

Final Pronouncement

December 2014

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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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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**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 – A16)

1. This International Education Standard (IES) prescribes the professional competence that professional accountants are required to develop and maintain when performing the role of an Engagement Partner responsible for audits of financial statements¹.
2. This IES is addressed to International Federation of Accountants (IFAC) member bodies. IFAC member bodies have a responsibility for the Continuing Professional Development (CPD) of professional accountants, and for fostering a commitment to lifelong learning among professional accountants. Under IES 7, *Continuing Professional Development*², IFAC member bodies require all professional accountants to develop and maintain professional competence relevant and appropriate to their work and professional responsibilities. IES 8, *Professional Competence for Engagement Partners Responsible for Audits for Financial Statements* (Revised) applies this IES 7 requirement to the role of an Engagement Partner. It is the responsibility of the professional accountant performing the role of an Engagement Partner to develop and maintain professional competence by undertaking relevant CPD activities, which include practical experience.
3. This IES is intended to be read in conjunction with Statement of Member Obligations (SMO) 1 – *Quality Assurance*, 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 Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*. Together, these pronouncements place responsibilities on IFAC member bodies, Engagement Partners, and firms as part of the system of quality control for audits of financial statements. Also, in many jurisdictions, a regulator may have an oversight role in this system of quality control. Each of these stakeholders may have an impact on the professional competence of the Engagement Partner.
4. IFAC member bodies or other stakeholders may also apply the requirements of this IES to professional accountants performing an equivalent role to that of an Engagement Partner on audits of other historical financial information in compliance with the ISAs or other types of engagements providing assurance and related services.
5. 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 are also included in the Explanatory Material.

Effective Date

6. This IES is effective from July 1, 2016.

¹ For the purpose of this IES, hereafter referred to as “Engagement Partner” per the definition set out in International Standard on Auditing (ISA) 220, *Quality Control for an Audit of Financial Statements*, Para 7(a).

² IES 7, *Continuing Professional Development*, Para 12.

Objective (Ref: Para A17 – A18)

7. The objective of this IES is to establish the professional competence that professional accountants develop and maintain when performing the role of an Engagement Partner.

Requirements (Ref: Para A19 – A31)

8. IFAC member bodies shall require professional accountants performing the role of an Engagement Partner to develop and maintain professional competence that is demonstrated by the achievement of learning outcomes including, but not limited to, those listed in Table A.
9. IFAC member bodies shall require professional accountants performing the role of an Engagement Partner to undertake CPD that develops and maintains the professional competence required for this role.

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

Competence Area	Learning Outcomes
Technical Competence	
(a) Audit	<ul style="list-style-type: none"> (i) Lead the identification and assessment of the risks of material misstatement as part of an overall audit strategy. (ii) Evaluate responses to the risks of material misstatement. (iii) Evaluate whether the audit was performed and documented in accordance with applicable auditing standards (e.g., ISAs) and relevant laws and regulations. (iv) Develop an appropriate audit opinion and related audit report, including a description of key audit matters as applicable.
(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 and regulatory requirements. (ii) Evaluate the recognition, measurement, presentation, and disclosure of transactions and events within the financial statements in accordance with the applicable financial reporting framework and regulatory requirements. (iii) Evaluate accounting judgments and estimates, including fair value estimates, made by management. (iv) Evaluate the fair presentation of financial statements relative to the nature of the business, the operating environment, and the entity's ability to continue as a going concern.

Competence Area	Learning Outcomes
(c) Governance and risk management	(i) Evaluate corporate governance structures and risk assessment processes affecting the financial statements of an entity as part of the overall audit strategy.
(d) Business environment	(i) Analyze relevant industry, regulatory, and other external factors that are used to inform audit risk assessments including, but not limited to, market, competition, product technology, and environmental requirements.
(e) Taxation	(i) Evaluate procedures performed to address the risks of material misstatement in the financial statements in respect of taxation, and the effect of the results of these procedures on the overall audit strategy.
(f) Information technology	(i) Evaluate the information technology (IT) environment to identify controls that relate to the financial statements to determine the impact on the overall audit strategy.
(g) Business laws and regulations	(i) Evaluate identified or suspected non-compliance with laws and regulations to determine the effect on the overall audit strategy and audit opinion.
(h) Finance and financial management	(i) Evaluate the various sources of financing available to, and financial instruments used by, an entity to determine the impact on the overall audit strategy. (ii) Evaluate an entity's cash flow, budgets, and forecasts, as well as working capital requirements to determine the impact on the overall audit strategy.
Professional Skills	
(i) Intellectual	(i) Resolve audit issues using inquiry, abstract and logical thought, and critical analysis to consider alternatives and analyze outcomes.
(j) Interpersonal and communication	(i) Communicate effectively and appropriately with the engagement team, management, and those charged with governance of the entity. (ii) Resolve audit issues through effective consultation when necessary.
(k) Personal	(i) Promote and undertake lifelong learning. (ii) Act as a role model to the engagement team. (iii) Act in a mentoring or coaching capacity to the engagement team.
(l) Organizational	(i) Evaluate whether the engagement team, including auditor's experts, collectively has the appropriate objectivity and competence to perform the audit.

Competence Area	Learning Outcomes
	(ii) Manage audit engagements by providing leadership and project management of engagement teams.
Professional Values, Ethics, and Attitudes	
(m) Commitment to the public interest	(i) Promote audit quality in all activities with a focus on protecting the public interest.
(n) Professional skepticism and professional judgment	(i) Apply a skeptical mindset and professional judgment in planning and performing an audit and reaching conclusions on which to base an audit opinion.
(o) Ethical principles	(i) Apply the ethical principles of integrity, objectivity, professional competence and due care, confidentiality, and professional behavior in the context of an audit and determine an appropriate resolution to ethical dilemmas. (ii) Evaluate and respond to threats to objectivity and independence that can occur during an audit. (iii) Protect the confidential information of the entity in accordance with ethical responsibilities and relevant legal requirements.

Explanatory Material

References to Definitions Contained within IAASB Pronouncements (Ref: Para 5)

A1. This IES uses the following terms already defined within IAASB pronouncements³.

Table B: IAASB definitions adopted in IES 8

Defined Term	Source of Term	Definition in Use
Engagement Partner*	ISA 220 <i>Quality Control for an Audit of Financial Statements</i> , Paragraph 7 (a)	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.
Engagement Team	ISA 220 <i>Quality Control for an Audit of Financial Statements</i> , 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. The term "engagement team" also excludes individuals within the client's internal audit function who provide direct assistance on an audit engagement when the external auditor complies with the requirements of ISA 610 (Revised 2013) ⁴ .
Financial Statements	ISA 200 <i>Overall Objective of the Independent Auditor, and the Conduct of the Audit in Accordance with International Standards on Auditing</i> , Paragraph 13 (f)	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 reporting framework, but can also refer to a single financial statement.

³ The ISA definitions detailed above are contained within the *IAASB Handbook of International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements – 2014 Edition, Volume I*.

⁴ ISA 610, *Using the Work of Internal Auditors* (Revised).

Firm*	ISA 220 <i>Quality Control for an Audit of Financial Statements, Paragraph 7 (e)</i>	A sole practitioner, partnership or corporation or other entity of professional accountants.
Professional Judgment	ISA 200 <i>Overall Objective of the Independent Auditor, and the Conduct of the Audit in Accordance with International Standards on Auditing, Paragraph 13 (k)</i>	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	ISA 200 <i>Overall Objective of the Independent Auditor, and the Conduct of the Audit in Accordance with International Standards on Auditing, Paragraph 13 (l)</i>	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 audit evidence.
* "Partner" and "firm" should be read as also referring to their public sector equivalents.		

Scope of this Standard (Ref: Para 1 – 5)

- 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 Initial Professional Development (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.
- A4. As outlined in IES 7⁵, CPD includes practical experience. As the career of an Engagement Partner progresses, practical experience becomes increasingly important in developing and maintaining the necessary depth and breadth of professional competence. Practical experience may be evidenced by annual self-declarations, records of chargeable time, and the results of qualitative monitoring

⁵ See IES 7, *Continuing Professional Development*, Para 5.

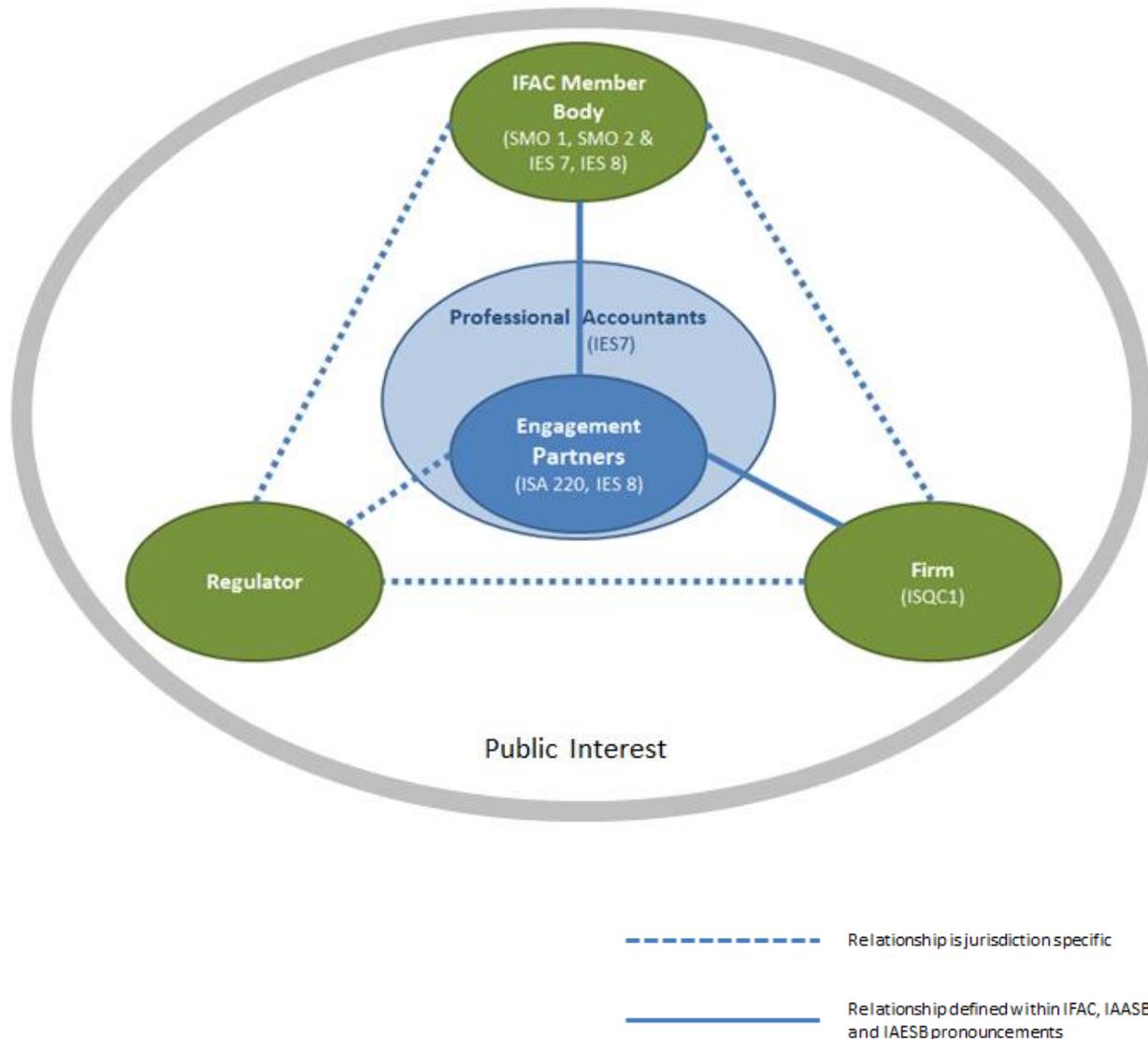
activities such as performance reviews, engagement quality assurance reviews and regulatory inspections.

- A5. In addition to professional competence and practical experience, other factors outside the scope of this IES determine whether a professional accountant has, where required, the appropriate authority from a professional, legal, or regulatory body to perform the role of Engagement Partner.
- A6. In many jurisdictions, legislation, regulation, or a regulator (referred to collectively as a “licensing regime”) sets or enforces the requirements as to who may perform the role of an Engagement Partner. Licensing regimes vary widely in their requirements. Where licensing is not within the authority of the IFAC member body, IFAC member bodies shall use their best endeavors as described in SMO 2 - *International Education Standards for Professional Accountants and Other Pronouncements Issued by the IAESB*⁶ to influence the licensing regime so that the IFAC member body can meet the professional competence requirements set out in this IES.
- A7. A firm, which by definition includes sole practitioners, determines who can issue an audit opinion as a legal representative of that firm. Most firms operate in a partnership structure, and the partners in the partnership decide who in that firm can perform the role of Engagement Partner.

Stakeholders That Impact the Professional Competence of Engagement Partners

- A8. Figure 1 illustrates stakeholders that impact the professional competence of Engagement Partners. Relationships between stakeholders can be dependent on the jurisdiction or as a consequence of requirements contained in IAASB and IAESB pronouncements and obligations contained in IFAC pronouncements.

⁶ 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 (Para 9) the situation where an IFAC member body has no or shared responsibility for adopting and implementing professional accountancy education standards and guidance.

Figure 1: Stakeholders That Impact the Professional Competence of Engagement Partners

- A9. In accordance with IES 7⁷, 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.
- A10. IES 7⁸ also requires IFAC member bodies to establish a systematic process to monitor whether professional accountants meet the IFAC member body's CPD requirements.
- A11. ISA 220⁹ addresses the responsibilities of the Engagement Partner with respect to whether the engagement team and any auditor's experts who are not part of the team, collectively have the

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

⁸ See IES 7, *Continuing Professional Development*, Para 17.

appropriate competence and capabilities. Unless information provided by the firm or other parties suggest otherwise, ISA 220¹⁰ indicates that the engagement team may rely on the firm's system of quality control in relation to the competence of personnel through their recruitment and formal training.

- A12. ISQC 1¹¹ requires the firm to establish policies and procedures designed to provide reasonable assurance that the firm has sufficient personnel with the competence, capabilities and commitment to ethical principles necessary to (a) perform engagements in accordance with 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.
- A13. In many jurisdictions, regulators may have an oversight role in relation to IFAC member bodies, firms, and Engagement Partners.
- A14. By complying with the requirements of this IES and fulfilling their obligations under SMO 1¹² and SMO 2¹³, IFAC member bodies assist firms in complying with the requirements of ISQC 1 and assist Engagement Partners in complying with the requirements of ISA 220. Collectively these pronouncements promote clarity and consistency with respect to the professional competence required of the Engagement Partner and the engagement team, which serves to protect the public interest.

Progressive Nature of Professional Competence

- A15. Only those professional accountants who develop and maintain the professional competence that is demonstrated by 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 a common path through which a professional accountant may prepare to assume the role of an Engagement Partner. Those serving as an Engagement Partner develop and maintain their professional competence through leading or serving on audit engagements, and through other professional development as part of their CPD.

⁹ See ISA 220, *Quality Control for an Audit of Financial Statements*, Para 14.

¹⁰ See ISA 220, *Quality Control for an Audit of Financial Statements*, Para A2.

¹¹ See ISQC 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*, Para 29.

¹² 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 and 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.

¹³ 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 education 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.

Audit of Financial Statements and Other Assurance Engagements

A16. This IES is applicable to Engagement Partners responsible for the audits of financial statements. The professional competence that is demonstrated by the learning outcomes in Table A 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, much of the professional competence 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 measures.

Objective (Ref: Para 7)

- A17. Establishing the professional competence that professional accountants develop and maintain in performing the role of Engagement Partner serves several purposes. It protects the public interest; contributes to audit quality; enhances the work of Engagement Partners; and promotes the credibility of the audit profession.
- A18. While a premise of this IES is that Engagement Partners have already developed the professional competence to assume that role, Engagement Partners operate in an environment of significant change. Pressure for change can come from many sources, including, but not limited to (a) increased regulation, (b) developments in financial and non-financial reporting, (c) emerging technologies, (d) increasing use of business analytics, and (e) business complexity. Change requires Engagement Partners to maintain and further develop professional competence throughout their careers.

Requirements (Ref: Para 8 – 9)

- A19. Table A identifies the competence areas and related learning outcomes for technical competence, professional skills, and professional values, ethics, and attitudes. A competence area is a category for which a set of related learning outcomes can be specified.
- A20. Learning outcomes establish the content and depth of knowledge, understanding, and application required for each specified competence area. The achievement of learning outcomes is an output based approach to measuring CPD. IES 7 provides further guidance in respect of the measurement of CPD.
- A21. This IES builds on the learning outcomes that describe the professional competence required by aspiring professional accountants by the end of IPD as outlined in IESs 2, 3, and 4¹⁴.
- A22. Other factors in addition to the learning outcomes in Table A may affect the nature, timing, and extent of planned CPD. These factors may include, but are not limited to, (a) an Engagement Partner's portfolio of audited entities, (b) the extent of any changes in auditing and financial reporting standards, and (c) the impact of any changes in the content of other competence areas noted in Table A.

¹⁴ IES 2, Initial Professional Development – Technical Competence; IES 3, Initial Professional Development – Professional Skills; and IES 4, Initial Professional Development – Professional Values, Ethics, and Attitudes.

- A23. Irrespective of the size or nature of the entity and the firm of the Engagement Partner providing the audit, a premise of this IES is that Engagement Partners continue to undertake CPD appropriate to the complexity of the audits for which they serve as Engagement Partners.
- A24. IFAC member bodies may include additional competence areas or require Engagement Partners to achieve additional learning outcomes that are not specified in this IES. This may occur, for example, when an Engagement Partner audits specialized industries or transactions.

Sole Practitioners and Small or Medium Practices

- A25. By focusing on one specific role rather than an engagement team or firm structure, this IES recognizes the wide range of situations in which the Engagement Partner operates, including as a sole practitioner or within a small or medium practice¹⁵. 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 have direct involvement in the completion of a wider range of audit activities than would otherwise be the case.

Audit – Learning Outcomes

- A26. Leading the identification and assessment of risks of material misstatements includes consideration of:
- the risks identified by engagement acceptance and continuance procedures;
 - an entity's ability to continue as a going concern; and
 - the risks of material misstatement due to fraud and error.
- A27. Evaluating the response to the risks of material misstatements includes the process of approving or establishing an appropriate overall audit strategy.
- A28. Evaluating whether the audit was performed in accordance with applicable auditing standards (e.g., ISAs), and with relevant laws and regulations, includes:
- evaluation of the sufficiency and appropriateness of audit evidence obtained and of the related documentation;
 - consideration of significant deficiencies in internal control and in other matters to be communicated to those charged with governance; and
 - consideration of bias in management's estimates and other areas of judgment.

Organizational – Learning Outcomes

- A29. Examples of areas where an auditor's expert may be used on an audit include, but are not limited to, taxation, IT, legal, forensic accounting, valuations, actuarial services, and pensions.

Professional Skepticism and Professional Judgment – Learning Outcomes

- A30. A key aspect of any audit is evaluating whether sufficient and appropriate audit evidence has been obtained to support the conclusions on which the auditor's opinion is based. Professional

¹⁵ IFAC's Small and Medium Practices Committee factsheet defines SMPs as '...practices that exhibit the following characteristics: its clients are mostly small- and medium-sized entities (SMEs); it uses external sources to supplement limited in-house technical resources; and it employs a limited number of professional staff.'

skepticism involves the application of a questioning mindset for the critical assessment of audit evidence. The ISAs also require Engagement Partners and their teams to exercise professional judgment in planning and performing an audit of financial statements. Professional judgment is exercised, for example, when challenging management assertions and assumptions contained within the financial statements, and when considering whether accounting standards are appropriately applied by an entity and determining an appropriate overall audit strategy.

- A31. Effective CPD in the areas of professional skepticism and professional judgment requires a blend of learning methods in which mentoring, reflection, and practical experience within the context of a work environment often play a key role.

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