

Mr. Peter Wolnizer
Chair
International Accounting Education
Standards Board
International Federation of Accountants
545 Fifth Avenue, 14th Floor
New York 10017
USA

October 11, 2011

Dear Peter,

Re.: Re-Exposure Draft “Proposed Revised International Education Standard IES 4, Initial Professional Development – Professional Values, Ethics and Attitudes (Revised)”

We would like to thank you for the opportunity to provide the International Accounting Education Standards Board (IAESB) with our comments on the Re-Exposure Draft “Proposed Revised International Education Standard IES 4, Initial Professional Development – Professional Values, Ethics and Attitudes (Revised)” (hereinafter referred to as “the draft”).

As we noted in our response dated July 15, 2011 to the first exposure draft of IES 4, 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 note that the draft has been significantly improved in some respects over its predecessor – particularly in relation to the improved definitions in the glossary, and the use and wording of requirements. However, there still appear to be problems in the use of application material.

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In Appendix 2 we also note a number of sentences in the explanatory material whose wording implies the existence of additional requirements or other degrees of obligation. The IAESB will need to consider whether such wording should be changed so that these sentences represent explanatory material, or whether additional requirements would be appropriate. For these reasons, we are of the view that “recommendations”, “encouragements” and “advisements” have no place in guidance material because they blur the distinction between requirements and guidance.

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,



Klaus-Peter Feld
Executive Director



Wolfgang P. Böhm
Director Assurance Standards,
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APPENDIX 1:

Responses to Questions Posed in the Draft

Question 1. Do you agree with the tabular format adopted for learning outcomes?

We 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.

Question 2. Do you agree with the competence areas identified for ethics education?

We also agree with the competence areas identified for ethics education with one exception as noted in our previous comment letter to the IAESB: we do not believe that “professional skepticism” is an appropriate area of competence for professional accountants in roles other than assurance and assurance-related roles (e.g., audits, reviews, internal audit, litigation support, etc.). Professional skepticism is not addressed anywhere in the IESBA Code of Ethics other than in Sections 290 and 291, which relate to audits, reviews and other assurance engagements. Likewise, professional skepticism is only addressed in relation to audits, reviews and other assurance engagements by IAASB pronouncements – it is not addressed in ISRS 4410 for compilation engagements or ISRS 4400 for agreed-upon-procedures engagements. The definition of professional skepticism in the table in A1 includes the phrase “and a critical assessment of evidence”, which shows that link to evidenced-gathering. By introducing a requirement for all professional accountants to apply professional skepticism in their roles, the IAESB is creating a requirement that is at variance with the requirements of the IESBA and the IAASB.

By definition, the concept of professional skepticism is inextricably linked to the evidence gathering and evaluation for the purposes of expressing an assurance conclusion or derivative reporting of some sort. Many roles that professional accountants exercise do not involve evidence gathering and evaluation for such purposes. It is therefore inappropriate for the IAESB to extend the concept of

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professional skepticism to roles other than for which the concept is designed. We believe that the IAESB is confusing professional skepticism with objectivity, which is always required of professional accountants, regardless of the professional role exercised. Consequently, the competence area of professional skepticism should be clearly restricted to assurance roles.

Question 3. Do you agree with the minimum levels of proficiency as identified for each competence area?

We agree with the minimum levels of proficiency as identified for each competence area (i.e., intermediate) because professional accountants who have just successfully completed IPD are not experts (i.e., not masters) in the application of professional judgment, ethical principles, or in the public interest – nor would they have reached an advanced level at this stage, which requires considerable experience beyond initial qualification. This does not imply that aspiring or newly qualified professional accountants should not adhere to high levels of ethical behavior or commitment to the public interest – it only implies that their level of expertise and competence in these areas is not that of, for example, an engagement partner under IES 8 (who would be at an advanced level) or of an expert in these matters (who would be at a master level). However, given our response to Question 2, we do not agree with the minimum level of proficiency proposed for professional skepticism, which should be restricted to assurance roles.

Question 4. Do you agree that the learning outcomes related to professional skepticism and professional judgment identified are appropriate for ethics education?

Subject to the following comment, we agree that the second learning outcome in (ii) related to professional judgment identified is appropriate for ethics education. The first learning outcome in (i) relates only to professional skepticism and not to professional judgment and therefore should not be depicted as a learning outcome for professional judgment.

We also believe that the word “all” in (ii) should be deleted from the second learning outcome for professional judgment because professional accountants will not always have access or knowledge of “all” relevant facts and circumstances – nor may they be required to become aware of them unless they are performing a reasonable assurance engagement.

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Given our response to Question 2, we do not believe that those learning outcomes are appropriate for professional skepticism, which should be restricted to the assurance. We also believe that the words “other data” in (i) should be replaced with “other information” because “financial information” is not “data” (it is, as the term expresses, information) and therefore the reference to “other data” is misleading.

Questions 5. Does Appendix 1 of the proposed IES 4 Exposure Draft (June 2012) provide adequate clarification to assist in the interpretation of the learning outcomes that are listed in paragraph 11 of the proposed IES 4 Exposure Draft (June 2012)? 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 11.

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 speak-

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ing, 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 6. Are there any terms within the proposed IES 4 Exposure Draft (June 2012) which require further clarification? If so, please explain the nature of the deficiencies?

The requirement in paragraph 9 refers to the provision of a “framework of professional values, ethics and attitudes”. We are aware of the framework for professional ethics as described in the IESBA Code of Ethics, but we are not aware of any prescribed framework for professional values or attitudes. Either IES 4 would need to define and describe such a framework, or the objective in paragraph 9 needs to be changed.

Question 7. Do you anticipate any impact or implications for your organization, or organizations with which you are familiar, in implementing the new requirements included in this proposed IES 4 Exposure Draft (June 2012)?

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:

- integrate ethical requirements throughout the program (paragraph 10)
- prescribe learning outcomes and levels of proficiency (paragraph 11)
- regularly review and update the program (paragraph 12)

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- have the program include reflective activity that is formalized and documented (paragraph 13)
- establish appropriate assessment activities to assess the development of professional values and attitudes.

The first two items would cause changes in the curricula of universities and for the final professional exam; the third 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.

On the other hand, the second last item (i.e., having the program include reflective activity that is formalized and documented) would likely cause serious dislocation in the education delivery system for aspiring members of our profession in Germany. Such a formal activity and its documentation cannot be imposed on universities in Germany by means of changes to curricula (or a framework for a curriculum) or be addressed by means of the final professional examination. There is therefore currently no educational delivery vehicle in Germany to deal with this issue: legislation would be required to establish such an activity. We do not expect that legislators would be convinced of the need for this to prompt them to pass legislation in this regard.

We therefore have serious difficulties with the requirement for the formalized and documented reflective activity from an organizational point of view in our jurisdiction.

We also have additional issues in relation to this requirement, which we address in Appendix 2.

APPENDIX 2: Detailed Comments By Paragraph

1. Learning outcomes do not “demonstrate” the professional values, ethics and attitudes 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 professional values, ethics, and attitudes required of ...”

5. 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 ...”

7. 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

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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 IES 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 paragraphs 3 and 4 of SMO 2.

8. We believe that the objective as stated is not appropriate because the objective needs to
 - (a) be an objective of an IFAC member body, and
 - (b) relate to an educational objective, not to the actual exercise of professional judgment or acting in an ethical manner that is in the public interest – that is, education in this area is an "enabler" – it does not necessarily lead to ethical behavior or the exercise of professional judgment in practice.

The statement of objective in the draft is written as if an education program can create professional accountants with certain values, ethics and attitudes. An understanding of professional values, ethics and attitudes can be conveyed and assessed as part of an education program – not their internalization through actual application in daily practice, which is an after-the-fact professional disciplinary issue: an understanding of professional values, ethics and attitudes and the ability to apply them can be taught, but their internalization by aspiring professional accountants so that they are actually held and applied depends, in the first instance, on socialization processes within firms (and perhaps some socialization in professional education programs). Education standards cannot prescribe socialization processes – only the learning outcomes and knowledge required as one prerequisite for socialization processes being effective in internalizing professional values, ethics and attitudes. For these reasons, we believe that objective should read as follows:

"The objective of an IFAC member body is to have aspiring professional accountants understand, and be able to apply, the professional values, ethics and attitudes required to perform the role of a professional accountant."

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9. As we noted in our response to Question 6 in Appendix 1, it is unclear what a “framework of professional values and attitudes” is. Furthermore, the provision of such a framework would not necessarily lead to the exercise of professional judgment or to acting in an ethical manner, since, as noted in our comment on paragraph 8, education is an enabler in this respect. Furthermore, is not professional judgment also exercised in the public interest? We therefore suggest that the requirement read:
- “IFAC member bodies shall provide learning and development activities such that aspiring professional accountants obtain the competence in professional values, ethics and attitudes needed to exercise their profession in the public interest.”
10. We welcome this requirement with the exception of the word “throughout”, which suggests that no part of an educational program may be conveyed to aspiring professional accountants without integration. We believe integration to be important, but not such that every part of an education program needs to be integrated, which is “overkill”. We therefore suggest that the word “throughout” be deleted.
11. We refer to our response in Appendix 1 to Questions 1 to 4. In addition, we note that the use of the footnote referring to standards is not in line with the clarity conventions: a substantive text should be in the body of the requirement. The description in the footnote is not very helpful. We suggest that the IAESB draw on the definitions of professional standards from the IAASB Glossary. In any case, accounting standards are not the only “criteria” (see ISAE 3000) that professional accountants apply in addition to the professional standards as defined by the IAASB.
13. We agree that reflection or reflective activities are an important part of learning processes – but not just for professional values, ethics and attitudes. For aspiring professional accountants, reflection is an important part of the learning process for all aspects of the contents of professional accounting programs (IES 2) and professional skills and general education (IES 3) and for any CPD in relation to these.
- However, we do not believe that the proposed requirement for reflective activity in relation to professional values, ethics and attitude is appropriate

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from an educational point of view because of the implementation issues involved. Reflection cannot be imposed: it must flow naturally and eclectically from the application of the mind of the student. In this context, we are convinced that the formalization of, and the requirement to document, the lessons learned of such a reflective activity would not lead to real reflection, but only to documentation of “going through the motions” of reflection for compliance purposes and to the superficial documentation of the lessons that students believe member bodies might expect students should have learned. It would be impossible for member bodies to determine whether the reflective activity has actually really taken place with the required application of mind, depth and breadth or whether the lessons documented are those learned.

The formalization and documentation proposed also appears to confuse, on the one hand, the acquisition of an understanding of professional values, ethics and attitudes and the ability to apply them, with, on the other hand, the assessment of that understanding and ability, the requirement for which is covered under paragraph 14 and the requirements for such assessment covered under IES 6. In IES 4, the IAESB should specify the learning outcomes and knowledge in relation to professional values, ethics and attitudes and to require that these be assessed (paragraph 14). IES 6 ought to cover how these are assessed. In some limited circumstances, such assessment could be through the formalization and documentation of reflective activities, but such assessment could be performed by other means, such as requiring reflection within particular questions or cases in an examination environment. However, the IAESB needs to recognize that an understanding of professional values, ethics and attitudes and the ability to apply them can be assessed as part of an education program – not their actual application in daily practice through internalization, which is an after-the-fact professional disciplinary issue.

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. As an editorial matter, under the clarity conventions used by the IAASB, lists of items that are considered complete should use alphanumeric indicators rather than bullet points to indicate when the list is complete. For these reasons, the lists in

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paragraphs A21, A32, A37 and A38 ought to use bullet points rather than the alphabet.

- A1. In line with our responses in Appendix 1 to Questions 1 to 4, we note that professional skepticism is relevant only to IAASB pronouncements that relate to assurance engagements, which presupposes evidence gathering activities. It is therefore not appropriate to extend this term to apply to “the broader context of a role of a professional accountant” as suggested in the last sentence of this paragraph. We suggest that this paragraph clarify that the attitude of professional skepticism applies only to assurance engagements and assurance services (e.g., litigation services) of practitioners in public practice and to assurance activities (e.g., internal audit) of professional accountants in business, and not to other roles.
- A2. The first sentence of this paragraph seems to be a definition of professional values, ethics and attitudes. If so, it should be in the definitions section. However, we question whether it is the role of the IAESB to define these: it actually appears to be within the mandate of the IESBA.
- A3. By using the word “include”, the IAESB is in fact setting a requirement. We would like to point out that the requirement being set is, however, not in line with what is required in the IESBA Code and suffers from a series of technical problems. In particular:
- Technical competence is subsumed under professional competence in the IESBA Code
 - Independence is not required for other than assurance engagements under the IESBA Code and therefore does not represent an ethical behavior required of all professional accountants; furthermore, independence is not an ethical behavior, but a condition (independence in appearance and independence of mind)
 - Objectivity, confidentiality and integrity or not ethical behaviors, but fundamental ethical principles under the IESBA Code
 - “Professional manner” is not required under the IESBA Code (nor any other IFAC pronouncement)
 - Due care is not a professional manner, but a part of the ethical principle “professional competence and due care” in the IESBA Code

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- Timeliness, courteousness, respect, responsibility and reliability certainly appear to be commendable attributes of a professional that ought to be fostered by an education program, but it is unclear to us how this relates to the requirements being set in paragraphs 9, 10 and 11; where are the learning outcomes for these attributes and why are we requiring them if they are not required in the IESBA Code? It is unclear what is meant by responsibility and reliability without further description, explanation or definition
- “pursuit of excellence” is not a required value, ethic or attitude under the IESBA Code; it is unclear what is being required in this case; in any case, pursuit of excellence involves more than just “commitment to continual improvement and lifelong learning”
- commitment to continual improvement and lifelong learning is actually covered by IES 7 and need not be treated in IES 4
- social responsibility is not covered by the Code; social responsibility extends beyond just awareness and consideration of the public interest; it is unclear what social responsibility covers without further description, explanation or definition
- It is unclear to us how awareness and consideration of the public interest is supposed to be imparted on aspiring professional accountants, since this is one of the most difficult issues in philosophy and political economy. Why is this being included if it is not covered in the IESBA Code and what are the learning outcomes in this respect?

We note that many of the concepts are not covered in the IESBA Code. By including these matters, the IAESB is in fact setting standards for professional values, ethics and attitudes, not just for education. We do not suggest that some of these matters may not be important, but the IAESB needs to recognize the nature of the requirements that it is setting. If these additional standards of conduct beyond the Code are to be included, then the IAESB will need to consider if they are in fact appropriate and why and, if so, define what they mean and develop learning outcomes etc. to support educational programs in this respect. Overall this paragraph reads more like a promotional wish list of attributes desired of professional accountants than a serious treatment of educational issues in connection with the IESBA Code and other professional values and attitudes.

A4. The first sentence is a definition from the Glossary of terms that should not be repeated in application material under the clarity conventions. If defini-

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tions bear repeating in individual standards, then a definitions section ought to be included prior to the requirements section.

- A5. We refer to our comments on A4, which apply equally to this paragraph.
- A6. We refer to our comments on A4, which applies to the second sentence of this paragraph. The last 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. On the basis of these comments, the purpose of the first sentence is questionable. Overall, this paragraph could be deleted if a broader definition that includes the second sentence were included in a definitions section.
- A8. Our comments in A4 apply to the first sentence of this paragraph. The second sentence just repeats the areas covered by the IESs. For this reason, this paragraph could be deleted.
- A9. We refer to our comments on paragraph 9.
- A10. We refer to our comments on paragraph 10.
- A13. The concepts used here are not in line with those used in A3, in particular: “developing an awareness and concern for impact on the public” vs. “awareness and consideration of the public interest”, “developing a sensitivity to social responsibilities” vs. “social responsibility”, and a “predisposition to quality” (which is newly introduced and therefore has no counterpart and is not defined or explained). Our comments on A3 apply in this case too.
- A14. The application material contradicts the requirement, which requires integration “throughout” education programs. We refer to our comments on paragraph 10.

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- A15. The second sentence suggest that there is an optimal “most appropriate approach” to learning and development, and encourages IFAC member bodies to identify that approach. We are not convinced this is feasible. Perhaps the phrase should be changed to “appropriate approaches”.
- A23. We are not convinced that the assertions in the two sentences of this paragraph actually provide any informational value to educators and need to be either enriched or deleted.
- A30. In relation to this and the following paragraphs up to and including paragraph A34, we refer to our comments on paragraph 13. Reference is made to “at all stages in their career” in the first sentence of paragraph A30. This suggests that the reflective activity in IES 4 applies to CPD as well as IPD and to matters covered by other IESs, even though the scope of the standard is limited to professional values, ethics and attitudes covered by IPD as noted in paragraph 1. Clarification should be provided here that this description of reflective activity does not mean that this standard requires reflective activity for these other matters or for CPD.