



NEW ZEALAND  
INSTITUTE OF  
CHARTERED  
ACCOUNTANTS

# SUBMISSION

to the INTERNATIONAL ACCOUNTING EDUCATION STANDARDS BOARD

## Exposure Draft IES 8: Professional Development for Engagement Partners Responsible for Audits of Financial Statements

Prepared by the New Zealand Institute of Chartered Accountants

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11 December 2012

Technical Manager  
International Accounting Education Standards Board  
International Federation of Accountants  
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CANADA

Dear David

**Proposed Revision of International Education Standard (IES) 8: Professional Development for Engagement Partners Responsible for Audits of Financial Statements**

The New Zealand Institute of Chartered Accountants (NZICA) thanks you for the opportunity to comment on the Exposure Draft of the proposed revised IES 8: Professional Development for Engagement Partners Responsible for Audits of Financial Statements.

NZICA supports the need for a pronouncement in this area of auditor competence. We believe that IFAC member bodies have a relevant role to play in this area, in the public interest, for their own members. While there is considerable overlap with government regulators, we consider that it is appropriate for the profession to take a lead role in identifying the appropriate competence levels for those involved in audit engagements.

It is our belief that the general principles underpinning IES 8 include:

- an underlying objective of improving and maintaining audit quality
- ensuring all IFAC member bodies regulate professional accountants to the extent that risks to audit quality are addressed
- ensuring that competencies required of members of the audit engagement team are proportionate to the complexity, size and nature of the audit engagement
- ensuring that any imposition of controls is balanced against the need to ensure ongoing access to auditors by the general community
- consistency across standards (including IESs, and those pronouncements issued by the IAASB and the IESB)

We are concerned that the proposed revised standard IES 8 does not fully support these general principles. We consider that the proposed standard, in its current form, is unworkable.

The proposed standard appears to focus on the engagement partner, thereby failing to address the competencies required of other members of the engagement team who are likely to be playing a significant role in making judgements in the audit engagement. The term 'aspiring engagement partner' has been introduced, however we believe this is unhelpful and creates further ambiguity, somewhat similar to the problems with the previous definition of the 'audit professional'.

The proposed standard appears to require member bodies to provide professional development for engagement partners, however we see this as a role of the audit firm and other providers. The member body has an obligation to ensure their members undertake relevant continuing professional development activities, relevant to the type of audit work

they are engaged in. The provision of such CPD arguably should be left to those with the expertise to do so, with monitoring by member bodies. Other standards, such as the Code of Ethics and ISQC 1 impose requirements on the individual professional accountant and the audit firm to develop and maintain competence relevant to the nature of the job.

Furthermore, we believe that by focusing on engagement partners, the standard only points to regulated licensed auditors, and fails to address others.

NZICA considers that any revised IES 8 should focus on the obligations of IFAC member bodies to all professional accountants providing audit services, not only the engagement partner. It should focus on the competence requirements of those involved in providing audit services, relevant to the type of engagement the professional accountant is involved in (with respect to complexity, size and nature of the engagement), in this specialist area.

Our responses to the Request for Specific Comments are set out below.

### **Request for Specific Comments**

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

NZICA believes that the proposed change of focus to the engagement partner and the aspiring engagement partner does not provide greater clarity. While we acknowledge that the term “engagement partner” is more easily understood than “audit professional” we consider this change to backtrack somewhat on the IAESB’s responsibility to act in the public interest to set competence requirements for those professional accountants who are involved in, and responsible for, providing audit services.

As we understand it, the original intention of IES 8 was to prescribe minimum competency requirements for those professional accountants who are responsible for parts of the audit engagement; put simply, ensuring those who are responsible for aspects of the audit or assurance engagement are competent to perform that role and make those judgements.

While the firm and the engagement partner holds ultimate responsibility for the audit, there are many members of the audit team who are responsible for key judgements and who should be subject to minimum competence requirements. We believe this should continue to be the focus of IES 8, not only the engagement partner.

The proposed standard also introduces the term "aspiring engagement partner". We assume this term was created to help clarify the confusion around the term "audit professional", however we consider that it introduces further confusion and appears to be a one-dimensional approach to addressing others who perform certain roles within the audit team. There are many members of the audit team who hold responsibility for aspects of the engagement but who may have no desire nor fit the profile of an "engagement partner" and therefore will never be an 'aspiring engagement partner'. The introduction of this concept also results in the standard beginning to stray into the area of a firm's progression pathway to partnership.

***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?***

Table A introduces a set of competencies required of the engagement partner. In line with our comments above, we do not believe this standard should focus only on the engagement partner and as such the table in our view requires some editing. The extent of what this may look like depends on the focus of the standard, and until the Board reaches clarity over this, the content of the table cannot be resolved.

We believe there is some merit in introducing the level of proficiency of “mastery” to some of these aspects, if the table is focussed on the Engagement Partner. If the focus of the standard changes to those professional accountants providing audit services, the table should identify the level of proficiency required; a range of proficiency levels from intermediate to mastery in some cases may be appropriate.

As a general comment, we consider that many of the technical competencies and professional skills described in Table A appear to be at a level that can ideally only be provided by the firms and through extensive specialist experience within an audit firm, rather than an IFAC member body.

**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?**

Yes, we think the approach adopted in Appendix 1 is a helpful guide to interpreting Table A, subject to our comments above.

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

NZICA does not consider this does offer any greater clarity, and we have concerns with the distinction that is drawn around ‘more complex audits’. There appears to be a general view conveyed in this standard that a larger sized audit means greater complexity and risk, which is not wholly correct. We believe the standard should focus on the requirements to qualify and maintain competence, relevant to the type of engagement the professional accountant is involved in, with respect to complexity, size and nature of the engagement.

**5: Does the inclusion of a number of references to Small and Medium Practitioner (‘SMP’) engagement partners and their context provide appropriate coverage of their professional development needs? Do you have any further recommendations in respect of how the proposed IES 8 (Revised) could be more aligned toward the needs of SMPs?**

As noted in our comments in response to the initial consultation paper issued in 2010, any standard in this area needs to be balanced against the need to ensure ongoing access to auditors by the general community. We do not want to see the application of any standard in this area reducing the supply of auditors – in the New Zealand context this is particularly relevant in relation to audits in the not-for-profit sector and those of small and medium sized entities, particularly in the provincial centres. Notwithstanding, we do not believe the inclusion of these references in the proposed standard, without supporting guidance and illustrative examples, is helpful. Further guidance is needed.

**6: Do you anticipate any impact or implications for your organization, or organizations with which you are familiar, in implementing the new requirements included in this proposed IES 8 (Revised)?**

The implications of this proposed standard for our Institute include a need to introduce a system of monitoring every audit firms’ practices in terms of partner authorisation criteria,

and introducing specialist audit professional development opportunities. As noted in our introductory comments, we see this as a role of the audit firm and other providers. The member body has an obligation to ensure their members undertake relevant continuing professional development activities, relevant to the type of audit work they are engaged in. The provision of such CPD arguably should be left to those with the expertise to do so, with monitoring by member bodies.

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

NZICA considers that it is likely that the proposed standard will need considerable revision before it is finalised. Any implementation guidance can only be developed once the standard is finalised and be shaped on the key requirements for member bodies. We are happy to provide further comment on the content of any guidance material once IES 8 is finalised.

***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?***

See our comments above.

***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)?***

NZICA has adopted a competency model for our qualification. We believe examples of current practice are likely to assist many member bodies implement the requirements of several IESs, not only IES 8.

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

No. We consider the objective as stated, specifically to “provide engagement partners with the professional development required to perform their role” (refer para. 12) not appropriate for inclusion in an IES to be complied with by all IFAC member bodies. While a member body may have the authority and scope to ensure those members who are acting in a specialist role (e.g., as an auditor) have the required level of competence to do so, it is not the member body’s role to “provide” the professional development. Perhaps the objective would be better phrased in terms of the member body setting the required competence level, and remain silent about the provision of professional development; professional development could be provided by a range of entities including private education providers, tertiary institutions, firms, and IFAC member bodies.

***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?***

Subject to our comments above, we believe it has been.

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

“Professional development” – we cannot find this term defined anywhere in this ED or other recent EDs. How does the term professional development fit with other defined terms of “initial professional development” and “continuing professional development”? Further clarification is required.

“Aspiring engagement partner” – We do not believe this definition is clear or sensible.

Other comments

We consider that the effective date for this standard should be no less than 18 months following the approval of the final version of this standard to enable member bodies and other interested parties time to consider and start to implement any changes necessary.

In line with our general comments, we would recommend the title of the standard be changed, removing the term professional development and focusing instead on competence. We would also suggest revisions to paragraphs 1 and 12, which focus on the provision of professional development. We believe the correct focus is explained in paragraph 13, “IFAC member bodies shall prescribe the learning outcomes that demonstrate the professional competence ....” subject to our earlier comments regarding the engagement partner.

The NZICA supports the aims of redrafting IES 8 to provide greater clarification to IFAC member bodies and audit firms, however we do have concerns that the proposed revised standard, as released, fails to achieve this. We hope our comments are constructive, and are happy to provide further elaboration on any of the points made in this letter.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Bruce Bennett', with a long horizontal flourish extending to the right.

Bruce Bennett  
General Manager – Education – CAANZ CA Program