

December 2012

For submission via IAESB website

ACCA's response to the IAESB Exposure Draft

IAESB Exposure Draft: Professional Development for Engagement Partners Responsible for Audits of Financial Statements (Revised)

ACCA (the Association of Chartered Certified Accountants) welcomes the opportunity to comment on the above. ACCA is the largest and fastest-growing global body for professional accountants with over 154,000 members and 432,000 students in 170 countries.

We aim to offer the first choice qualifications to people of application, ability and ambition around the world who seek a rewarding career in accountancy, finance and management. ACCA works to achieve and promote the highest professional, ethical and governance standards and advance the public interest.

General comments

ACCA fully supports IAESB's move towards principle-based standards and a learning outcome approach. As a professional accountancy body such an approach is more appropriate and useful than an input based model.

We also strongly support the proposed change in the standard to focus on the Engagement Partner. We believe this will make the standard more capable of consistent application and therefore contribute to the IAESB's overall objective to serve the public interest.

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, the proposed change to focus on the engagement partner does provide greater clarity and we believe it will improve the effectiveness and implementation of the proposed IES8.

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?

Generally Table A provides greater clarity on the competence areas as there is much more detail. However some specific comments on the learning outcomes are below:

- **(a) Audit of financial statements**
There should be additional learning outcomes on engaging clients and quality control.
(viii) – This should refer to ‘internal control’ significant deficiencies and matters to be communicated ‘to those charged with governance.’
Before (ix) on preparing an audit report, there should be a learning outcome on forming an audit opinion.
There should be a learning outcome on advising on the findings and implications of the audit.
- **(c) Governance and risk management**
(iii) ‘risks of material misstatements’ should refer to ‘of the financial statements.’ This also applies in (d)(i), (e)(ii), (f)(ii), (g)(i), (h)(ii) and (p)(ii).
- **(d) Internal control**
(iii) –This should refer to ‘significant’ deficiencies.
- **(e) Business and organisational environment; economics; business management**
Minimum level of proficiency should be changed to ‘Advanced’
(i) can be used to ‘obtain an initial understanding of the entity and its environment’ would be more in line with ISA 315 than used to ‘form auditor expectations.’

- **(g) Information technology**
This section could be deleted - these are just part of the general internal control aspects.
- **(h) Business laws and regulations**
There should be a learning outcome on advising on legal and regulatory obligations.
- **(i) Finance and financial management**
The finance and financial management outcomes seem artificially separated from the direct audit matters. In particular, (iii) (Analyse the components of the cost of capital to determine their appropriateness in the areas of interest) seems disconnected from the audit objective. Key performance indicators should be included in the learning outcomes. Identifying and monitoring financial objectives and performance measures.
- **(j) Management accounting**
Learning outcome (ii) could be subsumed in auditing outcomes.
- **(k) Intellectual**
(i) 'the assertions of entity management' needs to be clarified in relation to intellectual professional skills or moved to (p) Professional scepticism and professional judgment.
- **(m) Interpersonal and communication**
Include a learning outcome about establishing business relationships.
- **(n) Organisational**
Include a learning outcome on appraising others.
- **(p) Professional scepticism and professional judgment**
Learning outcome (iii) (role model) would fit better in (n) or (o).

- **(q) Ethical principles**
 - (i) This would be better to change to the five fundamental principles. Professional competence and due care could be merged with confidentiality added, as well as having confidentiality separate in (iii). A separate learning outcome on independence should be included.

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?

In relation to the proficiency levels in Appendix 1, 'assess' and 'approve' could be added to the indicative verbs for Advanced. This is consistent with what is used in Table A.

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)?

No - The general idea behind the requirement is sound but 'more complex' begs the question 'more than what?'. There could be confusion among members as to the definition of a more complex audit. Paragraph 19 has implementation problems as a requirement given this uncertainty over the definition of 'more complex'. We would suggest that Paragraph 18 is sufficient as a requirement and that Paragraph 19 is reworded as guidance. This then allows the issue to be dealt with as a continuum rather than two distinct categories.

Regarding more complex audits, it would be helpful to have more examples of activities of appropriate CPD in A39.

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?

The types of material introduced appear appropriate.

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)?

No significant issues - it is a matter of modifying our current arrangements rather than creating new systems, processes or programmes.

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

Examples of best practice may be more helpful than implementation guidance.

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?

If Paragraph 19 remains as a requirement relating to more complex audits, it would be helpful to have more examples of activities of appropriate CPD in A39.

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)?

Examples of current practice relevant globally would be helpful.

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

To 'provide' is too directive. Many member body direct to rather than provide. A suggested redrafting is as follows: *The objective of an IFAC member body is that engagement partners undertake the professional development required to perform their role.*

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?

We do not believe that Paragraph 19 meets the criteria identified by the IAESB as it is a sub-set of Paragraph 18.

There are some inconsistencies:

Para 12 refers to 'engagement partners' only, whilst Para 13 refers to 'individuals newly appointed to the role of engagement partner.' The competencies are the least expected of a newly appointed engagement partner but a current serving engagement partner should also ensure they still hold these competencies.

A17 refers to technical competencies of 'audit and assurance' and yet there is no reference to assurance in Table A learning outcomes.

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.

The definition of 'more complex' audits requires further clarification.

Comments on Other Matters

Translations—Recognising that many respondents intend to translate the final IESs for adoption in their own environments, the IAESB welcomes comment on potential translation issues noted in reviewing the proposed IES 8 (Revised).

Not applicable.

Developing Nations—Recognizing that many developing nations have adopted or are in the process of adopting the IESs, the IAESB invites respondents from these nations to comment, in particular, on any foreseeable difficulties in applying the proposed IES 8 (Revised) in a developing nation environment.

Not applicable.

Effective Date—Recognizing that proposed IES 8 (Revised) is a revision of extant IES 8, the IAESB believes that an appropriate effective date for the IES would be 15-18 months after approval of the final revised IES. The IAESB welcomes comment on whether this would provide a sufficient period to support effective implementation of the final IES 8.

The effective date is acceptable.

Detailed drafting comments

A6 is trying to say something but ends up saying nothing: 'A6. This IES does, however, recognize that there may be situations in which engagement partners operate within small- or medium-sized practices (SMPs), and may not progress through increasing levels of responsibility. In jurisdictions where SMPs are more common, the IFAC member body may consider how to set the professional competence requirements for newly appointed and serving engagement partners.'

Also SMPs are very common in ALL jurisdictions.

A7 'Most firms operate in a partnership structure' - This is not the case - most are sole practitioners. Avoid this construction which is not needed.

A8 – Delete 'accordingly' as A7 is not leading to that.

A8 makes claims without needing to do so – suggest deleting 'most' from 'Most professional accountants may never serve as engagement partners'

Inconsistent capitalisation throughout of IFAC member bodies/IFAC Member bodies.

In A15 IFAC can't assume that 'regulatory authorities have a responsibility to ensure that engagement partners have the learning outcomes expected of them

by the public, employers, and clients.' This construction is different to that in IES 2, 3 and 4 which refer to competence and not learning outcomes.

A24 inserts the word 'frequently' which may mean often within an audit or often meaning the majority of audits - the whole sentence can be deleted.

A25 – Suggest deleting 'Because all organizations are operating in an ever increasingly complex and uncertain globalized economy'. It does not add to the paragraph.