

Alert

Updates on financial reporting and auditing



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Dear practising members,

International Education Standard (IES) 8 *Professional Competence for Engagement Partners Responsible for Audit of Financial Statements*

1. IES 8 *Professional Competence for Engagement Partners Responsible for Audit of Financial Statements* will be adopted by the Institute and be effective from 1 July 2016. The objective of IES 8 is to establish the professional competence that professional accountants develop and maintain when performing the role of an engagement partner.
2. IES 8 identifies the responsibilities of individuals, firms and professional bodies in developing and maintaining professional competency of engagement partners. The International Accounting Education Standards Board (IAESB) has issued a [Q&A publication](#) to assist all parties in the implementation of IES 8. This is also available on the Institute's website in the technical resources section. We recommend that you take a look at the Q&A which contains useful information about implementation of IES 8 by individuals, firms and professional bodies.
3. Individuals performing the role of an engagement partner will be required to develop and maintain relevant professional competence by demonstrating the specified learning outcomes for technical competence, professional skills and professional values, ethics and attitudes.
4. IES 8 does not introduce new standards for auditors. The requirements for professional competence in engagement partners (and engagement teams) are clearly set out in HKSQC 1 *Quality Control for firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements* and HKSA 220 *Quality Control for an Audit of Financial Statements*. IES 8 does not replace or supersede HKSQC 1 and HKSA 220.
5. IES 8 is not written in the same style as an auditing standard. It appears more like a framework or guidance, setting out how engagement partners should develop and maintain relevant competencies and be able to demonstrate what has been undertaken by way of learning outcomes (Table A of IES 8).

6. Consideration of the competency of engagement partners is already undertaken as part of the Institute practice review programme. If a deficiency is identified in an audit the practice review team will consider the underlying cause – it could be due to inadequate audit methodology or quality control systems; oversight or omission by the engagement partner or audit team; or lack of competency.
7. If a deficiency is considered to be a result of lack of competency the practice review team will explore what learning and development has been undertaken by the engagement partner. Individuals will be expected to address lack of competency by developing and implementing a remedial programme with reference to IES 8.
8. Practice review will continue the practice of reviewing CPD records where there are concerns about competency but will not include a full CPD compliance review in every visit. IES 8 provides a wider point of reference for how competency should be developed and maintained – which is helpful for engagement partners, firms and practice reviewers.
9. Practice review will consider how firms, as well as individuals, have addressed their responsibilities under IES 8. Firms are expected to provide a framework of policies and procedures to facilitate engagement partners maintaining their individual competence.
10. Compliance with IES 8 by an individual and a firm is more than a simple exercise in documentation. There needs to be consideration of the learning and development requirements to meet relevant competencies, which will clearly differ depending on the nature and complexities of audit clients. Practice reviewers will expect to see evidence of such consideration and achievement of appropriate learning outcomes.
11. In the event of a serious deficiency in the conduct of an audit that can be attributed to lack of competency and that was deemed to require more than remediation, disciplinary action would be taken under HKSQC 1 and/or HKSA 220 and not IES 8. This could be against either the individual engagement partner or the firm, or both.
12. To meet its responsibilities under IES 8 the Institute has undertaken a review of its CPD programme to assess whether the programme covers all learning outcomes in IES 8. New products will be developed to cover identified gaps. However, the Institute is not the sole provider of CPD and may not be able to provide training for all learning outcomes. Other sources and providers should be considered as necessary by firms and engagement partners.
13. As competency is already a requirement of auditing and quality control standards there is no question of "phasing in" new requirements or practice review procedures to address competency. However, when addressing the consequences of lack of competency and remedial action by firms and individuals, practice reviewers will be mindful that the additional guidance and details provided by IES 8 are new and firms and individuals will not be immediately familiar with them.
14. Practice reviewers will expect firms and individuals to have taken steps to understand the content of IES 8 and to have introduced and documented procedures and processes that will help engagement partners maintain their competence. Record keeping will be necessary to show the consideration that has been given to what competencies and learning outcomes should be achieved by engagement partners and how they have gone about reaching those targets.



15. Additional reference and implementation materials will be posted on the technical resources section of the Institute's website as they become available.

Sincere regards,

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