

April 30, 2014

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

Dear Peter,

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

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in Deutschland e. V.

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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 “this IES”).

We support the general thrust of this IES, including its focus on the engagement partner and the use of learning outcomes, but we do continue to have a number of important concerns, even if we do believe that this IES is a considerable improvement over the first exposure draft.

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 the table in Question 3 are included in Appendix 3 to this comment letter.

Overall, we believe that the learning outcomes in Table A suffer from a number of 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

GESCHÄFTSFÜHRENDER VORSTAND:  
Prof. Dr. Klaus-Peter Naumann,  
WP StB, Sprecher des Vorstands;  
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- Multidisciplinary and integrative skills are not addressed
- The verbs used in the learning outcomes are neither defined nor categorized by level of proficiency, which will cause some difficulty in implementing this IES a demonstrating compliance

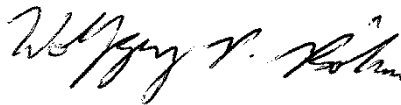
In relation to the alignment of the learning outcomes with the requirements in the ISAs, we recommend that the IAESB draw on the commensurate IAASB pronouncements. As noted, we have provided the details of our concerns in Appendix 3 to this comment letter.

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

We believe that the continued 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.

With respect to the wording of the objective, we would like to point out that before seeking to “maintain” the professional competence to perform the role of an engagement partner, a professional accountant must first “obtain” that professional competence. For this reason, we strongly recommend that the words “obtain and” be inserted in between the words “to” and “maintain”. We believe the objective to be otherwise appropriate and clear.

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

We have no comments on this issue.

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

We agree with the use 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 and the related learning outcomes.

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



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- Without a definition of the meaning of the verbs and their categorization by level of proficiency, it is rather difficult to design appropriate education programs and assessment. We strongly recommend that the verbs used be defined and categorized by level of proficiency.
- 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.
- No mention is made of integrative or multidisciplinary skills, as a competence area, which we believe are an important component of professional skills for audit partners.

Due to the number of our detailed concerns, 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 and by learning outcomes. 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.

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

We believe that levels of proficiency for each competence area, or even for each learning outcome, as the case may be, should be provided in Table A. This would need to be in line with a categorization of verbs by level of proficiency and definition of the verbs used. It begs the question as to why levels of proficiency are used in IESs 2, 3 and 4, but not IES 8.

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

We do not believe that additional explanatory paragraphs would be needed if the learning outcomes in Table A were more closely aligned with the wording in the ISAs and the verbs were defined and categorized by level of proficiency.

***Question 6. Does figure 1 of Explanatory Material section for the proposed IES 8 Exposure Draft (December 2013) assist in understanding which***



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***stakeholders have responsibilities that impact the professional competence of engagement partners?***

We believe that figure 1 does assist in understanding, but as noted in our comments by paragraph to paragraph 2, paragraph 2 misleads readers as to the relationship between the organizations depicted as quality control standards for engagement performance (ISA 220). It would therefore be helpful to revise paragraph 2 as we strongly recommend, and then to consider whether this revision prompts additional clarification amendments to the figure.

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

As noted in our responses by paragraph and to Table A, we believe that there are additional terms from the ISAs that may be needed to help users of this IES understand the scope and requirements of this IES, and that the verbs used in the learning outcomes need to be defined to ensure that there is a common understanding of what is required.

***Question 8. Do you anticipate any impact or implications for your organization, or organizations with which you are familiar, in implementing the requirement included in this proposed IES 8 Exposure Draft (December 2013)?***

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.

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

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. 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



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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.



## **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, including audits of single financial statements. Is the IAESB claiming that engagement partners for audits of single financial statements or parts thereof are not covered? We take the view that these ought to be covered 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. There is therefore no reason not to extend the scope of this IES to cover such audits.

Based on this analysis, the latter part of this paragraph should read:

“...engagement partners responsible for audits of financial statements and other historical financial information.” Hereinafter, reference to “financial statements” includes other historical financial information.

In this respect, we do not believe it to be appropriate to extend the scope of this IES to permit IFAC member bodies to apply this IES to other types of assurance and related services as provided for in paragraph 6. The nature of the competence required for an engagement partner to perform compilation engagements, agreed-upon-procedures engagements, or assurance engagements on green-house gas statements, for example, may be very different from those required to perform the role of an engagement partner for audits of financial statements, including other historical financial information. Without an analysis of what these differences might be, it may be premature to permit the application of the IES to these other circumstances. We therefore suggest that paragraph 6 be deleted.

2. The second and third sentences in this paragraph state that



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“Together, these pronouncements place responsibilities on the International Federation of Accountants (IFAC) member body, engagement partners, and firms as part of the system of quality control for engagement teams performing audits of financial statements. In many jurisdictions, a regulator is also involved in this system of quality control.”

When referring to “these pronouncements” the second sentence is referring to this IES, the SMOs, ISA 220 and ISQC 1. This implies that these pronouncements are “part of the system of quality control for engagement teams performing audits”. We would like to point out that this is technically incorrect because only ISA 220 covers the system of quality control for engagement teams performing audits. This IES, when issued, would be a part of the financial reporting supply chain in relation to audits as defined in other IFAC publications because it does not directly relate to quality control of engagement teams performing audits, but quality control over the education and training of engagement partners through IFAC member bodies and firms. Likewise, the SMOs are a part of the financial reporting supply chain in relation to audits in that they represent the obligations of IFAC member bodies – not that of engagement teams. In addition, ISQC 1 deals with quality control at firm level – not quality control for engagement teams performing audits. The reference to regulators also being a part of the quality control system for engagement teams performing audits in the third sentence is also incorrect: regulators are generally either a part of the quality assurance as defined by IFAC or the financial reporting supply chain in relation to audits, or both.

We do not believe it to be appropriate for the IAESB to redefine what a “quality control for engagement teams performing audits” is in contravention of existing IFAC standard setting and other pronouncements. We therefore strongly recommend that the statements in the second and third sentences of this paragraph be revised to reflect current IFAC standard setting and other pronouncements.

4. The last sentence in this paragraph states that “...this IES is addressed to IFAC member bodies that foster a commitment to lifelong learning among professional accountants.” Grammatically speaking, this means that this IES is not addressed to those IFAC members that do not foster such a commitment. We are not convinced that this was the intention (i.e., the intention was to address all IFAC member bodies, and that these are



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required to foster a commitment to lifelong learning under IES 7). We suggest revising this sentence to clarify this matter.

6. We refer our comments on paragraph 1 above, which recommend that this paragraph be deleted for the reasons noted.

#### *Explanatory Material*

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

- A1. We note that reference is made to the IAASB Glossary of Terms. We would like to point out that, unlike the Glossary of Terms of the IAESB in its Framework for International Education Standards for Professional Accounts, the IAASB Glossary of Terms is non-authoritative. If the IAESB chooses to include definitions from IAASB standards (which we support for clarity of the meaning of the terms used in this IES), then reference should be made to the commensurate IAASB standards, and not the IAASB Glossary. To this effect, the following definitions are to be found in the noted standards:

financial statements	ISA 200.13(f)
firm	ISA 220.7(e), ISQC 1.12(g)
professional judgment	ISA 200.13(k)
professional skepticism	ISA 200.13(l)
auditor's expert	ISA 620.6(a)

Since it is not possible to understand the meaning of the definition "engagement partner" without the definition of "partner" and the definition of "engagement team" without the definitions of "partner" and "staff", or the definition of "auditor's expert" without the definition of "expertise", we recommend that these definitions from ISA 220 and ISA 620 be included in Table B. We also note that the definition of "firm" and "engagement partner" in Table B do not refer to the footnote in ISA 220 clarifying that these terms should be read as applying to their equivalents in the public



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sector where relevant: this needs to be added, too, so that public sector bodies using this IES understand that these terms apply.

- A2. The wording of this paragraph should be aligned with the corresponding paragraphs in IESs 2, 3 and 4.
- A4. The wording of this paragraph needs to be aligned with that in IES 7.4 to the extent that reference is not directly made to engagement partners.
- A6. The first sentence ought to be more closely aligned with that footnoted from ISA 220.14 by reading as follows: “ISA 220 requires the engagement partner to be satisfied that the engagement team, and any auditor’s experts who are not part of the engagement team, collectively have the appropriate competence and capabilities.”
- A9. Based on the requirements in guidance in IES 7, it seems to us that IFAC member bodies have a responsibility beyond just “promoting” the professional competence required to perform the role of an engagement partner. We suggest that the word “promote” be amended accordingly.
- It is unclear to us how, as a consequence of the first sentence, firms are able to comply with ISQC 1 and engagement teams are able to comply with ISA 220. Certainly IFAC member bodies complying with SMOs 1 and 2 and this IES would facilitate firm compliance with ISQC 1 and engagement team compliance with ISA 220, but we are not convinced that firms and engagement teams would be unable to do so if IFAC member bodies did not comply with the SMOs or this IES. We suggest that the second sentence be amended accordingly.
- A11. Given our comments on paragraphs 1 and 6, this paragraph can be deleted.
- A12. In the last sentence, we suggest that the word “providing” be replaced with “responsible for” to align the wording with that in other paragraphs of this IES.



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A14. The term “business analytics” should be replaced with “data analytics”, which we believe is the appropriate term.

A18. In line with ISA 500.5(b), we suggest that the term “reliability” in the first sentence be replaced with “appropriateness” (including relevance and reliability). We are confused about the emphasis on “management representations” in the second sentence because it is unclear whether the reference to “management representations” relates to management assertions (whether explicit or implicit) in the financial statements or to other management representations to support those assertions in the financial statements. Professional skepticism is not only applied to management representations. If this sentence were to be retained, then reference could be made to professional skepticism in the context of the matters noted in ISA 200.18-.22, and in particular ISA 200.20.

The final sentence in this paragraph does not explain why professional skepticism is important in a complex or uncertain globalized economy. The sentence does not appear to have any real content. We therefore suggest it be deleted.

A19. This paragraph appears to confuse professional skepticism with due care. Developing an attitude that includes a questioning mind and critically assessing audit evidence, as described in the second sentence, is in fact a part of the definition of professional skepticism, and does not relate to due care. The following two sentences are also not particularly helpful in relating the overall importance of professional judgment – it just appears to highlight certain areas where professional judgment is important. Overall, this paragraph does not appear to really provide useful guidance to the importance of professional judgment. We suggest that the IAESB draw on ISA 200.A23-.A27 to explain the importance of professional judgment, rather than seeking to develop its own, rather disjointed, guidance on this matter.

A20. It is unclear to us why the concept of due care is now being applied to those planning CPD. Furthermore, we did not find the guidance on innovative learning methods to be particularly helpful. We suggest that this paragraph either be redrafted to contain more useful content, or otherwise be deleted.



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## **APPENDIX 3:**

### **Detailed Comments In Relation to Question 3 on Table A**

#### **Technical competence**

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

- (i) It is not clear to what the “risk of engagement continuance or acceptance procedures” 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. We suggest that this learning outcome be drafted as follows: “Evaluate that appropriate procedures regarding acceptance and continuance of client relationships have been followed and evaluate whether the conclusions reached in this regard are appropriate”.
- (ii) ISA 220 does not require the engagement partner to “oversee” the audit planning, performance and completion process, but rather ISA 220.14(a) requires the engagement partner to “take responsibility for the direction, supervision and performance” of the audit and for the appropriateness of the auditor’s report. The learning outcome should be revised to reflect this.
- (iii) Under ISA 570, the auditor does not “assess the ability of the entity to continue as a going concern”, but rather ISA 570.12 requires the auditor to “evaluate management’s assessment of the entity’s ability to continue as a going concern”. The learning outcome needs to be amended accordingly.
- (vi) 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



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the engagement partner. Furthermore, the verb “approve” does not intimate a high level of competence. We therefore suggest that the learning outcome read as follows: “Design an appropriate, 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.”

- (vii) The second use of the word “in” implies that the engagement partner is supposed to “evaluate significant deficiencies in other matters to be communicated to those charged with governance. We believe that this is not what is intended, but rather that the engagement partner evaluate the appropriateness of other matters to be so communicated. We therefore suggest that the learning outcome be drafted as follows: “Evaluate significant deficiencies in internal control and evaluate the appropriateness of other matters to be communicated to those charged with governance”.

- (x) We suggest that the word “develop” be changed to “draft”.

(b) Financial accounting and reporting

We note that the draft of IES 2 only requires an intermediate level of proficiency. Since no levels of proficiency are used in this table, it is unclear whether any additional level of proficiency is required by IES 8: does it require an “advanced” level of proficiency? Or 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 there should be a clear statement that the level of proficiency is advanced.

- (ii) This learning outcome is limited to “transactions and events”. However, conditions may also need to be covered. We therefore suggest that the word “conditions” be inserted prior to the word “transactions”.
- (iii) In line with ISA 700, we suggest that the word “assess” be replaced with “evaluate”. It is unclear to us why the reasonableness of the financial statements would be evaluated “relative to ... the entity’s ability to continue as a going concern”. The going concern basis of accounting is appropriate (under IAS 1) unless management chooses to cease operations or has not reasonable alternative but to



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do so, which is shortly prior to the need to liquidate. Furthermore, this issue is already addressed under (a)(iii). We therefore suggest that the reference to going concern be deleted here.

(c) Governance and risk management

- (ii) 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, but not to evaluate it. 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. The learning outcome also appears to suggest that evaluating the governance structure and risk assessment process are the only things that need to be done to identify the risks of material misstatement, which is not the case. To be in line with the ISAs, we suggest that (ii) be 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 for the purpose of identifying and assessing risks of material misstatement in the financial statements".

(d) Business environment

- (i) The learning outcome does not appear to be in line with ISA 315.11: where are auditor "expectations" required? We suggest replacing this learning outcome with the following: "Consider the appropriateness of the understanding of the entity and its environment obtained in audit as part of the audit risk assessment procedures."

(e) Taxation

- (i) In line with the ISAs, we suggest that the verb "address" be replaced with "assess", and the word "assess" thereafter be replaced with "evaluate".

(f) Information technology

- (i) We note that this learning outcome is not in line with ISA 315.21. We suggest that this learning outcome be changed to read as follows: "With, if appropriate, the assistance of an IT professional and as part of evaluating the understanding obtained of internal control relevant



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to the audit, evaluate the understanding obtained of how the entity has responded to risks arising from IT.”

- (ii) In line with the ISAs the word “assess” should be replaced with “evaluate” and the words “and audit plan” should be inserted after the words “audit strategy”.
- (g) Business laws and regulations
  - (ii) This is a matter of specialization beyond that required for engagement partners for all audits of financial statements. For this reasons, this learning outcome is “over the top” and should therefore be deleted.
- (h) Finance and financial management
  - (i) In line with the ISAs, the words “testing and review procedures” should be replaced with “audit procedures” (the ISAs do not speak of “testing and review procedures”).

## Professional Skills

- (i) Intellectual

Overall, unless there are specific intellectual skills that are not covered by IES 3, then there should not be any need for separate learning outcomes in this IES.

  - (i) It is not clear to us why this is a generic “intellectual skill”. In our view, the intellectual skills provided for in IES 3 suffice for the evaluation of accounting estimates. Furthermore, there are other intellectual evaluations that need to be done in an audit (evaluating sufficiency and appropriateness of audit evidence, evaluating the appropriate recognition of items in the financial statements, etc.). For these reasons, this learning outcome should be deleted.
  - (ii) Is this learning outcome suggesting that inquiry and abstract, logical thought are not already required by IES 3? The same applies to critical analysis, which is in IES 3.7(a)(iv). For this reason, it appears that this learning outcome is redundant.
- (j) Interpersonal and communication

Overall, unless there are specific intellectual skills that are not covered by IES 3, then there should not be any need for separate learning outcomes in this IES. We are not convinced that these are not covered in some generic way in IES 3.



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### **Professional Values, Ethics and Attitudes**

- (m) Commitment to the public interest
  - (i) It is not clear to us what the purpose of this learning outcome is. Why would an assessment of audit quality involve an assessment of the effect on the public interest, the profession and wider society? It is unclear what this learning outcome is trying to achieve, other than paying lip service to the public interest. Unless there is a clear competence needed for an engagement partner in this area, this learning outcome should be deleted.
- (n) Professional skepticism and professional judgment
  - (i) Auditors do NOT evaluate the “entity” or its “management” in an audit of the financial statements. We therefore suggest that, in line with ISA 200.15, the learning outcome in (ii) is entirely sufficient. Hence the learning outcome in (i) can be deleted.