

17 April 2014

Mr. David McPeak
Senior Technical Manager
International Accounting Education Standards Board
277 Wellington Street West, 4th Floor
Toronto, Ontario
M5V 3H2 Canada

Dear Mr. McPeak:

Proposed International Education Standard 8 – Professional Competence for Engagement Partners Responsible for Audits of Financial Statements (Revised)

Ernst & Young Global Limited, the central entity of the Ernst & Young organization, welcomes the opportunity to offer its views on the proposed International Education Standard 8 (the Standard), issued by the International Accounting Education Standards Board (the Board).

Overall Comments

We support the efforts of the Board to prescribe the learning outcomes for professional competence that engagement partners responsible for the audits of financial statements are required to demonstrate. We support the change in focus of IES 8 to the one common role within the engagement team – the engagement partner – irrespective of the nature, complexity, size, or type of audit.

We recommend that the Exposure Draft be reviewed by the International Auditing and Assurance Standards Board (IAASB) and the International Ethics Standards Board for Accountants (IESBA) given the relationship of proposed IES 8 to standards issued by these Boards. This review will ensure consistency with standards issued by the IAASB and the IESBA.

Responses to the specific questions on which the Board is seeking feedback are set out in Section 1 below. Our other comments, including general editorial comments, are set out in section 2.

1. Specific questions related to the proposed revisions to the Standard

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

No, the objective statement is not clear. The objective statement in paragraph 9 is inconsistent with paragraph 1 of the proposed IES 8.

Paragraph 1 indicates that proposed IES 8 prescribes the *learning outcomes for professional competence* that professional accountants are required to demonstrate when performing the

role of an engagement partner responsible for the audits of financial statements. Paragraph 9 indicates that the objective of this IES is to establish the *professional competence* that professional accountants performing the role of an engagement partner need to maintain and further develop through Continuing Professional Development (CPD). Therefore, it is unclear if proposed IES 8 is prescribing the learning outcomes or prescribing the professional competence that engagement partners responsible for the audits of financial statements need to maintain and further develop. Additionally, because it focuses on professional competence rather than learning objectives, the objective statement as currently worded also implies a particular level of competence. We suggest rewording the objective statement to focus on learning outcomes, which would be more consistent with the scope of the standard as described in paragraph 1 and with the requirement in paragraph 10 indicating that professional competence is demonstrated by the achievement of learning outcomes. We also believe that the objective statement should specify that the standard applies to the role of an engagement partner responsible for audits of financial statements.

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

No, we believe the requirement in paragraph 10 can be further clarified. The requirement in paragraph 10 should specify that the role relates to the engagement partner responsible for audits of financial statements. We believe the implementation guidance for IES 8 should include guidance on how often the requirement in paragraph 10 of proposed IES 8 needs to be evaluated by member bodies and other interested stakeholders.

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

Yes, we agree with the proposed learning outcomes provided in Table A subject to the following comments. There is an additional learning outcome that we would expect to see included in paragraph 10, Table A. We suggest that a learning outcome be added to the financial accounting and reporting competence area related to evaluating the impact of changes in accounting rules or standards on financial statements, and their impact on the entity being audited.

We believe that all the learning outcomes should be reviewed to make sure they include the outcome of the activity that is expected to occur (i.e., each learning outcome should include the activity and the outcome of the activity). Below are two examples to demonstrate how the learning outcomes should be revised to ensure that they describe both the activity and the outcome of the activity.

- Learning outcome (a) (i) needs to indicate what decision or action should be taken once the risks have been evaluated. As a result, we suggest this learning outcome be reworded as follows: Evaluate the risks identified by engagement acceptance and continuance procedures to determine whether it is appropriate to accept or continue the engagement.
- Learning outcome (a) (v) needs to indicate what decision or action should be taken. As a result, we suggest this learning outcome be reworded as follows: Review Evaluate

~~indicators for evidence of bias in management's estimates and in other areas of judgment~~ and identify indicators for evidence of bias.

There are certain learning outcomes that we believe should be revised because they are unclear. We offer the following comments and suggestions to be considered in revising the proposed learning outcomes provided in Table A:

- It is unclear what “audit objective” means in the context of learning outcome (a) (vi) *Approve or establish an appropriate audit strategy in relation to the audit objective.*
- The learning outcome (a) (vii) *Evaluate significant deficiencies in internal control and in other matters to be communicated to those charged with governance* needs to be revised. As written, it suggests that the auditor evaluates deficiencies in other matters. We do not believe it was the intent of the Board to establish a requirement to evaluate deficiencies in other matters.
- We recommend that learning outcome (b) (i) *Evaluate whether an entity has prepared, in all material respects, financial statements in accordance with the applicable financial reporting framework* be moved to the audit financial statements technical competence area rather than the financial accounting and reporting competence area since this learning outcome is based on a requirement in ISA 700.
- It is unclear what “reasonableness” means in the context of learning outcome (b) (iii) *Assess the reasonableness of financial statements relative to the nature of the business, the operating environment, and the entity's ability to continue as a going concern.* We suggest that this learning objective be revised as follows: ~~Assess the reasonableness of~~ *Evaluate the financial statements relative to the nature of the business, the operating environment, and the entity's ability to continue as a going concern.*
- The reference to auditor expectations in learning outcome (d) (i) is misleading. This is currently the only learning outcome that references auditor expectations. Therefore, we suggest this learning outcome be revised as follows: *Analyze relevant industry, regulatory and other external factors, including market, competition, product technology, and environmental requirements that are used to inform ~~auditor expectations~~ audit risk assessments.*
- It is unclear what “including the work of others” means in the context of learning outcome (e) (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 the audit.* Work of others usually refers to internal audit and we do not believe that the Board intended to refer to internal audit in this learning outcome. We suggest that this learning objective be revised as follows: *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 the audit.*

- We suggest that learning outcome (g) (i) *Evaluate the impact on the audit of a potential breach of laws and regulations* be revised to be consistent with ISA 250. We suggest that this learning objective be revised to: Evaluate the possible effect the impact on the audit of identified or suspected non-compliance with laws and regulations to determine the effect on the audit strategy and audit opinion of a potential breach of laws and regulations.
- The reference to plan appropriate testing and review procedures seems redundant to the reference to design the corresponding audit strategy in learning outcome (h) (i) *Evaluate the various sources of financing available to an entity to design the corresponding audit strategy and plan appropriate testing and review procedures.* We suggest that this learning objective be revised as follows: Evaluate the various sources of financing available to an entity to design the corresponding audit strategy and plan appropriate testing and review procedures.
- Learning outcome (i) (i) *Evaluate the accounting estimates, including fair value estimates made by management* should be included in the technical competence section of Table A, rather than the professional skills section of Table A.
- The use of the word “assess” implies a specific obligation in learning outcome (m) (i) *Assess audit quality and the effect on the public interest, the profession, and wider society.* We suggest that this learning objective be revised to: Understand the factors affecting Assess-audit quality and the importance of audit quality to the effect on the public interest and create an environment for conducting a quality audit at the engagement level, the profession, and wider society.
- We do not believe that “to ethical dilemmas” is necessary in learning outcome (o) (i) *Apply the ethical principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior to ethical dilemmas in the context of an audit and determine an appropriate resolution.* We suggest that this learning objective be revised to: Apply the ethical principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior to ethical dilemmas in the context of an audit and determine an appropriate resolution.
- We suggest the following revision to (o) (iii): Protect, subject to relevant legal requirements, the confidential information of the entity in accordance with ethical responsibilities and relevant legal requirements.

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. However, we believe that explanatory material is necessary to explain that it is expected that professional accountants, acting in the role of engagement partner, have already achieved the required professional competence and now need to maintain and further develop professional competence through relevant CPD. Without this explanation, it may be difficult for Member Bodies to assess whether an individual is undertaking sufficient CPD to maintain or

further develop their professional competence for the role of an engagement partner responsible for audits of financial statements.

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

The explanatory guidance in proposed IES 8 is not sufficiently balanced. First, the majority of the explanatory material relates to the Scope of the Standard section of proposed IES 8. The Exposure Draft contains minimal explanatory material on the requirement of the standard. Secondly, it seems inconsistent to only have explanatory materials for professional skepticism and professional judgment (paragraph A18 and A19) and not have explanatory materials for other competencies. We recommend that paragraphs A18 and A19 be removed. If the Board decides not to remove these paragraphs, then paragraphs A18 and A19 need to be challenged and revised by the Board. For example, we believe it is misleading to state that “because all organizations are operating in an ever increasingly complex and uncertain globalized economy, developing and applying professional skepticism is essential for engagement partners.” There are many other reasons besides increasing complexity that result in the need for partners responsible for the audit of financial statements to apply professional skepticism.

Additionally, we believe that explanatory guidance should be added for the following:

- Guidance should be added to explain that professional accountants, acting in the role of engagement partner, have already achieved the required professional competence in paragraph 10 and now need to maintain and further develop professional competence through relevant CPD. Additionally, we believe that examples in the explanatory guidance of how the requirement in paragraph 10 could be applied to partners responsible for audits of financial statements would be helpful.
- Guidance should be added to explain how practical experience of engagement partners responsible for audits of financial statements plays a role in the development and maintenance of professional competence. Additionally, guidance should be added to explain how practical experience is to be demonstrated and documented.
- Guidance should be added as to how to measure that the learning outcomes are demonstrated since certain learning outcomes (e.g., leadership) are acquired on the job and not through formal learning and development.

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?

The graphic in figure 1 assists in describing stakeholders with responsibilities impacting the requirements for professional competence of engagement partners. We believe that the title of the graphic should be revised to indicate that it is describing stakeholders with responsibilities impacting the requirements for professional competence of engagement partners. Additionally, we believe the graphic needs to consider other factors that play an important role in the

professional competence of engagement partners such as the Code of Ethics for Professional Accountants and industry specific requirements.

The explanatory materials to figure 1 do not explain how the stakeholder's responsibilities relate to proposed IES 8. The explanatory materials only repeat information from other IFAC publications. We recommend that these explanatory materials be revised to indicate how other standards established by other IFAC Boards impact proposed IES 8.

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 believe the term "learning outcome" is often understood to refer to formal learning delivered online, or in the classroom. We therefore challenge whether the term "learning outcome" is the most accurate way to describe or categorize the outcomes in proposed IES 8, given they are often obtained or reinforced through "on the job" experience. We suggest that the term learning outcome be changed to development outcome, observable outcome or performance outcome. We believe this change will reflect the fact that learning outcomes will not always be obtained in a traditional classroom setting.

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 the proposed IES 8 Exposure Draft (December 2013)?

Yes, we anticipate implications to our Firm. Although these will be influenced by the proposed implementation guidance, we anticipate the proposed IES 8 may require our Firm to modify our process for demonstrating the competence of new engagement partners responsible for the audits of financial statements at the time of promotion. Additionally, in order to demonstrate that learning outcomes are achieved, we may have to determine whether we need to monitor practical experience or the content of our formal learning programs in a different manner.

Question 9: What topics or subject areas should implementation guidance cover?

We believe that the issuance of examples would be helpful in the implementation of proposed IES 8. To facilitate the implementation of proposed IES 8, we believe the Board should issue implementation guidance simultaneously with the issuance of proposed IES 8 as a standard. Any implementation guidance should be concise, faithful to the issued standard and limited to the requirements described therein. Implementation guidance on proposed IES 8 should provide examples of how to apply the requirement of proposed IES 8. We believe the implementation guidance should include:

- Examples of detailed competency models that could be used to meet the competency areas of proposed IES 8 and to serve as the basis of the design of learning and development programs.
- Examples on how the learning outcomes in paragraph 10 may be measured and assessed by firms and other interested stakeholder. Additionally, examples of

appropriate assessment activities to be used by the firms or other interested stakeholders would be helpful.

- Examples of how the learning outcomes in paragraph 10 may be achieved by practitioners, such as examples of which learning outcomes may be achieved through traditional learning programs and which ones may be achieved from practical experience.

2. Other comments

- Explanatory materials paragraph A1 is not referenced to the body of proposed IES 8. We suggest that paragraph A1 be referenced.
- The Code of Ethics for Professional Accountants uses the term professional competence. We suggest that the IESBA perform a review of proposed IES 8 to make sure that there are no unintended confusion between how professional competence is used in proposed IES 8 and how it is used in the Code of Ethics for Professional Accountants.
- We suggest that paragraph 2 be revised to remove the reference to regulators being “involved” with the system of quality control. We suggest the following revision to paragraph 2: ~~“Law or regulation in many jurisdictions, a regulator is also involved in this system of may impose additional requirements regarding quality control.~~
- We suggest the following revision to paragraph 3: This IES builds...accountants at the end of Initial Professional Development (IPD).
- We suggest that paragraph 4 in the Scope of this Standard section be moved up to follow paragraph 1. We believe moving this paragraph would make the Scope of this Standard section flow better.
- Paragraph 4 indicates that “The professional accountant who performs the role of engagement partner is responsible for development and maintenance of professional competence by undertaking relevant Continuing Professional Development (CPD) activities that include practical experience”. The definition of CPD in the IAESB glossary of terms does not include practical experience. Therefore, we suggest this paragraph be revised to reflect the definition of CPD, as defined by the IAESB glossary of terms. Additionally, paragraph 4 indicates that this IES is addressed to the IFAC member bodies that foster a commitment to lifelong learning among professional accountants seems misleading. We don’t believe it was the intent of the Board to limit this IES to those IFAC member bodies that “foster” a commitment to lifelong learning. We suggest deleting this sentence, as it seems unnecessary given the following paragraph (paragraph 5).
- We suggest the following revision to paragraph 10: IFAC member bodies shall require professional accountants performing the role of an engagement partner responsible for

audits of financial statements to undertake CPD that maintains and further develops the professional competence required for this role.

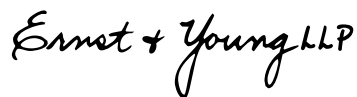
- Certain terms in Table B reference the IAASB Glossary of Terms, while other terms refer to specific ISAs. We challenge whether it is necessary to include these terms in proposed IES 8, when they are already defined in other IFAC standards. If these terms remain in proposed IES 8, we suggest that the source of term column be removed from the table since all of the terms in Table B are included in the IAASB Glossary of Terms. Additionally, as previously mentioned, we suggest that the IAASB review proposed IES 8 for consistency with their standards.
- Paragraph A3 contains definitions for initial professional development and continuing professional development. These definitions are already included in other IESs and the IAESB Glossary of Terms. Therefore, we suggest that the definitions be removed from this paragraph.
- Indicating that the partner is responsible for the capabilities and competence of the engagement team in paragraph A6 suggests something beyond the requirements of paragraph 14 of ISA 220. We suggest that this paragraph be revised as follows: ISA 220 identified the engagement partner as the individual responsible for the capabilities and competence of the engagement team. Unless information provided by the firm or other parties suggests otherwise, ISA 220 allows the engagement team to rely on the firm's system of quality control in relation to the competence of personnel through their recruitment and formal training. requires the engagement partner shall be satisfied that the engagement team, and any auditor's experts who are not part of the engagement team, collectively have the appropriate competence and capabilities to (a) Perform the audit engagement in accordance with professional standards and applicable legal and regulatory requirements; and (b) Enable an auditor's report that is appropriate in the circumstances to be issued. Unless information provided by the firm or other parties suggests otherwise, ISA 220 allows engagement partners the engagement team to rely on their firm's system of quality control in relation to the competence of personnel through their recruitment and formal training.
- The use of the words “as a consequence” in paragraph A9 suggests that firms are only able to comply with the standards mentioned based on CPD promoted by member bodies. We suggest the Board review this paragraph to validate if this was their intent.
- The use of the word “demonstrate” in paragraph A10 precludes those who have not yet had an opportunity to do so. Therefore, we suggest the following revision: Only those professional accountants who ~~demonstrate~~ acquire the learning outcomes listed in Table A...
- Paragraph A12 does not specifically mention that baseline knowledge of new accounting and auditing pronouncements should be maintained. Therefore, we suggest the following revision to paragraph A12: This IES recognizes those situations in which the engagement partner operates as a sole practitioner or small or medium practitioner.

In these situations, 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 different~~ tasks in performing the audit than would otherwise be the case. Irrespective of the size or nature of the entity, and the firm of the engagement partner providing the audit, this IES assumes that engagement partners continue to undertake appropriate CPD to maintain baseline knowledge of new accounting and auditing pronouncements and CPD appropriate to the complexity of the audits in which they serve as engagement partners.

- We are unclear about the use of “due care” in paragraph A20 in view of the fact that “due care” is a fundamental principle of the Code of Ethics for Professional Accountants. Additionally, paragraph A20 requires further clarification. First, we do not agree with the inclusion of time. We believe that it is about sufficient experience, which will be gained over time, but time is not the driver. Finally, we suggest referring to a “blend” of learning methods rather than “innovative” learning methods. Therefore, we suggest the following revisions: Planning effective CPD in the areas of professional skepticism and professional judgment requires ~~due care and may need a blend of innovative~~ learning methods in which mentoring, reflection, ~~time and~~ and sufficient experience within the context of a work environment often play a key role.

We would be pleased to discuss our comments with members of the International Accounting Education Standards Board or its staff. If you wish to do so, please contact Karen Golz (+ 212 773 8001).

Yours sincerely,



Ernst & Young Global Limited