying with the requirements of ISA 220.”

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 agree that Figure 1 assists the reader in understanding which stakeholders have responsibilities that impact the professional competence of engagement partners.

However, we are concerned that the title of Figure 1 could be taken to imply that regulators have responsibility for the professional competence of Engagement Partners which is not the case. We recommend that the wording be changed to “Stakeholders with an Interest in the Professional Competence of Engagement Partners” to better represent the situation.

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?

Please see point 1 under General comments above, related to the breadth of CPD.

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

While the requirement of the proposed standard is written to IFAC member bodies, we recognise that, in practice, network audit firms play a significant role in the development of engagement partners. We operate a robust and consistent approach, both to the assessment of competence of our engagement partners, and to monitoring of CPD across our Deloitte Touche Tohmatsu Limited (DTTL) network. Our network firms also meet the requirements laid down by the local IFAC member bodies in relation to CPD.

We therefore expect that the proposed standard will have limited impact on our network. We do however note that our network of firms operate in a wide variety of jurisdictions. IFAC member

bodies across those jurisdictions are likely to take different approaches in their implementation IES 8, which may result in changes to current level of tracking and monitoring required in some jurisdictions.

Question 9: What topics or subject areas should Implementation Guidance cover?

We believe it would be helpful for the Board to provide examples of how learning outcomes could be achieved, particularly where practical experience is likely to play a significant role in development. These examples should illustrate how the concept of shared responsibility for the professional development of engagement partners works in practice in different environments.

Specific drafting points

In addition to our responses to the specific questions posed in the Explanatory Memorandum, we also provide a number of specific comments on the Re-exposure draft together with suggestions for changes to enhance the clarity of the final standard.

Paragraph	Existing Wording	Comments/Suggestions for change
Paragraph 3	<i>This IES builds on the learning outcomes of IESs 2, 3, and 4 that describe the professional competence required of aspiring professional accountants <u>of the end of Initial Professional Development (IPD)</u>.</i>	Typographical error: “...by the end...”
Table A (a) (vi)	<i>Approve or establish an appropriate audit strategy <u>in relation to the audit objective</u></i>	It is unclear what <i>in relation to the audit objective</i> means. Does it mean the objective of the auditing standard? We recommend that the wording is reviewed for clarity.
Table A (b) (i)	<i>Evaluate whether an entity has prepared, in all material respects, financial statements in accordance with the applicable financial reporting framework.</i>	We recommend the Board considers whether this learning outcome should also refer to the consideration of the concepts of “true and fair” or “fair presentation” where the audit opinion is expressed in these terms.
Table A (d)	<i>Formulate auditor expectations using relevant information on industry, regulatory, and other external factors, including market, competition, product technology, and environmental requirements.</i>	It is unclear what <i>auditor expectations</i> are referring to. If this is linked to identifying specific audit risks, then this should be stated. We recommend the Board reviews the wording of this learning outcome.

Paragraph	Existing Wording	Comments/Suggestions for change
Table A (e) (i)	<i>Evaluate procedures performed, including the work of others, to address the risks of material misstatement in the financial statements in respect of taxation, and to assess the effect of the results of procedures on other areas of an audit.</i>	This sentence is overly complex and conveys the sense of an overly passive role for the engagement partner. We recommend rewording as follows: <i>(i) Evaluate procedures undertaken to address the risks of material misstatement in the financial statements in respect of taxation, including reviewing and evaluating the work of others. Assess the results of the procedures and the impact on other areas of the audit.</i>
Table A (g)	<i>Business Law and Regulations</i>	We recommend including an additional learning outcome at the start of this competence area: <i>Assess the regulatory environment and consider which laws and regulations are relevant to the engagement and its financial statements.</i>
Table A (g) (i)	<i>Evaluate the impact on the audit of a potential breach of law and regulations.</i>	We recommend rewording as: <i>Evaluate the impact on the financial statements being audited of a potential breach of law and regulations.</i>
Table A (h) (i)	<i>Evaluate the various sources of financing available to an entity to design the corresponding audit strategy and plan appropriate testing and review procedures.</i>	We believe that the term ‘available’ makes this area too broad. In addition the term ‘appropriate testing and review procedures’ implies that it is a review rather than an audit. We recommend rewording as: <i>Evaluate the sources of financing used by an entity in order to design the corresponding audit strategy and plan appropriate analytical procedures.</i>

Paragraph	Existing Wording	Comments/Suggestions for change
Table A (h) (ii)	<i>Evaluate an entity's cash flow, budgets, forecasts, and working capital requirements.</i>	<p>This learning outcome requires clarification.</p> <p>We believe the Board's intention is for an engagement partner to evaluate the entity's cash flow, budgets, forecasts and working capital requirements for reasonableness in order to use in the audit's analytical procedures and in consideration of the appropriateness of the going concern assumption, rather than to report on these items separately.</p> <p>We therefore recommend rewording as:</p> <p><i>Evaluate an entity's cash flow, budgets, forecasts and working capital requirements for reasonableness prior to use in performing analytical procedures and in consideration of the appropriateness of the going concern assumption.</i></p>
Table A (h)	<i>Finance and financial management</i>	We recommend a further learning outcome covering the assessment of the entity's use of financial instruments and the evaluation of valuation techniques and models.
Table A (i) (i)	<i>Evaluate the accounting estimates, including fair value estimates made by management</i>	We recommend that this learning outcome is better placed under the Technical section of Table A rather than under Intellectual skills.
Table A (j) (ii)	<i>Resolve conflict through appropriate forms of communication.</i>	<p>This is an extremely broad learning outcome and potentially far more than an Audit Engagement Partner would normally do.</p> <p>We recommend that the definition is revised to be more specific to the context of an audit. We also recommend addressing the need to manage differences in opinion within a firm.</p>
Table A (j) (iii)	<i>Resolve audit issues, consulting when appropriate.</i>	<p>We recommend rewording as:</p> <p><i>Conclude on audit issues, consulting when appropriate.</i></p>

Paragraph	Existing Wording	Comments/Suggestions for change
Table A (j) (iv)	<i>Manage negotiations effectively with the entity.</i>	<p>We are unclear as to the types of negotiations that the Audit Engagement Partner would be managing with the entity other than fee negotiations.</p> <p>We recommend that this learning outcome is removed.</p>
Table A (m) (i)	<i>Assess audit quality and the effect on the public interest, the profession and wider society.</i>	<p>We believe the public interest would be best served by not just by assessing audit quality but by executing high quality audits.</p> <p>We believe that the reference to wider society is already covered by public interest and should be removed.</p> <p>We therefore recommend rewording as:</p> <p><i>Execute high quality audits and understand the effect of audit quality on the public interest and the profession.</i></p>
Table A (o) (ii)	<i>Identify, consider, and evaluate threats to objectivity and independence that can occur during an audit engagement.</i>	<p>The effective response to these threats once identified should also be included.</p> <p>We recommend rewording as:</p> <p><i>Identify, consider, evaluate and respond to threats to objectivity and independence that can occur during an audit engagement.</i></p>
Paragraph A14	<i>Engagement partners are required to maintain and further develop their professional competence as they work in an environment of significant change. Pressure for change can come from many sources, including (a) increased regulation, (b) developments in financial and non-financial reporting, (c) emerging technologies, (d) increasing use of business analytics, and (e) business complexity.</i>	<p>We recommend including ‘changes in International Standards on Auditing (ISAs)’ in the list of areas of environmental change:</p> <p><i>....(a) increased regulation, (b) developments in financial and non-financial reporting, (c) changes in International Standards on Auditing (ISAs), (d) emerging technologies, (e) increasing use of business analytics, and (f) business complexity.</i></p>

Paragraph	Existing Wording	Comments/Suggestions for change
Paragraph A20	<i>Planning effective CPD in the areas of professional skepticism and professional judgment requires due care and may need innovative learning methods in which mentoring, reflection, time, and experience within the context of a work environment often play a key role.</i>	This paragraph contains the term “due care”. As this term has legal connotations and may confuse readers, we recommend rewording: <i>Planning effective CPD in the areas of professional skepticism and professional judgment requires careful thought...</i>

Please do not hesitate to contact us for clarification of any of points we have made.

Very truly yours,



Cal Buss
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