

IAESB REQUEST FOR COMMENT: IES 8

INTRODUCTION

We refer to the IAESB request for comment issued in July 2012 for which comment is due on 11 December 2012.

We note that the proposed IES 8 identifies the role of engagement partner as one of the roles which a professional accountant might play, and is not specifically identified as a post-qualification specialisation. It follows, therefore, that the proposed IES 8 requires that professional development of an engagement partner is through CPD. However in some jurisdictions this role may be regarded as a specialisation (after qualifying as a professional accountant) with professional development through further education and training with attendant assessment. This is to be the case in South Africa where further 'professional' experience is required and where professional competence is assessed.

These introductory comments inform some of our responses to the questions posed by the IAESB.

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?

Yes

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?

We believe that the following amendments are required in terms of competencies and proficiency levels:

Table A (a) Audit of Financial Statements (i) "Evaluate the risk of engagement continuance or acceptance" - Recommend this be updated to refer to "client and engagement acceptance and continuance".

Table A (a) Audit of Financial Statements - Suggest additional learning outcome being ... " (x) Prepare an audit file to evidence compliance with the auditing standards, audit work completed, and conclusions reached"

Table A (g) Information Technology - Recommend the existing text under learning outcome "(ii)" be replaced with the learning outcome under "(d)(iii) – I.e. Evaluate the effects of any deficiencies in internal control and communicate those deficiencies to those charged with governance of an entity.

Table A (h) Business laws and regulations. Recommend learning outcome "(i)" be replaced with..." (i) Able to identify laws and regulations that could have a material impact on the financial statements. (ii) Develop an understanding of how the client manages the risk of non-compliance with laws and regulations. (iii) Prepares an appropriate audit response to address residual risk. (iv) Responds appropriately to instances of legal non-

compliance, by notifying those charged with governance and complying with any reporting obligations which may be imposed on the Auditor. Retain the IAESB's second learning outcome.

Table A (i) Finance and Financial Management – we believe that the minimum level of proficiency required for bullets (ii) and (iv) should be advanced.

Table A (i) Finance and Financial Management – we believe that the learning outcome (i) should be amended as follows....."Analyze the various sources of finance available to an audited entity to be able to understand the effect on the entity's going concern and plan appropriate testing and review procedures."

Table A (i) Finance and Financial Management – we believe that the learning outcome (ii) should be amended as follows....." Analyse an audited entity's financial position, historical financial performance, cashflow budgets, and forecasts as well as working capital requirements to assess going concern."

Table A Professional Skills (k) to (n) – We agree with the learning outcomes as defined. We realise that these learning outcomes are intended to build on the learning outcomes defined in IES3, but would recommend the IES3 outcomes be noted here once again.

Table A (n) Organisational – learning outcome (ii) makes reference to the need for the Auditor to initiate and manage change in audit strategy. We believe that there is scope to include a further learning outcome which will deal with the auditor's ability to manage all change as a learning outcome.

QUESTIONS 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

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)?

Yes

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 further comments

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)?

In South Africa, the responsibility for professional development of an engagement partner is not the sole responsibility of the member body. This responsibility is shared with the statutory body responsible for the audit and assurance function. The responsibility for CPD for an engagement partner is also shared with the licencing authority. Thus paragraph 2 of the proposed IES 8 is not entirely appropriate for SAICA (line 2: 'IFAC member bodies have responsibility for the professional development necessary to become an engagement partner'). It is likely that similar circumstances pertain in other jurisdictions.

The circumstances in South Africa make it impossible for the member body (SAICA) to comply fully with paragraphs 14 to 19 of the proposed IES 8 each of which requires that the member body 'shall' perform certain functions. In order to comply with these paragraphs the role of SAICA in the professional development and assessment of aspiring engagement partners and subsequent CPD for engagement partners would have to be fundamentally changed, and would not be appropriate in the circumstances which pertain in South Africa. It is suggested that, in jurisdictions where responsibility for the professional development and assessment of aspiring engagement partners is shared with the licensing authority, the member body should:

- be exempted from the implementation of IES8
- or alternatively that IES 8 place responsibility on the member body to satisfy itself that those aspects of professional development which are the responsibility of the licencing authority are being carried out by the licencing authority in accordance with IES 8

QUESTION 7: IF THE IAESB WAS TO ISSUE IMPLEMENTATION GUIDANCE TOGETHER WITH THIS IES (REVISED), WHAT WOULD YOU ENVISAGE THE GUIDANCE LOOK LIKE?

We regard guidance as to implementation to be desirable, particularly as this would promote consistency in implementation across member bodies.

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?

Refer to our response to question 7.

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)?

Yes

QUESTION 10: IS THE OBJECTIVE TO BE ACHIEVED BY A MEMBER BODY, STATED IN THE PROPOSED REVISED IES 8, APPROPRIATE?

Refer to our response to question 6

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?

Yes

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