

Meeting: IAASB-Consultative Advisory Group
Meeting Location: New York
Meeting Dates: September 8–9, 2014

Agenda Item M

Efficiencies

Objective of Agenda Item

1. To obtain Representatives' and Observers' views and further direction to enable Staff to progress the following:
 - Potential amendments to the due process¹ 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).

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

2. The IAASB's mandate as described in the Terms of Reference (ToR)² 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”),³ 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.
 - A. *Matters Requiring an Authoritative Response*
3. 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.

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

² The IAASB's ToR are available at: <http://www.ifac.org/auditing-assurance/about-iaasb/terms-reference>.

³ 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).

“Rapid Response” Mechanism – Proposed Changes to the Due Process and Working Procedures for Authoritative Material

4. As previously discussed by the Board and the CAG, 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. 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, namely whether:
 - (a) 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.
 - (b) An alternative to the term “rapid response” would better reflect the intended uses of the process.
 - (c) 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.
 - (d) 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.
 - (e) There are 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.
 - (f) Early interactions with stakeholders at the inception of a rapid response project would aid stakeholders in adjusting to the accelerated due process.
5. In consultation with the Steering Committee, Staff has therefore 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 M.1**). 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.
6. 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 M.1**).
 - (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 M.1**).
7. Paragraph 36 of **Agenda Item M.1** 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.
8. 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.

Matters for CAG Consideration

- 1. Representatives are asked whether they agreed with the need for the IAASB to have the ability to respond in an authoritative manner to particular issues on an accelerated basis. If so, Representatives are asked for their views on whether the changes proposed in **Agenda Item M.1** are appropriate, in particular whether :
 - (a) The reasons why the IAASB may determine the need for an accelerated authoritative response, and the process to be followed before such a project can commence, are appropriate (see paragraph 32 of **Agenda Item M.1**).
 - (b) The changes in the interaction between the IAASB and CAG are a reasonable approach to accommodate the acceleration of the development of authoritative material (see paragraph 36 of **Agenda Item M.1**).
- 2. Representatives are asked to provide any other suggestions on how the process by which an accelerated response is developed could be further refined.

B. Matters for Which Non-Authoritative Material May Be Appropriate and the Process to Develop Such Material

- 9. For some matters, it may be appropriate to develop what the ToR and Preface identifies as non-authoritative material. Previous Board discussions on efficiencies have highlighted the need to revisit the process by which such non-authoritative material is developed, such that the process is proportional to their nature and status.
- 10. 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. The IAASB may also develop other non-authoritative material, such as the recently issued *Framework for Audit Quality*. While the remainder of this paper focuses specifically on one type of non-authoritative material, it is envisaged that the process could be used for other non-authoritative material that the Board may issue.

International Practice Notes, Including International Auditing Practice Notes

11. To date, the IAASB has developed one International Auditing Practice Note (IAPN) – IAPN 1000,⁴ and the issuance and purpose of IAPNs is explicitly addressed in the Preface of the IAASB Handbook. The Preface also acknowledges that the IAASB may develop Practice Notes related to the IAASB's other International Standards.⁵ This paper therefore refers to this non-authoritative guidance collectively as "International Practice Notes" or "IPNs." Despite how the Preface articulates the purpose of IPNs, there is still some confusion about their status, due in part to the fact that the development process followed for IAPN 1000 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.
12. IPNs are issued by the Board.⁶ 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, and may be particularly useful in addressing the application of particular aspects of the standards in a specific context or in giving practical assistance in applying the standard. 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.*"⁷
13. In coordination with the Steering Committee, Staff has developed **Agenda Item M.2**, 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, and is intended to be commensurate

⁴ IAPN 1000, *Special Considerations in Auditing Financial Instruments*

⁵ *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)).

⁶ 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. A specific [process to develop Staff publications](#) is already in place. 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.

⁷ Paragraph 12 of the Preface

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:
- (a) Approval of a project proposal by the IAASB.
 - (b) Formation of a Working Group to be chaired by an IAASB member, Technical Advisor or Staff.
 - (c) Work undertaken by the Working Group, with regular project updates posted to the IAASB website and included for information in IAASB agenda papers.
 - (d) 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.
 - (e) 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.
 - (f) 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.

Matters for CAG Consideration

3. Representatives are asked for their views on the proposed process to develop IPNs, as set out in in **Agenda Item M.2**, in particular on:
- (a) The delegation of discussion and development of the technical content and consideration of feedback on exposure of IPNs primarily to Working Groups, rather than the Board (see paragraphs 13–15 and 19–20 of **Agenda Item M.2**).
 - (b) The proposal regarding approval, in particular that an IPN be 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 Standards (rather than the approval of the detailed technical content) (see paragraph 21 of **Agenda Item M.2**).
4. The nature and extent of proposed interaction with the CAG (see paragraph 24 of **Agenda Item M.2**).

Proposed Changes to the IAASB Terms of Reference

15. At its September 2014 meeting, the IAASB will also consider changes to the IAASB's ToR, the need for which arises from the most recent review of IFAC's Constitution and Bylaws. Finalized in February 2014, a key area of focus of that review was the clarification and reinforcement of the independence of the standard-setting Boards (SSBs). Minor changes also have been proposed to differentiate between the authoritative pronouncements of the Board and other non-authoritative material that it may develop, as well as other changes of an editorial nature.

16. Senior Staff have not identified any matters arising from these proposed changes that would create an inconsistency between the IAASB's ToR and the CAG's ToR. The material the IAASB will consider at its September 2014 meeting is included as a CAG Reference Paper for information only.

Way Forward

17. Feedback from the CAG and the Board will be used to make revisions as necessary to **Agenda Items M.1 and M.2**. The proposed processes will be discussed 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 – IAASB CAG PAPERS

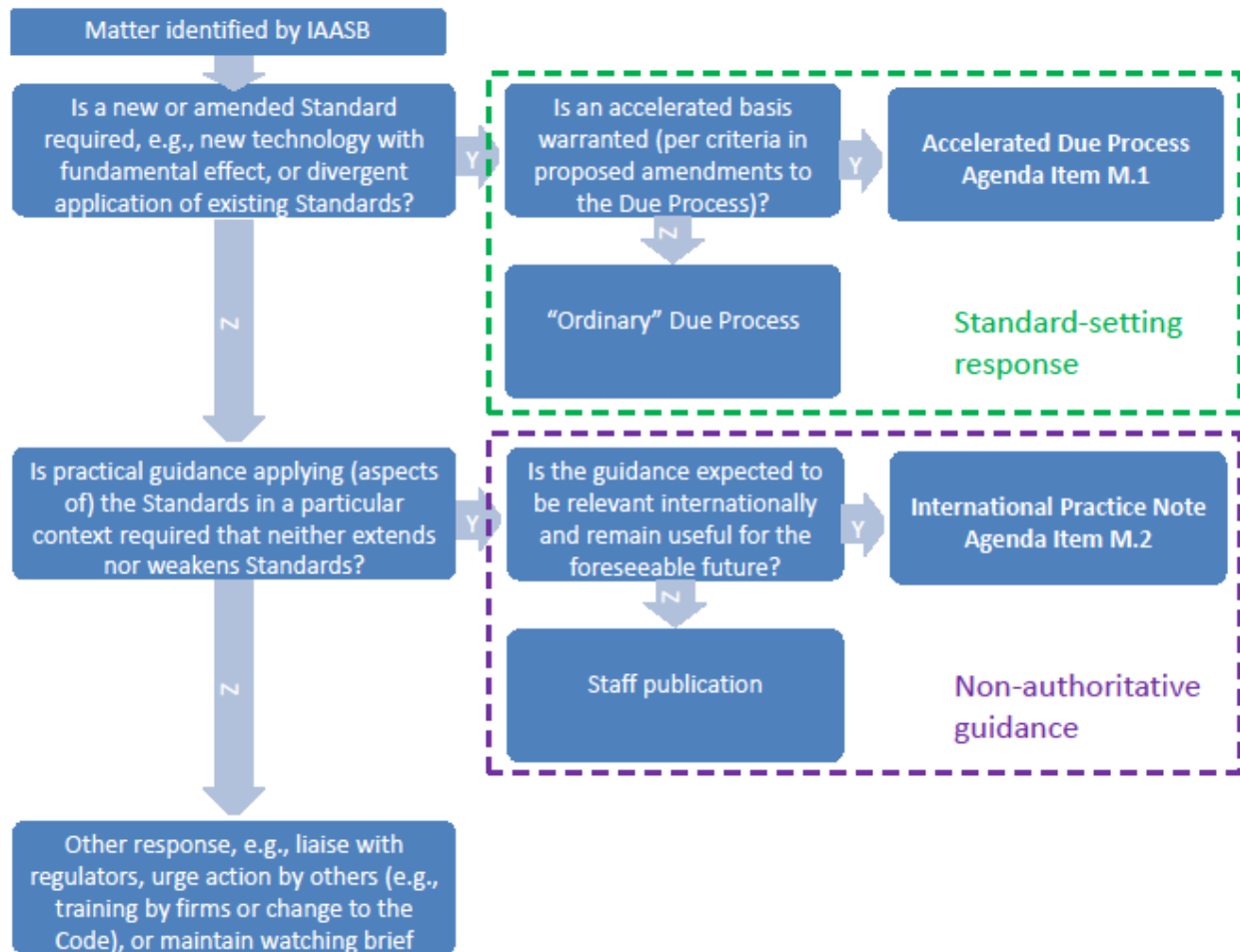
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| Agenda Item M.1 | Staff Paper – Proposed Clarifications within the Due Process and Working Procedures to Address Circumstances Requiring an Accelerated Response |
| Agenda Item M.2 | Staff Paper – Process for Developing International Practice Notes (IPNs) |

Material Presented – FOR IAASB CAG REFERENCE PURPOSES ONLY

- Agenda Item 9-C of the September 2014 IAASB Meeting Material, *Proposed Changes to the IAASB Terms of Reference* [Link to follow](#)

Appendix 1

Options for Dealing with Matters Identified as Needing Action



Appendix 2

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"> Board considers whether public fora, consultation papers or field testing are necessary to inform the development Discussion of issues with the Board and CAG at multiple meetings prior to issuance of Exposure Draft 	<ul style="list-style-type: none"> 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 Advance notification of project on website and call for public submissions on the issue Condensed timetable for Board and CAG discussions (e.g., may be one meeting vs. several) 	<ul style="list-style-type: none"> Via a Working Group with written updates to the Board, CAG and PIOB Project updates not expected to commonly be subject to extensive discussion during Board meetings Less likely to involve public fora, consultation papers or field testing
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 (Cover)
IAASB CAG Public Session (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