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Dear Sir,

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

BDO is pleased to have the opportunity to comment on the above exposure draft issued by the International Accounting Education Standards Board (IAESB). We have reviewed the exposure draft and are pleased that our initial concerns have been addressed in the most recent version. We set out below our responses to the IAESB's questions in the explanatory memorandum accompanying the exposure draft.

As noted in previous submissions, we support the IAESB's project to redraft and revise where appropriate all of the IESs in accordance with the clarity drafting conventions as set out in the Framework for International Education Standards for Professional Accountants.

Responses to specific questions

- 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, we consider that the change to focus on the engagement partner provides greater clarity and improves the effectiveness and implementation of the proposed IES 8 (Revised). In our response to the public consultation on the extant IES 8, we noted that the current focus on the Audit Professional role caused a lack of clarity in respect of 'to whom' this particular definition applied. In seeking to focus on the engagement partner we do regard this proposed version of IES 8 to be an improvement. However, we believe that for improved clarity, and in respect of any accompanying guidance that might be issued alongside IES 8, we believe it would also be helpful to have further guidance for detailed reviewers of audit files. Often, the role of the engagement partner is as a general reviewer of a file, and not a detailed reviewer of each working paper. From a professional services firm's perspective, it would be beneficial to have more guidance set out specifically for detailed reviewers of files.

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?***

It is our opinion that Table A of the proposed IES 8 (Revised) does not provide sufficient clarity with respect to the competence areas and levels of proficiency required of a newly appointed engagement partner.

In respect of competence areas:

From a professional services firm's standpoint, there is no recognition of those individuals between 'professional accountant' and 'engagement partner' and in this regard we note that formal education is only part of the progression to partner, with informal education and experience also playing a significant role.

In the proposed IES 8 (Revised) there are a number of competence areas with the same minimum proficiency level as previously exposed IESs; however the learning outcomes for the competence areas are different. While we appreciate that IES 2, 3 and 4 apply to all accounting professionals, and IES 8 (Revised) is engagement partner specific, this is confusing as it suggests that there are different learning outcomes for a number of competence areas at the same minimum proficiency level. There should be one single set of learning outcomes for each level of proficiency per competence area.

In regards to section (a)(ix) of Table A, we believe that the wording should be strengthened to '***Determine the*** appropriate audit report on the financial statements' from 'Prepare...'. The current outcome using the word 'Prepare' is more suggestive of writing the report once the type of opinion has been decided. Determine would be more indicative of making such a decision.

In regards to section (i)(iv) of Table A, we believe that this learning outcome should be moved to section (b). Financial instruments are no longer 'off-balance sheet' and not all financial instruments are entered into for the purposes of financial management, for example, operational trading purposes and as such this learning outcome appears to us to be more relevant to 'Financial Accounting and Reporting' than 'Finance and Financial Management'.

In regards to section '(g) Information technology' of Table A, we believe that these learning outcomes should be changed to allow consultation with an information technology specialist where appropriate, similar to that stated in section '(f) Taxation' competence area.

In regards to section '(p) Professional scepticism and professional judgment' of Table A, we agree that acting as a role model for aspiring engagement partners is key; however we feel that it is more appropriate as a learning outcome for the personal competence and as such should be transferred.

In respect of levels of proficiency:

There are four levels of proficiency per Appendix 1 (Mastery, Advanced, Intermediate, and Foundation). As 'Mastery' is not used within the revised IESs that have been exposed and based on the description given which we believe may relate only to a small group of very experienced individuals within the profession, we recommend that this level of competence is removed or that the guidance text make it clear that the inclusion of this proficiency level is only to demonstrate a progressive continuum within which the IESs sit.

In addition, we note certain of the competences have a minimum level of 'Intermediate'. Based on the progression from Initial Professional Development (IPD) to the engagement partner level that we would expect to see in our member firms, we believe that those competences that are not specialist areas, such as '(e) Business and Organizational Environment; Economics; Business Management', '(h) Business Laws and Regulations', '(i) Finance and Financial Management' and '(j) Management Accounting' should have a minimum competence level of 'Advanced', rather than 'Intermediate'. We consider that this would then reflect the difference in experience from those completing IPD up to engagement partner level.

Another concern for us is how soft skills are evaluated as these include a much more subjective element that is not easy to define. This could lead to inconsistent implementation among member bodies. Perception and interpretation of some 'soft skills' is likely to vary from person to person, for example what is considered to be an 'advanced' level of 'commitment to public interest'? Typically, such an assessment is made by firms during the evaluation and promotion process; however the application of this becomes difficult when it is mandated. We believe that measurement issues should not be a driver of skills that are believed to be relevant to a role; however if a certain level is specified for such a skill, objective assessment of whether that level has been achieved is difficult. In this regard, we believe that soft skills should be mentioned in general within the standard and the detail and evaluation should be included, instead, within the explanatory material. We also recommend that the implementation guidance should recognize that the definitions are not clear cut and cannot be measured with consistency or precision. IES 8 should clearly recognize that there is a level of discretion to be had when evaluating these competences. In retrospect, we believe this is something that should be considered for all the revised IESs.

A further point, and one we consider in hindsight to be applicable to the other IESs issued, is that the ISAs do not refer to 'competences' and therefore it is not clear how the competences in the IESs relate directly to the ISAs under which we audit.

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?*

Please refer also to our response for Question 2. We agree with the four levels of competence; however note that 'Mastery' is not used in the guidance so far. We believe that such an omission diminishes its usefulness in the context of the IESs.

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 revised requirements do not assist with clarity and implementation. We believe that the determination of complex or non-complex engagement is a firm decision relating to risk management and should not be regulated by the member bodies. We believe that some guidance on what constitutes a 'complex' or 'non-complex' engagement would be beneficial, but that this should not be prescriptive.

We agree that for 'complex' engagements the engagement partner may need additional professional development and will need to be adequately trained; however the form and content of that should be the responsibility of the firm or engagement partner to determine, not prescribed by standard.

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, we do not believe that the references provide appropriate coverage of the professional development needs of SMPs and believe that more guidance is needed in this specific area. For example, further guidance is needed in relation to the assessment aspect for SMPs. For a sole practitioner or a firm with a small number of partners it may be unrealistic to have formal testing.

We also question whether paragraph A32 of the explanatory material will lead to a double standard in competence levels of engagement partners for large engagements and small - medium sized engagements. We believe that this could give rise to the following issue:

Partners in the same firm specializing in different types of audits - would the engagement partner on the small or medium sized engagement, by way of the guidance in this IES, be held to a different level of competences than that of an engagement partner on larger engagements? We propose amending the first line of A32 so that, where it currently states:

'The professional competence required to serve as an engagement partner of small-and medium-sized entities may vary from those of an engagement partner for large entities.'

This should be restated to:

'The areas of focus in respect of the professional competence required to serve as an engagement partner of small and medium-sized entities may vary from those of an engagement partner for larger entities.'

We believe that on appointing an audit firm, a client of any size should expect a standard level of proficiency no matter the size of the firm engaged. The requirements and learning outcomes should be the same; however the method of delivery of the professional development may be different.

We also note that paragraph A6 states 'In jurisdictions where SMPs are more common...'; however, as noted above, we disagree that this should be a factor and suggest that the paragraph is removed.

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)?

For a successful implementation, we believe this IES requires competences to be mapped to internal firm training available and gaps identified and closed by either development of internal training or identification and utilization of external training. However, until the member bodies themselves have implemented any guidance on this IES we are unable to comment further on how this will impact our organization.

We do agree with the direction the IES has taken.

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

We would like to see more guidance on the ‘Practical Experience’ and ‘Assessment of Professional Competence’ aspects as the current guidance is limited. Ideally, this would include practical examples of successful implementations in various jurisdictions and the differentiating factors, but should not be prescriptive and should allow well developed bodies to keep the work that they have previously done if it is applicable to the implementation of this IES.

In addition, we believe that the inclusion of a matrix of the learning outcomes expected in Table A to use as a scorecard against which to measure engagement partners’ and aspiring engagement partners’ progress would be valuable. We would also welcome such a matrix for other roles on the engagement such as the detailed reviewer.

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?*

We would consider implementation guidance on ‘Practical Experience’ and ‘Assessment of Professional Competence’ useful to help us meet the requirements of this IES.

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)?*

We do not believe that we would need such competency models; however they would be useful to include in the implementation guidance as long as they were not authoritative as certain bodies and organizations have already started the development process.

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

On reflection, we feel that the objective could be better worded. The objective suggests that the member body will ‘provide’ the aspiring engagement partners with the professional development required. However in practice most member bodies do not provide such training. We feel, in hindsight, that this comment is also applicable to the other proposed IESs.

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, the criteria have been applied appropriately and consistently; however we feel that this may still not lead to consistency in implementation by member bodies. Judgement is subjective and as such, while we think this does promote consistency, achieving consistent results in practice will be challenging.

12. Are there any terms within the proposed IES 8 (Revised) which require further clarification? If so, please explain the nature of the deficiencies.

Paragraph 14 discusses the review of professional development programs by the International Federation of Accountants (IFAC) member bodies. As there is a lack of explanatory material in respect of what 'regularly review' means in practice for an IFAC member body, this may not be particularly meaningful. We believe that there should be more guidance as to an appropriate frequency for such a review. In addition, IFAC member bodies have less control over the continuing professional development (CPD) performed by engagement partners than of the IPD performed by aspiring professional accountants and therefore we also question what documentation their review would cover.

Comments on other matters

Schedule 1: Relationship between Experience, IESs, and the Role of an Engagement Partner

We note that the schedule only includes reference to IES paragraphs 13-16 however there is additional guidance that is not referenced, such as 'CPD for Those Serving as Engagement Partners'. We believe it is important to include all content of the IES in this schedule to illustrate the relationship stated. In addition, we note that role progression begins at 'Aspiring Engagement Partner'. In paragraph A8 in the Explanatory Material it notes that most professional accountants will not serve as an engagement partner and as such we believe that it would be helpful to instead align this schedule with the other IESs. In this case IES 1 - 6 would correspond with a role of 'Aspiring Professional Accountant', IES 7 and IES 8 (paragraphs 13 - 15) would correspond with either 'Professional Accountant' or 'Aspiring Engagement Partner' and IES 7 and IES 8 (paragraphs 16 - 19) would correspond with 'Newly Appointed Engagement Partner'.

CPD for Those Serving as Engagement Partners

We believe that paragraph 19 seems to be unnecessary due to the content of paragraph 18. We recommend that this section, in its final form, is moved to the explanatory material.

As noted in our previous comment letters, we would support the development of an electronically integrated set of IESs which when linked directly to an updated glossary would enable the user (online or offline) to navigate successfully the suite of IESs. This would remove the need for the placing of occasional definitions in the text of each IES and would also enable the user of each IES to have an immediate source of information rather than having to seek a glossary. We would also request that the IAESB consider moving towards having a consolidated set of IPD and CPD IESs to aid understanding, usage and implementation.

We would also support continuing efforts to improve the availability of translations in respect of exposure drafts and final pronouncements.

Please contact me should you wish to discuss any of these comments.

Yours sincerely,
BDO International Limited

Wayne Kolins
Global Head of Audit and Accounting