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Dear Sirs:

IAESB Exposure Draft (December 2013), Proposed International Education Standard: *IES 8, Professional Competence for Engagement Partners Responsible for Audits of Financial Statements (Revised)*

We are pleased to have the opportunity to comment on the above Exposure Draft issued by the International Accounting Education Standards Board (IAESB). We have consulted with and this letter represents the views of KPMG's Global Audit Training Steering Group.

We have reviewed the Exposure Draft and are pleased that our initial concerns (set out in our letter of December 17, 2012) have been addressed in the re-exposed version of IES 8. We are broadly supportive of the direction of this revised IES 8. Our responses to specific questions posed by the IAESB in the Explanatory Memorandum to the Exposure Draft and paragraph-level comments are set out in the Appendix.

Please contact Linda Nower at +1 (416) 777 8354 or lnower@kpmg.ca if you wish to discuss any of the issues identified in this letter.

Yours truly,

Linda B. Nower, CPA, CA (signed)

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Appendix

Question 1. Is the Objective statement (paragraph 9) of the proposed IES 8 Exposure Draft (December 2013) appropriate and clear?

Although we agree that the Objective as presently drafted is clear, we believe that:

- Explicit alignment is lacking between the Objective of IES 8 and the ISA requirements regarding partner competences;
- The Objective could better articulate that IES 8 provides guidelines, rather than requirements, for engagement partner competencies and learning outcomes; and
- The Objective should encompass the principle of partners sustaining their competencies through CPD (as set out in IES 7) and on the job experiences.

In this connection, we propose that the Objective be re-worded as follows:

“The objective of this IES is to establish guidelines for the professional competence, as evidenced by learning outcomes, that professional accountants performing the role of an engagement partner need to maintain and further develop through CPD as set out in IES 7 including ongoing practical experience in order to assume the responsibilities, make the judgments and form the conclusions required by the International Standards on Auditing.”

Question 2. Is the Requirement (paragraph 10) of the proposed IES 8 Exposure Draft (December 2013) appropriate and clear?

Although we agree with the direction of the Requirement, we believe that to achieve consistent implementation across all IFAC member bodies, the standard should use wording that reflects the proposals as more of a framework of guidelines rather than “requirements”. In this connection, we propose the Requirement be reworded as follows:

“IFAC member bodies establish professional development requirements that are necessary for engagement partners to perform their role relative to the audit of financial statements and shall require them to undertake CPD that maintains and further develops the professional competence required for this role. Such professional competence is demonstrated by the achievement of the learning outcomes, guidelines for which are set out in Table A.”

Question 3. Do you agree with the proposed learning outcomes provided in Table A?

We generally agree with the directions set out in Table A. We compared the learning outcomes in Table A to the performance requirements for engagement partners identified in the International Standards on Auditing and as a result, we propose the following improvements:

1. Immediately following the header to Table A “Learning Outcomes for the Professional Competence of an Engagement Partner”, add a qualifying statement that states “This Table presents guidelines for the professional competencies and related learning outcomes of professional accountants performing the role of engagement partner. Certain factors and circumstances will result in higher learning outcomes from those set out below including specialist knowledge needed by engagement partners attributable to, for example, complex accounting standards or reporting requirements of specialized industries such as financial institutions, regulators, and governments.”
2. We believe that the learning outcomes in Table A should all consistently reflect a higher level of competence through the active verbs used in the descriptions. We see several examples of verbs, such as “assess”, that indicate a foundation or intermediate level rather than an advanced level. For engagement partners, we believe appropriate verbs include “evaluate, lead, approve” that should be used consistently throughout Schedule A.

3. Regarding Section (a) Audit of the financial statements, we believe that the following additional learning outcomes should be added :
 - 1) Evaluates misstatements individually and in the aggregate against materiality and evaluates the need for financial statement adjustment, as well as changes in presentation and disclosure and the impact on the audit opinion if not adopted.
 - 2) Confirms the involvement of specialists (taxation, IT, valuations, pensions, etc.) and related scope and timing of their work as well as expected deliverables. Evaluates audit conclusions based on the specialist's work and deliverables. Note: while we see that you have specifically called out the use of IT and Tax specialists but not finance/valuations specialists and where there are many specialists that an audit partner can interact with, we suggest you might want to remove specific references to specific specialists in Table A, and use this catch-all learning outcome.
4. Regarding Section (a) Audit of financial statements:
 - 1) (a)(ii) We suggest that "oversee" be replaced with "direct, supervise and review" for consistency with ISA 220.
 - 2) (a)(viii) We suggest that the learning outcome be both to "evaluate and conclude on the sufficiency....."
5. Regarding Section (b) Financial accounting and reporting, we believe the following additional learning outcomes should be added:
 - 1) Evaluates judgments made by management in selecting accounting policies and making measurements, classifications and disclosures.
 - 2) Stays current on new financial accounting and reporting standards in general, and where applicable, on financial accounting and reporting standards of specialized industries and/or those issued by regulators or governments.
6. Regarding Section (e) Taxation, we believe there needs to be a reference to the use of tax specialists as appropriate to reflect the differing competence levels of audit engagement partners in taxation and the varying complexity of tax accounting in financial statements across different sectors and entities within those sectors.
7. Regarding Section (h) Finance and financial management:
 - 1) We are confused by the relevance of learning outcome (i) "Evaluate the various sources of financing available to design the corresponding audit strategy and plan appropriate testing and review procedures" to the engagement partner's accountabilities in a financial statement audit. It seems to be focused on assessing available financing instead of evaluating the entity's existing financing which would require partner's accountability and competence regarding the appropriateness of debt classification and disclosures as well as the risk of debt covenant defaults which may trigger liquidity and potential going concern risks and potential reporting considerations. Learning outcome (ii) in this section also seems to have no audit engagement context which we presume is related to the assessment of the entity's ability to continue as a going concern or to assess impairment risks. We ask that you clarify these learning outcomes so as they are in the context of an engagement partner's competence regarding his/her accountabilities for a financial statement audit.
 - 2) We also note that Table A calls out the need for involving taxation specialists and IT specialists but not to valuations specialists in connection with going concern risk assessments and impairment assessments in a financial statement audit. We suggest that you do so for consistency. (See also our comment 3.2 above).
8. Regarding Section (l) Organizational, we believe the following additional learning outcome should be added:
 - 1) Evaluates and confirms that the engagement team has the appropriate skills and experience to perform the engagement, including the specialist resources.
9. Regarding the Section on Professional Values, Ethics and Attitudes, we believe the appropriate verb to be used to describe the learning outcomes of competencies (m) and(n) should be "exemplify" as follows:
 - 1) (m)(i) "Exemplify audit quality and the effect on the public interest, the profession and wider society."
 - 2) (n)(i) "Exemplify a sceptical mindset in evaluating an entity, its management and the evidence obtained during an audit."
 - 3) (n)(II) "Exemplify professional judgement in planning and performing an audit of financial statements and on reaching conclusions on which to base an auditor's opinion."

10. Regarding Section (n) Professional scepticism and professional judgment, we propose the following additional learning outcomes be added:
- 1) Coaches the audit team members through researching and resolving complex audit, accounting or regulatory issues.
 - 2) Challenges all audit engagement team members to demonstrate professional scepticism and apply professional judgment.
 - 3) Appropriately identifies risk issues that require consultation and/or escalation and communicates clearly and appropriately with relevant consultative bodies.
 - 4) Debriefs with the audit engagement team on critical insights gained, outcomes of tough entity conversations and continuous improvement opportunities regarding professional judgment.

Question 4. Do you agree that levels of proficiency for the competence areas should not be included in Table A?

We agree that the levels of proficiency for the competence areas should not be included in Table A provided that the activity verbs (i.e. evaluate, approve, etc.) used in the learning outcomes reflect a higher level of proficiency for engagement partners as set out in our response to Question 3.

Questions 5. Are there any additional explanatory paragraphs needed to better explain the requirement of the proposed IES 8 Exposure Draft (December 2013)?

We see the last sentence of paragraph 12 as important enough to warrant a paragraph of its own and positioned closer to paragraph 4 with added clarity that the competencies and learning outcomes set out in Table A are the same for all engagement partners whether acting as sole practitioners, working in medium sized firms or in the large multinational firms. We also see the need for more clarity and guidance than is currently provided regarding the definition of “complex” audit engagements and the relevant CPD intended for engagement partners on these audits.

Regarding paragraph 4, we believe “practical experience” should be clarified as “practical work experience” and more emphasis should be placed on the importance of coaching/mentoring, taking on technical instructor accountabilities and consulting with senior professionals as essential for engagement partners to maintain professional competence.

We also recommend that paragraphs A18 to A20 inclusive be deleted from the explanatory notes as they unnecessarily paraphrase the ISAs, add little value regarding explaining CPD requirements and appear to be addressing the engagement partner rather than the IFAC member body for which this standard is intended.

Question 6. Does Figure 1 of Explanatory Material section for the proposed IES 8 Exposure Draft (December 2013) assist in understanding which stakeholders have responsibilities that impact the professional competence of engagement partners?

We find Figure 1 is confusing - it's not clear how it is to be used, whom it is intended for and how it relates to partner competence and learning outcomes. We find that explanatory paragraphs A.5 to A.9 inclusive are also confusing and do not add value to explaining the Objective, Requirement and Table A of the proposed standard.

We recommend that Figure 1 and paragraphs A.5 through A.9 of the explanatory material be deleted.

Question 7. Are there any terms within the proposed IES 8 Exposure Draft (December 2013) which require further clarification? If so, please explain the nature of the deficiencies?

Paragraph A12 discusses small and medium practitioners (SMPs). We believe that this may require additional explanation regarding how a practitioner would qualify as such. We also recommend providing more explicit guidance for how SMP compliance with the requirements would differ from larger public auditing firms, for example in the use of Specialists. Practical examples in the form of implementation guidance would be particularly helpful in this regard.

Question 8. 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 Exposure Draft (December 2013)?

No

Question 9. What topics or subject areas should implementation guidance cover?

As noted in our responses to the preceding questions, the guidance could separate and contrast (through the use of illustrative examples) the competence areas and learning outcomes that would be required of engagement partners working (1) as SMPs and sole practitioners, (2) on medium sized engagements and (3) on engagements where the entities have complex industries, operations and accounting/reporting requirements. More implementation guidance is needed for SMPs, specifically how to comply with the requirements of the standard given their limited resources.