

Proposed Changes to the IAASB Terms of Reference

Objective of the Agenda Item

1. To agree proposed changes to the Terms of Reference (ToR) of the IAASB. Such changes will also be considered by the other independent standard-setting Boards (SSBs) for their ToR.¹

Background – Review of IFAC’s Constitution and Bylaws and Related Issues

2. 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, among other changes, 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’ ToR should be endorsed (previously approved) by the Board and approved by the relevant Public Interest Oversight Authority (i.e., for the IAASB, by the Public Interest Oversight Board (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 approved by the relevant Public Interest Oversight Authority.

Proposed Changes to the ToR

3. The Appendix to this paper includes proposed changes to the IAASB’s ToR and the underlying rationale for them.
4. These changes relate to the changes articulated in the IFAC Constitution and Bylaws as discussed above. In addition, though not part of the changes to the Constitution and Bylaws, some editorial changes and clarifications have been proposed including changes to differentiate between the authoritative pronouncements (i.e., the International Standards) of the Board and other non-authoritative material that it may develop.

¹ In addition to the IAASB, the independent SSBs include the International Accounting Education Standards Board (IAESB), the International Ethics Standards Board for Accountants (IESBA), and the International Public Sector Accounting Standards Board (IPSASB). The IAASB, IAESB, and IESBA are also referred to as standard-setting Public Interest Activity Committees and are subject to PIOB oversight.

Initial Steering Committee Views

5. The IAASB Steering Committee was supportive of the proposed changes. In considering the proposals, the following additional matters were suggested for consideration:
- Further explanation of the role and remit of the Nominating Committee, and its relationship to IFAC and the SSBs, may be useful.
See suggested changes in Section 3.0.
 - Regarding the relationship between the IAASB and IFAC, a suggestion was made that some reference could continue to be made in either the ToR, or through other means (e.g., by reference to a separate document that more specifically addresses the relationship between IFAC and the independent SSBs).
See suggested changes in Section 10.0

Way Forward

6. The IAASB's feedback on the proposed changes to its ToR will be assimilated with feedback provided by the other SSBs on similar changes proposed to their ToRs. Assuming common support for the proposed changes, the changes will be discussed with the IFAC Board in November 2014 and, as appropriate, with the PIOB in December 2014 for approval.

**International Auditing and Assurance Standards Board
 Terms of Reference – Proposed Changes**

Proposed Change	Reason for Change
<p>1.0 PURPOSE</p> <p>The mission of the International Federation of Accountants (IFAC), as set out in its constitution, is “to serve the public interest by contributing to the development, adoption and implementation of high-quality international standards and guidance; contributing to the development of strong professional accountancy organizations and accounting firms, and to high quality practices by professional accountants; promoting the value of professional accountants worldwide; and speaking out on public interest issues where the accountancy profession’s expertise is most relevant.” In pursuing this mission, the IFAC Board has established the International Auditing and Assurance Standards Board (IAASB) to function as an independent standard-setting body under the auspices of IFAC and subject to the oversight of the Public Interest Oversight Board (PIOB).</p> <p>The IAASB develops and issues, in the public interest and under its own authority, high-quality auditing and assurance standards and other pronouncements for use around the world. The IFAC Board has determined that designation of the IAASB as the responsible body, under its own authority and within its stated terms of reference, best serves the public interest in achieving this aspect of its mission.</p>	<p>To remove IFAC’s mission statement to help to clarify and reinforce the independence of the SSBs and because it is not directly relevant to the IAASB (that is, the focus of the IAASB’s <u>ToR</u> should be on the IAASB’s mission).</p> <p>To remove a paragraph that contains a reference to IFAC’s Board and is not considered to be necessary. Pertinent information about the IAASB is contained in the “Objective” section below.</p>
<p>2.01.0 OBJECTIVE</p> <p>The IAASB’s objective is to serve the public interest by setting high-quality auditing, assurance, and other related standards and by facilitating the convergence of international and national auditing and assurance standards, thereby enhancing the quality and consistency of practice throughout the world and strengthening public confidence in the global auditing and assurance profession.</p>	<p>No change</p>
<p>3.02.0 PRONOUNCEMENTS</p> <p>In fulfilling the above objective, the IAASB develops and issues, <u>under its own authority</u>, the following International Standards, <u>which are the IAASB’s authoritative pronouncements</u>:</p> <ul style="list-style-type: none"> <i>International Standards on Auditing (ISAs) and International Standards on Review Engagements (ISREs) to be applied in audit and review engagements on historical financial information.</i> 	<p>To clarify the distinction between authoritative pronouncements (the International Standards) and non-authoritative material.</p>

<ul style="list-style-type: none"> • <i>International Standards on Assurance Engagements (ISAEs)</i> to be applied in assurance engagements other than audits or reviews of historical financial information. • <i>International Standards on Related Services (ISRSs)</i> to be applied in related services engagements. • <i>International Standards on Quality Control (ISQCs)</i> to be applied for all services falling within the <u>above</u> Engagement Standards of the IAASB. <p>The IAASB <u>may</u> also publishes other pronouncements <u>non-authoritative material</u> on auditing and assurance matters, thereby advancing public understanding of the roles and responsibility of professional auditors and assurance service providers.</p> <p>The official text of the International Standards and other <u>material pronouncements</u> is that published by the IAASB in the English language.</p>	
<p>4.03.0 MEMBERSHIP</p> <p>The members of the IAASB, including the <u>Chairman</u> and Deputy Chair, are appointed by the <u>Public Interest Oversight Board (PIOB) based IFAC Board</u> on the recommendation of the Nominating Committee² and <u>after</u> with the approval endorsement of the IFAC Board-PIOB. The appointment as Deputy Chair does not imply that the individual concerned is the Chair-elect.</p>	<p>To conform to the revised Constitution and Bylaws</p> <p>Footnote added to further describe the Nominating Committee, as suggested by the IAASB Steering Committee</p>
<p>The IAASB has 18 members comprising practitioners and non-practitioners,³ of whom no more than nine shall be practitioners and no less than three shall be public members.⁴ A public member is an individual who satisfies the requirements of a non-practitioner and is also expected to reflect, and is seen to reflect, the wider public interest. Not all non-practitioners are therefore eligible to be public members. The three public members may be members of IFAC Member Bodies.</p>	<p>No change</p> <p>[For noting: The definition of a public member is being discussed by the Nominating Committee, along with the PIOB and Monitoring Group (MG), and further changes to this</p>

² The IAASB is supported by the nominating process as administered by the Nominating Committee. The Nominating Committee is part of the overall governance structure for the SSBs and IFAC. Nomination decisions are made outside of the management structure of IFAC and the SSBs, and under PIOB oversight.

³ A non-practitioner is a person who is not a member or employee of an audit practice firm and, in respect of individuals who have been members or employees of such firms, there shall normally be a cooling-off period of three years, but that such period may, on a comply or explain basis, be reduced, provided that such a reduction shall not result in a cooling-off period of less than one year. Where an individual is proposed for appointment with less than a three year cooling-off period IFAC shall provide to the PIOB the reasons for the proposed appointment, which the PIOB shall, in line with its authority to approve all appointments to the IAASB, have the authority to accept or decline.

⁴ ~~While these sentences reflect changes approved to membership in 2011, the transition to the changes in membership will commence in 2013.~~

Proposed Changes to the IAASB ToR
IAASB Main Agenda (September 2014)

	section may be necessary in the future.]
<p>The selection process is based on the principle of “the best person for the job,” the primary criterion being the individual qualities and abilities of the nominee in relation to the position for which they are being nominated. However, the selection process also seeks a balance between the personal and professional qualifications of a nominee and representational needs, including gender balance, of the IAASB. Accordingly, consideration will be given to other factors including geographic representation, sector of the accountancy profession, size of organization, and level of economic development.</p>	Minor editorial change
<p>IAASB members may be accompanied at meetings by a technical advisor. A technical advisor has the privilege of the floor with the consent of the IAASB member he or she advises, and may participate in projects. Technical advisors are expected to possess the technical skills to participate, as appropriate, in IAASB debates and attend IAASB meetings regularly to maintain an understanding of current issues relevant to their role.</p>	No change
<p>The IAASB, <u>at its discretion</u>, may also include up to three observers. <u>IAASB observers are endorsed by the IFAC Board and approved by appointed at the discretion of the IFAC Board, in consultation with the</u> PIOB.</p>	To conform to the revised Constitution and Bylaws
<p><u>IAASB Observers are expected to</u> may attend IAASB meetings <u>regularly to maintain an understanding of current issues. They</u>, have the privilege of the floor, and may <u>also</u> participate in projects. Observers are expected to possess the technical skills to participate fully in IAASB debates and attend IAASB meetings regularly to maintain an understanding of current issues.</p>	Though not part of the Constitution and Bylaws changes, editorial changes are suggested to clarify the roles and responsibilities of observers
<p>The <u>Chairman</u> of the IAASB Consultative Advisory Group (CAG) is expected to attend IAASB meetings, or to appoint a representative of a CAG member organization to attend. The <u>Chairman</u> of the IAASB CAG, or appointed representative, has the privilege of the floor at IAASB meetings.</p>	No change
<p>IAASB members <u>and technical advisors</u> are required to sign an annual statement declaring they will <u>not submit to undue influence, whether financial or otherwise, which might impair their member’s ability to serve or act as a member with independence, integrity, and</u> act in the public interest and with integrity in discharging their roles within IFAC. Nominating organizations of members of the IAASB are asked to sign independence declarations.</p>	To clarify that technical advisors must also sign annual declarations and to remove the reference to IFAC. Also, the language in the declarations is changed to conform to the language in the revised Bylaws [this

<p>5.04.0 THE IAASB CHAIRMAN</p> <p><u>The appointment of the IAASB Chairman is endorsed by the IFAC Board and approved by the PIOB. The IAASB Chairman must agree to be bound by independence requirements in order to assume the position. The independence requirements are outlined in <i>Roles and Responsibilities of the Chairman of the International Auditing and Assurance Standards Board</i>.</u></p> <p>The IAASB Chairman is a an-remunerated position. IFAC holds a consulting arrangement with the Chairman as part of IFAC's support of the IAASB. independently contracted position within IFAC. The Chair is selected by the Nominating Committee and recommended to the IFAC Board for its agreement and to the PIOB for subsequent approval. The provisions of the Chair's remuneration, benefits and other conditions are determined in a separate contract between the Chair and IFAC.</p> <p>The IAASB Chair must agree to be bound by independence requirements in order to assume the position. The independence requirements are outlined in <i>The Independence Requirements of the IAASB Chair</i>.</p>	<p>will go into effect in 2015].</p> <p>To conform to the revised Constitution and Bylaws, and to clarify the IFAC's consulting arrangement with the Chairman. Other minor editorial changes are also included.</p>
<p>5.0 THE IAASB DEPUTY CHAIR</p> <p><u>The appointment as IAASB Deputy Chair is considered a leadership position in support of the Chairman and does not imply that the individual concerned is the Chair-elect.</u></p> <p><u>In the event of a vacancy by reason of the incapacity, resignation, removal or death of the Chairman, the Deputy Chair shall assume the duties of Chairman as acting chair, having full power, authority and responsibility of the role of the Chairman to manage the Board's agenda and work program until the appointment of an interim or a new Chairman.</u></p>	<p>To provide guidance on succession matters</p>
<p>6.0 TERMS OF OFFICE</p> <p>The standard term for IAASB members is three years, with approximately one-third of the membership rotating each year. A member may serve up to two consecutive terms, for an aggregate term of six years.</p> <p>The <u>Chairman</u> ordinarily may serve three consecutive terms (as <u>Chairman</u> or as a member for one to two terms preceding the appointment as <u>Chairman</u>), for an aggregate of nine years. In exceptional circumstances, to be specified by the Nominating Committee, the <u>Chairman</u> may serve for one additional consecutive term, for an aggregate term of twelve years.</p>	<p>No change</p>

<p>representatives at the CAG meetings, in order to obtain: advice on the IAASB's agenda and project timetable (work program), including project priorities; technical advice on projects; and advice on other matters of relevance to the activities of the IAASB.</p>	
<p>10.0 OTHER</p> <p>The IAASB cooperates with national standard setters to link their work with IAASB's own in preparing and issuing International Standards with an aim to share resources, minimize duplication of effort and reach consensus and convergence in standards at an early stage in their development. It also promotes the endorsement of the International Standards by national standard setters, legislators and securities exchanges and promotes debate with users, regulators and practitioners throughout the world to identify user needs for new International Standards and guidance.</p> <p>The IAASB publishes an annual report, outlining its work program, activities and progress made in achieving its objectives during the year.</p> <p><u>The IFAC Board will review the terms of reference of the IAASB will be reviewed at least every three five years. The terms of reference, or any changes to it, shall be approved by the PIOB after endorsement by the IFAC Board.</u></p> <p><u>IFAC provides financial, operational and administrative support to the IAASB and, if applicable, in consultation with the PIOB. IFAC does not interfere with the independent decision-making process of the IAASB in carrying out its public interest function under these terms of reference.</u></p>	<p>No change</p> <p>To conform to the revised Constitution and Bylaws (the IFAC Board now endorses, rather than approves, the ToR).</p> <p>A period of time for review is not mandated, but 5 years has been suggested with the opportunity to review more frequently if needed.</p> <p>To acknowledge the relationship between the IAASB and IFAC, as suggested by the IAASB Steering Committee.</p>