

December 11, 2012

Mr. Peter Wolnizer, Chair  
International Accounting Education  
Standards Board  
International Federation of Accountants  
529 5th Avenue, 6th Floor  
New York 10017 USA

Dear Peter,

**Re.: Exposure Draft “Proposed International Education Standard IES 8, Professional Development for Engagement Partners Responsible for Audits of Financial Statements”**

We would like to thank you for the opportunity to provide the International Accounting Education Standards Board (IAESB) with our comments on the Exposure Draft “Proposed International Education Standard IES 8, Professional Development for Engagement Partners Responsible for Audits of Financial Statements” (hereinafter referred to as “the draft”).

We support commencement of the clarity project for the International Education Standards (IESs) of the IAESB because it is important that the member bodies of IFAC have clarity as to what the purposes of the standards are through the expression of the objectives, what the requirements are with which member bodies must comply, and what represents additional guidance in the explanatory material beyond the specified requirements.

We have provided overarching comments in the body of this comment letter. In addition, we have responded to the questions posed in the Explanatory Memorandum in Appendix 1 to this comment letter. Appendix 2 to this comment letter provides our detailed comments by paragraph. The details to our response to Question 2 are included in Appendix 3 to this comment letter.

We are deeply concerned by a number of issues that we have identified in our consideration of IES 8. In particular we are concerned about the following:

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Page 2 of 29 to the letter to the IAESB of December 11, 2012

- We are not convinced that IES appropriately deals with the difference between audit engagement partners responsible for the audits of financial statements of SMEs and those responsible for such audits of larger, more complex entities. The way the requirements and the accompanying diagram are set up, it suggests that more CPD is required to be able to perform financial statement audits of larger, more complex entities, whereas those performing financial statement audits of SMEs only need to “maintain” their competence once having achieved it. In our view, auditing of SMEs is a specialization that requires CPD to increase competence over time, much like a specialization for the financial statement audit of larger, more complex entities.
  
- We believe that the learning outcomes and levels of proficiency in Table A suffer from serious problems. Some of our concerns include:
  - Many of the learning outcomes do not align with the requirements in the ISAs for audits of financial statements, which leads to the impression that IES 8 is setting requirements for audits
  - The requirements in IES 8 do not seamlessly mesh with the requirements in IES 2, 3 and 4, and in particular, it is unclear sometimes whether more is actually being required or whether there is overlap
  - Some of the learning outcomes and levels of proficiency do not appear to be appropriate for engagement partners, and multidisciplinary and integrative skills are not addressed
  
- We are not convinced that additional implementation guidance is needed: the standard should be able to stand on its own.

In relation to the alignment of the learning outcomes with the requirements in the ISAs, we strongly recommend that the IAESB obtain technical input from the IAASB. As noted, we have provided the details of our concerns in Appendix 3 to this comment letter.

Page 3 of 29 to the letter to the IAESB of December 11, 2012

We hope that our views will be helpful to the IAESB. If you have any questions relating to our comments in this letter, we would be pleased to be of further assistance.

Yours truly,



Manfred Hamannt  
Executive Director



Wolfgang P. Böhm  
Director Assurance Standards,  
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## APPENDIX 1: Responses to Questions Posed in the Draft

*Question 1: Does the proposed change to focus on the engagement partner provide greater clarity, [sic] improve the effectiveness and implementation of the proposed IES 8 (Revised)? If not, explain the nature of any deficiencies.*

We believe that the proposed change to focus on the engagement partner provides greater clarity with respect to whom the requirements apply and also thereby improve the effectiveness and implementation of the proposed IES. The reason for this is the fact that the engagement partner is the only common member of an engagement team across all audits of all kinds and sizes for firms of all kinds and sizes, and the only such member to be defined in law, regulation, auditing standards and licensing arrangements. Therefore, only education requirements for engagement partners can be developed, applied and enforced.

*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?*

We agree with the adoption of a learning outcomes approach because it permits a focus on measurable competencies. We also agree with the use of the tabular format adopted for learning outcomes because it permits the identification of competence areas, the related learning outcomes and the associated level of proficiency required in an understandable fashion. We particularly welcome the addition of the levels of proficiency to the learning outcomes, which provide an indication of the depth of competency required in relation to the learning outcome.

However, we do not believe that overall, the requirements are clear and appropriate. In particular, we have the following pervasive concerns:

- Our comparison of the learning outcomes and levels of proficiency for the same areas of technical competence in IES 2, 3 and 4 indicate that the requirements in IES 8 do not seamlessly mesh with the requirements in these other standards, and in particular, it is unclear sometimes whether more is actually being required or whether there is overlap

Page 5 of 29 to the letter to the IAESB of December 11, 2012

- Many of the learning outcomes do not align with the requirements in the ISAs for audits of financial statements, which leads to the impression that IES 8 is setting requirements for audits
- Some of the learning outcomes and levels of proficiency do not appear to be appropriate for engagement partners
- Some of the verbs used do not match the minimum level of proficiency set forth for a particular competence area (see below); we therefore suggest that the minimum levels of competence be differentiated by learning outcome so that these match the verbs used.
- No mention is made of integrative or multidisciplinary skills, as a competence area, which we believe are a key component of professional skills for audit partners.

Due to the number of our concerns in this respect, we have provided in Appendix 3 to this comment letter a breakdown of the issues that we have identified related to the concerns above by individual areas of technical competence, by learning outcomes and by levels of proficiency. One of the signatories to this letter has been a technical advisor on the IAASB for most of the last 14 years (as well as being a past technical advisor on the IAESB for one and a half years). On this basis of his expertise, we have come to the conclusion that it is incumbent upon the IAESB to have the wording of the learning outcomes agreed with the IAASB to prevent educational requirements for engagement partners being set that are not aligned with the ISAs.

*Questions [sic] 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?*

Subject to our following comments, on the whole, we believe that Appendix 1 provides adequate clarification to assist in the interpretation of the learning outcomes listed in paragraph 13.

However, we do have difficulty with the use of the following verbs in connection with the noted levels:

“define”	Developing a definition of a matter that has not yet been defined is one of the most intellectually challenging activities that involves both synthesis and analysis beyond a foundation level: indeed it is a mastery level of proficiency. The word “define” should be distinguished from the activity
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Page 6 of 29 to the letter to the IAESB of December 11, 2012

of “reciting” or explaining an existing definition. We therefore suggest that “define” be placed in the mastery level of proficiency and that “recite” be placed in the foundation activity.

“interpret” Interpreting matters that have not yet been interpreted is also one of the most intellectually challenging activities that involves both synthesis and analysis beyond a foundation level: it is at least an advanced level of proficiency. The word “interpret” should be distinguished from the activity of “explaining” or “illustrating” existing interpretations. We therefore suggest that “interpret” be moved to the advanced level of proficiency.

“distinguish” vs. “classify” vs. “identify”

It is unclear to us what the underlying difference between “distinguish”, “classify” and “identify” is. Logically speaking, by distinguishing or identifying matters, one automatically classifies them (i.e., all three involve the attachment of predicates to antecedents). Two out of the three terms therefore ought to be deleted. The level of proficiency of the remaining term depends upon whether one is dealing with the distinguishing/classification/identification based on existing criteria (that is, the distinguishing characteristics of a matter that allow it to be identified or classified), or whether this involves developing criteria. The latter appears to be better described by the term “definition”, so we suggest that the former sense be used. This would permit the remaining term to be placed into the foundation level of proficiency.

We also note that the verb “synthesis” has not been included, which we believe ought to be placed at a mastery level of proficiency.

*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)?*

At a principles-based level, we believe that the revised requirements in respect of more complex audits provide greater clarity. However, requirements do not “assist with the implementation of proposed IES 8”: they set the requirements

**Page 7 of 29** to the letter to the IAESB of December 11, 2012

that must be implemented. We are, however, concerned, that it leaves the impression that auditors of smaller, less complex entities are not specialists in that field. We address this problem in our response to Question 5.

*Question 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 towards the needs of SMPs?*

With the exception of the reference to SMPs in paragraph A6 (see our comments thereto in Appendix 2), the inclusion of a number of references to SMP engagement partners in the application material and their context appear to provide appropriate coverage of some of their professional development needs. However, we believe that auditors of smaller, less complex entities (whether in larger firms or in SMPs) have special CPD needs.

We would like to point out that Questions 4 and 5 are related in a sense. In particular, we note that some SMPs audit larger, complex entities in a particular industry because they are specialized in that industry. The distinction needs to be made by the type of entity whose financial statements are being audited – not as to whether the firm is large or an SMP. In the financial statement audit of a large, complex entity by a large firm, the complexities involve having the engagement partner manage engagement team members with expertise in different areas of complexity. In the financial statement audit of a smaller, less complex entity, by an SMP, greater breadth of competence by the engagement partner is generally required due to having less engagement team members and the fact that these must cover wider competencies, albeit in less depth. This means that there is a greater degree of specialization of team members in the audit team of a large firm for the financial statement audit of a large, complex entity, whereas in a financial statement audit of a smaller, less complex SME, the team members are less specialized but require a greater breadth of competence.

In this sense, economically auditing the financial statements of smaller, less complex SMEs is in fact a specialization. We are not convinced, for example, that engagement partners of large firms that routinely lead financial statement audits of large, complex entities are necessarily capable of economically performing, on their own without any other engagement team members, financial statement audits of smaller, less complex entities any more than a sole practitioner who routinely performs the financial statement audit of a smaller, less

**Page 8 of 29** to the letter to the IAESB of December 11, 2012

complex entity on his or her own is necessarily capable of leading a large audit team on the financial statement audit of a large, complex entity.

On this basis, we are not convinced that the requirement in paragraph 19 as currently drafted covers what needs to be covered on its own – and in particular, the special CPD needs of engagement partners auditing SME's – whether they operate in a larger or smaller firm. Based on our analysis above, we believe that an additional requirement for the auditors of SME's is needed along the following lines:

“IFAC member bodies shall require that engagement partners serving on audits of financial statements of smaller, less complex entities undertake CPD relevant to those areas for which the engagement partner requires the competence to perform those audits.”

Further guidance may be useful to explain how auditing the financial statements of smaller, less complex entities may require CPD of greater breadth (but perhaps of less depth) than that required for the financial statement audits of larger, more complex entities.

*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 revised IES 8 (Revised)?*

We expect that those organizations in our jurisdiction responsible for the education of those seeking to become members of our profession will be affected by the new requirements. In particular, they will be affected by the following requirements engendering the need to:

- prescribe learning outcomes and levels of proficiency for audit engagement partners (paragraph 13)
- regularly review and update the program (paragraph 14)
- establish appropriate assessment activities to assess professional skills (paragraph 17)
- prescribe CPD appropriate to engagement partner responsibilities (paragraph 18)
- prescribe CPD appropriate to engagement partners serving on audits involving more complex industries, operations or reporting requirements.

The first item would cause changes in the curricula of universities and for the final professional exam; the second item would cause changes to the quality control over the university programs including revision of examinations and marking



**Page 9 of 29** to the letter to the IAESB of December 11, 2012

schemes (output), instead of reviewing tables of content (input) and the professional examination. The third item will affect the curriculum for the final professional examination. The final two items would require changes to professional CPD requirements for engagement partners. Although these items do not involve insurmountable issues, they will involve considerable time, effort and cost.

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

In our view, just like IES 1 to 7, IES 8 should be able to stand on its own without implementation guidance. Furthermore, given the differences in educational systems and licensing requirements across jurisdictions, we have come to the conclusion that such guidance may not be that useful. We recognize that there may be some jurisdictions with less developed institutions with respect to auditor education, but we believe that it should not be the function of the IAESB to engage in foreign development activities – this is a matter for national governments, education authorities, regional organizations, international projects (e.g., Common Content) and international development organizations such as the U.N. and the World Bank.

*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?*

In our jurisdiction, we do not require, nor would we necessarily find it useful, to have implementation guidance to help us meet the requirements of this IES.

*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)?*

We do not require, nor would we necessarily find it useful, to have examples of current practice in developing competency models to help us meet the requirements of the proposed IES 8 (Revised). This is because we have developed our own competency model as part of the Common Content Project. With respect to developing nations, we believe that examples of current practice in developing competency models from institutions in developed countries (e.g., Common Content, from Canada, from Australia, etc.) can be downloaded from the internet without much difficulty. For this reason, we do not believe it necessary for

**Page 10 of 29** to the letter to the IAESB of December 11, 2012

the IAESB to provide examples of current practice in developing competency models for others either.

*Question 10: Is the objective to be achieved by an IFAC member body, stated in the proposed revised IES 8 (Revised), appropriate?*

We believe that the objective stated in the proposed revised IES 8 (Revised) is an appropriate, concise statement.

*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?*

In our view, the criteria identified by the IAESB for determining whether a requirement should be specified have been applied appropriately and consistently such that the resulting requirements promote consistency in implementation by member bodies. However, with respect to the assertions in Table A, please refer to our response to Question 2.

*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.*

We have not become aware of any terms that require further clarification.

### **Comments on Other Matters**

*Translations – Recognizing that many respondents intend to translate the final IESs for adoption in their own environments, the IAESB welcomes comment on potential translation issues noted in reviewing the proposed IES 8 (Revised).*

We have no comments on this issue at the present time.

*Developing Nations – Recognizing that many developing nations have adopted are or in the process of adopting the IESs, the IAESB invites respondents from these nations to comment, in particular, on any foreseeable difficulties in applying the proposed IES 8 (Revised) in a developing nation environment.*

**Page 11 of 29** to the letter to the IAESB of December 11, 2012

As our jurisdiction is not a developing nation and we do not have any projects with respect to developing nations in this respect, we have no comments on this issue.

*Effective Date – Recognizing that proposed IES 8 (Revised) is a revision of extant IES 8, the IAESB believes that an appropriate effective date for the standard would be 15-18 months after approval of the final revised standard. The IAESB welcomes comment on whether this would provide a sufficient period to support effective implementation of the final IES 8.*

We are of the view that the IESs need to be seen as a package and that therefore all of the IESs need to articulate with one another. To this effect, we note that the IAASB did not issue its suite of clarified ISAs until all of them had been completed in final form after a consistency check had been carried out at the very end of the clarity process. Consequently, we would not support issuing any of the IESs separately, but only as a package at the same time after such a consistency check has been performed. We therefore disagree with the assertion in the Explanatory Memorandum that individual standards be released as soon as approved (i.e., without such a consistency check). This means that the effective date would need to be some time after the approval of all of the revised or redrafted standards subject to such a consistency check. Having a common effective date after January 1, 2015 would be an acceptable solution.

We would also like to point out that education standards affect a lengthy education pipeline in the various jurisdictions that can range to a minimum of some seven or eight years for those jurisdictions requiring a university degree (of at least three or four years), a period of practical experience of at least three years, and the completion of final examinations. This means that changes to education standards cannot be implemented to affect students who have already entered the education pipeline to become a professional accountant. The effective date for education standards (with the possible exception of the IES 7 for CPD) therefore needs to clarify how the effective date is to be applied in the context of an education pipeline of several years' length.

Once the meaning of the effective date in relation to the education pipeline issue has been resolved, we expect a 12 to 15 month effective date after the approval of all of the IESs to provide adequate time for the implementation of such standards for those jurisdictions not needing to change legislation. For those jurisdictions needing to change legislation, one or two more years may be necessary, but this is resolvable through the "best endeavors" clause in SMO 2.

## APPENDIX 2: Additional Detailed Comments By Paragraph

1. We believe that the scope of IES 8 ought to be for all “audits” – which includes audits of historical financial information other than complete sets of financial statements as covered in ISA 805. We take this view because under ISA 805, an auditor must apply all of the ISAs relevant to the engagement, which thereby means that the education and training required to audit historical financial information other than complete sets of financial statements is exactly the same as that for the audit of complete sets of financial statements.

In addition, since audits are “assurance services” or more accurately, using IAASB terminology, “assurance engagements”, the words “who provide assurance services for” are superfluous and can be deleted. Furthermore, engagement partners do not “provide” such services or engagements: rather, they are responsible for them (see also the wording in A1 of the draft).

Based on this analysis, this part of the sentence should read:

“...engagement partners responsible for audits of financial statements and other historical financial information”.

3. Learning outcomes do not “demonstrate” the professional competence required: they represent benchmarks used to determine what is required. For this reason, the first sentence should be changed to read: “This IES prescribes the learning outcomes that represent the benchmarks for the professional competence required to become an engagement partner”. In this vein, the word “demonstrated” in the third sentence should be changed to “attained”.
5. In (d) reference is made twice to the “audited entity”. This kind of reference is made throughout the draft, but it increases the expectations gap by suggesting that auditors audit entities – not financial statements. We therefore suggest that the term “audited entity” be replaced by “entity whose finan-

Page 13 of 29 to the letter to the IAESB of December 11, 2012

cial statements are being audited”. The reference to “audited entity” should be replaced in this sense throughout the draft.

6. In relation to Schedule 1 we note that the pointy block on the extreme left refers to “Experience building to develop and maintain competence to address increasingly complex audits”. As we point out in our response to Question 5, this approach leaves the impression that only those engagement partners who need to develop and maintain competence to address increasingly complex audits require further experience, when in fact auditors of less complex audits also need to obtain further experience over time too. We therefore suggest that the words be changed to read “Experience building to further develop and maintain competence”.
  
8. In line with our comments on paragraph 1 in relation to the scoping of the draft and the wording used, we suggest that the first sentence read:

“This IES prescribes professional development requirements for engagement partners responsible for audits of financial statements and other historical financial information.”
  
13. In line with our comment on paragraph 1, the first sentence of this paragraph ought to be changed to read: “... learning outcomes that represent the benchmarks for the professional competence of ...”. We refer to our response to Question 2 and to Appendix 3 of our comment letter for our comments on Table A.

### *Explanatory Materials*

Our comments to the explanatory material only address issues that would not be covered by amendments arising from the comments we have made to the introduction, objective and requirements.

- A1. The words “the requirement” in the first sentence are superfluous and can be deleted. In line with our comments to paragraphs 1 and 8, the sentence should end with “...and other historical financial information”. Since it is not possible to understand the meaning of the definition “engagement partner” without the definition of “partner” and definition of “engagement team”

**Page 14 of 29** to the letter to the IAESB of December 11, 2012

without the definitions of “partner” and “staff”, or the definition of “auditor’s expert” without the definition of “expertise”, we suggest that these definitions from ISA 220 and ISA 620 be included in Table B. We also note that the definition of “firm”, “engagement partner”, and “partner” do not refer to the footnote in ISA 220 clarifying that these terms should be read as applying to their equivalents in the public sector where relevant: this needs to be added, too.

- A2. We suggest the word “demonstrates” be replaced with “provides”.
- A4. We suggest the word “demonstrates” be replaced with “attains”.
- A6. It is unclear to us what the purpose of this paragraph is – in particular the reference to “progress through increasing levels of responsibility”. In our response to Question 5 we point out that CPD is also required for auditors of the financial statements of smaller, less complex entities – that fact that their responsibilities do not increase once having become an engagement partner is not a relevant consideration. This also begs the question of what the purpose of the last sentence is.
- A7. We believe that the phrase “most firms operate in a partnership structure” under “Role of firms” is not factually correct. It is not in line with the definition of “firm” and the footnote in ISA 220 in relation to the public sector. We therefore suggest that the word “most” be replaced with “many”. In addition, the last sentence in A7 states that “these matters [that is, the right to practice as a sole practitioner] is usually not within the control or authority of an IFAC member body.” We would like to point out that some IFAC member bodies do have control over the licensing of firms, including sole practitioners. Therefore the words “is usually not” should be changed to “may not be”.
- A10. In line with ISA 620, we suggest that the words “specialists” and “specialist” in this paragraph and A11 be replaced with “auditor’s experts”, which is also defined in Table B.

**Page 15 of 29** to the letter to the IAESB of December 11, 2012

A13. The word “should” in the last sentence should not be used in application material. We suggest that it be replaced with “may”.

A14. In line with our comments on paragraphs 1, 8 and A1, the first sentence of this paragraph should read as follows:

“This IES is applicable to audits of financial statements and other historical financial information.

The third and fourth sentences should then read:

“The prescribed learning outcomes may also be helpful when performing other assurance and related services engagements, such as on pro-forma financial information, prospective financial information, and non-financial information, such as sustainability or social information.”

A15. The words “to ensure” in the third sentence intimates a requirement. We suggest changing the wording to read “... and regulatory authorities are responsible for having engagement partners attain the learning outcomes...”

A16. The second and third sentences repeat the definition of professional competence and can therefore be deleted, ought to be in a definitions section of the standard under clarity conventions, or, if such a section is limited to the Glossary in the framework, then the fact that this is a definition from that Glossary should be explained.

A17. The first sentence is a definition from the Glossary of terms that should not be repeated in the application material under the clarity conventions. If definitions bear repeating in individual standards, then a definitions section ought to be included prior to the requirements section, or the explanatory material should clarify that the definition is from that Glossary. The second sentence can be deleted, since it is not a complete list of competence areas and is therefore misleading: the second sentence is superfluous and confusing since the required competence areas are defined in IES 2 and need not be repeated here.

**Page 16 of 29** to the letter to the IAESB of December 11, 2012

A20. Since this draft deals with a particular specialization, the end of the sentence should read "...develop the specialization as an audit engagement partner".

A21. In line with our previous comments, the word "demonstrate" should be replaced with "attain".

A24. The first sentence is confusing: is it saying that many audit engagements require professional judgment or is it saying that professional judgment is frequently required in any one audit engagement? In any case, the statement is incorrect because under the ISAs all audit engagements require professional judgment and such judgment is required throughout the audit. In addition, engagement partners are members of their engagement teams – not separate. Consideration should therefore be given to amending the wording to read: "Audit engagements require engagement teams, including engagement partners, to exercise professional judgment".

Along the same lines, the second sentence suggests that professional judgment is only required in considering the application of accounting standards and determining an appropriate audit strategy. This is not in line with the ISAs. We suggest that this sentence be deleted.

A25. Under the ISAs, audit evidence is "evaluated", not "assessed" – the word "assessed" in the second sentence should therefore be replaced with "evaluated". Why is reference made in the second sentence to management representations in this case? Under the ISAs, professional skepticism is required in the evaluation of all audit evidence – not just management representations. We therefore suggest that the phrase "as evidence of management's representations" be deleted.

A28. It is unclear why the learning outcomes "professional skepticism" and "professional judgment" in (a) and "reviewing the impact on the public interest of a course of action" in (b) have been singled out for emphasis. This provides a rather biased view of the relative importance of the different learning outcomes. We suggest these example learning outcomes be deleted.



**Page 17 of 29** to the letter to the IAESB of December 11, 2012

A30. The word “might” should be replaced with “may” under the clarity conventions.

A31. In line with our previous comments, the word “demonstrate” should be replaced with “attain”.

A34. We agree that written examinations (or other forms of assessment directly recording candidate responses to questions) may be included – but it seems to us to be remiss not to require some form of such assessment. The way the draft is written, no assessment requiring the direct documentation of candidate responses would be prescribed because no such assessment is required by IES 2 or IES 6 either, it appears that the IES would be permitting licensure as engagement partners without having once been subject to some form of assessment requiring the direct recording and documentation of candidate responses to questions.

A40. The words “are encouraged” should be replaced with “may” since this would be in line with the clarity conventions. The second bullet point causes us some confusion because not all public interest entities are listed entities subject to listing or special corporate governance requirements. Perhaps the term “public interest entities” should be replaced with “listed entities”.

## APPENDIX 3:

### Detailed Comments In Relation to Question 2 on Table A

#### Technical competence

##### (a) Audit of financial statements

- (i) It is not clear to what the “risk of engagement continuance or acceptance” refers. Under ISA 220.12.1, an engagement partner is required to satisfy him or herself (an “evaluation”) for an engagement that appropriate procedures regarding acceptance and continuance of client relationships have been followed and determine (another “evaluation”) whether the conclusions reached in this regard are appropriate. Furthermore, ISA 220.13 requires the engagement partner to communicate information that would have caused the firm to decline the audit engagement to the firm (which presupposes an “evaluation” of that information). This learning outcome needs to be revised to reflect what is required in the ISAs.
- (ii) The ISAs do not require the auditor to “evaluate the audit risk profile of an engagement in respect of components of audit risk”: it is unclear what this means and how it relates to item (vi) – in fact, this learning outcome seems to be superfluous because item (vi) covers risk assessment, which would be performed by components of audit risk. We therefore believe that this learning outcome either needs clarification to differentiate it from (vi), or can be deleted.
- (iii) The verb “approve” is not covered in Appendix 1, and would unlikely relate to an advanced level of proficiency. Furthermore, the purpose of an *overall* audit strategy under ISA 300.7 is to set the scope, timing and direction of the audit, and to guide the development of the audit plan. We also note that often professional staff prepares the audit strategy, which then must be evaluated by the engagement partner. We therefore suggest that the learning outcome read as follows: “Design an appropriate overall audit strategy or evaluate the appropriateness of an overall audit strategy to set the scope, timing and direction of the audit and guide the development of the audit plan.”

Page 19 of 29 to the letter to the IAESB of December 11, 2012

- (vi) We would like to point out that the verbs “identify” and “assess” are not aligned with the advanced level of proficiency in the right-hand column based on Appendix 1: it is generally the role of engagement partners to evaluate the identification and assessment of risks of material misstatement performed by others. Furthermore, under ISAs 300 and 315 it is not the “overall audit strategy” that is customized by the risk assessment, but the audit plan with respect to risk response. For these reasons, we suggest that this learning outcome read as follows: “Evaluate the appropriateness of the identification and assessment of risks of material misstatement, whether due to fraud or error, and evaluate the appropriateness of the responses to risk in the audit plan.”
- (viii) The verb “identify” is not aligned with the advanced level of proficiency in the right-hand column based on Appendix 1: we suggest the wording be changed to “Evaluate the identification of significant deficiencies...”.
- (ix) The verb “prepare” is not aligned with the advanced level of proficiency in the right-hand column based on Appendix 1: we suggest the wording be changed to “Evaluate the appropriateness of the audit report...”.

(b) Audit of financial statements

We note that both the drafts of IES 2 and IES 8 require an “advanced” level of proficiency. Does this mean that the overall required level of proficiency is the same, or does this mean that the level of proficiency for the different learning outcomes for IES 2 and IES 8 is different? If the former applies, then there is no need for a separate section on financial accounting and reporting in IES 8; if the latter applies, then the learning outcomes between IES 2 and IES 8 need to be clearly different. We have addressed our comments in this section based on the latter assumption.

- (i) The verb “analyze” is not aligned with the advanced level of proficiency in the right-hand column based on Appendix 1: we suggest the word be changed to “evaluate”. Furthermore, as noted below, the learning outcome in (iv) can be deleted if the learning outcome were to read: “Evaluate the appropriateness of the accounting treatment, presentation and disclosures of transactions and other events in the financial statements in the context of the applicable financial reporting framework.”

Page 20 of 29 to the letter to the IAESB of December 11, 2012

- (ii) The verb “determine” is not aligned with the advanced level of proficiency in the right-hand column based on Appendix 1. It is unclear what the difference between IES 2 and IES 8 is on the “evaluation of the appropriateness of accounting policies”. In line with ISA 700.13 (a), perhaps this learning outcome should be limited to “Evaluate whether an entity has adequately disclosed the significant accounting policies as selected and applied”.
  - (iii) The verb “assess” is not aligned with the advanced level of proficiency in the right-hand column based on Appendix 1: we suggest the word be changed to “evaluate”. In any case, what does “reasonableness of the financial statements” mean? This learning outcome goes beyond what is required in the ISAs and should therefore be deleted or replaced with a learning outcome that is in line with the ISAs.
  - (vi) IES 2 refers not only to “transactions”, but also to “other events” in its analogous learning outcome. This learning outcome seems to be superfluous because it is already covered by (i) if the changes that we propose for (i) were made: this learning outcome could then be deleted.
- (c) Governance and risk management
- (ii) & (iii) It is not clear to us what the learning outcome in (ii) is requiring – in any case, we cannot find an equivalent requirement in an ISA to support such a requirement. ISA 315.11 requires the auditor to obtain an understanding of an entity’s ownership and governance structure as part of the auditor’s risk assessment procedures. Furthermore, the auditor is required by ISA 315.13 in connection with ISA 315.16 to obtain an understanding of the results of any entity risk assessment process as part of the auditor’s risk assessment procedures. Furthermore, (iii) uses the verb “consider”, which is not aligned with the advanced level of proficiency in the right-hand column based on Appendix 1. Item (iii) also addresses an entity’s “risk management process”, which is not aligned with ISA 315’s use of the term “risk assessment process”. We suggest that (ii) and (iii) be deleted and replaced by the following learning outcome: “As part of the audit’s risk assessment procedures, evaluate the understanding of the entity’s governance structure and of any entity risk assessment process and of the results thereof”.

Page 21 of 29 to the letter to the IAESB of December 11, 2012

(d) Internal control

- (i) We would like to point out that ISA 315 does not require an understanding of the control environment that is separate from an understanding of the design and implementation of the controls in the environment. Furthermore, ISA 315 does not require an understanding of all controls – only of control relevant to the audit. We therefore suggest that the learning outcome read as follows: “Evaluate the understanding of controls relevant to the audit, including the design and implementation of those controls”.
- (ii) In this case, the learning outcome should be worded: “Evaluate the appropriateness of the performance of tests of operating effectiveness of controls” (note: it is not the controls that are performed, but the tests).
- (iii) Not all deficiencies in internal control are required by the ISAs to be communicated to those charged with governance or management. In addition, the verb “communicate” is not aligned with the advanced level of proficiency in the right-hand column based on Appendix 1. We therefore suggest that the second half of this learning outcome read as follows: “... and advise on those deficiencies to be communicated to those charged with governance and those to be communicated to management.”

(e) Business and organizational environment; Economics; Business management

We note that both the drafts of IES 2 and IES 8 require an “intermediate” level of proficiency. Does this mean that the overall required level of proficiency is the same, or does this mean that the level of proficiency for the different learning outcomes for IES 2 and IES 8 is different? If the former applies, then there is no need for a separate section on this competence area in IES 8; if the latter applies, then the learning outcomes between IES 2 and IES 8 need to be clearly different. We have addressed our comments in this section on the latter assumption.

- (i) & (ii) It is not clear to us how the learning outcome in (i) differs from that required in IES 2 or from that in (ii). Neither learning outcome appears to be in line with ISA 315.11. We suggest deleting these two learning outcomes and replacing them with the following learning outcome: “Consider the appropriateness of the understanding of

Page 22 of 29 to the letter to the IAESB of December 11, 2012

the entity and its environment obtained in audit as part of the audit risk assessment procedures.”

(f) Taxation

We note that both the drafts of IES 2 and IES 8 require an “intermediate” level of proficiency. Does this mean that the overall required level of proficiency is the same, or does this mean that the level of proficiency for the different learning outcomes for IES 2 and IES 8 is different? If the former applies, then there is no need for a separate section on taxation in IES 8; if the latter applies, then the learning outcomes between IES 2 and IES 8 need to be clearly different. We have addressed our comments in this section based on the latter assumption.

(i) & (ii) The learning outcome in (i) appears to be procedural: it is not in line with ISA 250 on this matter. In addition, the verbs “determine” in (i) and “evaluate” in (ii) are not aligned with the intermediate level of proficiency in the right-hand column based on Appendix 1. The learning outcome in (ii) could be written so that it aligns with an appropriate rewording of (i) and both should be reworded to align with the ISAs. We suggest that the learning outcomes for this section be worded as follows:

(i) Analyze, with the assistance of an auditor’s expert in taxation if required, whether the assessment of risks of material misstatement due to the impact of taxation on the financial statements or noncompliance with tax law is appropriate.

(ii) Analyze, with the assistance of an auditor’s expert in taxation if required, whether the responses to the assessment of risks of material misstatement due to the impact of taxation on the financial statements or noncompliance with tax law are appropriate.

(g) Information technology

We note that both the drafts of IES 2 and IES 8 require an “intermediate” level of proficiency. Does this mean that the overall required level of proficiency is the same, or does this mean that the level of proficiency for the different learning outcomes for IES 2 and IES 8 is different? If the former applies, then there is no need for a separate section on information technology in IES 8; if the latter applies, then the learning outcomes between IES 2 and IES 8 need to be clearly different. We have addressed our comments in this section based on the latter assumption.

**Page 23 of 29** to the letter to the IAESB of December 11, 2012

(i) & (ii) The verbs “evaluate” in (i) and “determine” in (ii) are not aligned with the intermediate level of proficiency in the right-hand column based on Appendix 1. In relation to (i), we note that the first sentence is not in line with ISA 315.21. Furthermore, (ii) is already covered by (d) (iii). In alignment with the ISAs we suggest that these learning outcomes be worded as follows:

- (i) As part of evaluating the understanding obtained of internal control relevant to the audit, including of the information system, analyze the understanding of the procedures within IT by which transactions are initiated, recorded, processed, corrected as necessary, transferred to the general ledger and reported in the financial statements
- (ii) As part of evaluating the understanding obtained of the entity’s control activities relevant to the audit, analyze the understanding obtained of how the entity responded to risks arising from IT
- (iii) As part of evaluating the appropriateness of tests of operating effectiveness of controls, analyze the effectiveness of those tests in relation to controls affected by IT.

(h) Business laws and regulations

(i) & (ii) The verb “evaluate” in both (i) and (ii) is not aligned with the intermediate level of proficiency in the right-hand column based on Appendix 1. The learning outcome in (i) is not aligned with the requirements in ISA 250 on this matter: auditors are not required to determine the impact of “potential” breaches, nor are they required to engage in the same work effort for different kinds of laws and regulations under ISA 250.13 and .14 (see the difference between those laws and regulations that have a direct effect on the financial statements and other laws and regulations). Furthermore, (ii) does not relate to all audits: it is a matter of specialization beyond becoming a “generic” engagement partner. In line with ISA 250, we suggest that the learning outcomes for this section be written as follows:

- (i) Consider whether sufficient appropriate audit evidence has been obtained regarding compliance with the provisions of laws and regulations generally recognized to have a direct effect on the determination of material amounts and disclosures in the financial statements

Page 24 of 29 to the letter to the IAESB of December 11, 2012

(ii) Consider whether identified and suspected non-compliance with laws and regulations has been addressed appropriately in the audit.

(i) Finance and Financial Management

We note that both the drafts of IES 2 and IES 8 require an “intermediate” level of proficiency. Does this mean that the overall required level of proficiency is the same, or does this mean that the level of proficiency for the different learning outcomes for IES 2 and IES 8 is different? If the former applies, then there is no need for a separate section on finance and financial management in IES 8; if the latter applies, then the learning outcomes between IES 2 and IES 8 need to be clearly different. We have addressed our comments in this section based on the latter assumption.

- (i) It is not clear what kinds of testing and review procedures would be required on an audit in relation to various sources of financing: this learning outcome should be aligned with ISA 315.11 (b) (iv). We suggest the following learning outcome: “Consider the appropriateness of the understanding of the entity and its environment obtained in relation to the way the entity is structured and how it is financed”.
- (ii) It is unclear to us what the difference is between this learning outcome and that in IES 2 (c) (ii): if there is now difference in competence, the learning outcome in IES 8 should be deleted. In any case, this learning outcome is not in line with what ISA 570.16 requires in relation to going concern when cash flow forecasts become audit-relevant. We suggest that if a learning outcome beyond that in IES 2 is needed, then it should read: “Consider the adequacy of the procedures performed in relation to cash flow budgets and forecasts where this is a significant factor in considering the future outcome of events or conditions in the evaluation of management’s plans for future action when events or conditions have been identified that may cast significant doubt on the entity’s ability to continue as a going concern.”
- (iii) We note that this learning outcome requires a lesser level of proficiency than that in IES 2 (c) (iv), which requires an “evaluation” of the same matter. It appears that therefore the learning outcome in IES 8 can be deleted.
- (iv) It is not clear what the purpose of this learning outcome is. Furthermore, such an analysis would affect the audit plan, rather than the



Page 25 of 29 to the letter to the IAESB of December 11, 2012

overall audit strategy. We presume the issue of accounting estimates from ISA 540 is being addressed. We therefore suggest the following learning outcome: “Consider the appropriateness of the identification and assessment of risks of material misstatement for accounting estimates in relation to financial instruments and consider the appropriateness of the responses to those risks.”

(j) Management accounting

We note that both the drafts of IES 2 and IES 8 require an “intermediate” level of proficiency. Does this mean that the overall required level of proficiency is the same, or does this mean that the level of proficiency for the different learning outcomes for IES 2 and IES 8 is different? If the former applies, then there is no need for a separate section on management accounting in IES 8; if the latter applies, then the learning outcomes between IES 2 and IES 8 need to be clearly different. We have addressed our comments in this section based on the latter assumption.

(i) & (ii) Our analysis of these two learning outcomes leads us to the conclusion that both of them are actually appropriate for IES 2 because they are not specific to audits; they are also important for accountants in business – we ask ourselves why these are not included in IES 2 rather than in IES 8. Furthermore, it is unclear how these learning outcomes relate to the competence that an engagement partner would need in an audit under the ISAs. In any case, the word “evaluate” in (ii) is not aligned with the intermediate level of proficiency in the right-hand column based on Appendix 1 and should therefore be changed to “consider”. Perhaps a learning outcome in line with ISA 315.11 (e) could be helpful as follows: “Consider the appropriateness of the understanding obtained of the entity and its environment in relation to the measurement and review of the entity’s financial performance.”

## Professional Skills

(k) Intellectual

We note that both the drafts of IES 3 and IES 8 require an “advanced” level of proficiency. Does this mean that the overall required level of proficiency is the same, or does this mean that the level of proficiency for the different learning outcomes for IES e and IES 8 is different? If the former applies, then there is no need for a separate section on intellectual skills

Page 26 of 29 to the letter to the IAESB of December 11, 2012

in IES 8; if the latter applies, then the learning outcomes between IES 3 and IES 8 need to be clearly different. We have addressed our comments in this section based on the latter assumption.

- (i) It is unclear what “evaluate the assertions of entity management” means. The financial statements represent implicit and explicit assertions by management. Or are assertions made by management in relation to the financial statements meant – and if so, which ones (responses to inquiries, written representations, assertions in other information, etc.)? How does this align with what the ISAs require? How does this learning outcome differ from that in Table A (a) (i) in IES 3? Unless further clarification of this learning outcome is provided and it is further differentiated from that in IES 3, this learning outcome should be deleted.
- (ii) The verb “resolve” is not aligned with the advanced level of proficiency in the right-hand column based on Appendix 1. Are we suggesting that IES 3 does not require inquiry, and abstract and logical thought, or critical analysis? Overall, we are not convinced that this learning outcome is particularly useful – nor do we believe that the professional skills being addressed are not relevant to IES 3. On the whole, this suggests to us that the learning outcomes for intellectual skills for both IES 3 and IES 8 require some redevelopment.

(l) Personal

- (i) Neither the verbs “promote” nor “undertake” are aligned with the advanced level of proficiency in the right-hand column based on Appendix 1. How is this learning outcome different in substance from that in IES 3 Table A (b) (i)? It seems to us to be a “motherhood” statement about safeguarding “audit quality” and the “public interest”. Unless the learning outcome can be clearly differentiated from that in IES 3 and include substantive content, this learning outcome should be deleted.

(m) Interpersonal and communication

The verbs “present, discuss and defend” in (i), and “resolve” in (ii) and (iii) are not aligned with the advanced level of proficiency in the right-hand column based on Appendix 1. Overall we are not convinced that the learning outcomes for this competence area are fundamentally different from those in IES 3 Table A (c). For example, (i) is largely the same as (c) (ii) in IES 3; (ii) and (iii) are largely the same as (c) (v) in IES 3; and (iv) is

Page 27 of 29 to the letter to the IAESB of December 11, 2012

substantively the same as (c) (iv) in IES 3. Unless these learning outcomes can be clearly differentiated from those in IES 3, the learning outcomes in this competence area in IES 8 should be deleted.

(n) Organizational

- (ii) The verb “initiate” is not aligned with the advanced level of proficiency in the right-hand column based on Appendix 1. We suggest aligning this learning outcome with the ISAs and that the learning outcome read as follows: “Manage changes in overall audit strategy and in the audit plan”.

**Professional Values, Ethic, and Attitudes**

(o) Commitment to the public interest

The verb “assess” is not aligned with the advanced level of proficiency in the right-hand column based on Appendix 1. We are not convinced that engagement partners are able, or even should be able, to assess the effect on the public interest and wider society of a specific course of action in respect of an entity at an advanced level. Determining the impacts of specific courses of action on the public interest and wider society at an “advanced level” is predicated upon a level of depth and breadth of competence in political economy and political philosophy that is, given their education and training, beyond most professional accountants, including engagement partners. We note that neither IES 2 nor IES 4, nor IES 8, require any education or training in either political economy or political philosophy, which means that engagement partners do not have the basis for an advanced level of proficiency in this area. There is a vast difference between having a high level of commitment to the public interest and competence in determining the impacts on the public interest and wider society: we believe that this learning outcome confuses the high level of commitment deemed appropriate for engagement partners with competence in public interest issues. Consequently, this competence area should be changed to a foundation level, or intermediate level at most if learning outcomes for political economy and political philosophy were strengthened, and the learning outcome at a foundation level would read: “Explain (or if intermediate: “consider”) the impact of audits on the public interest and wider society”.

Page 28 of 29 to the letter to the IAESB of December 11, 2012

(p) Professional skepticism and professional judgment

- (i) The verb “adopt” is not aligned with the advanced level of proficiency in the right-hand column based on Appendix 1. We would like to point out that with the exception of ISA 240, the ISAs view professional skepticism as an attitude (not a “mindset”) that applies to all audits, regardless of the nature of an entity, management, and the evidence obtained – that is the “level” of professional skepticism does not vary. Rather, the attitude of professional skepticism means that auditors would react differently based on the nature of the entity, the integrity of management, and the perceived reliability of evidence. We therefore suggest that the learning outcome be changed to read: “Evaluate whether the attitude of professional skepticism has been applied appropriately based on the nature of the entity, the integrity of management, and the perceived reliability of evidence.”
- (ii) The verb “exercise” is not aligned with the advanced level of proficiency in the right-hand column based on Appendix 1. We find the reference to certain aspects of the audit in (a), (b) and (c) not to be helpful because these are all covered by “planning and performing the audit” as set forth in ISA 200. While we agree that professional judgment is used in engagement acceptance and continuance and the determination of independence, this is also covered by “planning” under ISA 300.6 (“preliminary engagement activities”). We therefore suggest that the two sentences in this learning outcome be reduced to read: “Evaluate whether reasonable professional judgment has been exercised in planning and performing the audit”.
- (iii) In our view, this learning outcome is covered by (l), (m) and (n). In addition the learning outcome is not specific to professional judgment and professional skepticism alone. We therefore suggest that this learning outcome be moved, amended, or deleted.

(q) Ethical principles

We are not convinced that professional accountants generally, nor audit engagement partners in particular, are experts in ethical principles any more than they are experts in the public interest. We note that the learning outcomes in relation to ethics in IES 4 are at an intermediate level. This suggests to us that the ethical education and training of professional accountants is not at an advanced level because the breadth and depth of education and training in philosophy required for an intermediate level does not represent that of someone who has an undergraduate degree in

**Page 29 of 29** to the letter to the IAESB of December 11, 2012

philosophy in general, let alone one who has majored in ethics, and we are not convinced that IES 8 is actually requiring that level of proficiency. Much like for the “commitment to the public interest” in (o) above, the level of commitment to ethical principles (which should be high) is being confused with the level of competence in ethical matters. On this basis, the IAESB needs to reconsider the level of proficiency: we believe that it cannot be higher than intermediate.

We also note that the verbs “apply”, “identify”, “consider”, “implement” and “maintain” are not aligned with the advanced level of proficiency in the right-hand column based on Appendix 1.

- (i) It seems to us that there is no difference between this learning outcome and that in IES 4 Table A (b) (iii); the learning outcome is, in addition, not complete. We believe that this learning outcome is therefore superfluous and can be deleted.
- (ii) We believe professional accountants as a whole should be in a position to analyze conflicts of interest: this competence is transferable to audit engagements. We therefore question whether this learning outcome would be necessary if the learning outcome were added in a generic sense to IES 4.
- (iv) We note that application of confidentiality is already required under IES 4 Table A (b) (iii): this competence is transferable to audit matters. For this reason, we do not believe that this learning outcome is required for IES 8. In addition, in line with our general comments on this area of competence, we are not convinced that audit engagement partners are experts in the field of “confidentiality” and therefore we believe that an advanced level of proficiency would not be appropriate. In our view, only those with considerable legal education and training (i.e., lawyers) are experts in confidentiality issues with an advanced level of proficiency. Again, we believe that the IAESB is confusing the high level of commitment to confidentiality with the level of competence or proficiency in that area.