

Exposure Draft

December 2013

Comments due: April 17, 2014

*Proposed International Education Standard
(IES) 8*

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

IAESB

International Accounting
Education
Standards Board™



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This Exposure Draft was developed and approved by the International Accounting Education Standards Board (IAESB).

The IAESB develops education standards, guidance, and information papers on pre-qualification education, training of professional accountants, and continuing professional education and development.

The objective of the IAESB is to serve the public interest by setting high-quality education standards for professional accountants and by facilitating the convergence of international and national education standards.

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REQUEST FOR COMMENTS

This Exposure Draft, *Professional Competence for Engagement Partners Responsible for Audits of Financial Statements*, was developed and approved by the International Accounting Education Standards Board (IAESB).

The proposals in this Exposure Draft may be modified in light of comments received before being issued in final form. **Comments are requested by April 17, 2014.**

Respondents are asked to submit their comments electronically through the IAESB website, using the "Submit a Comment" link. Please submit comments in both a PDF and Word file. Also, please note that first-time users must register to use this feature. All comments will be considered a matter of public record and will ultimately be posted on the website. Although IAESB prefers that comments are submitted via its website, comments can also be sent to David McPeak, IAESB Technical Manager at davidmcpeak@iaesb.org.

This publication may be downloaded free of charge from the IAESB website: www.iaesb.org. The approved text is published in the English language.

EXPLANATORY MEMORANDUM

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<i>Professional Competence for Engagement Partners Responsible for Audits of Financial Statements</i>	
<i>(Revised)</i>	

Introduction

This memorandum provides background to, and an explanation of, the proposed changes to the August 2012 International Education Standard (IES) 8 Exposure Draft (ED), *Professional Development for Engagement Partners Responsible for Audits of Financial Statements (Revised)*. In November 2013 the International Accounting Education Standards Board (IAESB) approved to re-expose IES 8, *Professional Competence for Engagement Partners Responsible for Audits of Financial Statements (Revised)*, because of significant changes made to the content of the August 2012 IES 8 ED.

This explanatory memorandum accompanies the re-exposed draft of IES 8 (See Appendix 1) with the aim of providing the rationale for re-exposure and informing the proposed changes made to August 2012 IES 8 ED as a result of respondents' comments.

Background

Revising and Redrafting Project

As part of its project to improve the clarity of its standards, the IAESB has undertaken to revise and redraft all of its IESs in accordance with its new clarity drafting conventions. At its October 2009 meeting the IAESB agreed that all eight standards should be revised with the aim of:

- improving clarity;
- ensuring consistency with concepts of the revised Framework (2009) document; and
- clarifying issues resulting from changes in the environment of accounting education; and the experience gained from implementation of the Standards by IFAC member bodies.

This approach responds to the desire for all IESs to be consistently drafted, and subject to a single statement of their authority and effect. The drafting conventions used by the IAESB in revising IES 8, and the authority and obligation attaching to those conventions, are established in the Appendix of the *Framework for International Education Standards for Professional Accountants*, approved by the IAESB in October 2009.

IES 8 Exposure Draft

In June 2012 the IAESB approved the content of the exposure draft of IES 8 with the aim of obtaining public comment over a 120-day period. The IAESB received 35 comment letters on the exposure draft from the following types of stakeholders: IFAC member bodies and associates, forum of firms, regulators, other professional organizations, and the public. In general, the feedback on the content of the ED was mixed with respondents requesting further clarification in the following areas:

- improving the clarity of the title, objective, and scope paragraphs to ensure that there is focus on professional competence;
- focusing the requirement on learning outcomes related to the professional competence required of engagement partners responsible for audits of financial statements;
- improving the clarity of the Explanatory Material section by delineating the scope, explaining the concepts of learning outcomes and competence areas, and discussing the importance of applying professional skepticism in assessing audit evidence and exercising professional judgment when determining an appropriate audit strategy; and

- amending the explanatory material related to engagement partners of small and medium practices to emphasize the relevance of CPD even though they may undertake a much wider range of tasks in performing the audit than would otherwise be the case.

Rationale for Re-Exposure

After a full deliberation of respondents' comments at its June and October 2013 meetings, the IAESB approved re-exposure of IES 8. This decision reflects the substantial changes made to the August 2012 Exposure Draft on matters which the Board had not previously deliberated. More specifically, the rationale for re-exposure is based on: (1) the addition of new learning outcomes for competence areas of audit and assurance, financial accounting and reporting, and refinement of other learning outcomes to build on IESs 2, 3, and 4; (2) removal of requirements relating to assessment and practical experience, as well as the concept of the aspiring engagement partner; and (3) the addition of new explanatory material that (1) clarifies the need for work experience and (2) identifies stakeholders with responsibilities that impact the professional competence of engagement partners.

Effective Date

The revised timetable envisages that all IESs will have been revised and redrafted, or redrafted only, by the 4th Quarter of 2014. The IAESB is expecting to finalize IES 8 in Quarter 4 of 2014 and the Board has provisionally agreed that IES 8 will be effective for implementation 15 to 18 months after final IAESB approval (approximately July 1, 2016) to enable IFAC member bodies time to translate the standard and ensure that appropriate processes are in place for its implementation. The IAESB believes that it is in the interests of member bodies and other interested stakeholders who use the IESs that the standards should be released as soon as they are approved so as to facilitate their implementation.

Significant Issues

This section describes some of the issues and resulting decisions that the IAESB has taken in response to comments received on the August 2012 IES 8 ED, and are summarized under the following headings.

Clarity of Title, Objective and Scope Paragraphs

The comments received from respondents of the August 2012 IES 8 ED indicated that the Title of IES 8 needed more focus and the Scope and Objective paragraphs required greater clarity by focusing on the professional competence required to perform the role of an engagement partner. As a result of these views the IAESB has modified the Title and amended the paragraphs relating to both the Scope and Objective sections. The Title of IES 8 has been modified to focus on professional competence, while ensuring that IES 8 is role specific. This implies that the role of engagement partner is achieved post-qualification through Continuing Professional Development (CPD) that includes practical experience.

The IAESB also agreed that the scope of IES 8 should focus solely on the engagement partner rather than the aspiring engagement partner. The term, aspiring engagement partner, was indicated to create unnecessary confusion by ED respondents. In addition, the Scope paragraphs have been amended to include: (1) rewording paragraph 1 of the December 2013 IES 8 ED to identify the purpose of IES 8 in terms of prescribing learning outcomes to be achieved by the professional accountant to perform the role of the engagement partner; (2) adding paragraph 2 that identifies the pronouncements that establish the responsibilities of stakeholders involved with the quality control system for engagement teams performing audits of financial statements; (3) rewording paragraphs 3 and 5 to identify the linkage between IESs 2, 3,

4, 7 and IES 8; and (4) adding paragraph 4 to recognize the responsibility of the professional accountant to develop and maintain professional competence by undertaking relevant CPD.

The Objective paragraph (See paragraph 9 of the December 2013 IES 8 ED) has also been amended to remove any confusion on the scope of IES 8 by focusing on professional competence of an engagement partner and the maintenance and development of professional competence through CPD.

Requirement on Learning Outcomes for Professional Competence on an Audit Engagement Partner

The comments received from respondents of the August 2012 IES 8 ED indicated that the clarity of the requirements on learning outcomes needed to be improved so as to ensure that IFAC member bodies understood their obligations. The IAESB also indicated the need to achieve greater consistency between IES 8 and IESs 2, 3, and 4 when presenting learning outcomes. In addressing these issues and recognizing the shared responsibility that exists among IFAC member bodies and other stakeholders (public accounting firms, government agencies, regulators) in ensuring that professional accountants undertake appropriate CPD, the IAESB has decided to focus on one requirement that prescribes the learning outcomes that demonstrate the professional competence of those individuals newly appointed and already serving in the role of the engagement partner. As a result, IES 8 has shifted from focusing on 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. The IAESB has not included proficiency levels for the competence areas because it is expected that professional accountants, acting in the role of engagement partner, have already achieved the required professional competence and now need to maintain and further develop professional competence through relevant CPD. The IAESB has reviewed the activity verbs of the learning outcomes to ensure that they reflected an Advanced level of proficiency.

In general, respondents of the August 2012 IES 8 ED were supportive of the content of the table that delineates competence areas and learning outcomes, subject to consideration of editorial suggestions. More specifically, new learning outcomes have been added to the following competence areas: auditing and assurance (learning outcomes (iii) and (v)); financial accounting and reporting (learning outcome (ii)); information technology (learning outcome (ii)); personal (learning outcome (iii)). In addition, learning outcomes in competence areas of finance and financial management and management accounting have been deleted because their content has been sufficiently covered by other learning outcomes in Table A of the proposed December 2013 IES 8 ED. Finally, wording changes have been made to the learning outcomes to ensure consistency with the ISAs and improve the clarity of obligations placed on the engagement partner.

Clarity of Explanatory Material Section

The comments received from respondents of the August 2012 IES 8 ED respondents indicated that more emphasis should be placed on clarifying the scope, objective, and requirements sections. The IAESB agreed with these comments and have added new content to the Explanatory Material section to address the clarity issues. More specifically, new paragraphs have been added: (1) to define CPD (paragraph A3); (2) to identify the importance of practical experience in further developing professional competence (paragraph A4); (3) to illustrate (figure 1 of the December 2013 IES 8 ED) and to identify the pronouncements of the IAASB, IAESB, and IFAC that identify stakeholders with responsibilities that impact the professional competence of engagement partners (paragraphs A5 to A9); and (4) to explain the purpose of establishing professional competence needed to perform the role of an engagement and

explain why engagement partners are required to maintain and further develop their professional competence.

Sole Practitioners and Small or Medium Practitioners

The comments received from respondents of the August 2012 IES 8 ED respondents indicated that there was no need to draw a distinction between SMPs, sole practitioners, or other firms because such a distinction would unnecessarily create two levels of engagement partner in practice. ED Respondents did, however, indicate a need for additional guidance or explanatory material in order to focus on how SMPs/sole practitioners might require wider breadth of knowledge and skills. The IAESB agreed with this view and has deleted some of the explanatory material while keeping the paragraph A12 of the December 2013 IES 8 ED that encourages all engagement partners to undertake CPD irrespective of the size or nature of the audited entity and the firm of the Engagement Partner providing the audit. The intent is to encourage engagement partners to undertake CPD appropriate to the complexity of the audits in which they serve as Engagement Partners.

Guide for Respondents

Request for General Comments

The IAESB welcomes comments on all matters addressed in this proposed International Education Standard 8 (See **Appendix 1**, Proposed IES 8 Exposure Draft (December 2013)). Comments are most helpful when they refer to specific paragraphs, include the reason for the comments and, where appropriate, make specific suggestions for any proposed changes to wording to enable the IAESB to fully appreciate the respondent's position. Where a respondent agrees with proposals in the exposure draft (especially those calling for a change in current practice), it will be helpful for the IAESB to be made aware of this view.

Request for Specific Comments

The IAESB is particularly interested in comments on the matters set out below:

Question 1. Is the Objective statement (see paragraph 9) of the proposed IES 8 Exposure Draft (December 2013) appropriate and clear?

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

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

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

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

Question 6. 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?

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?

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)?

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

Supplement to the Exposure Draft

To assist respondents in tracking changes, IAESB staff has mapped the content of the proposed IES 8 Exposure Draft (December 2013) to the extant IES 8 and the August 2012 IES 8 ED.

This staff-prepared mapping document is available on the IAESB website at <http://www.ifac.org/Education/ExposureDrafts.php>. It is for information purposes only and does not form part of the re-exposed draft.

Proposed Conforming Amendments

The following glossary terms either appear in the revised IESs or the IAASB Glossary of Terms. The proposed IES 8 Exposure Draft (December 2013) builds upon these terms. The IAESB would also appreciate respondents' comments on these Glossary terms.

IAESB Glossary of Terms

Add:

Professional skills	The various types of abilities required to apply professional knowledge, and professional values, ethics, and attitudes* appropriately and effectively in a professional context.
Professional competence	The ability to perform a role to a defined standard.
Aspiring professional accountant	An aspiring professional accountant is an individual who has commenced a professional accounting education program as part of IPD
Professional accounting education programs	Professional accounting education programs are designed to support aspiring professional accountants to develop the appropriate professional competence by the end of IPD. They may consist of formal education delivered through degrees and courses offered by universities, other higher education providers, IFAC member bodies, and employers, as well as workplace training.
Competence area	A competence area is a category for which a set of related learning outcomes can be specified.
Assessment activity	Assessment activities are defined as those activities designed to assess specific areas of professional competence.
Technical competence	Technical competence is the ability to apply professional knowledge to perform a role to a defined standard.

Engagement Partner	The partner or other person in the firm who is responsible for the audit engagement and its performance, and for the auditor's report that is issued on behalf of the firm, and who, where required, has the appropriate authority from a professional, legal, or regulatory body.
Financial Statements	A structured representation of historical financial information, including related notes, intended to communicate an entity's economic resources or obligations at a point in time or of the changes therein for a period of time in accordance with a financial reporting framework. The related notes ordinarily comprise a summary of significant accounting policies and other explanatory information. The term "financial statements" ordinarily refers to a complete set of financial statements as determined by the requirements of the applicable financial framework, but can also refer to a single financial statement.
Firm	A sole practitioner, partnership or corporation or other entity of professional accountants.
Engagement Team	All partners and staff performing the engagement, and any individuals engaged by the firm or a network firm who perform audit procedures on the engagement. This excludes an auditor's external expert engaged by the firm or a network firm.
Professional Judgment	The application of relevant training, knowledge and experience, within the context provided by auditing, accounting and ethical standards, in making informed decisions about the courses of action that are appropriate in the circumstances of the audit engagement.
Professional Skepticism	An attitude that includes a questioning mind, being alert to conditions which may indicate possible misstatement due to error or fraud, and a critical assessment of evidence.
Auditor's Expert	An individual or organization possessing expertise in a field other than accounting or auditing, whose work in that field is used by the auditor to assist the auditor in obtaining sufficient appropriate audit evidence. An auditor's expert may be either an auditor's internal expert (who is a partner or staff, including temporary staff, of the auditor's firm or a network firm), or an auditor's external expert.

PROPOSED INTERNATIONAL EDUCATION STANDARD 8
PROFESSIONAL COMPETENCE FOR ENGAGEMENT PARTNERS
RESPONSIBLE FOR AUDITS OF FINANCIAL STATEMENTS (REVISED)

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Introduction

Scope of this Standard (Ref: Para A2-A12)

1. This International Education Standard (IES) prescribes the learning outcomes for professional competence that professional accountants are required to demonstrate when performing the role of an engagement partner responsible for audits of financial statements.
2. This IES is intended to be read in conjunction with Statement of Member Obligations (SMO) 1, International Standard on Auditing (ISA) 220 – *Quality Control for an Audit of Financial Statements*, and International Standard on Quality Control (ISQC) 1 – *Quality Control for Firms that Provide Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*. 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.
3. This IES builds on the learning outcomes of IESs 2, 3, and 4¹ that describe the professional competence required of aspiring professional accountants of the end of Initial Professional Development (IPD). 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.
4. 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. However, this IES is addressed to the IFAC member bodies that foster a commitment to lifelong learning among professional accountants.
5. Under IES 7², IFAC member bodies require all professional accountants to develop and maintain competence relevant and appropriate to their work and professional responsibilities. This IES applies the IES 7 requirement to the role of the engagement partner.
6. IFAC member bodies or other stakeholders may also apply the requirements of this IES to professional accountants performing audits of other historical financial information in compliance with the ISAs or other types of assurance and related services.
7. Definitions and explanations of the key terms used in the IESs and the *Framework for International Education Standards for Professional Accountants* are set out in the International Accounting Education Standards Board (IAESB) *Glossary of Terms*. Additional terms from the International Auditing and Assurance Standards Board (IAASB) pronouncements have also been included in the Explanatory Material.

Effective Date

8. This IES is effective from (a date to be determined by IAESB).

¹ IES 2, Initial Professional Development—Technical Competence (Revised);
IES 3, Initial Professional Development—Professional Skills (Revised);
IES 4, Initial Professional Development—Professional Values, Ethics, and Attitudes (Revised);

² IES 7, Continuing Professional Development (Redrafted)

Objective (Ref: Para A13-A14)

9. 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.

Requirement (Ref: Para A15-A20)

10. IFAC member bodies shall require professional accountants performing the role of an engagement partner to undertake CPD that maintains and further develops the professional competence required for this role. Such professional competence is demonstrated by the achievement of the learning outcomes listed in Table A.

Table A: Learning Outcomes for the Professional Competence of an Engagement Partner

Competence Area	Learning Outcomes
Technical Competence	
(a) Audit of financial statements	<ul style="list-style-type: none"> (i) Evaluate the risks identified by engagement acceptance and continuance procedures. (ii) Oversee the process of planning, performing, and completing the audit of financial statements. (iii) Assess the entity's ability to continue as a going concern. (iv) Assess and respond to the risks of material misstatement due to fraud or error in the financial statements. (v) Evaluate indicators for evidence of bias in management's estimates and in other areas of judgment. (vi) Approve or establish an appropriate audit strategy in relation to the audit objective. (vii) Evaluate significant deficiencies in internal control and in other matters to be communicated to those charged with governance. (viii) Evaluate the sufficiency and appropriateness of audit evidence obtained and of the related documentation. (ix) Evaluate whether the audit was planned and performed in accordance with applicable auditing standards (e.g. ISAs) and with relevant laws and regulations (x) Form an appropriate audit opinion and develop the related audit report on the financial statements.
(b) Financial accounting and reporting	<ul style="list-style-type: none"> (i) Evaluate whether an entity has prepared, in all material respects, financial statements in accordance with the applicable financial reporting framework. (ii) Evaluate the recognition, measurement, presentation, and disclosure of transactions and events within the financial statements.

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AUDITS OF FINANCIAL STATEMENTS (REVISED)

Competence Area	Learning Outcomes
	(iii) Assess the reasonableness of financial statements relative to the nature of the business, the operating environment, and the entity's ability to continue as a going concern.
(c) Governance and risk management	(i) Manage communications with those charged with governance of an entity. (ii) Evaluate corporate governance structures and risk assessment processes to identify risks of material misstatement affecting the financial statements of an entity.
(d) Business environment	(i) Formulate auditor expectations using relevant information on industry, regulatory, and other external factors, including market, competition, product technology, and environmental requirements.
(e) Taxation	(i) Evaluate procedures performed, including the work of others, to address the risks of material misstatement in the financial statements in respect of taxation, and to assess the effect of the results of procedures on other areas of an audit.
(f) Information technology	(i) Evaluate the information technology (IT) environment to identify controls that relate to the financial statements with, if appropriate, the assistance of an IT professional. (ii) Assess the effect of IT controls on the audit strategy, and on the potential risks of material misstatement in the financial statements.
(g) Business laws and regulations	(i) Evaluate the impact on the audit of a potential breach of laws and regulations. (ii) Evaluate security and stock exchange regulations and their impact on presentation and disclosure requirements for the financial statements.
(h) Finance and financial management	(i) Evaluate the various sources of financing available to an entity to design the corresponding audit strategy and plan appropriate testing and review procedures. (ii) Evaluate an entity's cash flow, budgets, forecasts, and working capital requirements.
Professional skills	
(i) Intellectual	(i) Evaluate the accounting estimates, including fair value estimates made by management. (ii) Resolve audit issues using inquiry, abstract, and logical

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AUDITS OF FINANCIAL STATEMENTS (REVISED)

Competence Area	Learning Outcomes
	thought, as well as critical analysis to consider alternatives and analyze outcomes during an audit.
(j) Interpersonal and communication	<ul style="list-style-type: none"> (i) Present, discuss, and support views effectively with management of the entity and those charged with governance. (ii) Resolve conflict through appropriate forms of communication. (iii) Resolve audit issues, consulting when appropriate. (iv) Manage negotiations effectively with the entity.
(k) Personal	<ul style="list-style-type: none"> (i) Promote and undertake lifelong learning. (ii) Act as a mentor or coach to the engagement team. (iii) Act as a role model to the engagement team.
(l) Organizational	<ul style="list-style-type: none"> (i) Manage audit engagements by providing leadership and project management of engagement teams.
Professional Values, Ethics, and Attitudes	
(m) Commitment to the public interest	<ul style="list-style-type: none"> (i) Assess audit quality and the effect on the public interest, the profession, and wider society.
(n) Professional skepticism and professional judgment	<ul style="list-style-type: none"> (i) Maintain a skeptical mindset in evaluating an entity, its management, and the evidence obtained during an audit. (ii) Apply professional judgment in planning and performing an audit of financial statements and in reaching conclusions on which to base an auditor's opinion.
(o) Ethical principles	<ul style="list-style-type: none"> (i) Apply the ethical principles of integrity, objectivity, professional competence and due care, confidentiality, and professional behavior to ethical dilemmas in the context of an audit and determine an appropriate resolution. (ii) Identify, consider, and evaluate threats to objectivity and independence that can occur during an audit engagement. (iii) Protect, subject to relevant legal requirements, the confidential information of the entity.

Explanatory Material

References to Definitions Contained within IAASB Pronouncements

A1. This IES uses the following terms already defined within the IAASB Glossary of Terms³ and IAASB pronouncements⁴.

Table B - IAASB definitions adopted in IES 8

Defined Term	Source of Term	Definition in Use
Engagement Partner	ISA 220 Quality Control for an Audit of Financial Statements, Paragraph 7 (e)	The partner or other person in the firm who is responsible for the audit engagement and its performance, and for the auditor's report that is issued on behalf of the firm, and who, where required, has the appropriate authority from a professional, legal, or regulatory body.
Financial Statements	IAASB Glossary of Terms	A structured representation of historical financial information, including related notes, intended to communicate an entity's economic resources or obligations at a point in time or of the changes therein for a period of time in accordance with a financial reporting framework. The related notes ordinarily comprise a summary of significant accounting policies and other explanatory information. The term "financial statements" ordinarily refers to a complete set of financial statements as determined by the requirements of the applicable financial framework, but can also refer to a single financial statement.
Firm	IAASB Glossary of Terms	A sole practitioner, partnership or corporation or other entity of professional accountants.
Engagement Team	ISA 220 Paragraph 7 (d)	All partners and staff performing the engagement, and any individuals engaged by the firm or a network firm who perform audit procedures on the engagement. This excludes an auditor's external expert engaged by the firm or a network firm.

³ *Glossary of Terms, IAASB Handbook of International Quality Control, Auditing, Review, Other Assurance, And Related Services Pronouncements – 2013 Edition, Volume I.*

⁴ *The ISA definitions detailed above are contained within the IAASB Handbook of International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements – 2013 Edition, Volume I.*

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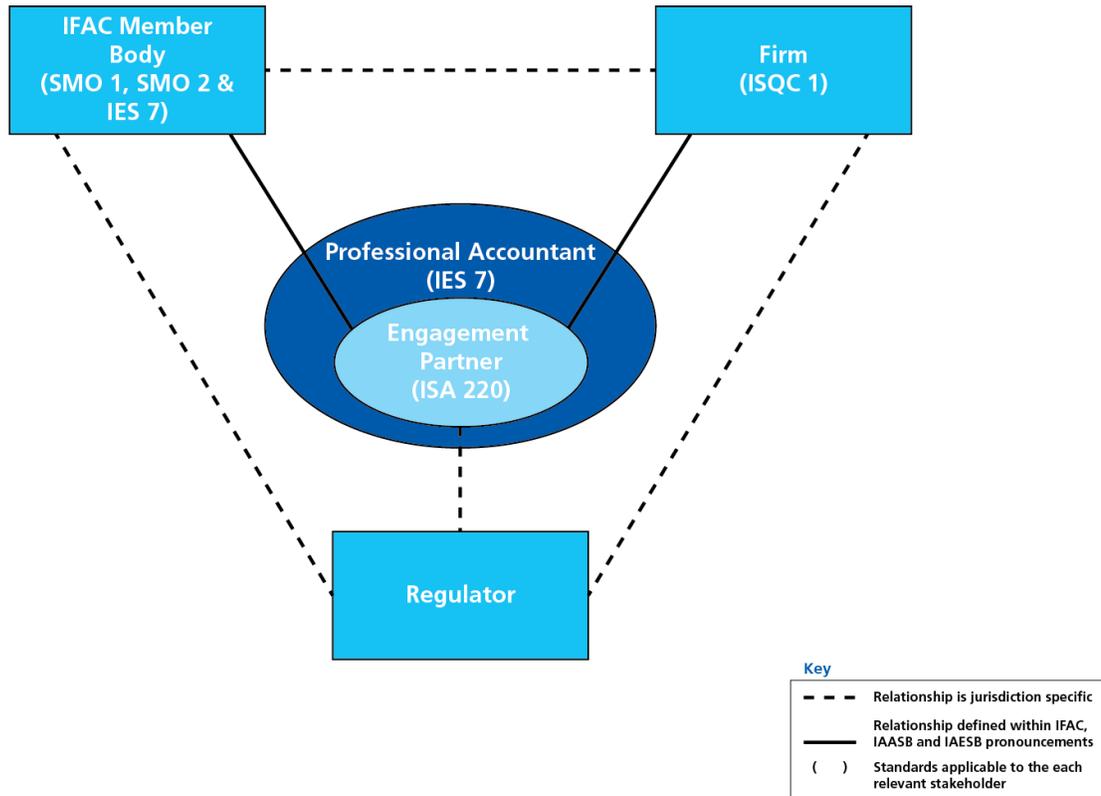
Professional Judgment	IAASB Glossary of Terms	The application of relevant training, knowledge and experience, within the context provided by auditing, accounting and ethical standards, in making informed decisions about the courses of action that are appropriate in the circumstances of the audit engagement.
Professional Skepticism	IAASB Glossary of Terms	An attitude that includes a questioning mind, being alert to conditions which may indicate possible misstatement due to error or fraud, and a critical assessment of evidence.
Auditor's Expert	IAASB Glossary of Terms	An individual or organization possessing expertise in a field other than accounting or auditing, whose work in that field is used by the auditor to assist the auditor in obtaining sufficient appropriate audit evidence. An auditor's expert may be either an auditor's internal expert (who is a partner or staff, including temporary staff, of the auditor's firm or a network firm), or an auditor's external expert.
* 'Partner' and 'firm' should be read as also referring to their public sector equivalents.		

Scope of this Standard (Ref Para 1-7)

- A2. There are many different ways to describe and categorize professional competence. Within the IESs, professional competence is the ability to perform a role to a defined standard. Professional competence goes beyond knowledge of principles, standards, concepts, facts, and procedures; it is the integration and application of (a) technical competence, (b) professional skills, and (c) professional values, ethics, and attitudes.
- A3. CPD is a continuation of IPD. IPD is the learning and development through which individuals first develop competence leading to performing the role of a professional accountant. CPD is learning and development that takes place after IPD, and that develops and maintains professional competence to enable professional accountants to continue to perform their roles. CPD provides continuous development of the (a) technical competence, (b) professional skills, and (c) professional values, ethics, and attitudes achieved during IPD, refined appropriately for the professional activities and responsibilities of the professional accountant. In addition, professional accountants may take on new roles (for example that of an engagement partner) during their careers that require new competences.
- A4. An important part of CPD for engagement partners is practical experience. As the career of an engagement partner progresses, practical experience becomes increasingly important in maintaining and further developing the necessary depth and breadth of professional competence.

Figure 1 Stakeholders with Responsibilities Impacting the Professional Competence of Engagement Partners

Figure 1



- A5. Figure 1 illustrates stakeholders with responsibilities impacting the professional competence of engagement partners. Relationships between stakeholders can be dependent on the jurisdiction or can be a consequence of requirements contained in IAASB and IAESB pronouncements and obligations contained in IFAC pronouncements.
- A6. ISA 220⁵ identifies the engagement partner as the individual responsible for the capabilities and competence of the engagement team. Unless information provided by the firm or other parties suggests otherwise, ISA 220⁶ allows the engagement team to rely on the firm’s system of quality control in relation to the competence of personnel through their recruitment and formal training.
- A7. ISQC 1⁷ requires the firm to establish policies and procedures designed to provide it with reasonable assurance that it has sufficient personnel with the competence, capabilities and commitment to ethical principles necessary to (a) perform engagements in accordance with

⁵ See ISA 220, *Quality Control for an Audit of Financial Statements*, Para 14.

⁶ See ISA 220, *Quality Control for an Audit of Financial Statements*, Para A2.

⁷ See ISQC 1, *Quality Control for Firms that Provide Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements* Para 29.

professional standards and applicable legal and regulatory frameworks, and (b) enable the firm or engagement partners to issue reports that are appropriate in the circumstances.

- A8. In accordance with IES 7⁸, IFAC member bodies require all professional accountants to undertake CPD to contribute to the development and maintenance of professional competence that is appropriate to their work and professional responsibilities.
- A9. By complying with the requirements of this IES and fulfilling their obligations under SMO 1⁹ and SMO 2¹⁰, IFAC member bodies promote, through CPD, the professional competence required to perform the role of an engagement partner. As a consequence, firms are able to comply with the requirements of ISQC 1 and engagement partners are able to comply with the requirements of ISA 220.

Progressive Nature of Professional Competence

- A10. 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. A professional accountant aspiring to be an engagement partner will usually serve for several years on engagement teams, and may progress through supervisory and managerial roles under the supervision of an engagement partner. This progression through increasing levels of responsibility is the usual path by which a professional accountant prepares to assume the role of an engagement partner. Those serving as engagement partners maintain and further develop their professional competence through leading or serving on audit engagements, and through other professional development as part of their CPD.

Audit of Financial Statements and Other Assurance Engagements

- A11. This IES is applicable to audits of financial statements. The prescribed learning outcomes may also be helpful when performing audits of other historical financial information in compliance with the ISAs or other types of assurance and related services. Similarly, many of the learning outcomes required for an audit of financial statements may be relevant to those engagement partners responsible for assurance engagements relating to non-financial statement information, such as environmental or social reporting.

Sole Practitioners and Small or Medium Practitioners

- A12. This IES recognizes those situations in which the engagement partner operates as a sole practitioner or small or medium practitioner. In these situations, the engagement partner may be operating without the support of an engagement team, including those engagement team members with specialist skills. As a consequence, the engagement partner may undertake a much wider

⁸ See IES 7, *Continuing Professional Development*, Para 12.

⁹ Statement of Membership Obligation 1 – *Quality Assurance* sets out the requirements of an IFAC member body with respect to quality assurance review systems for its members who perform audits, review, other assurance and related services engagements of financial statements. The SMO specifically addresses the situation where an IFAC member body has no or shared responsibility for setting the rules and operating the quality assurance review system.

¹⁰ Statement of Membership Obligation 2 – *International Education Standards for Professional Accountants and Other Pronouncements Issued by the IAESB* sets out the requirements of an IFAC member body with respect to international standards and other pronouncements issued by the IAESB. The SMO specifically addresses the situation where an IFAC member body has no or shared responsibility for adopting and implementing professional accountancy education standards and guidance.

range of tasks in performing the audit than would otherwise be the case. Irrespective of the size or nature of the entity, and the firm of the engagement partner providing the audit, this IES assumes that engagement partners continue to undertake CPD appropriate to the complexity of the audits in which they serve as engagement partners.

Objective (Ref: Para 9)

- A13. Establishing the professional competence that engagement partners need to maintain and further develop through CPD, serves several purposes. It protects the public interest, enhances audit quality and promotes the credibility of the audit profession.
- A14. Engagement partners are required to maintain and further develop their professional competence as they work in an environment of significant change. Pressure for change can come from many sources, including (a) increased regulation, (b) developments in financial and non-financial reporting, (c) emerging technologies, (d) increasing use of business analytics, and (e) business complexity.

Requirement (Ref: Para 10)

- A15. A competence area is a category for which a set of related learning outcomes can be specified. Learning outcomes establish the content and depth of knowledge, understanding, and application required for each specified competence area.
- A16. Table A identifies the learning outcomes for (a) technical competence, (b) professional skills, and (c) professional values, ethics, and attitudes, which establish the content and depth of knowledge, understanding, and application required for each specified competence area. The learning outcomes are likely to be demonstrated within the context of a work environment.
- A17. IFAC member bodies may 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.

Professional Skepticism and Professional Judgment

- A18. A key aspect of any audit is determining the reliability and sufficiency of the audit evidence gathered to support the conclusions on which the auditor's opinion is based. Applying the appropriate degree of professional skepticism to assess audit evidence gathered as evidence of management's representations is a key professional competence of the engagement partner. Because all organizations are operating in an ever increasingly complex and uncertain globalized economy, developing and applying professional skepticism is essential for engagement partners.
- A19. CPD does not on its own provide assurance that engagement partners will act with due professional care. Developing an attitude that includes a questioning mind and critically assessing audit evidence is also important. Audit engagements require engagement partners and their teams to exercise professional judgment and to form their own judgment when challenging management assertions and assumptions contained within the financial statements. Considering whether accounting standards are appropriately applied by an entity, as well as determining an appropriate audit strategy, requires professional judgment to be exercised by an engagement partner and the wider team.

A20. Planning effective CPD in the areas of professional skepticism and professional judgment requires due care and may need innovative learning methods in which mentoring, reflection, time, and experience within the context of a work environment often play a key role.

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