Hong Kong Institute of
Certified Public Accountants
香港會計師公會

21 December 2012

Our Ref.: CJ/S&R/IES8

By email to David McPeak [DavidMcPeak@ifac.org]

International Accounting Education Standards Board
529 Fifth Avenue 6th Floor
New York, NY 10017
United States of America

Dear Sirs,

Exposure Draft: *Proposed International Education Standard (IES) 8* Professional Development for Engagement Partners Responsible for Audits of Financial Statements (Revised)

The Hong Kong Institute of Certified Public Accountants (the Institute) is the only statutory licensing body of accountants in Hong Kong responsible for the professional training, development and regulation of the accountancy profession. The Institute sets auditing and assurance standards, ethical standards and financial reporting standards in Hong Kong. The Institute is committed to ensuring that audit quality is maintained at the highest standards.

The Institute is concerned that the proposed IES 8 appears to represent a significant change in the objectives and activities of the IAESB that have serious implications for member bodies and their members. This Exposure Draft appears to have accommodated new strategies and objectives despite being a work in progress during the IAESB 2014-16 Strategic Review Public Consultation Survey that concluded in September of this year. The Institute would suggest that only on full consideration of the results of that survey and associated comments that were submitted by member bodies and international groupings should a significant change of direction be incorporated in proposed standards.

The proposed standard introduces significant new responsibilities on IFAC member bodies without providing a clear rationale. Proposed IES 8 expects professional bodies to take responsibility for mandating competency requirements for audit engagement partners and to monitor compliance with such requirements. The reasons for such a significant change in extant IES 8 are not explained. The proposed changes have the potential to significantly affect or even supersede the professional development agenda of member bodies and the vast resources that are invested in them.

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In addition, given that many of the definitions adopted in the proposed IES 8 are derived from ISAs and that ISQC 1 and a number of ISAs include references to competencies of audit teams, including engagement partners, it would be helpful to have included as background information the views of the IAASB on how the proposed IES 8 would support and integrate with the requirements of ISQC 1 and ISAs.

In view of the fundamental issues that are raised by proposed IES 8 the Institute has not provided detailed responses to all of the questions set out in the Exposure Draft but has provided the following commentary, which primarily addresses the following two questions: **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) and Question 10: Is the objective to be achieved by a member body, stated in the proposed revised IES 8, appropriate?**

The second sentence in paragraph 2 states: “IFAC member bodies have responsibility for the professional development necessary to become an engagement partner”. Paragraph 12 expresses a similar requirement. We would be interested to learn the authoritative source for this statement. The Exposure Draft does not explain the source or rationale for this statement as both background information and guidance in paragraphs **A1-A15** is silent on this issue. This statement was not made in the extant IES 8 and does not appear to be supported by either the SMOs or the Framework for International Education Standards for Professional Accountants.

This statement is a major change from the extant IES 8. As such we are of the view that its introduction should be clearly explained and supported in the **explanatory memorandum** under the section headed “Significant Issues” or by reference to an appropriate authoritative source.

There does not appear to be any ambiguity in the revision and redrafting of IES 8 on the part of the IAESB. The same statement is made in both paragraphs 2 and 12 of the ED. However, the ED does not provide examples or useful guidance on how member bodies might be able to discharge this supposed obligation. We have serious doubts that all IFAC member bodies themselves believe they have such an obligation.

In the explanatory memorandum on page 7 under the sub-heading “Review of Professional Development Programs” it is highlighted that the proposed revised IES 8 prescribes IFAC member bodies to regularly review and update their professional development programs that are designed to achieve learning outcomes. We doubt that many IFAC member bodies would have such programs in place and believe that while many member bodies retain input based professional development programs it is not appropriate or practical to focus on outcomes in IES 8. Indeed. paragraph A7 acknowledges that most if not all IFAC member bodies would not have in place professional development programs that are designed to achieve learning outcomes simply because “these matters are usually not within the control or authority (or scope) of an IFAC member body”.

The Institute does not believe that a "one size fits all" approach to competency requirements will work across all member bodies that are in differing stages of development and have different approaches to professional development. Furthermore it does not recognize that within any one territory, member bodies will have member firms that run their business in different ways. What would be an appropriate approach for IFAC member bodies is to specify the general learning outcomes and other relevant qualitative criteria that professional development programmes (such as those operated by accounting firms in respect of their own staff who are on a path to partnership) necessarily exhibit in order to gain recognition as an engagement partner, public accountant, holder of a practising certificate, however it may be described in various parts of the world. This is consistent with the approach and discussion found in paragraph A15, for example.

Notwithstanding the above, the timeframe for compliance with proposed IES 8 may be problematic. To introduce such significant changes in member body responsibilities and to engage all practicing firms in a meaningful implementation program could take longer than allowed by the expected issue date and provisional implementation date of 1 July 2015.

In conclusion we have grave concerns, as expressed above, that the proposed revised IES 8 represents a significant shift in focus and content from the extant IES 8, including the imposition of major responsibilities on member bodies, without a clear explanation or rationale for the changes. On this basis the Institute does not support the issue of revised IES 8 in its current proposed form.

As advised in my email to IFAC staff on 29 November 2012 consideration of proposed IES 8 had not completed due process within the Institute by the formal response date of 11 December 2012. I appreciate the extension of the submission deadline to allow endorsement by the Institute Council of this response.

We trust that our comments are of assistance to you. If you require any clarification on our comments, please do not hesitate to contact me by email (chris@hkicpa.org.hk) or telephone (direct line +852 22877372).

Yours faithfully,

Chris Joy
Executive Director

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