



European Federation of Accountants and Auditors for SMEs

International Accounting Education Standards Board (IAESB)
529 5th Avenue, 6th Floor
New York, New York 10017, USA
Attn. IAESB Technical Manager
Brussels, 11 December 2012

Dear Sir

Comment on IAESB Exposure Draft IES 8, Professional Development for Engagement Partners Responsible for Audits of Financial Statements (Revised)

The European Federation of Accountants and Auditors for SMEs ("EFAA") represents accountants and auditors providing professional services primarily to small and medium-sized entities ("SMEs") both within the European Union and Europe as a whole. Constituents are mainly small practitioners ("SMPs"), including a significant number of sole practitioners. EFAA's members, therefore, are SMEs themselves, and provide a range of professional services (e.g. audit, accounting, bookkeeping, tax and business advice) to SMEs.

EFAA appreciates the opportunity to comment on the IAESB Exposure Draft ("ED") IES 8, Professional Development for Engagement Partners Responsible for Audits of Financial Statements (Revised).

General comments

We welcome the move towards Professional Development Requirements but have some general comments about wording and terminology. In particular, we challenge the use of the compound noun "learning outcomes". What does this really mean and what would a reader of this ED understand from it? Is there a difference between an outcome and an objective in practical application? If there is, it would be helpful to clarify what this difference is, particularly as this is what is subject to assessment.

We also note that the title of the extant IES has been changed because "the proposed amendments to the title reflect the IAESB's views that the term, professional development, represents more accurately the progression of competence development which is needed for those aspiring to the role of the engagement partner within the context of a team". That said, the major focus in paragraph 5 is on "professional competence", the term used in extant IES 8 and supposedly left behind. There are inconsistencies in this ED that we believe need to be resolved.

Request for Specific Comments

Our comments on specific matters are set out below.



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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?

We generally agree with the arguments proposed in the explanatory memorandum and in paragraph A2 of the explanatory material that the engagement partner is the “one common role within the engagement team irrespective of the nature, complexity, size or type of audit”. To that end it appears appropriate that the focus in IES 8 is on the aspiring and the serving engagement partner.

In this respect we would agree that it provides greater clarity.

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?

Table A is pitched well and neatly summarises a range of competence areas with proficiency descriptors. Whilst we are of the opinion that it probably suits a much larger accounting practice it has sufficient flexibility within it so that it can be adapted for all. That said, it may be of value to preface the table with an explanatory paragraph that recognizes that Table A sets out the expected learning outcomes but that the competences required are not necessarily the same for all engagement partners in every size of practice and for all audit engagements. There may be circumstances where an engagement partner in an SMP requires different competences and different levels of competence from those operating in a very large firm engaged on mainly large and international audit clients. An explanation of this circumstance would be of value.

We have some reservations as to the determination of the “Minimum Level of Proficiency” as we believe that the lower boundary of acceptability depends on the context. Such minimum levels would change from engagement to engagement depending on the size and nature of the audited entity. Ultimately it is for the engagement partner and firm to determine the required level of Proficiency. For example, in the audit of an entity that has inventory, judgement on its valuation often references the costs of production. In such circumstance, one could quite easily conclude that the Minimum Level of Proficiency for Management Accounting should be “Advanced”.

Stakeholders may be surprised that certain competencies are required at less than an advanced level. Table A actually determines that the minimum level attributed could be as low as “Intermediate” in some circumstances. In contrast, it may also be the case that some audits are so complex and so specific that the proficiency level must actually be that of “Master”.

Therefore, we question whether the actual classification should be one of “Minimum Level of Proficiency” when in fact what is required under the ISAs (International Standards of Auditing) is for the engagement partner to be able to exercise professional judgement. This means (as defined within the glossary of the ED from ISA 200 paragraph 13(k)) that the engagement partner should apply “relevant training, knowledge and experience within the context provided in auditing”.

To our mind the term “relevant” is the most significant criteria as the level of competence required in every engagement is that which is relevant. This is ultimately a matter of judgement for the engagement partner and the firm with reference to the engaging entity.



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- 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?**

The clarification is adequate subject to our comments made in response to question 2 above.

- 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, although it seems an obvious statement to make and is perhaps unnecessary unless it is the intention of IAESB to provide further guidance on this issue at a later point in time.

We are unclear as to the purpose of the titles/subtitles below the title "Requirements" which state Professional Accountants who are aspiring to be, or are newly appointed to the role of, Engagement Partner (Ref: Para A16 to A35) and Expected Professional Competence (Ref: Para A16 to A26). The purpose of this text should be either clearly explained or the text removed.

- 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 whole issue for SMPs is one of relevance. In general, though not in every case, audits performed by SMPs tend to be less complex. SMPs recognise that this is the case. It is also clear that SMPs offer different career paths, which can often accommodate, though not always, less formal routes to partner progression. This is because smaller practices can make use of less formalised structures which they deem to be more fitting to their circumstances.

As we have stated above we are of the opinion that Table A probably suits a much larger accounting practice. It may be of value to preface the table with an explanatory paragraph that recognizes that Table A sets out the expected learning outcomes but that the competences required are not necessarily the same for all engagement partners in every size of practice and for all audit engagements. An engagement partner in an SMP often requires different competences and different levels of competence from those operating in a very large firm engaged on mainly large and international audit clients. We have already explained that we believe the appropriate criteria should be that of relevance and not one of "Minimum Level of Proficiency". What is required under the ISAs is for the engagement partner to be able to exercise professional judgement. We believe that the term "relevant" is the most significant criteria as the level of competence required in every engagement is that which is relevant and this is particularly fitting in an SMP environment.

- 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)?**

We are not aware of any but what we should say is that in certain jurisdictions the requirements are set out in law.



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

Firstly we should say that as a general rule we welcome any guidance that ultimately assists and results in better implementation of a standard and there have certainly been examples where detailed checklists or case studies have proved of value. However, as an overarching principle, we believe that it is for the IAESB (through liaison with IFAC Members and the IFAC Compliance Advisory Panel) to determine what (if any) implementation issues exist and to address those. Before implementation guidance is created, however, there needs to be consideration (and disclosure) of why that is appropriate in the light of its anticipated impact.

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 refer to our response to question 7 above.

As outlined in the introduction paragraph to this letter, EFAA is an umbrella organisation and hence it is not possible to answer this question for a particular jurisdiction. What is clear is that the question raises a very important point as the value of any resulting guidance could ultimately be determined by the extent to which it is relevant in a particular jurisdiction. This should be taken into account when assessing its cost/benefit.

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 should be provided as a resource.

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

The objective is not appropriate because the IFAC member body cannot achieve it in isolation. It is the responsibility of the aspiring engagement partner, his firm and potentially other stakeholders to attain an appropriate level of competence. The ED itself acknowledges the responsibilities of others (paragraph 7) but the link between the objective and the requirements is unclear.

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?

If the intention is to promote consistency of implementation then the requirements should be specific and unambiguous. However the objective of the IES is to provide engagement partners with the professional development required to perform their role and it is of course possible that there is more than one way of doing this. We have already outlined the specific issues that SMPs face and these and such differences must be accommodated.



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

We are not aware of any.

Comments on Other Matters

Translation and implementation

We suggest that a period of two years would be advisable in order to enable the necessary changes to be accommodated.

Explanatory Material – paragraph A1

The text needs amendment as it currently reads as follows:

“This IES builds on requirements ~~the requirement~~ for the development”.

Input from other stakeholders

Despite the difficulties in obtaining feedback from those not directly affected by these proposals, we believe that input from stakeholders, such as audit regulators, would be valuable.

I trust that the above is clear but should you have any questions on our comments, please do not hesitate to contact me.

Yours faithfully,

Federico Diomeda
Chief Executive Officer