

Meeting: IAASB
Meeting Location: New York
Meeting Dates: December 1-5, 2014

Agenda Item 11

Process for Developing International Practice Notes

Objective of Agenda Item

1. To agree the process for developing International Practice Notes (IPNs).

Background

2. The Preface to the IAASB Handbook (the Preface),¹ contemplates the issuance of non-authoritative IPNs by the IAASB.
3. IAASB discussions on efficiencies earlier this year highlighted the need to agree a process for developing IPNs that is appropriate to ensure their quality, yet also proportionate to their nature (to provide practical assistance to practitioners, and not to impose additional requirements on practitioners) and their status as non-authoritative. IPNs have been noted as possible outputs of new projects in the *IAASB Work Plan for 2015–2016*.
4. At its September 2014 meeting, the IAASB discussed an initial staff proposal outlining a process to develop IPNs. Among other comments, the IAASB asked staff to consider the following in revising its proposal:
 - Whether adequate CAG involvement at the commencement of a project to develop an IPN, and during its development, has been provided for.
 - Whether the Board would be in a position to approve an IPN if the Board itself has not been adequately involved throughout its development.
 - Whether material that is approved by the Board should be considered “non-authoritative”. It was noted that the status of IPNs as “non-authoritative” is less clear when there is Board approval of the document, and particularly so if the development of the IPN includes public exposure.
5. The initial staff proposal was also tabled at the September 2014 CAG meeting. However, it was not discussed by the CAG to any notable extent due to time available. It was agreed to seek the input of CAG Representatives by email.

¹ *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)).

Proposed Process for Developing IPNs

6. Appendix 1 to this paper contains a revised staff proposal for developing IPNs. (For reference, the changes to the version tabled at the September IAASB meeting are shown in marked text in Appendix 2.) Among other changes, the revised proposal:
 - Requires that the CAG be consulted on proposals to start new projects to develop IPNs and on significant issues relating to the development of an IPN.
 - Makes clear that a project to develop an IPN does not include public exposure of a draft IPN.
 - Calls for IAASB discussion of regular project updates; such updates are determined at the discretion of the IAASB Chairman in consultation with the Working Group Chair and the IAASB Technical Director.
7. The revised proposal retains the non-authoritative status of IPNs in accordance with the extant Preface, which was unanimously approved by the IAASB in December 2011, and also retains the IAASB's approval of the final IPN before it is released.
8. Staff considered whether an IPN could be approved by, e.g., the IAASB Chairman and Technical Director, rather than the Board itself. The Preface, however, says that "Non-authoritative material includes Practice Notes *issued by the IAASB*" (italics added), which appears to preclude approval by others. It also has not been the practice to include material in the IAASB Handbook unless the material has been approved by the Board. While there may be queries about whether approval by the Board (or indeed other aspects of the process) implies some degree of authority for an IPN, there does not appear to be any one generally accepted solution to the problem of separating authoritative (or mandatory) material from non-authoritative material, other than the relevant Board stating what it intends the distinction to be.

Process for Developing International Practice Notes

The *Preface to the International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements* explains that non-authoritative material includes International Practice Notes (IPNs) issued by the IAASB and staff publications, and that non-authoritative material is not part of the IAASB's International Standards.

IPNs do not impose additional requirements on practitioners beyond those included in the Standards, nor do they change the practitioner's responsibility to comply with all Standards relevant to the engagement.

IPNs provide practical assistance to practitioners. 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.

The following sets out the process followed by the IAASB in developing an IPN:

Project Identification and Prioritization

1. A project to develop an IPN results 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 or any other indications, e.g., discussion with stakeholders, that there is a need for material at the international level that provides practical assistance on the application of (aspects of) the IAASB's Standards in a particular context.
3. The project proposal explains why non-authoritative material is an appropriate 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 that may indicate an IPN *is not* appropriate include whether, in the particular circumstances:
 - Clarification of requirements in the Standards, for example, to address divergent practices in their application, is needed (which would be addressed by changes to a Standard(s), not an IPN); and
 - The awareness of practitioners needs to be raised regarding extant Standards or guidance (in which case a staff publication would be more appropriate).
4. The project proposal notes the specific approach for the development process expected to be followed in relation to the following:
 - 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) (see paragraph 7).
 - The range and nature of expected consultations, including: whether a project advisory panel is expected to be used; and whether any roundtables, public fora or consultation papers are considered necessary (see paragraphs 8 and 11).

5. A draft project proposal is:
 - Recommended to the IAASB by the Steering Committee.
 - Circulated to the CAG, other Standard Setting Boards (SSBs) and IFAC Committees to identify matters of possible relevance to the project.
 - Approved by the IAASB.
6. Once approved, the project proposal is circulated to the PIOB for information.

Working Group

7. A Working Group is appointed by the Technical Director after consultation with the Steering Committee. In addition to subject matter experts, the Working Group will include IAASB members, Technical Advisors or staff members, one of whom will be the Chair. Working Group meetings are not open to the public.
8. A Working Group may establish a project advisory panel.

Consultation

9. A Working Group may conduct research (subject to approval of any costs by the Technical Director), and consult with other SSBs and IFAC Committees, practitioners, regulators, national standard setters and other interested parties as appropriate.
10. The Working Group provides the IAASB with regular project updates, either for information or discussion by the IAASB. Such updates are determined at the discretion of the IAASB Chairman in consultation with the Working Group Chair and the IAASB Technical Director.
11. The development of an IPN does not include public exposure of a draft IPN. However, the IAASB Technical Director may, in exceptional circumstances, approve a roundtable, public forum or consultation paper beyond any mentioned in the approved project proposal. Such exceptional circumstances may occur if it is necessary to obtain further insight into the applicability of an IPN in a specific context, in particular where there are regional differences.

Interaction with the Consultative Advisory Group

12. The IAASB is responsible for consulting with the CAG during the development and finalization of an IPN. In particular, the CAG is consulted on:
 - Proposals to start new projects to develop IPNs.
 - Significant issues relating to the development of an IPN.
13. The Chairman of the IAASB or the Chair of the Working Group is responsible for bringing to the IAASB and Working Group's attention significant comments received through consultation with the CAG.

Approval

14. Once a draft IPN is finalized by the Working Group, it is then discussed by the IAASB at its next public meeting. The IAASB is asked to approve the draft, as presented by the Working Group, for publication as an IPN on the basis of whether the IPN: (a) is of sufficient quality to be added to the

IAASB's literature, with consideration given to the clarity of the IPN and whether relevant matters identified in the project proposal have been adequately addressed; and (b) would not reasonably be construed or interpreted as conflicting with, weakening or extending the underlying Standards.

Process for Developing International Practice Notes

Marked up from Appendix 1 to Agenda Item 9-B of the IAASB's September 2014 meeting

The Preface to the International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements explains that non-authoritative material includes International Practice Notes (IPNs) issued by the IAASB and staff publications, and that non-authoritative material is not part of the IAASB's International Standards.

IPNs do not impose additional requirements on practitioners beyond those included in the Standards, nor do they change the practitioner's responsibility to comply with all Standards relevant to the engagement.

IPNs provide practical assistance to practitioners. 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.

The following sets out the process followed by the IAASB in developing an IPN:

Project Identification and Prioritization

1. A pProjects to develop an IPNs results 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 or any other indications, e.g., discussion with stakeholders, that there is a need for material at the international level that provides practical assistance on the application of (aspects of) the IAASB's Standards in a particular context, with consideration given to the impact of the anticipated output of the proposed project.

2.3. It specifically discusses The project proposal explains why non-authoritative guidance material is an adequate appropriate 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 that may indicate an IPN is not appropriate 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 a Standard(s), not an IPN); and
- The awareness of practitioners needs to be raised regarding extant Standards or guidance a particular issue, (in which case a staff publication would be more appropriate).

3.4. The project proposal notes the specific approach for the development process expected to be followed in relation to the following: 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) (see paragraph 7).
- ~~• The range and nature of expected consultations, including:~~
- ~~• Whether a project advisory panel is expected to be used; and needed~~
- Whether any roundtables, public fora, or consultation papers ~~or field tests~~ are considered necessary (see paragraphs 8 and 11).

4.5. A draft project proposal is:

- Recommended to the IAASB by the Steering Committee.
- Circulated to the CAG, 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.

5.6. Once approved, the project proposal is Circulated to the PIOB for information.:

- ~~• 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

6.7. A Working Group is appointed by the Technical Director after consultation with the Steering Committee. ~~The In addition to subject matter experts, the Working Group will include chair (or co-chair in the case of a project carried out jointly with another organization with relevant expertise) is an~~ IAASB members, Technical Advisors or ~~s~~Staff members, one of whom will be the Chair. Working Group meetings are not open to the public.

7.8. A Working Group may establish a project advisory panel.

Consultation

8.9. A Working Group ~~has the power to may~~ 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.~~

~~9. A Working Group may establish a project advisory panel.~~

10. The Working Group ~~meetings are not open to the public, but a regularly updated project summary is included on the IAASB website, and provides the IAASB with~~ regular project updates, ~~either are distributed to the CAG and the PIOB and included for information or discussion by the in~~ IAASB agenda papers. Such updates are determined at the discretion of the IAASB Chairman in consultation with the Working Group Chair and the IAASB Technical Director. Project updates are not expected to commonly be subject to extensive discussion during IAASB meetings.

Public Fora, Consultation Papers and Field Tests

~~12.11. It is not expected that a project to~~ The development of an IPN does not include public exposure of a draft 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. However, the IAASB Technical Director may, in exceptional circumstances, approve a roundtable, public forum, or consultation paper or field test beyond any mentioned in the approved project proposal. Such exceptional circumstances may occur if it is necessary to obtain further insight into the applicability of an IPN in a specific context, in particular where there are regional differences.

Exposure and Consideration of Comments

- ~~13. 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.~~
- ~~14. 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).~~

Interaction with the Consultative Advisory Group

- ~~12. The IAASB is responsible for consulting with the CAG during the development and finalization of an IPN. In particular, the CAG is consulted on:~~
- ~~• Proposals to start new projects to develop IPNs.~~
 - ~~• Significant issues relating to the development of an IPN.~~
- ~~13. The Chairman of the IAASB or the Chair of the Working Group is responsible for bringing to the IAASB and Working Group's attention significant comments received through consultation with the CAG.~~

Approval

- ~~15. 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.~~
- ~~17.14. Once a draft IPN is finalized by the Working Group, it is then discussed 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 is asked to approve the IPN draft, as presented by the Working Group, for publication as an IPN on the basis of whether the IPN if it: (a) is of sufficient quality to be added to the IAASB's literature, with consideration given to the clarity of the IPN and whether relevant matters identified in the project proposal have been adequately addressed; and (b) we could not reasonably be construed or interpreted as conflicting with, weakening or extending the underlying Standards.~~