

The Board Members  
International Accounting Education Standards Board  
International Federation of Accountants  
529 Fifth Avenue, 6th Floor  
New York, New York 10017 USA

17 April 2014

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Dear Board Members:

*Re: Comments on Proposed International Education Standard (IES) 8*

*Professional Competence for Engagement Partners Responsible for Audits of Financial Statements (Revised).*

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We wish to place on record our sincere admiration for the invaluable services the Board and staff continues to render for the cause of education of professional accountants.

We are also pleased to convey our impression of the proposed standard.

*[Abbreviations: p. = para in the revised proposed IES 8 followed by number (capital "A" with number refers to the para in the "Explanatory Material"), IES = IES8 = revised proposed IES8ED2, ED1 = Earlier ED of this IES, Board = IAESB International Accounting Education Standards Board, IFAC= International Federation of Accountants]*

### **Preliminary View:**

The subject IES is not rigorous enough in addressing the critical aspects of professional competence of the engagement partners. It fails to protect public interest<sup>1</sup> by recognising and addressing the risks emanating from lack of character and responsibility in an engagement partner to lead, mentor and role model which go way beyond any other competency. There is an apparent disconnect on how CPD is to be achieved, maintained, further developed and demonstrated by an engagement partner to the IFAC member body; and by the IFAC member body to the IFAC. The IES is an anaemic version of the extant IES (and ED1); the latter containing a better expression in many respects.

It will be a step back for the Board to proceed with the IES in its present form.

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<sup>1</sup> See A13

## Summary of Comments:

We find the proposed IES to be too abstract<sup>2</sup> and esoteric<sup>3</sup> :

1. Its scope is confined to the professional competence of engagement partners responsible for audit of financial statements only<sup>4</sup>. It sheds a basic principle that different levels and responsibilities within an audit assignment will demand different levels of competence<sup>5</sup>. Competence requirements for audit professionals have been dispensed<sup>6</sup>. Without the term of aspiring engagement partner<sup>7</sup>, what do we call a professional accountant who's on engagement team but not an engagement partner? Professional competence of those outside audit remains to be addressed. (see 8.1 below)
2. The professional competence of an engagement partner is not subject to any assessment activity<sup>8</sup> and one is responsible for undertaking relevant CPD activities<sup>9</sup> that is appropriate to their work and professional responsibilities<sup>10</sup>. We consider non-record based self-assessment to be its crippling weakness.

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<sup>2</sup> Abstract here means: "Existing in thought or as an idea but not having a physical or concrete existence": OUP.

<sup>3</sup> Esoteric here means: "Intended for or likely to be understood by only a small number of people with a specialized knowledge or interest:" OUP

<sup>4</sup> "IES 8 is role specific", See Explanatory Memorandum, Clarity of Title, Objective and Scope Paragraphs, first para.

<sup>5</sup> Para 14 of the extant IES.

<sup>6</sup> See Section 2 of the extant IES.

<sup>7</sup> "(2) removal of requirements relating to assessment and practical experience, as well as the concept of the aspiring engagement partner." See Explanatory Memorandum, the sub-heading "Rationale for Re-Exposure" under the main heading "Background". Also see para 3: "This IES focuses on the professional competence required for one particular role of a professional accountant: an engagement partner responsible for audits of financial statements".

<sup>8</sup> One of the far-reaching changes proposed by the Board on which there's no specific question framed in the feedback for respondents to convey their comments.

<sup>9</sup> "The professional accountant who performs the role of engagement partner is responsible for development and maintenance of professional competence by undertaking relevant Continuing Professional Development (CPD) activities that include practical experience." Para 4. The revised ED removes "requirements relating to assessment and practical experience" for engagement partners, See Explanatory Memorandum, *Rationale for Re-Exposure, first para.*

<sup>10</sup> IES 7. Also mentioned in A8.

3. The sequence of three elements of professional competence<sup>11</sup> should be in reverse from an engagement partner's point of view. We consider that the learning outcomes of professional values, ethics and attitudes should take the forefront followed by professional skills and technical competence<sup>12</sup> in Table A. Furthermore, we do not find the stated learning outcomes to be in proportion to their importance.
4. The role of an engagement partner as a lead, mentor and role model for engagement team<sup>13</sup> requires further explanation (see 5.3 below). The couple of lines devoted to the cause are insufficient and inadequate to convey the life-long behavioural influence an engagement partner may have on the future professional conduct of engagement team members.
5. The IES is not addressed to the IFAC member bodies directly<sup>14</sup> but evasively<sup>15</sup>. As a result, even the requirement to "regularly review and update" is no more there<sup>16</sup>, among others, is absent. The requirement for the IFAC member bodies is there in an outline form<sup>17</sup> but there is no guidance on how it will be possible for the member bodies to know if the learning outcomes are being achieved, maintained, and demonstrated by the engagement partners<sup>18</sup>. There is no implementation and monitoring mechanism to facilitate and ensure proper course of action by member bodies.

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<sup>11</sup> The professional competence "is the integration and application of (a) technical competence, (b) professional skills, and (c) professional values, ethics, and attitudes". See A2.

<sup>12</sup> Not to forget that the technical competence may be abundantly available in the audit engagement team.

<sup>13</sup> See para 10, competence area, (k) personal (ii) and (iii).

<sup>14</sup> See para 2, ED1 of IES. "This IES is addressed to International Federation of Accountants (IFAC) member bodies."

<sup>15</sup> See para 4 of the IES.: "However, this IES is addressed to the IFAC member bodies that foster a commitment to lifelong learning among professional accountants."

<sup>16</sup> "IFAC member bodies shall regularly review and update professional development programs that are designed to achieve the learning outcomes as set out in this IES." See para 14 (and upto 19 for others).

<sup>17</sup> See para 10.

<sup>18</sup> "Only those professional accountants who demonstrate the learning outcomes listed in Table A will be able to deal with the complex situations that engagement partners may face during their careers", and that is all it says without elaborating. A10

## 1. Specific Comments on Questions raised in the Explanatory

### Memorandum:

Q1. Is the Objective statement (see paragraph 9)<sup>19</sup> of the proposed IES 8 Exposure Draft (December 2013) appropriate and clear?

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1.1 Yes. We find the objective statement to be appropriate and clear; but the claim remains unsatisfied with the mere outline of learning outcomes in Table A without a hierarchy of supporting sub-learning outcomes.

1.2 We find the use of word “establish” to be slightly out of context when member bodies have been rightly provided with the flexibility to “develop additional competence areas or additional learning outcomes that are not specified in this IES. This may occur, for example, when an engagement partner audits specialized industries or transactions”<sup>20</sup>. At best, the learning outcomes can be more accurately described as the “minimum”<sup>21</sup> learning outcomes expected of an engagement partner. The impression of attaining finality associated with the word “establish” appears to be invalid.

Q2. Is the Requirement (see paragraph 10)<sup>22</sup> of the proposed IES 8 Exposure Draft (December 2013) appropriate and clear?

2.1 No. We find a major disconnect between the requirements mentioned in Table A and its achievement. How is it possible to achieve them without being assessed properly is not clear.

<sup>19</sup> “The objective of this IES is to establish the professional competence that professional accountants performing the role of an engagement partner need to maintain and further develop through CPD.” P.9

<sup>20</sup> See A17

<sup>21</sup> This fact was mentioned quite clearly in para 13 of the ED1: “These learning outcomes shall, at a minimum, include those listed in Table A.”

<sup>22</sup> “Such professional competence is demonstrated by the achievement of the learning outcomes listed in Table A”. p.10

2.2 We do not find the learning outcomes to be laid out properly. In case of an engagement partner, the whole sequence of professional competence needs to be reversed (see 3.4 below). Specifically, we see competent area “(o) ethical principles” to be the first competence area, which is presently appearing as the last.

2.3 The Board made sweeping changes in the re-exposure draft<sup>23</sup> suo motu. No question designed to obtain feedback from the respondents if they are comfortable with the changes.

Q3. Do you agree with the proposed learning outcomes provided in Table A?

3.1. Coming now to the contents of Table A, we notice that the number of learning outcomes and the amount of text devoted to the learning outcomes of “technical competence” is the most, followed by “professional skills”, and thereafter by “professional values, ethics, and attitude”.

3.2. Against 23 learning outcomes for technical competence mentioned, there are only ten for skills and six for professional ethics. So the ratio is 23:10:6. This disproportionate array raises a few obvious matters.

3.3. The IES creates the impression that the sequence in which areas of professional competence are listed imply a diminishing level of importance that is to be attached to each one of them. In other words, is the IES inadvertently conveying that the component devoted most text is the fundamental of these three? If that is not the case, is it because of the nature of subject area which makes it difficult to come up with learning outcomes about the other two?

3.4. As an engagement partner, we tend to see the sequence of headings in Table A as a 3-sided pyramid with each side so well integrated and

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<sup>23</sup>One of these being: “removal of requirements relating to assessment and practical experience, as well as the concept of the aspiring engagement partner”.

connected with the other two<sup>24</sup>. Professional values, ethics, and attitude occupies the central stage for us as an engagement partner with technical competence and professional skills on its sides. We do not see this to be as reflected by the description in the ies.

3.5. The IES should clearly convey to the IFAC member bodies that a learning outcome is the starting point for designing appropriate learning contents (and assessment) strategy. This is nowhere so expressed in the IES.

Q4. Do you agree that levels of proficiency for the competence areas should not be included in Table A?

4.1 We agree that: “the IAESB has reviewed the activity verbs of the learning outcomes to ensure that they reflected an Advanced level of proficiency.”<sup>25</sup> However, the purpose of assigning levels of proficiency was to use it for other IESs<sup>26</sup>. How is that going to be achieved now?

Q5. Are there any additional explanatory paragraphs needed to better explain the requirement of the proposed IES 8 Exposure Draft (December 2013)?

5.1 Yes.

5.2 Expand the hierarchy of the each learning outcomes in Table A. Specifically the one relating to the professional values, ethics and attitude.

5.3 The role of engagement partner as a mentor and role model requires elaboration. An engagement partner is our best bet in shaping up the future engagement partners. As a team leader, the responsibilities placed are enormous and should be properly described. The greatest ever threat to the profession is not from our collective failure to come up with best

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<sup>24</sup> The ies rightly states that “It is the integration and application of (a) technical competence, (b) professional skills, and (c) professional values, ethics, and attitudes”. See A2.

<sup>25</sup> See first para of heading “Requirement on Learning Outcomes for Professional Competence on an Audit Engagement Partner” in explanatory memo.

<sup>26</sup> See first para Appendix 1: “The Classification of Proficiency Levels supports the IAESB’s use of learning outcomes in its publications such as, International Education Standards (IESs) 2, 3, 4, and 8.”

technical standards but from an engagement partner and an engagement team lacking a character.

5.4 This document should be a stand alone document. Any cross references should be reproduced. For example, a statement like: “an important part of CPD for engagement partners is practical experience”<sup>27</sup> automatically pops the unanswered question: “what are others?”

5.5 The emphasis in the extant IES on competence required for audit professionals<sup>28</sup> in specific environments and industries, and in ED1<sup>29</sup>, is only to be found towards the tail in this IES<sup>30</sup>.

Q6. Does figure 1 of Explanatory Material section for the proposed IES 8 Exposure Draft (December 2013) assist in understanding which stakeholders have responsibilities that impact the professional competence of engagement partners?

6.1. No.

6.2. We find the diagram to be inconsistent with the context and against the public interest. Our understanding is that this IES addresses the IFAC member bodies only indirectly. It holds them no more responsible to review and update professional development programs that are designed to achieve the learning outcomes<sup>31</sup>, among others.

Q7. 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?

7.1. The term “audit” and “CPD” appears to be missing from the glossary. Also, the term for a professional accountant on audit engagement team who is not an engagement partner?

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<sup>27</sup> A4.

<sup>28</sup> See Section 4

<sup>29</sup> See para 19

<sup>30</sup> See A17

<sup>31</sup> See para 13-19 of ED1.

Q8. 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)?

- 8.1. Locally, 80% of our members work outside practices. The Board should expedite its work on IES on their professional competence.
- 8.2. Let us now devote some space to the provision of effective CPD activities for serving engagement partners.
- 8.3. On positive side, our dear and progressive Council of the Institute of Chartered Accountants of Pakistan took a decision to video record all cpd activities and to make it accessible to our members by posting it on its web site free of cost. Furthermore, the scope of cpd-hours earning activities and events was considerably enhanced by the revised policy. The names of top five CPD earners are mentioned in the member newsletter. Most sensibly, e-learning portal for students and later for members is being considered and hopefully will be initiated soon.
- 8.4. On the other hand, way back, without an effective formal oversight, our Council handed over holding of cpd activities to the Regional Committees. Result? The Council has no formal influence over the topics and its quality; irrelevant, uninteresting topics; the quality of program is largely an individual speaker's voluntary effort<sup>32</sup> as most come as unpaid guest speakers. 70% of the participant fee pays for the dinner; and no formal participant assessment<sup>33</sup>.
- 8.5. An effective CPD Subcom of the Council is presently missing from our decision making structure.
- 8.6. We must also face the issue, if any, of non-participation by members in CPD activities held by disclosing the band-wise hours achieved by the aggregate membership.

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<sup>32</sup> Most speaker are unpaid.

<sup>33</sup> Sometime ago, I wrote a letter on this topic which can be accessed at [http://www.altafnoorali.com/index\\_files/144\\_cpd\\_comments.htm](http://www.altafnoorali.com/index_files/144_cpd_comments.htm)



8.7. No action has been taken against members who fail to achieve CPD hour requirements.

8.8. Our concern is that the matters relating to this role will continue to be run the way they presently are.

Q9. What topics or subject areas should Implementation guidance cover?

9.1. The IES, in its present form, is not ready-to-implement kind.

9.2. It should be a standard feature of the IFAC to announce a task force to oversee the world-wide implementation of the IES and to facilitate IFAC member bodies.

9.3. The kind of organisation structure and mechanism required by the IFAC member bodies to implement the IES.

9.4. A program for consultation and site-visits should also be initiated. I am sure our Council will welcome such process involving Pakistan.

Final Recommendation and Conclusion:

We do not agree with the Board's approach of shifting IES 8 focus from "the professional development required to be appointed into the role of engagement partner (i.e., an education hurdle or benchmark) to an IES that instead focused on the ability of engagement partners to perform their role."<sup>34</sup>

The Board has demolished the edifice it thoughtfully erected in ED1 by taking out so much out of it, which was much warranted.

This IES may have its own strengths but its seriously flawed and the Board is well advised to tread cautiously with it.

Sincerely,

Altaf Noor Ali

Chartered Accountant

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<sup>34</sup> See the sub-heading :Rationale for Re-exposure" under the heading "Background".