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International Accounting Education  
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International Federation of Accountants  
545 Fifth Avenue, 14<sup>th</sup> Floor  
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November 14, 2012

494/584

Dear Peter,

**Exposure Draft “Proposed International Education Standard IES 2, Initial Professional Development – Technical Competence (Revised)”**

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 2, Initial Professional Development – Technical Competence (Revised)” (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 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.

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,



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## APPENDIX 1: Responses to Questions Posed in the Draft

*Question 1: Do the 11 competence areas listed in Paragraph 7 of the proposed IES 2 (Revised) capture the breadth and depth of areas over which aspiring professional accountants need to acquire technical competence? If not, what do you suggest?*

With the exception noted below, as broad categories of competence areas, we believe that the 11 competence areas listed in Paragraph 7 do capture the breadth of areas over which aspiring professional accountants need to acquire technical competence. On the whole, with the exception noted below, we also believe that their nomenclature is appropriate. However, in contrast to the assertion in the question above, a listing of competence areas does not provide any indication of depth: that is why it is appropriate that related learning outcomes and minimum levels of proficiency are required in the table in paragraph 7.

One of the primary services provided by small and medium-sized practices to entities are services related to assurance services: in particular, compilation engagements and agreed-upon-procedures engagements. It is therefore incumbent upon the IAESB to ensure that professional accountants have the necessary competence in these areas. For this reason, we suggest that the competence area in (e) be broadened by entitling it “Assurance and related services” (audits are assurance services, too). A learning outcome should also be added in relation to each of the compilation and agreed-upon-procedures engagements.

*Question 2: Do the learning outcomes listed in Paragraph 7 of the proposed IES 2 (Revised) capture adequately the minimum levels of proficiency to be achieved by an aspiring professional accountant by the end of IPD? If not, what changes do you suggest?*

It is not clear as to the kinds of entities covered by the competence areas, and the wording used could suggest that the learning outcomes for a particular aspiring professional accountant apply to all kinds of organizations. In particular, the term “organizations” is used in some learning outcomes without specifying that the relevant competence need only be obtained in relation to the relevant entities for the role of the particular aspiring professional accountant. We recog-

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nize that some professional accountants pursue their activities in industry, whereas other pursue their activities in the public sector, which makes a limitation of competencies to only profit-oriented entities or to only public sector entities difficult. We therefore suggest that some clarification limiting the learning outcomes and the word “organizations” to those entities relevant to the role of a particular aspiring professional accountant be added in the overarching requirement in Paragraph 7. In our response to Question 7 we provide suggested wording for Paragraph 7 in this respect.

We also note that some of the verbs used do not match the minimum level of proficiency set forth for a particular competence area (see below). We suggest that the minimum levels of competence be differentiated by learning outcome so that these match the verbs used.

We have identified the following issues with respect to the learning outcomes and minimum levels of competence:

- (a) Financial Accounting and reporting
  - The verbs “apply” in (i) and (ii), “classify” in (iii), “prepare” in (iv) and “interpret” in (vi) are not aligned with the advanced level of proficiency in the right-hand column.
  - In our view, the minimum level of proficiency “advanced” in the right-hand column appears to be appropriate for all of the learning outcomes under the competence area “financial accounting and reporting” except for item (vi) “interpret specialized reports, including sustainability reports and integrated reports”. This seems to be a very open-ended requirement because there are so many different kinds of specialized reports for which very specialized competencies are required for the ability to interpret these. We are also not convinced that an entry level professional accountant should be able to interpret sustainability reports and integrated reports at an advanced level at this stage. Rather, a foundation level appears more appropriate.
  - There appears to be a misalignment between (ii) and (iv), because (ii) refers to applying accounting standards and (iv) refers to “in accordance with laws and regulations”. In our view, the reference to accounting standards (whether these are private sector standards or those enshrined in law or regulation) is correct, because organizations may account for events or transactions or prepare financial statements using standards that are not required by law or regulation – indeed, some kinds of organi-

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zations may not be subject to specific laws or regulations with respect to accounting. Therefore, the reference to “laws and regulations” should be changed to “applicable financial reporting standards”.

- It is unclear why a reference is made to “primary financial statements” in (iv) – does this mean that aspiring professional accountants need not be able to prepare notes to the financial statements? We suggest that the word “primary” be deleted.
- (b) Management accounting
  - The verbs “integrate” in (ii), and “compare and evaluate” in (iv) are not aligned with the intermediate level of proficiency in the right-hand column.
  - Examples should be in the Explanatory Material, rather than the requirements. For this reason, the use of the words “such as” in (i) is inappropriate. Either the words “such as” need to be replaced with “including”, or the list of items thereafter needs to be moved to the Explanatory Material.
  - It is unclear to us what the difference is between “improve the performance of an organization” in (i) and “for managerial decision-making” in (ii) is because presumably the techniques noted in (i) improve the performance of an organization *because* they improve managerial decision-making.
- (c) Finance and financial management
  - The verbs “compare” in (i), and “evaluate” in (iv) are not aligned with the intermediate level of proficiency in the right-hand column.
- (d) Taxation
  - The verbs “explain” in (i), and (iv) and “identify” in (v) are not aligned with the intermediate level of proficiency in the right-hand column.
  - Does the reference to “organizations” in (ii) mean that professional accountants should prepare such tax calculations for all kinds of organizations? We refer to our comments at the beginning of this question on the use of the word “organizations”.
- (e) Audit and assurance
  - We refer to our comments in relation to “audit and assurance” in our response to Question 1.
  - The verbs “describe” in (i) and (ii), and “identify” in (iv), are not aligned with the intermediate level of proficiency in the right-hand column. What level of proficiency is “understand” in (v) and what

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kind of measurable learning outcome does it represent? It seems to us that items (ii) to (iv) are at foundation level. This is in our view too low, even for professional accountants who are not engaged in audit roles.

- In relation to (i) what does “analyze the risk profile of an entity” mean and what “identify components of audit risk” would be identified (there are only three: inherent, control and detection risks)? In our view, the wording should be changed to read “identify and assess the risks of material misstatement in the financial statements of an entity”, which would be in line with ISA 315.
- (f) Governance, risk management and internal control
  - The verb “explain” in (i) is not aligned with the intermediate level of proficiency in the right-hand column.
  - It is not clear to us what “analyze the components of internal control” in (iv) means: do we mean the components of internal control as defined by COSO, for example, or something else? It appears to us to be much more useful for the learning outcome to require the professional accountant to “assess the design and operating effectiveness of internal control”. This would align the learning outcome with that in (h) (iii) too.
- (h) Information technology
  - The verbs “describe” in (i), “identify” in (ii), and “explain” in (iv) are not aligned with the intermediate level of proficiency in the right-hand column.
- (i) Business and organizational environment
  - The verbs “describe” in (i), “explain” in (iii), and “identify” in (iv) are not aligned with the intermediate level of proficiency in the right-hand column.
- (k) Business management
  - The verbs “explain” in (i), (ii) and (iii), and “compare in (v), are not aligned with the intermediate level of proficiency in the right-hand column.

*Question 3: Does the Appendix provide adequate clarification to assist in the interpretation of the learning outcomes that are listed in Paragraph 7 of the proposed IES 2 (Revised)? If not, what changes do you suggest?*

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Subject to our following comments, on the whole, we believe that the Appendix provides adequate clarification to assist in the interpretation of the learning outcomes listed in paragraph 7.

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 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.

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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: Overall, are the Requirements paragraphs 7, 8, and 9 of the proposed IES 2 (Revised) appropriate for ensuring that aspiring professional accountants achieve the appropriate level of technical competence by the end of IPD? If not, what changes do you suggest?*

With the exception of the following noted proposed amendment to paragraph 7 and our responses to Questions 1 and 2 above, we believe that the requirements in proposed IES 2 (Revised) are appropriate for ensuring that aspiring professional accountants achieve the appropriate level of technical competence by the end of IPD.

In line with our response to Question 2, we propose that the second sentence of the requirement in paragraph 7 be amended to read:

“For technical competence, these learning outcomes shall include, at a minimum, those listed in Table A as applicable to organizations relevant to the particular role of the professional accountant.”

*Question 5: Do you anticipate any impact of implications for your organization, or organizations with which you are familiar, in implementing the new requirements included in this proposed IES 2 (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 (paragraph 7)
- regularly review and update the program (paragraph 8)
- establish appropriate assessment activities to assess the development of professional values and attitudes (paragraph 9).

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 and the professional examination. The last item will affect the curriculum for the final professional examination. However these items do not involve insurmountable issues.

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*Question 6: Is the objective to be achieved by a member body, stated in the proposed IES 2 (Revised), appropriate?*

In our view, the objective to be achieved by a member body, stated in proposed IES 2 (Revised), is appropriate.

*Question 7: 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.

*Question 8: Are there any terms within the proposed IES 2 which require further clarification? If so, please explain the nature of the deficiencies.*

At the present time, we have not become aware of any terms that require further clarification.

*Question 9: – 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*

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

*Question 10: – Developing Nations – Recognizing that many developing nations have adopted 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 2 in a developing nation environment.*

We have no comments on this issue.

*Question 11: – Effective Date – Recognizing that proposed IES 2 is a revision of extant IES 2, the IAESB believes that an appropriate effective date for the standard would be 15-18 months after approval of the final revised standard.*



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*The IAESB welcomes comment on whether this would provide a sufficient period to support effective implementation of the final IES 2.*

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.

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 an 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 endeavours" clause in SMO 2.

## APPENDIX 2: Detailed Comments By Paragraph

1. Learning outcomes do not “demonstrate” the technical competence required: they represent benchmarks used to determine what is required. For this reason, this sentence should be changed to read: “...prescribes the learning outcomes that represent the benchmarks for the technical competence required of ...”
  
3. 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 ...”

### *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 first sentence of this paragraph seems to be a definition of an aspiring professional accountant: either this belongs in a definitions section, 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.
  
- A3. The second 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.
  
- A5. We refer to our comments on A1 and A3, which apply equally to the first sentence of this paragraph. The second sentence is a superfluous and

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confusing explanation since the required competence areas are defined in the table of paragraph 7, which covers additional matters.

A6. We refer to our comments on A1 and A3, which applies to the first sentence of this paragraph. The second sentence of the paragraph seems to extend the definition, but is not included in the glossary definition. Either this sentence is a part of the definition, or it is not and should therefore be deleted. Overall, this paragraph could be deleted if a broader definition that includes the second sentence were included in a definitions section.

A14. This paragraph actually belongs in IES 6, which discusses assessment activities – not in IES 7, which defines what should be assessed and that it should be assessed.