



10 December 2012

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Dear David

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

Thank you for the opportunity to comment on the revised proposed Standard.

ICAEW recognises that major changes have been made to the proposed Standard since its last exposure (our 2010 response to which is appended here) and the undoubted efforts of the IAESB which have underpinned this. However, ICAEW remains firmly of the view that our fundamental concerns with IES 8 have not been addressed and that the Standard as it is described here should not be implemented. We question whether any International Education Standard should exist from the IAESB in this space and believe that the development of guidance for audit firms is the appropriate approach.

Our concerns with the exposure draft are various but centre on three core problems:

Firstly, the Standard is addressed to member bodies but it is clear from the content of the proposals that member bodies cannot be held responsible for ensuring implementation. Once a professional accountant has qualified with an IFAC member body, he or she will be subject to that body's general CPD regime (in accordance with IES 7) but it will be the employing audit firm (not to mention the professional accountants themselves) who will be responsible for the onward career momentum and the development and assessment of engagement partner competence.

Secondly, the Standard's scope is unclear and flawed in crucial aspects. In particular, the focus on 'aspiring engagement partners' re-creates the very problems removed by the deletion of 'audit professional' and 'significant audit judgement' from the 2010 iteration of the proposed Standard. It is left completely open to question who is deemed to be an 'aspiring engagement partner' and at what point in an auditor's career they identify themselves as such – and are so viewed by others.

Thirdly, given the above, we do not believe that IES 8 should remain constituted as an International Education Standard. As we remarked in 2010, what the IAESB should be striving to produce here is a guidance document on professional competence for the development of audit engagement partners for use by those audit firms (and only those firms) who would find this helpful. There could possibly be a corollary role for some member bodies (again on a voluntary basis) in helping those firms review whether they have successfully implemented the guidance. But it cannot be for member bodies to develop processes and guidelines and seek to impose them on audit firms.

We therefore urge the IAESB to think again and to redraft and redevelop the material here as guidance notes for audit firms regarding engagement partners only. We would be willing to give our views on such guidance in due course but ICAEW cannot support the creation of a new IES 8 as described here, that of an education standard where responsibility lies with member bodies. All of our following answers to the specific questions asked by the exposure draft must be read with this in mind. We have tried to engage with each of these questions on their merits but those questions are drafted from the assumption that there will be a Standard, which we strongly advise against.

**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?**

The proposed change does provide greater clarity where, but only where, it focuses on the engagement partner. We agree with the rationale given that the engagement partner is the person held responsible for the quality of an audit. We also agree with the outcomes approach.

However, even leaving aside the Standard versus guidance argument, the proposed Standard fails at those points where it refers to 'aspiring engagement partners'. This weakness is fundamental and undermines the whole approach. The meaning of 'aspiring engagement partners' is completely unclear and its inclusion re-introduces the ambiguity and confusion that had been successfully removed by the deletion of 'audit professional' and 'significant audit judgement' in this iteration. In our opinion, the scope of any new publication should not go beyond engagement partners. We strongly recommend removal of the phrase 'aspiring engagement partners and serving' in paragraph 1 and consequential amendments where necessary, including the removal of paragraph A4.

The focus of the 'Standard' should also be on auditing only and we recommend that the second sentence of paragraph 8 be replaced with the wording used in the explanatory memorandum on paragraph 1 of page 6, namely: 'Although this IES applies to audits of financial statements, the prescribed learning outcomes may also be helpful when performing audits on other historical financial information in compliance with the ISAs or other types of assurance and related services.'

**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, Table A does provide reasonable clarity but improvements could be made. For instance, with respect to proficiency levels, in some areas the level should be increased from Intermediate to Advanced:

1. Business and organisational environment: the understanding of the business is a critical part of the audit.
2. Business laws and regulations: considering relevant laws and regulations is a key part of the audit.
3. Finance and Financial Management: the second outcome references the assessment of going concern which is a major and valued part of the audit and is being given enhanced emphasis in the current auditor reporting discussions.

We would also highlight that some of the technical competencies described, and some of the professional skills, are most clearly at a level of proficiency that cannot be delivered by member bodies and must be acquired through considerable further experience within audit firms. For instance, the following competencies/learning outcomes in Table A: (a)(v) and (a)(ix) on the audit of financial statements; (c)(ii) on governance and risk management; (h)(ii) on business laws and regulations; and

(i)(iv) on finance and financial management. This underlines the point that member bodies cannot be held responsible for ensuring compliance.

Furthermore, we suggest in the learning outcomes under 'Audit of financial statements' the inclusion of 'direction, supervision and review' and also 'carrying out of Engagement Quality Control Review (EQCR)'. There may also be a case for including the ability/experience to enable the engagement partner to comply with ISQC 1 paragraphs 23b(i) and 23c concerning independence requirements.

There are two additional deficiencies with Table A. Firstly, it is drafted as if the engagement partner will personally undertake all the functions described. This overlooks the role of the engagement partner in selecting and leading the audit team. Secondly, with the exception of complex audits, the proposed Standard lacks explanatory material on how to achieve the stated learning outcomes.

**Question 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?**

Yes, generally we find Appendix 1 useful. However, as we have remarked in responses to the exposure drafts on IES 2 and 3, we continue to see the criterion of 'mastery' in Appendix 1 as problematic. While there is arguably more basis for its inclusion in IES 8 (which is aimed at partners, rather than IES 2 and IES 3 aimed at students), its inclusion still has the unfortunate effect of de-valuing the preceding three stages of Foundation, Intermediate and Advanced and setting a threshold that might be interpreted as perfection.

**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)?**

We understand the logic for covering more complex audits in the Standard in order to emphasise that they may require higher or extra competencies, however we suggest that this could be addressed by referring to ISQC 1's requirements for these types of engagement. Some examples could be given in implementation guidance. We also suggest the removal of the last sentence in A38 about 'greater levels of professional judgement or professional scepticism', because paragraph 15 of ISA 200 requires scepticism (not a degree of) for all audits.

We do, however, have some comments with the distinction that is made with regard to 'more complex audits'. While we recognise that the primary public interest concern lies with public interest entities and that higher minimum proficiency may be justified here, we feel it may be too simplistic to generally equate the size of the audit with its complexity and risk. Larger companies will also have more internal control mechanisms and allied resources and so a smaller company might actually turn out to be a more complex (and risky) audit from the perspective of the auditor.

There is also a danger that the proposals here deliberately or inadvertently describe a 'league table' of auditors, where some engagement partners are lauded as having the superior abilities to tackle complex audits but others are viewed as being less well-equipped and more junior. Within the UK at least, the legal position is that one is either a qualified statutory auditor or not; there are not degrees of qualification and licensure.

**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?**

No.

Paragraph 5 outlines the four assumptions upon which the proposed Standard is based, yet the third assumption in paragraph 5(c) appears to be one that many small firms could not meet by definition if they are sole practitioners where the principal may not work within a wider engagement team. There also appears to be a conflict in the Standard between paragraph 5 and paragraph A7.

Cost and proportionality could be better addressed. While the larger firms are more likely to have the infrastructure and resources to promote adherence (and generally speaking will have large and complicated audits), smaller firms and sole practitioners may not have this (and may have smaller and simpler audits). The obligations in the proposed Standard could damage the small audit firm and sole practitioners with more modest audits who may feel it is no longer commercially viable to operate in this space.

**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)?**

Yes. Fundamentally, we do not think IES 8 should remain a Standard but rather that it should become voluntary guidance for those audit firms that want it.

While constitutionally the IAESB should direct its Standards/publications to member bodies, in IES 8 it is presently framing a Standard which requires the active lead of other parties such as audit firms.

The scope of the Standard is flawed through the focus on 'aspiring engagement partners' who have no clear identity.

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

This would very much depend on who the guidance was issued for. We would require clarity on this to provide more detailed comment. We can see some merit in the IAESB developing guidance on how the learning outcomes could be achieved. But fundamentally, as we have remarked above, there remains a core tension over the audience to which IES 8 is directed.

**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?**

Please see our answers to Questions 6 and 7. We doubt that implementation guidance is appropriate for member bodies. The entire Standard should be reconstituted as guidance for those audit firms that would wish to take advantage of this.

**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)?**

There might be some benefit in certain audit firms receiving such competency model guidance but it is likely that many firms, especially larger firms, will have their own tailored programmes to support and reflect the type of audit that they do and will have less use for a generic model.

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

No. It cannot be the role of IFAC member bodies to provide engagement partners with the professional development required to perform their role, given the period in their career when most individuals will assume this role. Nor can it be the exclusive, or even major, role of member bodies to guarantee that an engagement partner has achieved the professional competence for their role.

While paragraph 7 accepts that there are many other stakeholders involved in the establishment of an engagement partner, the proposed Standard does not give appropriate recognition to this. The explanatory memorandum mentions a new requirement for IFAC member bodies on professional development programmes. As per our response to the previous exposure draft, we suggest that the firms have primary responsibility here and this is covered by ISQC 1. Paragraph 7 would benefit from referencing ISQC 1, as these matters are covered in the Human Resources requirements of that Standard (ISQC 1 paragraphs 29-31). We believe that these ISQC 1 requirements are at the heart of what IES 8 is trying to achieve. Again, in paragraph 14, we suggest that the onus should be on the firms doing what is needed.

It is the role of member bodies to ensure the initial professional development of engagement partners, to monitor their on-going CPD compliance and to register them for signing rights in due course. But the pivotal role of the firm in developing the engagement partner in line with the proposed Standard cannot be underplayed in the way it would be by an IES 8 directed as a Standard for member bodies.

For instance, ICAEW's audit regulations require that: 'A registered auditor must make arrangements so that all principals and employees doing audit work are, and continue to be, competent to carry out the audit for which they are responsible or employed.' This places the emphasis of competence with the firm and is consistent with the requirements of ISAs and ISQC 1.

Paragraph 12 therefore needs to be rephrased accordingly, and this yet again raises the question about whether the material in IES 8 is best configured as a Standard or as guidance. A possible re-working of paragraph 12 would be as follows: 'The objective of an IFAC member body is to ensure engagement partners have obtained the professional development required to perform their role.' However, even where the member body has the authority to register an individual engagement partner to sign audits in a particular territory, it is highly unlikely that the member body would be able to check a candidate's background in the detail required by the Standard.

With regard to paragraph 15, we do not agree that member bodies should be responsible for the sufficiency of the training environment for an individual who will take on the role of engagement partner beyond the point of qualification as a professional accountant.

**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?**

The general point remains about whether the elements are in fact best phrased in terms of requirements. That aside, yes in general. However, there is a need to reflect in the Standard that there could be different local circumstances (audit requirements and laws) but within a consistently applied framework.

**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.**

No.

**Comments on other matters:**

We would suggest that the 'Effective Date' section recommends that implementation of the revised standard be at the next professional development review rather than July 2015. This would be a more realistic deadline for many member bodies and would prevent the danger of mass non-compliance.

It is currently unclear what IAESB's view is on the frequency or timing of assessment activities referred to: for instance, it is envisaged this would be only prior to appointment or on-going?

A1: Typo on line one, delete 'the requirement'.

A6: We would welcome some clarity on what is being proposed. If, despite our objections, there is to be a Standard with requirements, we would be against a watering-down of the requirements just because the jurisdiction has more SMPs (if this is the suggestion) and feel that it is much more appropriate to ensure that the requirements are the same but can be tailored to circumstances.

A7: b) should be inserted before 'role of firms'. This paragraph highlights why the onus may have to be with firms, subject to member body monitoring (a point we support and make repeatedly above).

A13: We support the point about the danger of over-engineering processes and suggest that it could be emphasized further, possibly in implementation guidance.

A14: We support the last sentence but this should not be a requirement, which could be implied by paragraph 8 in the Standard.

A22: We feel that this should be discouraged, as per our response to question 11.

A24: Suggest replacing 'frequently' with 'always' in the first sentence.

A25: Suggest deleting 'the appropriate degree of' in the second sentence. Para 15 of ISA 200 just requires scepticism (not a degree of) for all audits. The last sentence of A25 is unnecessary and we would suggest it be deleted. The key thing is that the ISAs require scepticism on all audits, irrespective of how complex they are.

A26: Agreed and helpful to include. This could be picked up in implementation guidance.

A35: Suggest replacing 'may' with 'should' both times.

We hope that the above points are helpful. Please contact Jonathan Jones, Head of Policy & Strategy on [jonathan.jones@icaew.com](mailto:jonathan.jones@icaew.com) or +44 (0) 1908 248292 if you would like any further clarification or information about our views.

Yours sincerely



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## Appendix

8 June 2010

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Dear Sir / Madam

### **Consultation paper on the revision of International Education Standard 8**

We welcome the consultation paper on the revision of IES 8 *Competence requirements for audit professionals*, particularly in its aims to clearly set out the objective of the standard and eliminate ambiguity about the requirements.

Our overall comment is that the standard needs to be appropriate to apply to a very wide range of audit situations, and that there is therefore a risk of over-complication and misinterpretation. Other IESs relate to training in accountancy and are not so specific to particular roles or to types of work. There is a major risk of a revision to IES 8 introducing an inappropriate licensing system with various competences relating to a wide range of different audit scenarios. Identifying the required competences for individual audit professionals would be extremely complex and the resulting restriction on firms would be unacceptable.

Clarity of the objectives of the standard and the adoption of a principles-based approach is, in our view, the way to reduce this risk.

We believe that IES 8 should be reclassified as a guidance document for firms.

Our answers to your questions are as follows.

#### **A. Do you consider that the IAESB has identified the critical issues in respect of 'whom' the IES 8 requirements are aimed at?**

Yes. It is clear that, unlike other IESs, IES 8 is aimed at IFAC member bodies, audit firms and regulators. However, it is our belief that the standard should be a guidance document aimed at firms: firms have responsibility for appointing a competent team to carry out an audit, as is set out in ISA 220 and ISQC 1.

**B. Would expansion of the 'Audit Professional' definition cause concern, or would you broadly support this approach? Are there any additional factors that you think the IAESB should consider including as part of this definition?**

We would be concerned if the definition of an 'audit professional' were expanded. The current definition within the standard is, to our assessment, already open to a wide interpretation and moreover sets higher requirements for those signing statutory audit reports, those acting as engagement partners and those working in specific industries.

We would see an audit professional as a senior member of an audit team, either the auditor who is personally responsible for signing the audit report or someone with the capability to take on this role. We recognise that in very large firms or specialist audit firms there may be more professional accountants working as audit professionals and that, because of this, experienced (but less senior) staff may act as audit professionals.

We also recognise that there could be a difficulty in any attempt to regulate the proportion of audit professionals on an audit team, where firms make decisions about team composition based on the type of engagement and level of risk.

**C. Do you agree that any revision of IES 8 necessitates consideration of the use of the term 'significant judgment'? If so, what advice would you give the IAESB on this matter?**

Yes. Our view is that the term 'significant judgement' should be removed from the standard. We believe that the inclusion of this term takes away from rather than adds to the clarity of the IES. There is not an agreed view on what constitutes a 'significant judgement' and no likely prospect of reaching agreement given the number of variables, including the size of the firm, the nature of the audit work to be performed, the decisions concerning the importance or materiality of the results of audit work or decisions about the form of the audit conclusion. There is also the potential for further confusion with certain ISAs over how they define a significant judgement. In our view, an audit professional would be better defined through meeting the educational criteria set by IES 8, but with no reference to the making of significant judgements.

**D. Are there any additional considerations that you would like the IAESB to consider when clarifying guidance on shared responsibilities among the stakeholders identified above?**

We suggest that it might be helpful for the Exposure Draft to offer additional clarification and guidance on the respective division of responsibilities among stakeholders for ensuring compliance with the Standard.

We suggest that a revised standard should be clearer that individual auditors bear a personal responsibility through their ethical codes and CPD obligations to ensure that they have the required knowledge and skills to perform their duties.

The responsibility of firms is to appoint a competent team to conduct the audit. Firms should have processes in place to ensure that the person leading the team – the 'audit professional' or engagement partner – has the required skills. Firms consider both technical skills and management skills when appointing engagement partners.

The role of regulatory bodies should be to ensure that firms have policies and processes to ensure the competence of those appointed as engagement partners, and to assess the quality of completed audits.



**E. In considering the question of ‘advanced level’ competences, do you believe that the IAESB has identified an area that requires further clarification? If so, how would you advise the IAESB to approach this matter?**

No: we believe that the competences required of audit professionals are sufficiently clear in the current standard. We would not support the development of additional competences for all audit professionals; the range of types of audit and situations is in our opinion too wide for this to be a practical or useful development. Professional accountants and auditors are already subject to a code of ethics which requires them to restrict their activities to those areas where they are competent, and this demonstrates the possibility that a principles-based approach is more appropriate. There are also other requirements (in ISA 220 and ISQC 1) about consultation and these assist in deploying an enhanced range of competences on an audit.

**F. How would you guide the IAESB during its consideration of appropriate types and levels of competences?**

We would guide the IAESB away from further work in this area. We think there is a real risk of developing a revised standard which is over-complicated and burdensome.

**G. Do you believe that the IAESB should address competences for different types of audit engagements? If so, what types of audit engagement should the IAESB consider? Should these examples be limited to transnational and specialized engagements?**

No. As stated above, the types of audit engagements vary so widely that the standard would become unwieldy and bureaucratic were this to happen. While we recognise that transnational audits may be a special case, we would caution against the development of a series of additional competences for different types of audit engagement.

**H. Are there any other definitional inconsistencies that you would like the IAESB to consider?**

We agree that IES 8 should indeed be consistent with ISAs and ISQC 1 (see our answer to question E).

We believe that it could be helpful for the Exposure Draft to offer additional clarification and guidance on the respective division of responsibilities among stakeholders for ensuring compliance with the Standard (see our answer to question D).

**I. Do you agree with the IAESB’s approach to eliminating inconsistencies?**

We welcome the IAESB’s approach to identifying inconsistencies, but it is not clear to us from this paper how it is intended to resolve them. We would welcome further detail in regard to, for instance, how it is planned to resolve the fact that IES 8 applies to individuals whereas ISAs and ISQC 1 apply to teams.

**J. Are there any other areas you consider to be specific issues that you would like the IAESB to consider as part of its revision of IES 8?**

Three additional issues:

Paragraph 57 of IES 8 currently states that practical experience gained for the purposes of meeting the requirements of IES 5 may ‘contribute’ to meeting the requirements for an audit professional. We believe this would be improved by stating that it may ‘contribute *significantly*’.

We would welcome additional clarity in Paragraph 58 of IES 8 that two years’ personal experience in the area of audit is not mandatory for someone to assume the role of an audit professional. To explain, in a European Union context, EU law requires someone seeking eligibility to act as a statutory auditor to

have spent two years within a firm of registered auditors but not necessarily to have personally undertaken two years' audit experience. IES 8 might therefore be wrongly interpreted as requiring member bodies to increase the experience required by law for those training to become audit professionals.

The wording of Paragraph 69 of IES 8 suggests that an audit professional who is signing a statutory audit report would be required to have additional experience beyond that specified in IES 8. We do not see why this should be automatically so and feel that compliance with the normal audit professional requirements may be sufficient.

**K. Finally, do you foresee any impact on your organization or the wider profession of the IAESB's proposed changes to IES 8?**

The answer to this question depends very much upon the content of the revised standard. We would welcome improved clarity, but not the creation of additional requirements for audit professionals.

We hope that the above is helpful and we look forward to the forthcoming Exposure Draft. Please do not hesitate to contact Jonathan Jones, Head of Policy and Strategy, Learning and Professional Development on [jonathan.jones@icaew.com](mailto:jonathan.jones@icaew.com) or +44 (0) 1908 248292 if you would like any further clarification or information about our views at this stage.

Yours faithfully



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