



INTERNATIONAL EDUCATION STANDARD 8 (REVISED):  
PROFESSIONAL DEVELOPMENT FOR ENGAGEMENT PARTNERS RESPONSIBLE  
FOR AUDITS OF FINANCIAL STATEMENTS

RESPONSE FROM THE INSTITUTE OF CHARTERED ACCOUNTANTS OF SCOTLAND  
TO THE INTERNATIONAL ACCOUNTING EDUCATION STANDARDS BOARD

11 December 2012



## INTRODUCTION

The Institute of Chartered Accountants of Scotland (ICAS) welcomes the opportunity to comment on the proposed revision to International Education Standard (IES) 8, Professional Development for Engagement Partners Responsible for Audits of Financial Statements.

The ICAS Charter requires ICAS to act primarily in the public interest, and our responses to consultations are therefore intended to place the public interest first. Our Charter also requires us to represent our members' views and to protect their interests, but in the rare cases where these are at odds with the public interest, it is the public interest which must be paramount.

### Key points

We support the International Accounting Education Standards Board's (IAESB's) drive to develop principles based international education standards based on a coherent framework. We also support:

- the principle of moving the focus of IES 8 to aspiring and serving engagement partners and proposing professional development requirements for these individuals;
- the redrafting of IES 8 to improve readability and to clarify issues resulting from experience gained from implementation of the existing IES 8;
- the proposal to take an outcomes based approach to professional competence; and
- that the explanatory material allows International Federation of Accountants (IFAC) member bodies to adapt the learning outcomes to their national requirements.

We do however have concerns in a number of areas.

Whilst one of the stated purposes of the revision is to focus the standard on engagement partners and aspiring engagement partners, the definition of aspiring partner has been set too wide, in our view, for the standard to meet this purpose. The definition of an aspiring engagement partner is 'an aspiring professional accountant or professional accountant who is developing their competence consistent with the requirements and expectations of IES 8'. The definition of an aspiring professional accountant is then stated as 'an individual who has commenced a professional accounting education program as part of IPD'. This is a very broad definition, potentially encompassing not only current engagement partners and those aiming for this role, but could be interpreted as including all other levels of audit staff, including students, pre and post qualified individuals, and those performing a managerial role. As a result, the proposed revisions may cover the same, if not a wider range of, individuals as that of the existing IES 8 definition of an 'audit professional'. We consider that the focus should be on existing engagement partners and those who are due to become such partners in the near future, and that the definition should be narrowed to reflect this.

We are also concerned with the practical experience requirements in paragraph 16, which require a 'significant proportion of the practical experience of an individual aspiring to the role of engagement partner to be related to the audit of financial statements'. With the exception of large and national audit firms, the vast majority of audit engagement partners in the UK are general practitioners who not only conduct audit work but are, in many cases, more heavily involved in non-audit services. With

the rising audit exemption thresholds in the UK, many audit engagement partners have a reducing portfolio of audit clients. To ensure that sufficient practical experience is in place, the UK licensing regime has stringent audit hours requirements in order to attain the audit qualification required to be eligible to become an audit engagement partner. We are therefore of the opinion that this requirement should be made less prescriptive in IES8, or removed altogether, to allow the IFAC bodies to address national licensing requirements. Retaining this requirement could have anti-competitive implications for the UK.

We agree with the learning outcomes based approach but consider that a more principles based, higher-level, approach should be adopted to Table 1 and that competence areas should be the only prescribed requirement. If, however, the learning outcomes are retained, we broadly agree with these, but consider that those derived from the audit engagement partner's requirements in the International Standards on Auditing (ISA) should either be included in full or, preferably, reduced to one requirement e.g. 'an advanced knowledge of and application of the ISAs in relation to all aspects required of the engagement partner role'

We disagree that the objective of the IFAC member body is "to provide engagement partners with the professional development required to perform their role". In our opinion, the responsibility for the professional development is between the (aspiring) engagement partner and their firm. In our view, the IFAC member body is responsible for assessing the effectiveness of that development, as part of the licensing and monitoring regime, before allowing the individual to become an audit engagement partner and in assessing their ongoing competence to continue as an audit engagement partner. We agree that IFAC member bodies should conduct assessment activities, but consider that what these are depends heavily on the regulatory framework and licensing regimes in place at a national level and that this decision should be made at that level.

In the UK, The Financial Reporting Council and ICAS have, recently, jointly commissioned research into a review of audit competencies in the UK. This research project will run for a year and has only just commenced. In the UK we will, therefore, require to factor in any changes resulting from that research as well as the proposed changes in IES8. It is important, therefore, that the standard is principles based and any prescriptive requirements are removed in order to allow IFAC bodies to address their additional national requirements.

## SPECIFIC MATTER FOR COMMENT 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?**

The goal of focusing only on aspiring and current engagement partners should provide greater clarity and would reduce the scope of those requiring to comply with the standard, resulting in a more focused approach to compliance by audit firms. This will also bring IES 8 in line with the emphasis that is given to the engagement partner role in the ISAs and in ISQC 1.

However, we have concerns over the definition of an aspiring professional accountant. The definition of an aspiring engagement partner is 'an aspiring professional accountant or professional accountant who is developing their competence consistent with the requirements and expectations of IES 8'. The definition of an aspiring professional accountant is then stated as 'an individual who has commenced a professional accounting education program as part of IPD'. This is a very broad definition, potentially encompassing not only current engagement partners and those aiming for this role, but could be interpreted as including all other levels of audit staff, including students, pre and post qualified individuals, and those performing a managerial role. As a result of this, the proposed revisions may cover the same, if not a wider range, of individuals as that of the existing IES 8 definition of an 'audit professional'. In our view, the definition should be narrowed to those likely to become an audit engagement partner in the near future, for example within the next two years.

## SPECIFIC MATTER FOR COMMENT 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?**

We agree with the proposed outcomes based approach and setting the requirements in a table also makes them easy to follow. The proposed outcomes based approach is in line with the ICAS outcome based approach to Continuous Professional Development (CPD), and will encourage a clearer link between IES 8, CPD, training plans and appraisal outcomes.

We consider it very important that IFAC member bodies should be able to develop the learning outcomes and proficiencies to meet national requirements and welcome that the explanatory material allows IFAC member bodies to do so. This is vital to ensure that the national requirements of the individual IFAC member bodies are appropriately reflected

We agree with the competence areas set but consider that the detailed learning outcomes make the requirements more prescriptive than the original standard. Our preference would be for the competence areas to remain, as higher level principles, with the detailed learning outcomes and the proficiency levels set at a national level reflecting national requirements.

However, if the consensus is that the learning outcomes and proficiency levels should be set by the IAESB, we are in broad agreement with these learning outcomes, however we have concerns in a number of areas.

There are a large number of prescribed learning outcomes that relate to current audit engagement partner requirements in the ISAs, particularly ISA 220, but not all requirements are included. The risk with including some, but not all, of the areas expected in the role of an engagement partner is that some are given more emphasis than others, where there is an equal requirement. In Table A it may be more appropriate to be more succinct at outcome (iv) by taking a more principles based approach and instead of having a list of ISA requirements in (a), (c), (d) and (i) state instead that the partner should have an 'advanced knowledge of and application of the ISAs in relation to all aspects required of the engagement partner role'. If, however, the level of detail is to remain, the omitted requirements should be included to cover all other engagement partner responsibilities in the ISAs, including evaluation of errors/ misstatements, consultation and resolution of differences.

In competence area reference (f), there is a risk in specifically referring to the audit of tax here as the engagement partner should be able to action this outcome for all audit areas relevant to the engagement. As such, it may be appropriate to expand this outcome to be more of a generic nature to cover all areas relevant to the audit.

As explained earlier, the definition of an aspiring individual is potentially very wide, when this is not the stated intention. If this definition is not narrowed the levels of learning outcomes and proficiencies would likely not be the same for this wide range of individuals potentially within scope. This further supports the need to narrow the definition of aspiring engagement partners, or Table A would require updating to provide a gradual increase in the level of knowledge and proficiency over the various levels.

We agree that the competence areas (a) to (d) and (k) to (q) should be set at an advanced level (however see our comments on the mastery level in Comment 3 below).

An intermediate level has been set for competence areas (e) to (j). When reading the competence areas only, ignoring the learning outcomes, we can understand why an intermediate level has been set, as these competencies will not always be fully relevant to all audits and we would not normally expect audit engagement partners to have an advanced absolute knowledge of each area (e.g. an audit engagement partner does not need to be an Information technology expert). However, when the wording of the learning outcome is considered, which is not referring to absolute knowledge but the evaluation/application/evaluation of these areas, we would consider that this should be set at an advanced level in relation to any audit where the competence area is relevant.

## SPECIFIC MATTER FOR COMMENT 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?**

As commented above, we would prefer for the proficiency levels to be set at a national level. If, however, these are retained within the standard we consider it helpful that these are defined in Appendix 1.

Whilst there is reference to the fact that the 'Mastery' level is not present in the suite of outcomes, there appear to be elements of the 'Mastery' level which should apply to all individuals acting as an engagement partner, particularly around 'acting as a role model', 'providing thought leadership' and 'communicating with impact'. In fact, the only point at mastery level that might not apply to all audits, but is required of an audit engagement partner on complex audits, is 'lead complex projects, resolve complex problems'. We are, therefore, of the view that there is no need for a separately categorised 'Mastery' level in this context, and that the mastery and advanced levels could be combined.

However, we appreciate that these are the minimal proficiency levels and IFAC member bodies are able to increase proficiency levels where required.

## SPECIFIC MATTER FOR COMMENT 4

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

We considered that it was clear in the original standard that complex audits required more advanced competencies and CPD. We consider that this is equally clear in the proposed revision. We agree that it should be left to the IFAC member bodies to require CPD in the relevant areas.

In paragraph 5(b) the standard states that an assumption has been made that the competence requirements for newly appointed engagement partners are those considered necessary to address less complex audits. Our experience in the UK differs from this. It is not uncommon, particularly in the national UK audit firms, for aspiring engagement partners to have developed 'through the ranks' on specialist audits, particularly if they work for a specialist audit group within their firm, or are considered a specialist in a particular sector, and that on becoming audit engagement partner commence immediately on leading complex audits. However, the explanatory material A9 does appear to recognise this. We therefore question why this assumption is made at all in paragraph 5(b) as we would consider that the complex CPD requirements in paragraph 19 should also apply to aspiring engagement partners involved in complex audits.

## SPECIFIC MATTER FOR COMMENT 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 explanatory material in A6 and A32 recognises that engagement partners in small and medium sized practices may not progress through increasing levels of responsibility and may not have professional development programmes. A6 also appears to suggest that the competence requirements could therefore be left to the IFAC member body.

As the majority of ICAS engagement partners fall into the small and medium practitioner (SMP) category, this is a very important matter to ICAS.

We consider that IES8 should apply to all audit engagement partners given the requirements of an audit are the same regardless of the size of firm which conducts the audit. It is therefore important that IES8 is sufficiently principles based to allow it to apply to all sizes of audit practice, rather than disapplying the standard to small and medium firms. This would create a two tier system and differs from the approach taken to the ISAs, where the standards apply to all.

We consider that the competence areas and learning outcomes, if they are to be retained, apply to audit engagement partners from any size of firm and that the only distinction is that the development programmes to achieve such competencies may well be run external to the firm by the IFAC member body or an external training provider. Nevertheless as the requirements of the audit engagement partner are the same regardless of the size of audit the competence areas, and learning outcomes, should apply to all.

In relation to practical experience, however, as explained at the start of our response, we consider that paragraph 16 of the proposed standard is too prescriptive in requiring that a significant proportion of practical experience be in audit. As explained, as many of our small and medium sized firm audit engagement partners may only now have small audit portfolios, due to increasing audit exemption thresholds in the UK (derived from the EU), and as there are already national audit hours requirements as part of the UK licensing regime, we consider that this requirement should be removed from the standard. We consider that practical experience requirements should be left at a national level to address national licensing regimes and regulatory framework requirements.



## SPECIFIC MATTER FOR COMMENT 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)?**

Presuming that the changes alluded to in our response are addressed we cannot foresee any significant implications in implementing the new requirements. Clearly development programmes, IPD and CPD related, would need to ensure that these competence areas and learning outcomes are addressed.

We would see adverse implications if the practical experience requirements are not changed, as explained in Comment 5, or if the definition of aspiring engagement partner is not narrowed.

## SPECIFIC MATTER FOR COMMENT 7

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

If the standard is principles based and the definition of aspiring engagement partner is made clearer we do not see the need for guidance.

## SPECIFIC MATTER FOR COMMENT 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?**

As explained above, we do not consider that IFAC would need to issue guidance if the matters of concern in this consultation response are addressed. In relation to ICAS or our regulator The Financial Reporting Council issuing guidance, we would require to consider the outcome of the ongoing UK research paper before considering guidance on this standard.

## SPECIFIC MATTER FOR COMMENT 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)?**

We have no additional comments to make.

## SPECIFIC MATTER FOR COMMENT 10

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

The objective in paragraph 12 states that the objective of “the IFAC member body is to provide engagement partners with the professional development required to perform their role”. We consider that it is the audit engagement partner’s, and/or their firm’s responsibility to obtain the necessary professional development. It is not for the IFAC member body to provide this development.

The IFAC member body’s role is one of assessment to ensure that the necessary development has taken place before the individual becomes an audit engagement partner and thereafter in maintaining their role as audit engagement partner. We therefore consider that this objective requires to be amended. We have already commented on the need for practical experience requirements and assessment activities to be set at a national level earlier in our response.

## SPECIFIC MATTER FOR COMMENT 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?**

We have no additional comments to make.

## SPECIFIC MATTER FOR COMMENT 12

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

Our main comments in relation to the terms are:

- the definition of “aspiring accountant” which we have explained earlier in our response as being too wide currently; and
- the difference between “advanced” and “mastery”, and our consideration that both terms should be combined, as explained in Comment 3.





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