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Dear Mr McPeak,

Re: FEE Comments on the IAESB Exposure Draft on the Proposed IES 8 Professional Competence for Engagement Partners Responsible for Audits of Financial Statements (Revised)

FEE (the Federation of European Accountants) is pleased to provide you below with its comments on the Proposed IES 8 Professional Development for Engagement Partners Responsible for Audits of Financial Statements (Revised).

FEE has always supported the IAESB's project to improve the clarity of its standards and welcomes that the revision project is now at its final stage, which will give the IAESB the opportunity to pause its standard setting activities. The revision is the opportunity to introduce improvements, in particular we commend the IAESB for having adopted a learning outcomes-based approach rather than prescribing knowledge content as indicated in the extant IES 8.

Responses to questions

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

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

According to paragraph 9, 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 CPD.

Generally, this objective statement indicates that IES 8 addresses CPD requirements for audit engagement partners, which is a first step to understand what IES 8 is about.

The objective statement becomes clearer when read in conjunction with paragraph 10: “IFAC member bodies shall require professional accountants performing the role of an engagement partner to undertake CPD that maintains and further develops the professional competence required for this role. Such professional competence is demonstrated by the achievement of the learning outcomes listed in Table A.”

This indicates that IFAC member bodies – if they should be involved in monitoring and enforcing CPD in their country – would have to ensure that audit engagement partners follow specific CPD requirements, which exceed the general CPD requirements prescribed by IES 7.

Although the objective and the requirement are theoretically sufficiently clear, they give rise to some questions about how to put them into practice. Furthermore, as far as IFAC member bodies in the EU are concerned, the legal framework in the EU needs to be considered.

a) Audit engagement partner

Table B of IES 8 refers to the engagement partner definition in ISA 220, according to which an engagement partner is the partner or other person in the firm who is responsible for the audit engagement.

Generally, it is at the disposal of an audit firm to designate an audit engagement partner, which is done for each audit engagement.

The information that someone has become engagement partner for an individual assignment is in general not separately forwarded to an IFAC member body, which makes it difficult for an IFAC member body to assess which professional would be subject to the specific CPD requirements outlined in IES 8. Statutory auditors in the European Union need to be approved and registered with a competent authority, which does not necessarily need to be an IFAC member body. Even if this should be the case, an IFAC member body would initially only dispose of the information that a statutory auditor is approved and registered, which usually takes place after the qualification as a statutory auditor. However, this is not automatically the point in time, where a qualified statutory auditor becomes an engagement partner in a firm.

Therefore, in order to fulfil the task of monitoring and enforcing the specific CPD requirement of IES 8, IFAC member bodies would face the practical challenge to establish procedures to gather the information which qualified professional is an audit engagement partner or extract such information from other files where available.

b) Requirement to undertake CPD

For statutory auditors in the European Union, the EU Statutory Audit Directive requires Member States to ensure that statutory auditors are required to take part in appropriate programmes of continuing education in order to maintain their theoretical knowledge, professional skills and values at a sufficiently high level. Failure to respect the continuing education requirements needs to be subject to appropriate penalties.

This CPD requirement applies to all statutory auditors in the EU, apart from that, there is no specific CPD requirement for audit engagement partners in the EU.

IES 8 is, like all International Education Standards, addressed to IFAC member bodies. IFAC member bodies in EU Member States – where involved in CPD – could generally establish additional CPD requirements for audit engagement partners. However, the transposition of the EU Statutory Audit Directive is up to EU Member States. In cases where EU Member States would set out specific CPD requirements in their national law, these rules would prevail. In terms of wording, it should be noted that the EU Statutory Audit Directive is under review and that the revised version will most probably refer to key audit partners (“Member States shall ensure that, when the statutory audit is carried out by an audit firm, that the audit firm designates at least one key audit partner”), which would comprise the audit engagement partner, the group auditor or the signing partner.

Additionally, it needs to be considered that the ultimate responsibility for CPD in the EU lies with public oversight bodies, not with professional organisations, which limits the influence of IFAC member bodies on CPD requirements in the EU.

Furthermore, if organising CPD, professional organisations like the IFAC member bodies need to pay particular attention to competition law. A recent decision of the Court of Justice of the European Union highlighted that competition law was infringed when a professional organisation organised remunerated mandatory continued training for chartered accountants in a way that the training market became segmented.

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

Generally, IES 7 obliges IFAC member bodies to require all professional accountants to undertake CPD. According to IES 7, IFAC member bodies have to establish a systematic process to monitor whether professional accountants meet the CPD requirements and to provide appropriate sanctions. IES 7 allows output-based, input-based or combined approaches, but does not at all refer to the content of CPD. Insofar, it is up to IFAC member bodies – where involved in CPD in their country – to design relevant CPD programmes for professional accountants.

In contrast, IES 8 obliges IFAC member bodies to require from audit engagement partners specific CPD and sets out a long list of detailed learning outcomes regarding technical competence, professional skills and professional values, ethics and attitudes.

It would be challenging for IFAC member bodies to design programmes that would be appropriate to cover all those detailed learning outcomes. It would be even more challenging for IFAC member bodies to establish a systematic process to monitor whether audit engagement partners meet the specific CPD requirements and to provide appropriate sanctions in case of non-compliance. In the EU, IFAC member bodies would also need to consider that the ultimate responsibility for CPD for statutory auditors lies with the relevant oversight body and that competition law needs to be complied with (see response to questions 1 and 2).

Therefore, it might be worth re-considering whether such detailed learning outcomes need to be prescribed in IES 8. It may be more appropriate to keep the wording of the learning outcomes in the “Requirements” part of the standard more general and to include the detailed descriptions in the “Explanatory Materials”, using them as examples.

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

Yes. As the competence areas are comprehensive and if the learning outcomes are clearly described without too much detail (see response to question 3), the level of proficiency can after all be subject to the assessment system that is used on a national level.

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

See response to question 3: The wording of the learning outcomes in the “Requirements” part of the standard should become more general and the detailed descriptions should be moved to the “Explanatory Materials”, using them as examples.

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?

From the EU point of view, where most EU Member States are civil law jurisdictions, the legislator (“regulator”) should be on top of the figure.

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?

Considering that IES 8 focusses on CPD for audit engagement partners, the effective date would need to be specific regarding which audit engagements at which point in time are concerned.

The second sentence of paragraph A 12 of IES 8 (“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 CPD appropriate to the complexity of the audits in which they serve as engagement partners.”) may be perceived as discriminatory for SMPs and could be deleted. CPD requirements for engagement partners should not refer to less complex or more complex audits. Audits required under EU law should be carried out according to ISAs. The clarified ISAs can be used for audits of entities of all sizes, of all types, in all jurisdictions as they are proportionate.

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 this proposed IES 8 Exposure Draft (December 2013)?

See response to question 3: It would be challenging for IFAC member bodies to design programmes that would be appropriate to cover all those detailed learning outcomes. It would be even more challenging for IFAC member bodies to establish a systematic process to monitor whether audit engagement partners meet the specific CPD requirements and to provide appropriate sanctions in case of non-compliance. In the EU, IFAC member bodies would also need to consider that the ultimate responsibility for CPD for statutory auditors lies with the relevant oversight body and that competition law needs to be complied with (see response to questions 1 and 2).

Question 9. What topics or subject areas should Implementation guidance cover?

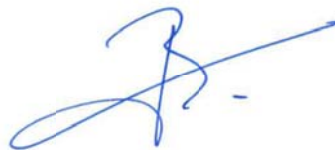
Although the proposed IES 8 appears to be comprehensive and even too detailed (see above), so that implementation guidance is not necessarily required, some examples of current practice might be helpful.

For further information on this letter, please contact Ms Petra Weymüller from the FEE team (email: petra.weymuller@fee.be, Tel.: +32 2 285 40 75).

Yours sincerely,



André Killesse
President



Olivier Boutellis-Taft
Chief Executive