

Mr. David McPeak  
Senior Technical Manager  
International Accounting Education Standards Board  
277 Wellington Street West, 4<sup>th</sup> Floor  
Toronto, Ontario  
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11 December 2012

Dear Mr. McPeak:

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

Ernst & Young Global Limited, the central entity of the Ernst & Young organization, welcomes the opportunity to offer its views on the Proposed International Education Standard 8 (the Standard), issued by the International Accounting Education Standards Board (the Board).

**Overall Comments**

We support the efforts of the Board to set continuing professional development for engagement partners responsible for the audits of financial statements for IFAC member bodies to impose on their members. We also support the change in focus to the one common role within the engagement team – the engagement partner – irrespective of the nature, complexity, size, or type of audit. In addition, we support the learning outcomes focus instead of prescribing subject areas.

Since the objective of this standard is directed to member bodies, we believe that additional explanatory materials are necessary to explain how this standard should be used by various stakeholders (member bodies, firms, and license regimes). In addition, we believe the objective of the standard should be revised. See Question 10 below for additional details.

Responses to the specific questions on which the Board is seeking feedback are set out in Section 1 below. Our other comments, including general editorial comments, are set out in section 2.

**1. Specific questions related to the proposed revisions to the Standard**

**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, we believe the proposed change to focus on the engagement partner provides greater clarity and will improve the effectiveness and implementation of IES 8 because the role of an engagement partner is widely understood and identifiable in the profession.

**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?**

Yes, we believe Table A of the proposed IES 8 on learning outcomes provides clarity with respect to the competence areas and levels of proficiency expected of a newly appointed engagement partner. However, we challenge if the term learning outcome is the most accurate way to describe or categorize these outcomes. Oftentimes, the learning outcome described is obtained or learned through “on the job” experience. We suggest that the term learning outcome be changed to observable outcome. We believe this change will reflect the fact that learning outcomes will not always be obtained in a classroom setting, which is what may be implied by the word “learning”.

There are no additional learning outcomes that we would expect to see included in paragraph 13, Table A. In a few cases, we believe that certain learning outcomes should be eliminated or combined. We offer the following suggestions:

- The learning outcome (a) (i) Evaluate the risk of engagement continuance or acceptance does appear to be a learning outcome. Rather, this is a competence that is developed through experience, and not necessarily through formal learning. In addition, we believe the terminology in this learning outcome should be revised to agree with the International Standards on Auditing (ISAs). The ISAs use the term client and engagement acceptance and continuance.
- The learning outcome (a) (i) Evaluate the risk of engagement continuance or acceptance seems very similar to learning outcomes (a) (ii) Evaluate the audit risk profile of an engagement in respect of components of audit risk and (a) (vi) Identify and assess the risks of material misstatement of the financial statements, including fraud or error, and customize the audit strategy accordingly. We suggest that these learning outcomes be reviewed and combined to eliminate duplication. In addition, the term audit risk profile in (a) (ii) is not used in the ISAs. Therefore, we suggest this terminology be revised to use a defined ISA term.
- We suggest that learning outcome (b) (ii) should be revised as follows: Evaluate the selection of accounting policies to determine whether ~~an~~ the entity has adopted and applied and disclosed them as required by the relevant financial reporting framework.
- The reference to financial situation in learning outcome (b) (iii) makes it unclear as to what is being addressed with this learning outcome. Therefore, we suggest the learning outcome be revised as follows: Assess the reasonableness of financial statements when compared to the understanding of the business and operating environment of ~~and financial situation of an~~ the entity.
- We struggle how the learning outcome (c) (ii) relates to the requirements of a financial statement audit. Therefore, we suggest the learning outcome be revised as follows: Evaluate corporate governance ~~structure, tools~~ and risk assessment process to identify risks of material misstatement affecting an entity.
- The term risk management process in learning outcome (c) (iii) Consider an entity’s risk management process and the way it is monitored as part of the assessment of risks of material misstatement is not used in the ISAs. Therefore, we suggest this learning outcome be revised to agree with the ISAs. The ISAs use the term entity’s risk assessment process.
- We suggest that learning outcome (d) (ii) be revised as follows: Evaluate tests of operating effectiveness of controls performed.

- We suggest that learning outcome (d) (iii) be revised as follows: Evaluate effects of deficiencies in internal control and communicate significant deficiencies in internal control to those charged with governance of an entity.
- The reference to auditor expectations in learning outcome (e) (i) is confusing and misleading because this is the only learning outcome that references auditor expectations. Therefore, we suggest this learning outcome be revised as follows: Analyze relevant industry, regulatory and other external factors (e.g., market competition, product technology, environmental requirements) that are used to inform ~~auditor expectations~~ audit risk assessments.
- The learning outcome (g) (i) should be split into two separate outcomes as follows: 1) Evaluate the information technology (IT) environment to identify controls that relate to the financial statements and 2) Assess the effect of IT controls on the audit strategy, and on the potential risks of material misstatement.
- The learning outcome (g) (ii) Determine which of the identified control deficiencies need to be communicated is duplicative to the learning outcome (d) (iii) Evaluate effects of deficiencies in internal control and communicate deficiencies to those charged with governance of an entity. Therefore, we suggest adding including IT aspects to (d) (iii) and deleting (g) (ii).
- We suggest that learning outcome (h) (i) be revised as follows: Evaluate the ~~impact~~ possible effect of non-compliance or suspected non-compliance with laws and regulations on the ~~audit of potential breach of laws and regulations~~ financial statements of an entity and other aspects of the audit.
- We suggest that learning outcome (h) (ii) be revised as follows: ~~Evaluate~~ Understand security and stock exchange regulations and the impact on disclosure requirements and the financial statement reporting process as they apply to the risks of material misstatements and presentation requirements of audit engagements.
- Learning outcome (i) (iii), as written, seems outside the scope of an audit. We suggest that learning outcome (i) (iii) be revised as follows: Analyze the components of the cost of capital to determine their appropriateness in the areas of interest (e.g., in the context of an impairment test). An alternative would be to delete learning outcome (i) (iii) and incorporate the concept of impairment testing into (i) (ii).
- We suggest that learning outcome (n) (ii) Initiate and manage changes in audit strategy be revised since, as currently drafted, it is similar to learning outcome (a) (iii) approve or recommend an appropriate audit strategy in relation to the audit objective. We suggest that learning outcome (n) (ii) be revised as follows: Manage audit engagements by providing leadership of audit teams, including changes to the audit strategy in response to changes in risk, and by effective project management.
- The terminology in learning outcome (p) (ii) Exercise professional judgment in planning and performing and audit of financial...an auditor's opinion. Exercise professional judgment in respect of engagement acceptance and continuance, assessment of...expert should be revised to agree with the ISAs. The ISAs use the term client and engagement acceptance and continuance.
- Learning outcome (p) (iii) Act as a role model to aspiring engagement partner does not seem like it should be limited to the professional skepticism and professional judgment competence area. We would expect an aspiring engagement partner to be a role model in more areas than professional skepticism and professional judgment.

- We believe that the list of competence areas should be aligned between IES 2 and IES 8. Our preference is to use the competence areas in IES 8 since these are less detailed.

In general, the learning outcomes capture adequately the minimum levels of proficiency to be achieved by a newly appointed engagement partner. However, we disagree with the minimum proficiency level for (c) Governance and risk management competence area. We do not believe this competence area should be advanced. We believe that to properly plan an audit an engagement partner would not necessarily need knowledge at the advanced level in the governance and risk management competence area.

**Question 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, Appendix 1 of the proposed IES 8 provides clarification to assist in the interpretation of the learning outcomes listed in paragraph 13 of IES 8. However, we believe the sentence describing that the learning outcomes relate to work situations that are characterized by... in the description section for each level of proficiency should be removed. We believe inclusion of this sentence creates confusion. In addition, the Advanced and Mastery level both indicate that learning outcomes at these levels relate to situations that are characterized by high levels of ambiguity, complexity, and uncertainty. The learning outcomes at the Advanced and Mastery levels are expected to be different and therefore having the same statement for both levels of proficiency is confusing.

**Question 4: Do the revised requirements in respect of more complex audits provide greater clarity and assist with the implementation of the proposed IES 8 (Revised)?**

We believe that the revision of the requirements to be principles based enhances the clarity of this IES. However, as Paragraph 19 is currently written it does not provide clarity. In practice, there is no distinction made between those individuals who work on audits involving more complex situations and those who do not. In addition, we believe that examples of the types of continuing professional education required to serve audits in more complex industries should be included in the implementation guidance to IES 8.

**Question 5: Does the inclusion of a number of references to Small and Medium Practitioners (“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?**

Overall, the inclusion of references to SMPs in IES 8 is appropriate. However, paragraph A6, as written, is not helpful in differentiating SMPs and non-SMPs. It is unclear how a professional accountant would not attain the competence through increased levels of responsibility. Therefore, we suggest the following revision to paragraph A6: The 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 vary from those of an engagement partner in a large practice. In jurisdictions...

**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. We are not a member body so the requirements in this IES are not directly applicable to our Firm. However, the requirements, as drafted, will be useful to provide input as we are designing, delivering, and assessing education for professional accountants within our Firm, although we do not expect major changes to the content of such education programs.

Although not member bodies, we believe that firms will need further guidance on how assessment is expected to be implemented and monitored by firms. In addition, we believe that organizations will need further guidance to clarify the requirements of paragraph 18 and 19. As worded, paragraphs 18 and 19 imply a greater level of reporting on the nature of the topics on which CPD is completed.

We believe the effective date of IES 8 should coincide with the effective date of IES 2, IES 3, and IES 4.

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

We believe that the issuance of implementation guidance would be helpful. We believe the implementation guidance should provide guidelines and examples of how to interpret and apply the requirements of IES 8. We believe the implementation guidance should provide:

- Guidelines on how to build a detailed competency model to meet the competency areas and proficiency requirements of IES 8 and to serve as the basis for the design of learning and development programs. In addition, links to how the competency model maps to the assessment requirements of IES 8 should be included.
- Examples of competency models that have already been developed.
- Examples of appropriate assessment activities to assess the achievement of the technical competence, professional skills and professional values, ethics and attitudes of aspiring engagement partners and examples of what these assessment activities might look like. In addition, we believe the implementation guidance should address assessment from a firm perspective and how assessment is expected to be implemented and monitored by firms in view of the likelihood of usage of this by regulators during their inspections of firms.
- Examples of CPD that engagement partners serving on audits involving more complex industries, operations or reporting requirements should take also should be included in the implementation guidance.
- Examples of how the learning outcomes may be achieved by practitioners. For example, guidance on which learning outcomes can be achieved through traditional learning and which ones can be achieved from on the job experience.
- Guidance on how to apply IES 8 to SMPs.

Although we believe that our suggestions for implementation guidance are valid, we believe that the Board should consider our suggestions along with the other responses received as we question whether the implementation guidance should be issued simultaneously with this

standard or wait until the standard is issued to determine the need for implementation guidance. We believe that the feedback received will help drive the timing of the issuance of the 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?**

The requirements and the ability to meet those requirements apply to member bodies; therefore, since we are not a member body this question is not applicable. In addition, because of the nature of our global organization, it would not be practicable to provide relevant suggestions related to any particular jurisdiction. However, in view of our international reach, we welcome the work done here by the Board to set global standards about competence that should be achieved by newly appointed engagement partners.

**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)?**

The requirements and the ability to meet those requirements apply to member bodies; therefore, since we are not a member body this question is not directly applicable. However, we believe examples of competency models would be useful to member bodies in meeting the requirements of proposed IES 8. The examples should include links as to how the competency model maps to the assessment requirements of proposed IES 8. In addition, we believe that examples of competency models will be useful to firms in demonstrating how the requirements of IES 8 can be achieved by firms when designing, delivering, and assessing education for aspiring engagement partners and newly appointed engagement partners within a firm.

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

No. We believe the objective of the standard should be revised. We question if the IFAC member body is providing engagement partners with the professional development required to perform their role or if they are responsible for incorporating the essential elements of the learning outcomes into professional development programs for engagement partners. In our view, the IFAC member body is providing the opportunity or the environment to obtain professional development and to assess that the level achieved matches the requirements of the revised IES 8, but does not provide the professional development itself. We suggest the objective paragraph be revised as follows: The objective of an IFAC member body is to incorporate the essential elements of the learning outcomes into professional development programs to ensure members have the opportunity to obtain the professional development needed to serve as an engagement partner.

**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. The requirements, supported by relevant application material, clearly articulate the key principles of professional development for engagement partners responsible for audits of financial statements and have been applied appropriately and consistently.



**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.**

If the wording in certain learning outcomes is aligned with the ISAs, there are not any additional terms within the proposed IES 8 that would require further clarification. See detailed response to Question 2 above.

**2. Other comments**

We offer the following other comments and drafting suggestions for your consideration:

- We suggest that throughout the standard the term technical competence be revised to professional knowledge to align with our comment letter on IES 2.
- We suggest the following revision to paragraph 3: This IES...~~Each~~ Professional accountants who have ~~has~~ demonstrated the professional competence prescribed...
- We suggest that paragraph 4 be deleted. This paragraph duplicates what is said in the first sentence of paragraph 1.
- We suggest the following revision to paragraph 5 (a): For ~~these~~ professional accountants who ~~become~~ assume the role of engagement partners, the professional competence that is developed and assessed during Initial Professional Development (IPD) will be further developed as part of Continuing Professional Development (CPD) to become a newly appointed engagement partners and, after this appointment, during their career;
- We suggest the following revision to paragraph 17: IFAC member bodies shall establish appropriate ~~assessment~~ activities to assess the achievement of the...
- Is the intent of paragraph 17, which refers to aspiring engagement partners, to go beyond existing practice with local regulatory regimes testing students to obtain their CPA? Is the intent of this paragraph to assess aspiring partners for obtaining a license to sign an audit opinion?
- We suggest the following revision to paragraph 19: IFAC member bodies shall require that engagement partners serving on audits involving more complex.....undertake relevant CPD that addresses the elements of more complex audits.
- We suggest the following revision to paragraph A1: This IES builds on ~~requirements~~ the requirements for the development of professional...
- In paragraph A7 a (b) is missing in front of the subtitle Role of firms
- Paragraph A11 does not specifically mention that baseline knowledge of new accounting and auditing pronouncements should always be maintained. Therefore, we suggest the following revision to paragraph A11: Irrespective of the size or nature of the audited entity, and the firm of the engagement partner providing the audit, this IES indicates that engagement partners continue to undertake appropriate CPD to maintain baseline knowledge of new accounting and auditing pronouncements and CPD appropriate to the complexity of the audits...
- We suggest that paragraph A14 be earlier in the application material so that more prominence is given to this paragraph. We suggest that paragraph A14 be moved after paragraph A2.

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We would be pleased to discuss our comments with members of the International Accounting Education Standards Board or its staff. If you wish to do so, please contact Karen Golz (+ 212 773 8001) or Dan Montgomery (+1 216 583 2949).

Yours sincerely,

Ernst & Young Global Limited