

**Meeting:** IAASB  
**Meeting Location:** New York  
**Meeting Dates:** September 15–19, 2014

## Agenda Item 9

### Efficiencies and Potential Changes to the IAASB's Terms of Reference

#### Objective of Agenda Item

1. To obtain the IAASB's views and further direction to enable Staff to progress the following:
  - Potential amendments to the due process<sup>1</sup> to address circumstances requiring an accelerated response (formerly referred to as the "rapid response mechanism").
  - A process for developing International Practice Notes (IPNs), which could also be applied to other forms of non-authoritative material (other than staff publications for which there is an established process).
  - Potential changes to the IAASB Terms of Reference (ToR) to further clarify the independence of the Board and for other relevant changes.

#### Background

##### *Rapid Response Mechanism*

2. At its June 2014 IAASB meeting, the Board supported Staff's efforts to develop an alternative to the full due process to address urgent matters. The Board asked the Steering Committee and Staff to further consider the following points:
  - Whether the scope of intended use is in exceptional circumstances or in a more routine way to address inspection and regulatory issues such as those noted during post-implementation reviews of standards.
  - Whether an alternative to the term "rapid response" would better reflect the intended uses of the process.
  - Whether the criteria for determining whether an accelerated response is needed appropriately reflect emphasis on the public interest and consideration of the urgency of the issue, and whether it is sufficiently broad to encompass the issues that may give rise to the need for an accelerated response.
  - Whether the proposed process for developing a rapid response should include a call for evidence to assist in informing the Board of stakeholders' views early in the process.
  - The implications of setting an abbreviated exposure period, including balancing the need for urgent responses from stakeholders with adequate time for respondents to translate, as necessary, and consider the Board's proposals.

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<sup>1</sup> IFAC's *Standards-setting Public Interest Activity Committees' Due Process and Working Procedures*, March 2010

- Whether early interactions with stakeholders at the inception of a rapid response project would aid stakeholders in adjusting to the accelerated due process.

#### *Process to Develop Non-Authoritative Material*

3. In addition, previous Board discussions on efficiencies have highlighted the need to revisit the process by which non-authoritative material (in particular, IPNs) is developed, such that the process is proportional to their nature and status. While the issuance and purpose of IPNs is contemplated in the Preface of the IAASB Handbook,<sup>2</sup> there is still some confusion about their status, due in part to the fact that their development process has involved aspects of due process associated with standards development. In addition, as IPNs have been highlighted as possible outputs of new projects in the proposed IAASB Work Plan for 2015–2016, it would be helpful to finalize the process for their development before committing to the use of such a vehicle, so that the likely outcome of the IAASB's work is well-understood.

#### *Potential Changes to the IAASB's Terms of Reference*

4. Efforts are currently underway to further enhance the independence of the international Standard Setting Boards (SSBs) / Public Interest Activity Committees (standard-setting PIACs)<sup>3</sup> from the International Federation of Accountants (IFAC). Revision to the ToR potentially provides an opportunity to demonstrate the independence of the SSBs insofar as their mission and the independent manner in which they operate is understood.

#### **The IAASB's Pronouncements, and Other Material the Board May Issue**

5. The IAASB's mandate as described in the ToR is primarily to develop International Standards. However, the ToR acknowledges that, as appropriate, the IAASB may also publish non-authoritative material. The IAASB therefore has flexibility, depending on the issue and state of development, to consider what would be the most appropriate response to a particular issue. This flexibility is particularly relevant as the Board commences its Work Plan for 2015–2016, as some topics may warrant the issuance of a new or revised authoritative pronouncement (referred to as "International Standards"),<sup>4</sup> while others may be appropriately addressed by non-authoritative material (or a combination of both). The following sections discuss relevant considerations in determining an appropriate response and are also illustrated in Appendix 1 of this paper.

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<sup>2</sup> *Preface to the International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements* as included in the *Handbook of International Quality Control, Auditing, Review, Other Assurance, and Related Pronouncements*. To date, the IAASB has developed one International Auditing Practice Note (IAPN), but the Preface envisages that IPNs could be developed relative to the IAASB's other standards (e.g., International Review Engagement Practice Notes (IREPNs), International Assurance Engagement Practice Notes (IAEPNs), and International Related Services Practice Note (IRSPNs)).

<sup>3</sup> In addition to the IAASB, the standard-setting PIACs include the International Accounting Education Standards Board (IAESB) and the International Ethics Standards Board for Accountants (IESBA). The International Public Sector Accounting Standards Board (IPSASB) is an independent SSB but is not considered a PIAC, as it is not subject to PIOB oversight.

<sup>4</sup> The International Standards comprise International Standards on Auditing (ISAs), International Standards on Assurance Engagements (ISAEs), International Standards on Review Engagements (ISREs), International Standards on Related Services (ISRSs), and International Standards on Quality Control (ISQCs).

*Matters Requiring an Authoritative Response*

6. Responding to a matter via an authoritative pronouncement is applicable in all circumstances where the public interest requires that high-quality International Standards that serve to direct behavior are developed that are widely adopted and effectively implemented. In such cases, there may be a need for developing a new standard or amending an existing International Standard.

Proposed Changes to the Due Process and Working Procedures

7. As previously discussed by the Board, the current due process does not envisage circumstances in which the IAASB may determine that, in the public interest, an amendment to an International Standard in an accelerated manner is necessary. In consultation with the Steering Committee, Staff has developed proposed amendments to the due process to explain how various provisions within the existing due process may be adapted under specified conditions and with the concurrence of the Public Interest Oversight Board (PIOB) (see **Agenda Item 9-A**). These proposed changes have not yet been discussed with the PIOB, which has responsibility to approve any such changes. In addition, as the due process is common to all the standard-setting PIACs, further liaison with those groups is needed before the changes can be finalized.
8. Setting appropriate circumstances that may require an accelerated response is central to making progress in this area. Accordingly, Staff has considered the demand for, and features of, potential alternative options to that presented to the IAASB in June 2014. In response to the IAASB's comments, the changes proposed by Staff take into account the following:
  - (a) Ceasing use of the term "rapid response", in response to concerns that this term did not adequately cover the range of different types of projects that might be addressed under this proposal. It was also noted that "rapid" might be misunderstood by users given that an accelerated due process would be expected to take a minimum 10 months;
  - (b) Further emphasizing the importance of the public interest in setting the criteria to pursue an accelerated response, including the need to articulate the different circumstances in which such a response might be necessary (see paragraph 32 of **Agenda Item 9-A**; and
  - (c) Incorporating a public call for evidence into the due process and early notification to the CAG (see paragraphs 34 and 36, respectively, of **Agenda Item 9-A**).
9. To note paragraph 36 sets out the proposed interaction with the CAG in such circumstances, including notification of the intent to proceed with a project in an accelerated manner. Such interaction is premised on the need for advice from the CAG before the issuance of an exposure draft, and recognizes that CAG Member Organizations often formally comment on the IAASB's proposals. However, discussion with the CAG on the significant issues raised in comment letters on an exposure draft and the IAASB's response would not be required, as a means of incorporating flexibility for the IAASB to finalize an accelerated response. It is also acknowledged that both the Board and CAG may need to adapt their processes, including holding additional discussions electronically or via teleconference outside of their normal meeting schedules in order to sufficiently accelerate the process.
10. Appendix 2 of this paper illustrates how various provisions of the due process may be adapted in circumstances requiring an accelerated authoritative response, and also provides a contrast as to the proposed process to develop non-authoritative IPNs.

### Matter for IAASB Consideration

1. The IAASB is asked whether it agrees in principle to the changes proposed in **Agenda Item 9-A**, in particular in relation to the criteria specified and how various provisions of the due process may be adapted, and, if relevant, to provide suggestions on how the process by which an accelerated response is developed could be further refined.

#### *Matters for Which Non-Authoritative Material May Be Appropriate*

11. For some matters, it may be appropriate to develop what the Preface identifies as non-authoritative material. The Preface identifies non-authoritative material as including "*Practice Notes issued by the IAASB and staff publications.*" The Preface uses the term "non-authoritative material" because such material does not impose additional requirements on practitioners beyond those included in the International Standards, or change the practitioner's responsibility to comply with all International Standards relevant to an engagement.
12. IPNs are issued by the Board. They provide practical assistance to practitioners and are issued when a publication is expected to be relevant internationally and remain useful for the foreseeable future. IPNs are an effective medium for the IAASB to provide guidance that facilitates implementation of its International Standards.<sup>5</sup> They "*are intended to be disseminated by those responsible for national standards, or used in developing corresponding national material. They also provide material that firms can use in developing their training programs and internal guidance.*"<sup>6</sup>
13. In coordination with the Steering Committee, Staff has developed **Agenda Item 9-B**, which deals with the process for developing IPNs. This process takes into account feedback considered by the Board in previous consultation when developing IAPN 1000,<sup>7</sup> and is intended to be commensurate with their non-authoritative nature and efficient in the use of time and resources. Nonetheless, the process for developing IPNs needs sufficient checks and balances to ensure quality of the output.
14. Key features of the process envisaged by Staff, in consultation with the Steering Committee, include:
  - Approval of a project proposal by the IAASB
  - Formation of a Working Group to be chaired by an IAASB member, Technical Advisor or Staff
  - Work undertaken by the Working Group, with regular project updates posted to the IAASB website and included for information in IAASB agenda papers
  - Public exposure of a draft approved by the Working Group, with a summary of significant issues raised in responses included in a progress report to the IAASB

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<sup>5</sup> This is in contrast to Staff publications, which are used to help raise practitioners' awareness of significant new or emerging issues by referring to existing requirements and application material, or to direct their attention to relevant provisions of IAASB pronouncements. The Staff publications that have been issued to date have been focused on promoting a proper understanding and use of the International Standards in practice, and were developed to acknowledge, on a timely basis, questions as to how the ISAs addressed, among others, matters relevant to the global financial crisis, the auditor's work on significant unusual transactions, and the topics of going concern and professional skepticism, as well as how the ISAs and ISQC 1 could be applied in a manner proportionate to the size of the entity or the firm.

<sup>6</sup> Paragraph 12 of the Preface

<sup>7</sup> IAPN 1000, *Special Considerations in Auditing Financial Instruments*

- A final IPN, as presented by the Working Group, approved by the IAASB on the basis that it: (a) is of sufficient quality to be added to the IAASB's literature, and (b) could not reasonably be construed or interpreted as conflicting with, weakening or extending underlying International Standards
- Interactions with the CAG and the PIOB limited to circulation of the project proposal to the CAG for feedback and the PIOB for information, the CAG and the PIOB receiving regular updates, and CAG involvement at the approval stage.

#### **Matter for IAASB Consideration**

2. The IAASB is asked whether it agrees in principle to the proposed process to develop IPNs in **Agenda Item 9-B**, in particular in relation to the nature and extent of Board involvement in their development and, if relevant, to provide suggestions on how the process could be further refined.

#### *Other Actions*

15. For some matters, it may not be necessary to issue a new International Standard, amend an existing International Standard or issue non-authoritative material. Other actions the IAASB may take with respect to such matters include, for example, liaising with regulators, urging action by others (e.g., training by firms or changes to the *Code of Ethics for Professional Accountants*). In some cases, it may be appropriate to take no action for the time being other than maintaining a watching brief.

#### **Proposed Changes to the IAASB's ToR**

16. During the most recent review of IFAC's Constitution and Bylaws, which was finalized in February 2014, a key area of focus was the clarification and reinforcement of the independence of the SSBs. Specifically, the Constitution and Bylaws were amended to reflect the following:
  - The composition, terms, and operating procedures of the independent SSBs shall be set forth in each SSB's ToR. The SSBs' Terms of References should be endorsed (previously approved) by the Board and approved by the relevant Public Interest Oversight Authority (i.e., for the IAASB, by the PIOB).
  - The Constitution clarifies that IFAC's role is to provide resources (both human and financial) and operational and administrative support to the independent SSBs and, if applicable, in consultation with the relevant Public Interest Oversight Authority.
  - The appointment of the chair, members, and observers of any independent SSBs should be endorsed (previously approved) by the IFAC Board and, if applicable, approved by the relevant Public Interest Oversight Authority.
17. **Agenda Item 9-C** illustrates, on an initial basis, the changes proposed to the IAASB's ToR and the underlying rationale for them. These changes primarily relate to the changes articulated in the IFAC Constitution and Bylaws. Minor changes also have been proposed to differentiate between the authoritative pronouncements of the Board and other non-authoritative material that it may develop. Further changes may be necessary in light of the discussion on **Agenda Item 9-B**.

**Matter for IAASB Consideration**

3. The IAASB is asked whether it agrees in principle to the proposed changes to the ToR included in **Agenda Item 9-C**.

**Action Requested and Way Forward**

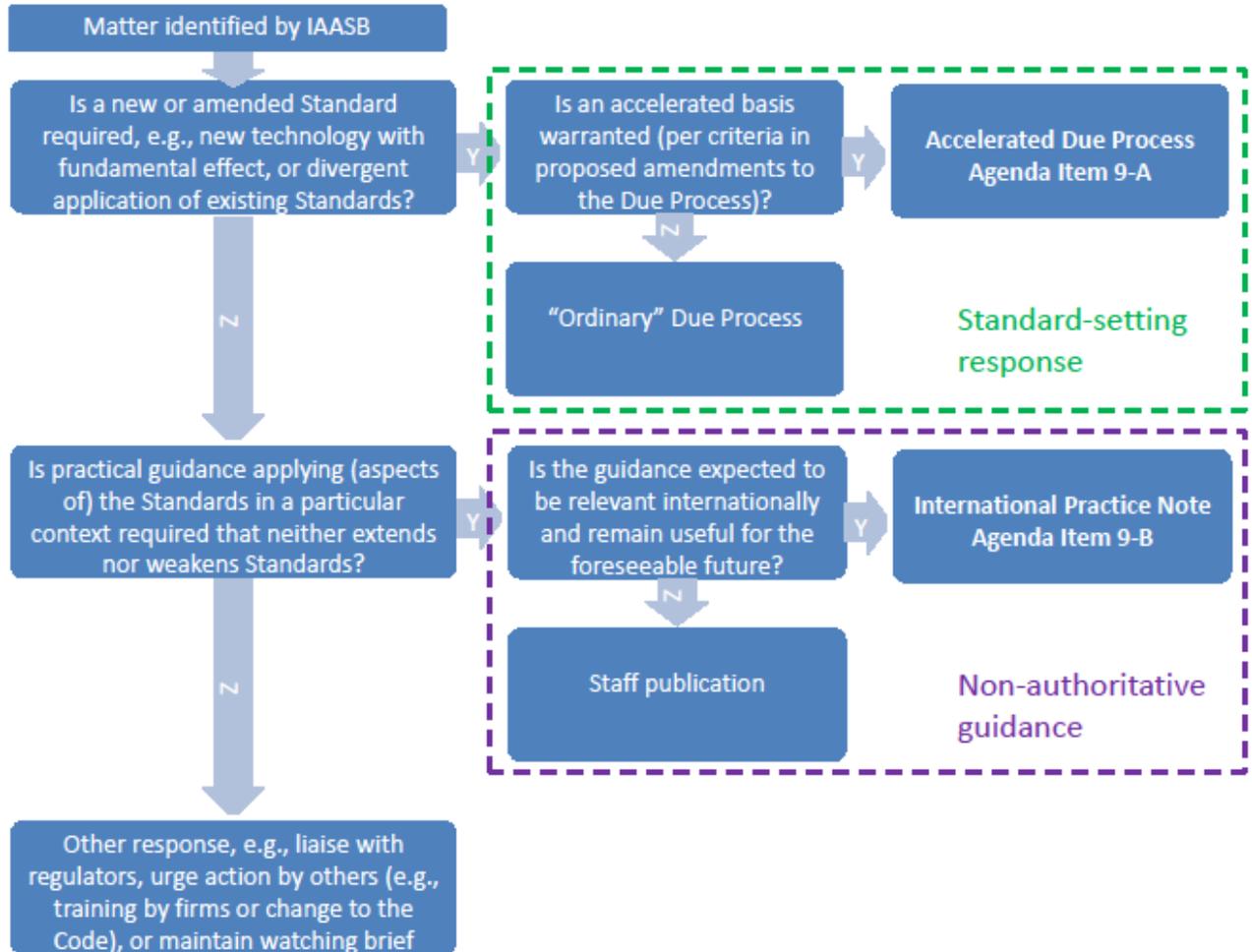
18. The IAASB is asked to provide feedback and direction on the Matters for IAASB Consideration above. This input will then be used by Staff as follows:
- The proposed changes to the ToR and the IAASB's feedback thereon will be assimilated with feedback provided by the other SSBs, and will be discussed with the IFAC Board and PIOB, towards the goal of finalizing the ToRs for PIOB approval in December 2014.
  - Staff will make revisions as necessary to **Agenda Items 9-A and 9-B**, and will discuss the proposed processes with the PIOB as soon as practicable after the other SSBs and their CAGs have had the opportunity to consider the proposals. It is anticipated that the process could be finalized in early 2015; if considered necessary, additional discussion with the IAASB may be planned for December 2014 or March 2015.

**Material Presented**

Agenda Item 9-A	Staff Paper – Proposed Clarifications within the Due Process and Working Procedures to Address Circumstances Requiring an Accelerated Response
Agenda Item 9-B	Staff Paper – Process for Developing International Practice Notes (IPNs)
Agenda Item 9-C	Staff Paper – Proposed Changes to the IAASB Terms of Reference (ToR)

## Appendix 1

### Options for Dealing with Matters Identified as Needing Action



**Comparison of the Processes to Develop International Standards and IPNs**

Stage	International Standards		International Practice Notes
<i>Type of Process</i>	Regular – Projects typically contemplated in the IAASB's Work Plan	Accelerated – Meets specific criteria established to ensure an accelerated response is warranted	
<i>Project Proposal</i>			
Board	Approval of project proposal	Approval of project proposal	Approval of project proposal
CAG	Consultation on project proposal	Advance notification of intent to accelerate process and consultation on project proposal	Circulated for feedback
PIOB	Informed on projects via Strategy and Work Plan	Advance notification about intent to accelerate process and identify objections/considerations	Circulated for information
<i>Exposure Draft / Consultation Draft</i>			
Inputs and Interaction with the Board, CAG and PIOB	<ul style="list-style-type: none"> <li>Board considers whether public fora, consultation papers or field testing are necessary to inform the development</li> <li>Discussion of issues with the Board and CAG at multiple meetings prior to issuance of Exposure Draft</li> </ul>	<ul style="list-style-type: none"> <li>Board believes it is reasonable to become adequately informed, and appropriately conclude, with due regard to the public interest based on an expedited deliberation and consultation process</li> <li>Advance notification of project on website and call for public submissions on the issue</li> <li>Condensed timetable for Board and CAG discussions (e.g., may be one meeting vs. several)</li> </ul>	<ul style="list-style-type: none"> <li>Via a Working Group with written updates to the Board, CAG and PIOB</li> <li>Project updates not expected to commonly be subject to extensive discussion during Board meetings</li> <li>Less likely to involve public fora, consultation papers or field testing</li> </ul>
Board / WG	Approval of Exposure Draft by the Board	Approval of Exposure Draft by the Board	Approval of Consultation Draft by Working Group only

Efficiencies and Potential Changes to the IAASB's Terms of Reference (Cover)

IAASB Main Agenda (September 2014)

CAG	Consultation on significant issues during the development of the Exposure Draft at CAG meetings	Consultation on significant issues prior to release of the Exposure Draft, may occur outside bi-annual CAG meetings	Discussion not required – written updates provided
PIOB	Information via quarterly reporting and observation of Board discussions	Information via quarterly reporting and observation of Board discussions	Information via project updates
Exposure Period	Ordinarily 120 days, at least 90 days	Accelerated, 30–45 days	At least 90 days
<i>Approval or Re-exposure</i>			
WG	-	-	WG approves content and highlights any dissensions or abstentions
CAG	Consultation on significant issues raised in comment letters and Board's response required	Consultation on significant issues raised in comment letters and Board's response is not required	Consultation on quality and risk of conflicting, weakening or extending International Standards – likely outside CAG meeting
Board	Approval	Approval	Approval only as to whether IPN is of sufficient quality to be added to the IAASB's literature, and could not reasonably be construed or interpreted as conflicting with, weakening or extending underlying Standards, taking into account WG and CAG views
PIOB	Confirmation of due process followed	Confirmation of due process followed	None