

ICAI's Comments on Proposed IES 8 Exposure Draft August 2012

I General Comments

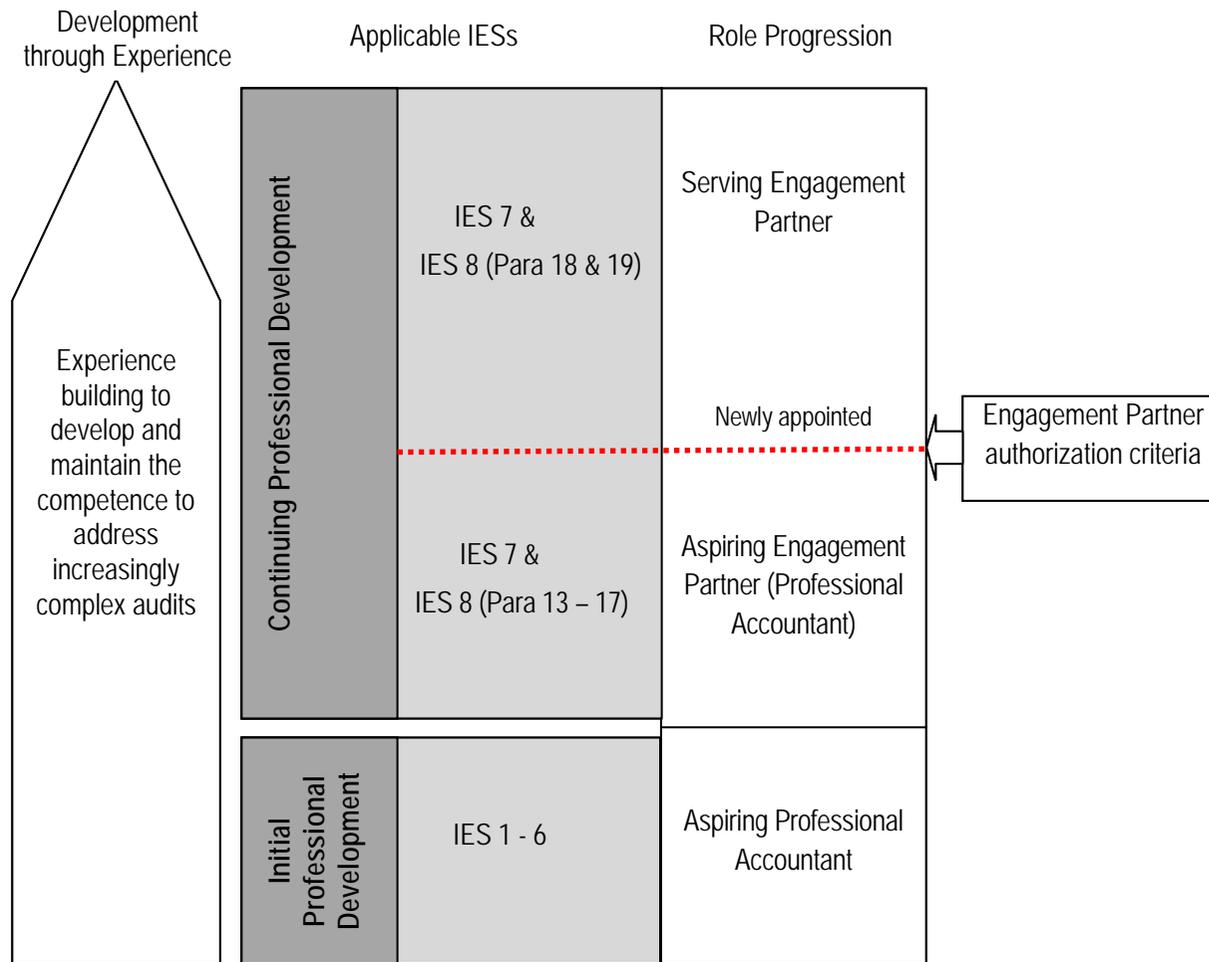
- (i) The responsibility of firms for the development of professional competence of aspiring engagement partners and engagement partners may be brought out explicitly in this standard. Though Para A35 of the Explanatory Material makes a mention that the firm may integrate the monitoring of an engagement partner's CPD into the firm's internal inspection program, the results of which are usually made available to the IFAC member body or to those responsible for an external quality assurance program, it does not explicitly place the responsibility on the firm. Reference may be drawn to other Quality Control standards which impose responsibility on firms for the development and maintenance of professional competence of the members of the engagement team.
- (ii) This IES does not consider competence requirement with reference to the engagement team as a whole i.e. whether the composition of the team is such that the team as a whole is competent to perform the audit. It only deals with the professional competence requirements of individual engagement partners/aspiring engagement partners. This aspect needs reconsideration. In addition to the professional competence of the engagement partner, the professional competence of the engagement team as a whole to perform an audit should also be considered. This would also be in consonance with SQC 1 and ISA 220.
- (iii) The role progression depicted in Schedule 1 showing the relationship between experience, IESs, and the role of an Engagement Partner, does not seem to correctly represent the intent of the Standard, since the aspiring engagement partner's period is shown to cover both IPD and a certain period of CPD before the individual is appointed as an engagement partner. Further, the definition of "aspiring engagement partner" given in the Glossary includes an aspiring professional accountant as well.

The intent of the standard, as reflected in Para 3 of IES 8 and Paras A1 and A5 of the Explanatory Material forming part of IES 8, clearly conveys that it is concerned with a **professional accountant** who aspires to be an engagement partner. Paras 13 to 17 of IES 8 and Paras A16 to A35 of Explanatory Material forming part of IES 8 lay down the requirements of **professional accountants** who are aspiring to be, or are newly appointed to the role of, Engagement Partner (**Refer to the caption under "Requirements", given below para 12**).

Therefore, there is a need to remove the inconsistency between the stated definition of "aspiring engagement partner" and the real intent of the said term as per the requirements of the standard. Accordingly, the definition of aspiring engagement partner may be modified to exclude an aspiring professional accountant from its scope and the diagrammatic representation given in Schedule 1 may be modified as shown hereunder in order to

show the role progression from an aspiring professional accountant (during the period of IPD) to a professional accountant who aspires to become an engagement partner (the period of CPD before the individual is appointed as an engagement partner) to an engagement partner.

Schedule 1 : Relationship between experience, IESs, and the role of an Engagement Partner



II Comments on Specific Issues

Qn. No.	Issue	Comments
1	<p>Does the proposed change to focus on engagement partner provide greater clarity, improve the effectiveness and implementation of the proposed IES 8 (Revised)?</p> <p>If not, explain the nature of deficiencies.</p>	<p>(i) <i>Para 1 defining the scope of IES 8 prescribes the professional development requirements for aspiring engagement partners and serving engagement partners who provide assurance services for audit of financial statements. Further, paras 13 to 17 of IES 8 contains the requirements for professional accountants who are aspiring to be, or are newly appointed to the role of, Engagement Partner.</i></p> <p><i>The title of IES 8 is "Professional Development for Engagement Partners responsible for Audit of Financial Statements".</i></p> <p>This title does not correctly reflect the intent of IES 8 as contained in Para 1 which focuses on the professional development requirement for both aspiring and serving engagement partners.</p> <p>Therefore, the title of IES 8 may be modified suitably as follows –</p> <p>"Professional competence requirements for conducting audit of financial statements"</p> <p>(ii) The definition of term "Aspiring engagement partner" in the Glossary needs to be modified, since the same includes within its scope, an aspiring professional accountant as well. The requirements contained in Para A16 to A35 are in respect of professional accountants who are aspiring to be, or are newly appointed to the role of, Engagement Partner (Refer to the caption under "Requirements", given below para 12 of IES 8). The scope of the standard as contained in para 1 and para 3, including paras A1 and A5 of the Explanatory Material forming part of IES 8, also makes</p>

		<p>reference only to professional accountants who are aspiring to be engagement partners or who become engagement partners.</p> <p>Therefore, the definition of the term “aspiring engagement partner” in the Glossary may be modified to exclude reference to an “aspiring professional accountant”.</p> <p>It is only a professional accountant who is eligible to be appointed as an engagement partner. Therefore, it is rational that he be referred to as an aspiring engagement partner when he is working as part of the engagement team till the time he is appointed as an engagement partner. Of course, the practical experience gained during IPD to the extent it relates to audit of financial statements can be considered for the purpose of compliance with the practical experience requirements set out in this standard.</p>
2	<p>Does Table A of the proposed IES 8 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?</p> <p>Are there any learning outcomes you would expect to see included or excluded?</p>	<p>(i) The requirements for professional accountants who are aspiring to be, or are newly appointed to the role of engagement partner, are contained in paras 13 to 17 of IES 8.</p> <p>However, para 13 and Table A thereunder prescribe the learning outcomes for a newly appointed engagement partner. Para A5 of the Explanatory Material further clarifies that the role of a professional accountant aspiring to be an engagement partner may be performed before, during, or after meeting requirements in paras 13 to 17 of this IES. This further clarifies that the minimum level of proficiency in respect of the competence areas listed in Table A is expected of a newly appointed engagement partner. Therefore, there is no minimum level of proficiency prescribed for an aspiring engagement partner in respect of the competence areas listed in Table A.</p> <p>However, para 17 relating to “Assessment” requires that IFAC member bodies shall establish appropriate assessment activities to assess the achievement of technical competence, professional skills and professional values, ethics and attitudes of aspiring engagement partners. As per para A5 of IES 8, a professional accountant aspiring to be an engagement partner will usually serve for several years on engagement teams, and may progress through supervisory and managerial roles under the supervision of a serving engagement partner. Therefore, a professional accountant can be an aspiring</p>

engagement partner from the stage he completes his IPD till the time he is appointed as an engagement partner.

Hence, IES 8 should specifically clarify that **assessment of professional skills and professional values, ethics and attitudes** to test whether they meet the minimum level of proficiency in respect of the competence areas listed in Table A should be of an aspiring engagement partner **at the stage when he is considered for appointment as an engagement partner**. Such an assessment should be made by the **firm** in which he is to be appointed as an engagement partner.

As regards **technical competence** requirements, the syllabi of the IFAC member body should be comprehensive enough to largely cover all the competence areas mentioned in Table A, so that the same are tested at the IPD stage itself. This is because it would be difficult for the member body to test such a wide range of competencies at a later stage when the professional accountant is considered for appointment as an engagement partner. At the time of consideration for appointment as an engagement partner, the concerned firm can test, through workplace assessments and CPD, or a combination of both, as to whether the professional accountant has acquired an advanced level of proficiency in the specialised areas of audit of financial statements and internal control.

- (ii) The minimum level of proficiency in the competence area "Taxation" may be raised to an "advanced" level, considering that in most economies, tax considerations play a significant role in strategic business decisions. In such economies, tax laws are still evolving and are prone to frequent changes making them quite complex.

Further, since an advanced level of proficiency is expected in the competence area "Financial accounting and reporting", and a sound knowledge of business laws and regulations is an essential pre-requisite for understanding the accounting implications arising therefrom, the level of proficiency in business laws and regulations should be correspondingly raised to an advanced level.

		<p>Also, it may be noted that the following learning outcomes listed under these competence areas are in harmony with the description of an advanced level of proficiency as per Appendix I –</p> <ul style="list-style-type: none"> • Evaluate procedures performed to address the risks of material misstatement in respect of taxation, and assess the effect of the results of procedures on other areas of an audit. • Evaluate the impact on the audit of a potential breach of laws and regulations. • Evaluate security and stock exchange regulations as they apply to the risks of material misstatements and presentation requirements of audit engagements. <p>Further, it may be noted that the verb “evaluate” is included in the list of indicative verbs for an advanced level of proficiency.</p> <p>The technical competence requirements specified in Table A may be assessed at the stage of IPD itself, by including the same as part of the syllabi of the IFAC member body.</p>
3.	<p>Does Appendix I provide adequate clarification to assist in the interpretation of the learning outcomes that are listed in Para 13 of the proposed IES 8?</p> <p>If not, what changes do you suggest?</p>	<p>The verb “assess” used to describe learning outcomes under competence area “Audit of Financial Statements” and “Financial accounting and reporting” in Table A does not find place in the indicative verbs as per the classification of proficiency levels for learning outcomes developed by IAESB in Appendix 1. The same may be included in the list of indicative verbs used to describe learning outcomes to be demonstrated for an advanced level of proficiency.</p> <p>Likewise, the verb “determine” used to describe learning outcomes under competence areas “Taxation” and “Information Technology” may be included in the list of indicative verbs used to describe learning outcomes to be demonstrated for an intermediate level of proficiency.</p> <p>The verbs “approve”, “initiate” and “resolve” describing learning outcomes under “Audit of financial statements”, “Organisational skills” and “Interpersonal and communication skills”, respectively, may be</p>

		included in the list of indicative verbs used to describe learning outcomes to be demonstrated for an advanced level of proficiency.
4.	Do the revised requirements in respect of more complex audits provide greater clarity and assist with implementation of the proposed IES 8?	<p>(i) IES 8 can provide additional guidance for complex audits in the Implementation Guide. The Implementation Guide may, for instance, specify additional specific competencies which an engagement partner should possess depending on the complexities, risks involved in audit of financial statements of specialised industries.</p> <p>(ii) In respect of more complex audits, in particular, the responsibility of the firms for appointing a competent team to carry out such an audit may be brought out explicitly. The competence requirement of the engagement team to perform an audit should include the competence requirement of the engagement partner as well as other members, including experts, forming part of the team. Although the quality of audit is the responsibility of the engagement partner, the appointment of a competent team to carry out such audit is the responsibility of the firm, which may be particularly mentioned in the Standard, by drawing references to the relevant International Standards on Auditing/Quality Control Standards.</p>
5.	Does the inclusion of a number of references to 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 could be more aligned toward the needs of SMPs?	<p>In our opinion, IES 8 should provide comprehensive guidelines on generic competencies required of an engagement partner to conduct audit of financial statements. Specific guidance to SMP engagement partners, both newly appointed and serving, can be provided as part of the Explanatory Material forming part of IES 8.</p> <p><i>Para A6 of the Explanatory Material states that IES 8 recognises that there may be situations in which engagement partners operate within SMPs and may not progress through increasing levels of responsibility. In jurisdictions where SMPs are more common, the IFAC member body may consider how to set the professional competence requirements for newly appointed and serving engagement partners.</i></p> <p>In our opinion, in such a scenario, the professional competence requirements prescribed should be the same for a newly appointed and serving SMP engagement partner. The CPD to be undertaken by a serving SMP engagement partner may, however, vary from the CPD to be undertaken by a newly</p>

		<p>appointed SMP engagement partner. The nature of CPD to be undertaken may be described in the Explanatory Material forming part of IES 8.</p> <p><i>Para A32 of the Explanatory Material rightly observes that audits for small and medium sized entities are usually provided by smaller firms that may have fewer resources to organise formal professional development programs. The para further states that IFAC member bodies may directly provide appropriate professional development opportunities and programs for smaller firms. Alternatively, IFAC member bodies may facilitate access to such opportunities and programs through collaboration with larger firms, other audit organisations, other IFAC member bodies, or networks among smaller firms or sole practitioners.</i></p> <p>Since in most countries, a sizable number of audits of financial statements are carried out in respect of small and medium sized entities by SMP firms, the requirement of CPD should not be such that it unnecessarily increases the burden on the SMP engagement partner and results in making such audits more expensive, thereby ultimately affecting public interest. This factor may be considered while setting the CPD requirement for SMP engagement partners.</p>
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6.	Do you anticipate any impact or implications for your organisation, or organisations with which you are familiar, in implementing the new requirements included in this proposed IES 8?	<p>A wide range of competence areas have been specified (in Table A) for assessing the technical competence of a newly appointed engagement partner. These competence areas are largely covered in IES 2 as part of IPD and only after assessment of such competence areas, an individual qualifies as a professional accountant.</p> <p>In India, due to the large number of professional accountants who aspire to be engagement partners, it is practically difficult for the member body to undertake an assessment on technical competence covering a wide range of competence areas at a later stage when an individual aspires to be an engagement partner.</p> <p>In our opinion, the syllabus coverage of the member body should be comprehensive enough to cover the technical competence required of an aspiring engagement partner, so that the same is taken care of at the stage of IPD. At a later stage, the assessment of technical competence may be restricted to specialised areas of audit of financial statements and internal control, which may be assessed by firms through workplace assessments or through CPD or a combination of both.</p>
7.	If the IAESB was to issue implementation guidance together with IES 8, what would you envisage the guidance to look like?	<p>Practical examples may be built in the Implementation guidance to demonstrate achievement of learning outcomes, especially relating to Professional judgment and Professional scepticism. The methods of assessing achievement of each learning outcome may be detailed in the Implementation guidance.</p>
8.	In respect of your jurisdiction, in which areas of the proposed IES 8 would you consider it useful to have implementation guidance to help you meet the	<p>(i) The respective roles of the IFAC member body and firms in ensuring professional competence of an engagement partner to perform an audit may be detailed in the implementation guidance.</p> <p>(ii) The Implementation Guidance can provide additional assistance for complex audits. The Implementation Guide may, for instance, specify additional specific competencies which an</p>

	requirements of this IES?	<p>engagement partner should possess depending on the complexities, risks involved in audit of financial statements of specialised industries.</p> <p>(iii) In addition to the guidance provided in the Explanatory Material, specific guidance may be provided to SMP engagement partners, both newly appointed and serving, in the Implementation Guide. The cost-effective manner in which SMP engagement partners can develop and maintain their professional competence may also be detailed in the Implementation Guide.</p>
9.	Would you consider examples of current practice in developing competency models useful in helping you meet the requirements of the proposed IES 8?	<p>Yes. A comprehensive example of competency model may, therefore, be developed and the same may form part of the Implementation Guidance.</p>
10.	Is the objective to be achieved by a member body, stated in the proposed revised IES 8, appropriate?	<p><i>As per Para 12 of IES 8, the objective of an IFAC member body is to provide engagement partners with the professional development required to perform their role.</i></p> <p>It may be noted that, as per Para 1 of IES 8, this standard prescribes the professional development requirements of aspiring engagement partners and serving engagement partners who provide assurance services for audit of financial statements. Further, the requirements for professional accountants who are aspiring to be, or are newly appointed to the role of Engagement Partner have been given in paras 13 to 17 of IES 8.</p> <p>Therefore, the objective of this standard needs to be suitably modified to include reference to aspiring engagement partners as well.</p> <p>Further, it does not seem appropriate that “professional development” can be provided by the IFAC</p>

		<p>member body to the engagement partners. In our opinion, it would be more apposite if the objective is redrafted in the following manner -</p> <p>“The objective of an IFAC member body is to have aspiring engagement partners and serving engagement partners develop and maintain the professional competence required to perform their role.”</p>
11.	<p>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?</p>	<p>Since the objective stated in the Standard does not correctly reflect the true intent and scope of the standard and needs to be redrafted, this question cannot be answered in the affirmative. The requirements of paras 15, 16 and 17 of IES 8 relating to practical experience and assessment of aspiring engagement partners are not in harmony with the objective stated in the standard which is confined to providing engagement partners with the “professional development” required to perform their role.</p>
12.	<p>Are there any terms within the proposed IES 8 which require further clarification? If so, please explain the nature of deficiencies.</p>	<p>(i) One of the learning outcomes described under “Intellectual skills” is to evaluate the “assertions of entity management” on a range of audit and accounting matters. It may be clarified as to what are the assertions of entity management.</p> <p>(ii) The term “network firm” finds place in the definition of “Engagement team” as well as “Auditor’s Expert”, both of which are IAASB definitions adopted in this IES. However, the same has not been defined in the IESs or the Glossary.</p> <p>SQC 1, issued by Auditing and Assurance Standards Board of the ICAI, defines a “network firm” as an entity under common control, ownership or management with the firm or any entity that a reasonable and informed third party having knowledge of all relevant information would reasonably conclude as being part of the firm nationally or internationally.</p> <p>The said definition may be considered for incorporation in IES 8.</p>

		<p>(iii) As per para A26 of the Explanatory Material forming part of IES 8, planning effective CPD in the areas of professional judgment and professional scepticism usually requires due care and may need innovative learning methods in which mentoring, reflection, time, and experience often play a key role.</p> <p>The “innovative learning methods” may be exemplified for clarity.</p>
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