

**Process for Developing International Practice Notes (IPNs)****A. Context**

1. This paper deals with the development process for IPNs. It is directed to all IPNs, rather than International Auditing Practice Notes (IAPNs) alone, as the process for developing IPNs for review engagements (IREPNs), assurance engagement (IAEPNs), and related services (IRSPNs) would be identical to that of IPNs developed for audits. It is timely for the IAASB to consider the process for developing IPNs because:
  - (a) IPNs are described in some detail in the Preface and have a higher prominence than the other category of non-authoritative documents (i.e., staff publications), which are only briefly mentioned in the Preface;
  - (b) Although it is explicit in the Preface and the IPNs themselves that IPNs are not authoritative, there still appears to be some confusion amongst stakeholders about their status, which is likely due, in part at least, to a lack of clarity about the process used to develop them;
  - (c) An IPN has been highlighted as a possible output of the current project on “Special Audit Considerations Relevant to Financial Institutions”. IPNs may also to be considered for other projects, for example, the application of ISAE 3000<sup>1</sup> to Integrated Reporting; and
  - (d) The opportunity exists to coordinate the approach to such documents across all SSBs who are considering issuing similar documents, particularly the International Accounting Education Standards Board, which intends to develop a suite of such documents over the next few years. With this in mind, IAASB Staff has sought input from Staff of the other SSBs in preparing this paper.
2. Staff intends using the IAASB’s discussion of this paper to develop a formal process document for IPNs to be approved at a later meeting.

**B. Guiding Principles***Purpose*

3. To be consistent with the Preface, projects to develop an IPN must only be undertaken when the purpose is to “*provide practical assistance to practitioners*”; IPNs must be restricted to documents that “*do not impose additional requirements on practitioners beyond those included in the (Standards), or change the practitioner’s responsibility to comply with all (Standards) relevant to the (engagement).*”
4. As stated in the Preface:
  - 21 ... 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.

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<sup>1</sup> International Standard on Assurance Engagements (ISAE) 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*, December 2013

22. Depending on the nature of the topic(s) covered, an (IPN) may assist the (practitioner) in:
  - Obtaining an understanding of the circumstances of the entity, and in making judgments about the identification and assessment of risks of material misstatement;
  - Making judgments about how to respond to assessed risks, including judgments about procedures that may be appropriate in the circumstances; or
  - Addressing reporting considerations, including forming an opinion ... and communicating with those charged with governance.
5. Further, as noted in the Basis for Conclusions for the Preface,<sup>2</sup> factors that the IAASB may consider in determining whether to develop an IPN include:
  1. The IAASB believes, on the basis of research or discussion with stakeholders, that developing an (IPN) would provide practical assistance to practitioners and firms in these particular circumstances;
  2. The proposed (IPN) is expected to be relevant internationally; and
  3. The guidance is expected to remain useful for the foreseeable future.

Clarifications of requirements in the (Standards), for example, to address divergent practices in applying the (Standards), would be addressed by changes to the (Standards) and not be means of an (IPN). However, if the IAASB believes that the awareness of (practitioners) needs to be raised regarding a particular issue, a staff publication would be more appropriate.

#### *Quality and Efficiency*

6. The process for developing IPNs must ensure the quality of output and result in guidance that is effective in facilitating the adoption and implementation of IAASB Standards; at the same it must be efficient in its use of Board and Staff resources and time. The proposed process is intended to be commensurate with the fact that the IPNs are not authoritative.
7. The need for developing a process for IPNs derives from the fact that the IAASB's Due Process<sup>3</sup> is viewed as too resource- and time-intensive to allow the IAASB to meet in a timely way the need for guidance of the type described in paragraph 4. A more efficient process for developing IPNs is needed.
8. That process must, however, have sufficient checks and balances to ensure the output is of sufficient quality to be published by the IAASB.

#### **C. Elements of the Process**

9. The elements of the process for developing IPNs are discussed below, along with Staff's recommendations. A summary of the recommended process is included in Appendix 1, with a summary of processes used by other standard setters included in Appendix 2.

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<sup>2</sup> *Basis for Conclusions: Amendments to the Preface International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements and Withdrawal of International Auditing Practice Statements*, December 2011

<sup>3</sup> *IFAC's Standards-setting Public Interest Activity Committees' Due Process and Working Procedures*, March 2010

### *Project Identification and Prioritization*

10. Projects to develop IPNs should be identified and prioritized based on a review of national and international developments and on comments and suggestions from those who have an interest in the development of international pronouncements issued by the IAASB. This part of the process is identical to that required by the Due Process for developing Standards. Projects to develop IPNs will result from the extant process for setting the Board's strategy and work plan (i.e., the need for an IPN is likely to arise from the identification of topics the Board's stakeholders believe should be addressed in the public interest). Consideration as to whether an IPN may be an appropriate response to such a topic would be considered as the Board undertakes its initial discussions.

### *Project Commencement*

11. Staff recommends that a proposal to start a new project to develop an IPN should be:
  - Based on research, with consideration given to the impact of the anticipated output of the proposed project. The proposal should specifically discuss why non-authoritative guidance is an adequate response (as opposed to a new or amended Standard) and why an IPN (rather than a staff publication or other form of response) is being proposed. It should also note the process expected to be followed in terms of the elements noted in paragraphs 13-24 below.
  - Circulated to other IFAC Boards and Committees to identify matters of possible relevance to the project
  - Recommended to the IAASB by the Steering Committee
  - Approved by the IAASB
  - Circulated to the CAG for feedback to the Working Group in a public meeting at which the chair of the Working Group should ordinarily be in attendance, physically or by video or teleconference. See paragraph 24 also.
  - Circulated to the PIOB for information. See paragraph 24 also.

### *Drafting a Proposed IPN*

12. There is a quite a range of possibilities with respect to the process for drafting a proposed IPN. The major options considered by Staff in developing this proposal are outlined below.

### *Working Group*

13. Responsibility for the project could be retained by the IAASB through a project Task Force, or assigned to Staff, a Working Group,<sup>4</sup> or another organization, e.g., a national standard setter (NSS). Retention by the IAASB is unlikely to meet the efficiency guiding principle. Formation of a Working Group for every IPN project is recommended. Assigning responsibility to a Working Group that is expected to play a role in approving the IPN (as explained below) helps distinguish IPN projects from projects to develop a "staff publication". While it is recommended that projects may be carried out jointly with another organization with relevant expertise, it is not recommended that other organizations be assigned responsibility for a project.

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<sup>4</sup> The term Working Group is used here to distinguish it from a Task Force, as used with respect to Standards projects.

14. The size of a Working Group could vary, as could its mode of meeting (e.g. it could meet exclusively by video or teleconference), and membership in terms of representation of IAASB members, Technical Advisors, Staff, representatives of NSS, and external experts. In addition, diversity should be taken into account, including the mix of technical expertise and public interest perspectives, jurisdictional spread and gender diversity. Staff recommends flexibility with respect to size, mode of meeting, and membership of Working Groups to ensure an appropriate balance of quality and efficiency given the subject matter and circumstances of each particular project, but subject to the following:
- The chair (or co-chair in the case of a project carried out jointly with another organization) should be an IAASB member, Technical Advisor or Staff member
  - The expected size and diversity of membership of the Working Group should be identified in the project proposal
  - Members should be appointed by the Technical Director after consultation with the Steering Committee.
15. Staff also recommends that:
- Working Group meetings should not be open to the public, but regular project updates should be posted to the IAASB website, included for information in IAASB agenda papers (which are available to the public) and distributed to the CAG and the PIOB
  - A Working Group should have the power to consult with the IAASB by correspondence. After an IPN project proposal has been approved, any discussion of the project at a public IAASB meeting (other than the meeting at which the IPN is presented for approval) is at the discretion of the IAASB Chairman – although project updates are to be included in IAASB agenda papers they are not expected to commonly be subject to extensive discussion during IAASB meetings
  - A Working Group should have the power to conduct research (subject to approval of any costs by the Technical Director) and consult with other SSBs, practitioners, regulators, NSS and other interested parties as appropriate. The project proposal should outline the range and nature of expected consultations
  - A Working Group may establish a project advisory panel. Such a panel may be appropriate when, e.g., a project involves a high degree of technical complexity or is affected by laws or regulations that differ across jurisdictions – members of a panel could inform the Working Group whether proposals suit the laws or regulations in their jurisdiction. Whether a project advisory panel is needed or not should be addressed in the project proposal.

*Public Fora, Roundtables, Consultation Papers and Field Tests*

16. The Due Process for Standards projects allows considerable flexibility regarding public fora, roundtables, consultation papers and field tests.
17. As noted in paragraph 15, it is recommended that the Working Group have the power to consult broadly; this may include holding roundtables. It is unlikely, however, that a public forum, consultation paper or field test would be necessary in the development of an IPN. The project proposal should identify which, if any, of these measures is expected to be used. The IAASB Technical Director may,

in exceptional circumstances, approve a public forum, consultation paper or field test beyond any mentioned in the approved project proposal.

#### *Exposure and Consideration of Comments*

18. The process for developing Standards includes public exposure (ordinarily for at least 90 days) of a draft approved by the IAASB, with respondents' comments being a matter of public record and posted to the IAASB's website. IAASB members are required to familiarize themselves with the issues raised in comment letters and are asked whether there are any issues raised by respondents, in addition to those summarized by the Project Task Force, that should be debated by the IAASB.
19. Key decision points regarding exposure and consideration of respondents' comments for IPN projects relative to the process used for the development of Standards include:
  - *Who approves the draft?* Approval of a draft IPN for exposure could be by the Working Group rather than the IAASB (either with or without some form of IAASB involvement, e.g., no IAASB member having identified a fatal flaw)
  - *From who is comment sought?* The draft could be posted to the website with a public invitation to comment, or some form of selective exposure could be used, e.g., the draft could be distributed to:
    - A project advisory panel
    - Parties who have specifically registered their interest in the project (a mechanism for registration of interest would need to have been set up in advance)
    - Interested parties identified by the Working Group
    - A mixture of the above.
  - *For how long is comment sought?* A shortened exposure period could be considered, although significant shortening may not be possible if translation is considered necessary
  - *Who considers responses received?* The Working Group could be responsible for considering all responses, either with or without a summary of significant issues being presented to the IAASB.
  - Should responses be made public?
20. Putting these points together, three main options emerge (each of which could have variations):
  - (a) At one end of the spectrum, the exposure process could be the same as that used for the development of Standards (paragraph 18), although this may heighten expectations that the process to consider responses will be equal to that for Standards and lead to confusion about the level of authority attaching to the output;
  - (b) At the other end of the spectrum, exposure could be deemed to be an entirely internal Working Group process, i.e. the Working Group would determine, based on the circumstances of the project, whether exposure was necessary and, if so, would approve the draft, determine to whom it is distributed and for how long, then consider the responses without making them public or distributing them to the IAASB (although an option could be introduced for IAASB members to ask for a copy of one or more responses if they choose); or

- (c) A middle ground along the following lines, which is recommended by Staff,: the Working Group approves a draft that is placed on the IAASB website with a public invitation to comment for at least 90 days; responses are made public and considered by the Working Group which includes a summary of significant issues in a progress report to the IAASB (or when submitting the final draft for approval). To avoid unnecessary confusion with the process for setting Standards, the term “Consultation Draft” is used rather than “Exposure Draft”.

#### *Approval*

21. Staff recommends the following process for approving IPN's once a draft is finalized by the Working Group:
- The draft should be distributed (along with any dissenting votes or abstentions of Working Group members, and the reasons therefore) to CAG members, who should be given an appropriate time, ordinarily no less than 2 weeks, to respond to two points: whether, in their opinion, the draft (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 Standards
  - The draft (along with CAG members' responses and any dissenting votes or abstentions of Working Group members, and the reasons therefore) should be considered by the IAASB at its next public meeting. The IAASB should approve the draft, as presented by the Working Group, for publication if 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 Standards.
22. The following are not needed for an IPN:
- Effective Date
  - Basis for Conclusions
  - Written report outlining whether due process has been followed
  - Approval by the PIOB of the IPN or of the process used to develop it.
23. IPNs should explicitly state that they are not an authoritative part of the IAASB's literature and that they have not been subject to the due process applicable to Standards.

#### *Interaction with the CAG and the PIOB*

24. As described above, Staff recommends that the project proposal should be circulated to the CAG for feedback and the PIOB for information (paragraph 11), both should receive regular updates (paragraph 15), and the CAG should be involved at the approval stage (paragraph 21). Given the non-authoritative nature of IPNs and the need for efficiency, however, it is recommended that no formal “report back” to the CAG, like that required for the development of Standards, should be required. Similarly, further formal interaction with the PIOB is not considered necessary given the non-authoritative nature of the IPNs, PIOB involvement in the development of the IAASB's strategy and work plan, and PIOB members' attendance at the IAASB meetings. In particular, as noted in

paragraph 22, it is not recommended that the PIOB be required to approve the IPN or the process used to develop it.

## Summary of Recommended Process for Developing an IPN

### *Project Identification and Prioritization*

1. Projects to develop IPNs result from the extant process for setting the Board's strategy and work plan.

### *Project Commencement*

2. A proposal to start a new project to develop an IPN is based on research, with consideration given to the impact of the anticipated output of the proposed project. It specifically discusses why non-authoritative guidance is an adequate response (as opposed to a new or amended Standard) and why an IPN (rather than a staff publication or other form of response) is being proposed. Factors considered include whether, in the particular circumstances:
  - An IPN would provide practical assistance to practitioners and firms
  - The proposed IPN is expected to be relevant internationally
  - The guidance is expected to remain useful for the foreseeable future
  - Clarification of requirements in the Standards, for example, to address divergent practices in their application, is needed (which would be addressed by changes to the Standard, not an IPN)
  - The awareness of practitioners needs to be raised regarding a particular issue, in which case a staff publication would be more appropriate.
3. The project proposal notes the process expected to be followed in terms of those elements noted below where flexibility of approach is allowed for, including:
  - Whether the project is to be carried out jointly with another organization with relevant expertise
  - The expected size and diversity of membership of the Working Group and its expected mode of meeting (e.g. video or teleconference or physical meetings)
  - The range and nature of expected consultations
  - Whether a project advisory panel is needed
  - Whether any public fora, consultation papers or field tests are considered necessary.
4. A draft project proposal is:
  - Circulated to other Standard Setting Boards (SSBs) and IFAC Committees to identify matters of possible relevance to the project
  - Recommended to the IAASB by the Steering Committee
  - Approved by the IAASB.
5. Once approved, the project proposal is:
  - Circulated to the CAG for feedback to the Working Group in a public meeting at which the chair of the Working Group is ordinarily in attendance, physically or by video or teleconference



- Circulated to the PIOB for information.

#### *Working Group*

6. A Working Group is appointed by the Technical Director after consultation with the Steering Committee. The chair (or co-chair in the case of a project carried out jointly with another organization with relevant expertise) is an IAASB member, Technical Advisor or Staff member.
7. A Working Group has the power to conduct research (subject to approval of any costs by the Technical Director), and to consult with the IAASB by correspondence, other SSBs and IFAC Committees, practitioners, regulators, national standard setters and other interested parties as appropriate. This may include holding roundtables.
8. A Working Group may establish a project advisory panel.
9. Working Group meetings are not open to the public, but a regularly updated project summary is included on the IAASB website, and regular project updates are distributed to the CAG and the PIOB and included for information in IAASB agenda papers. Project updates are not expected to commonly be subject to extensive discussion during IAASB meetings.

#### *Public Fora, Consultation Papers and Field Tests*

10. It is not expected that a project to develop an IPN will require any public fora, consultation papers or field tests. If, however, any are expected given the particular circumstances of a project, that is mentioned in the project proposal. The IAASB Technical Director may, in exceptional circumstances, approve a public forum, consultation paper or field test beyond any mentioned in the approved project proposal.

#### *Exposure and Consideration of Comments*

11. The Working Group approves a Consultation Draft that is placed on the IAASB website with a public invitation to comment for at least 90 days.
12. Comments received on the Consultation Draft are made public and considered by the Working Group, which includes a summary of significant issues in a progress report to the IAASB (or when submitting the final draft for approval).

#### *Approval*

13. Once a draft IPN is finalized by the Working Group:
  - It is distributed (along with any dissenting votes or abstentions of Working Group members, and the reasons therefore) to CAG members, who are given an appropriate time, ordinarily no less than 2 weeks, to respond to two points: whether, in their opinion, the draft (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 Standards.
  - It is then considered (along with CAG members' responses and any dissenting votes or abstentions of Working Group members, and the reasons therefore) by the IAASB at its next public meeting. The IAASB approves the IPN, as presented by the Working Group, for publication if 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 Standards.

## Appendix 2

### Summary of Processes Used by Other Standard Setters

#### International Accounting Standards Board (IASB)

The IASB Due Process Handbook allows the IASB to issue non-mandatory practice guidance (such as a Basis for Conclusions), however, it must use the same procedures as for a Standard.

Educational material is non-mandatory, and is developed by the IFRS Foundation Education Initiative subject to the following peer reviews:

- High level summaries, such as Executive Briefings and PowerPoint presentations, are reviewed by an appropriate technical staff member and by a member of the Editorial team;
- Teaching materials, such as those used for Conceptual Framework-based teaching, are also reviewed by an IASB member or appropriate external expert, such as an academic. More detailed teaching materials, however, such as comprehensive IFRS for SMEs training material, is reviewed by at least two IFRS experts, one of which must be an IASB member; and
- Educational material accompanying an IFRS must be reviewed by at least three IASB members.

SME Q&As are non-mandatory guidance developed following a Due Process that involves:

- Identification of issues via questions posted to the IASB's website referred to the SME Implementation Group (SMEIG)
- Non-public e-mails between Staff and SMEIG members to decide whether to publish a Q&A
- A tentative consensus on the need for a Q&A and the substance of the answer, which is reached on the basis of a simple majority of SMEIG members. SMEIG decisions not to develop a Q&A are not published
- At least three IASB members review a Staff draft of the Q&A
- Public exposure for at least 30 days. Comments received are analyzed by Staff and a recommendation is sent to SMEIG members for approval in writing within 30 days. This is treated as internal correspondence rather than as a public document
- SMEIG consensus is achieved if a simple majority of SMEIG members agree with the Staff recommendation
- At least three IASB members review the Staff recommendation
- Publication in the name of the SMEIG, not the IASB.

Interpretations Committee rejection notices do “not provide mandatory requirements but they should be seen as helpful, informative and persuasive”. They are approved by simple majority of Interpretations Committee members after an exposure period of normally at least 60 days

#### Canadian Auditing and Assurance Standards Board (AASB)

Practice Notes are non-authoritative material. The AASB applies the same extensive Due Process to develop practice statements (formerly Auditing and Related Services Guidelines), except: “While not

required for a proposed practice statement, the AASB may decide that an exposure draft should be issued for certain proposed practice statements.”

### **AICPA Auditing Standards Board (ASB)**

The ASB has documents at “three levels of authority”:

- (a) *Standards*, which must be complied with.
- (b) *Interpretive publications*.
  - “If the auditor does not apply the auditing guidance included in an applicable interpretive publication, the auditor should be prepared to explain how he or she complied with the Statements on Auditing Standards provisions addressed by such auditing guidance.”
  - There are 3 types of interpretive publications in addition to appendixes to the Standards (appendixes appear to follow the same due process as the Standards themselves): (i) Interpretations (guidance on the application of Standards), (ii) AICPA Guides (guidance on particular circumstances that require special attention, such as the use of analytical procedures, or within specialized industries), and (iii) Statements of Position (implementation guidance for specific types of engagements, or on specialized areas in an engagement).
  - With minor variations, the process for issuing interpretive publications is that they are prepared by Staff, a subcommittee or task force. In the case of Interpretations and some Statements of Position, they are reviewed by the Audit Issues Task Force (a standing subcommittee of the ASB). They are then issued under the authority of the ASB after all ASB members have been provided an opportunity to consider and comment on whether they are consistent with the Standards. ASB members are provided at least two weeks to consider and comment. Final approval rests with the ASB Chair and the Director.
- (c) *Other publications*, which have no authoritative status but may help the practitioner understand and apply the Standards. These publications are not approved, disapproved, or otherwise acted on by the ASB, the membership, or the governing body of the AICPA, and are not official pronouncements of the AICPA.

### **UK Financial Reporting Council**

“Guidance for auditors of financial statements is ... issued in the form of Practice Notes and Bulletins. Practice Notes and Bulletins are persuasive rather than prescriptive and are indicative of good practice. Practice Notes assist auditors in applying engagement standards to particular circumstances and industries and Bulletins provide timely guidance on new or emerging issues. Auditors should be aware of and consider Practice Notes applicable to the engagement. Auditors who do not consider and apply the guidance included in a relevant Practice Note should be prepared to explain how the engagement standards have been complied with.”

“Practice Notes and Bulletins are persuasive rather than prescriptive. However, they are indicative of good practice, even though they may be developed without the full process of consultation and exposure used for standards.”