



By email (DavidMcPeak@ifac.org)

Our Ref.: ED(CJ)/IES8

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David McPeak,
Technical Manager,
International Accounting Education Standards Board,
International Federation of Accountants,
529 Fifth Avenue, 6th Floor,
New York, NY 100017,
United States of America.

Dear Sirs,

**Comments on Exposure Draft of IES 8, Professional Competence for
Engagement Partners Responsible for Audits of Financial Statements (Revised)**

The Hong Kong Institute of Certified Public Accountants (the "Institute") is the only statutory licensing body of accountants in Hong Kong, responsible for the professional training, development and regulation of the accountancy profession. The Institute sets auditing and assurance standards, ethical standards, and financial reporting standards in Hong Kong. The Institute is committed to ensuring that audit quality is maintained at the highest standards.

We welcome the opportunity to provide you with our comments on the captioned Exposure Draft of International Education Standard ("IES") 8. In general, we support the objective of the revised IES 8, which aims to protect the public interest by ensuring that engagement partners who have responsibility for audits of financial statements have the necessary skills and training to perform their roles effectively.

We appreciate the changes that have been made to the proposed revised IES 8 subsequent to consultation on the previous version in 2012. In particular we support the re-focus of the standard to competencies of existing engagement partners rather than aspiring engagement partners.

However, we continue to have concerns that the proposed standard will introduce significant new responsibilities on IFAC member bodies which will be required to mandate and monitor CPD activities for engagement partners. We appreciate that IES 8 has been redrafted and now provides a clearer rationale but some of our basic concerns, expressed in respect of the consultation paper, remain.

As it stands, the revised IES 8 now becomes a CPD detailed standard which identifies a list of learning outcomes (Table A) to be supported by CPD activities. It expects professional bodies to establish mandatory competency requirements for audit engagement partners and to monitor compliance with such requirements (per paragraph 10 of the standard). However, the specific obligations on IFAC member bodies remain unclear as the explanatory materials (paragraph A9 of the standard) mentions the responsibility of the IFAC member bodies, but only to the extent that "*By complying with*

the requirements of this IES and fulfilling their obligations under SMO 1 and SMO 2, IFAC member bodies promote, through CPD, the professional competence required to perform the role of an engagement partner." It does not fully elaborate on the obligations to require their members who are engagement partners to undertake the CPD that leads to the achievement of the Table A learning outcomes.

We are also concerned about the practical implication of the requirements. There seems to be an obligation on IFAC member bodies to require CPD that is responsive to all of the learning outcomes prescribed in the Table A. This may then presumably flow down to the partners themselves (and in turn their firms) to demonstrate that their learning can match up with the prescribed list in IES 8. The CPD requirements of many member bodies currently focus heavily on the number of CPD hours undertaken by the individual and consequently the monitoring of compliance with CPD requirements is also often focused on time. The implementation of revised IES 8 would require a change of CPD evaluation and monitoring mechanism for many member bodies to monitor CPD compliance at a more granular level.

We also have some comments relating to the learning outcomes as listed in Table A (see appendix). It is a difficult task to try to define all abilities that an engagement partner is expected to have and at the appropriate level of detail. For example, it is quite possible to define more outcomes for "Audit of financial statements" in addition to the 10 already listed. It might be helpful if IES 8 provided more of an analysis of how to come up with these 10 items (say with reference to the procedures listed in the auditing standards). In addition, there does not seem to be enough focus on the evaluation of whether specialist skills are necessary (and more generally whether the engagement team as a whole has the right skills and experience to effectively perform the audit).

Finally, the proposed standard does not go far enough in terms of guidance on implementation and monitoring. For an individual who is an engagement partner, "the learning outcomes are likely to be demonstrated within the context of a work environment" (per paragraph A16 of the explanatory material). It will be challenging to monitor an engagement partner's achievement of the learning outcomes in this context, particularly in determining who can make the assessment and how can it be done. Implementation costs could be high. We believe it would be better to reposition IES 8 as guidance for audit firms on how their partners could raise their professional competence with reference to the learning outcomes as listed in Table A

We trust that our comments are of assistance to you. If you require any clarification on our comments, please do not hesitate to contact me by email (chris@hki CPA.org.hk) or telephone (direct line: 852 2287 7372).

Yours faithfully,

Chris Joy
Executive Director

CJ/sr/dy



Appendix

Table A: Learning Outcomes for the Professional Competence of an Engagement Partner

- (a) Audit of financial statements
- As noted in the above general comments, there seems to be a mixture of high level and more detailed points. Point (ii) for instance is very high level but then (iii) seems quite detailed.
 - Point (vi) – developing a strategy to address the objective of the auditing standard is a requirements of each auditing standard and doesn't seem to sit here very logically as a learning outcome.
 - Should there be a specific point on the evaluation of misstatements that have been identified and how they should be communicated to TCWG (to mirror point (vii))?
 - There should perhaps be more focus on the evaluation of internal controls themselves – point (vii) just refers to the evaluation of significant deficiencies (seems to make the assumption that someone has already evaluated internal controls and determined significant deficiencies).
- (b) Financial accounting and reporting
- Point (i) refers to the FS being prepared in accordance with the reporting frameworks. Where issuing a "true and fair"/ "fair presentation" opinion they would have a broader obligation to consider these concepts.
- (c) Governance and risk management
- (d) Business environment
- Not sure what "auditor expectations" are. If this is to do with overall risk assessment the point could be made more explicitly?
- (e) Taxation
- The way this is phrased could be taken as a "boilerplate" description of a partner's responsibility in respect of any part of an audit of financial statements. Is this a subset of learning outcomes under "audit of financial statements" or should it be more specifically related to competency in the field of taxation?
- (f) Information technology
- The two outcomes seem to only focus on IT activities at the planning stage – not clear why not extended to other activities (including evaluation of work done by IT specialists if relevant). As for the comment above on taxation this could be read as a description of engagement partner activities in, primarily, the planning stage of an audit.



- (g) Business laws and regulations
 - Prior to the two activities listed, would there be an earlier activity to consider which laws, regulations and rules are relevant to the client and its financial statements?
- (h) Finance and financial management
 - With the importance of financial instruments and fair value, should this also include reference to evaluation of the entity's use of such instruments as well as evaluation of valuation techniques and models (which would not be unique to financial instruments and could be relevant for many other areas)?
 - Point (i) – the meaning of the point around evaluating the various sources of financing in isolation is unclear. Is the point here in the context of a going concern analysis?
 - Point (ii) – this is something that isn't always relevant – a good example of the dangers of creating an implied "definitive" list of learning outcomes. In particular, analysis of budgets may not be a key skill (unusual in some jurisdictions to place any value in the budgeting process).
- (i) Intellectual
 - Point (i) – this reads a bit more like "technical".
- (j) Interpersonal and communication
 - Should there be a point dealing with managing differences of opinion within the firm (as this can often be a very challenging activity)?
 - Should there also be a point about effectively obtaining information from management (for example an effective fraud discussion can be a challenging activity)?
 - Point (iv) – not clear what "negotiations" refer to, especially as audit quality should not be compromised through negotiation? If it is referring to fee negotiations, not sure if it belongs in this standard.
- (k) Personal
- (l) Organizational
- (m) Commitment to the public interest
 - Is reference to "wider society" really necessary or appropriate? "Public interest" seems broad enough.



- (n) Professional skepticism and professional judgment
- (o) Ethical principles
 - Point (ii) – should it also include the effective response to the threats once identified?