

Meeting: IAASB
Meeting Location: Paris
Meeting Date: March 14–18, 2011

Agenda Item

8

Definition of Professional Accountant

Objective of Agenda Item

1. To obtain the IAASB’s input in relation to the IFAC Staff Consultation Paper, *Proposed Definition of “Professional Accountant”*

Background

2. IFAC launched a project in late 2009 to evaluate the current definition of the term “professional accountant” and determine whether an alternative could be developed for further consideration. The project was undertaken with the assistance of a member and staff representative from each of IFAC’s committees and independent standard-setting boards. IAASB Deputy Chair Diana Hillier is the IAASB representative on the IFAC task force, supported by the Technical Director.
3. In January 2011, the IFAC task force agreed the accompanying Staff Consultation Paper, and asked that it be shared with each of IFAC’s committees and standard-setting boards for their reaction and input.

Matters for Consideration

4. The IFAC task force agreed that the current definition¹ of the term “professional accountant,” as employed by IFAC boards and committees, may be too simplistic for the needs of the future and that a new definition should be explored.
5. Amongst other concerns, the main perceived problems with the current definition can be summarized as follows:
 - The definition fails to address members of other organizations (other than IFAC member bodies) or individuals subject to qualification and oversight, and may inappropriately omit professional accountants in the public sector and in business.
 - It does not convey an understanding of the roles and functions of the professional accountant and, therefore, does not assist in the public’s understanding of the term.
 - It has the tendency to be circular and confusing. This confusion is often exacerbated in the translation process.

¹ The current definition of “professional accountant” is “an individual who is a member of an IFAC member body.”

- It may imply that the individual is “regulated” by the IFAC member body (which is not uniformly the case across IFAC membership) or it may imply that IFAC has certain regulatory capabilities not within the scope of the IFAC mandate or its resources.
 - It does not acknowledge that professional standards are adopted and enforced at the national/regional/state level through many different professional and regulatory arrangements.
6. Page 7 of Agenda Item 8-A sets out the proposed new definition of professional accountant. In developing the proposal, the IFAC task force agreed that a principles-based, descriptive approach to defining the term could be the most effective. The proposed definition is intended to be read in conjunction with the related explanatory guidance that follows the definition.
 7. The IFAC task force recognizes that any new definition to be used within authoritative standards would need to be subject to the due process of each standard-setting board. It also recognizes that if one standard-setting board changes its definition of the professional accountant it may have implications for the other standard-setting boards. Thus, further consideration will need to be given to the timing of this process, how comments might be reconciled between the boards as well as the timing of changes to any particular set of standards.

IAASB Context

8. The IAASB’s pronouncements use a variety of terms, including: independent auditor; auditor; practitioner; professional accountant; and professional accountant in public practice, amongst others. The Appendix to this paper lists the terms used in IAASB’s various pronouncements and recent exposure drafts, together with their definition where applicable.
9. Although at the present time it is not clear what impact the proposed definition may have on the IAASB’s pronouncements, IAASB staff’s initial assessment is that it is unlikely to have a serious direct effect. A concern expressed, however, has been in regard to the move away from reference to “member of an IFAC member body” in the definition of professional accountant (in particular, in relation to IAASB standards other than ISAs). This may lose the advantage of ensuring that those to whom the standards apply are also covered by the appropriate ethical and firm quality control standards and IFAC’s mechanisms to monitor implementation (through, for example, the IFAC’s Statement of Membership Obligations and Compliance Program).

Material Presented

Agenda Item 8-A IFAC Staff Consultation Paper, *A Proposed Definition of “Professional Accountant”*

Actions Requested

10. The IAASB is asked to consider the IFAC Staff Consultation Paper in Agenda Item 8-A. In order to further develop a proposed definition that could be applicable to the needs of each board and committee of IFAC, the IFAC task force seeks input on the following questions:

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- (a) Does the proposed definition, as presented in the enclosed Consultation Paper, have the potential to be applicable for the IAASB? For example, while the definition is unlikely to have implication for the ISAs, are there any anticipated effects on the IAASB's other pronouncements such as ISRE 3000² and ISRS 4410?³
- (b) Does the IAASB agree with the scope of the proposed definition as described in the Consultation Paper?
- (c) What barriers may exist for implementing the proposed definition in the IAASB pronouncements?
- (d) Are there any other issues or concern of the IAASB that should be considered by the IFAC task force?

² International Standards on Assurance Engagements (ISAE) 3000, *Assurance Engagements*

³ International Standards on Related Services (ISRS) 4410, *Engagements to Compile Financial Statements*

Appendix

IAASB Pronouncement	Terms Used (emphasis added)
<p>Preface</p>	<p>The term “<u>professional accountant</u>” is used in the Preface when explaining:</p> <ul style="list-style-type: none"> • Representation of compliance with IAASB Standards (paragraph 3) • The response to departures from essential procedures (paragraph 14) • Professional judgment (paragraph 16) • Early application (paragraph 17) • Status and authority of IAPs (paragraphs 19–20)
<p>Glossary</p>	<p>The Glossary contains the following relevant definitions:</p> <ul style="list-style-type: none"> • Practitioner—A <u>professional accountant in public practice</u> • <u>Professional accountant</u>⁴—An individual who is a member of an IFAC member body • <u>Professional accountant in public practice</u>⁵—A <u>professional accountant</u>, irrespective of functional classification (for example, audit, tax or consulting) in a firm that provides professional services. This term is also used to refer to a firm of <u>professional accountants in public practice</u>
<p>International Standards on Quality Control (ISQCs)</p>	<p>ISQC 1⁶ applies to “firms of <u>professional accountants</u>” (paragraph 4).</p> <p>ISQC 1 also uses the term “Engagement Partner” which is defined as “the partner or other person in the firm who is responsible for the audit engagement and its performance, and for the auditor’s report that is issued on behalf of the firm, and who, where required, has the appropriate authority from a professional, legal or regulatory body.”</p>

⁴ As defined in the IESBA’s *Code of Ethics for Professional Accountants* (IESBA’s Code).

⁵ As defined in the IESBA’s Code.

⁶ International Standard on Quality Control 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*

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IAASB Pronouncement	Terms Used (emphasis added)
	Further, “Firm” is defined as “A sole practitioner, partnership or corporation or other entity of <u>professional accountants</u> ” (paragraph 12(g))
International Standards on Auditing (ISAs)	ISAs are directed to “independent auditors” (paragraph 1 of ISA 200 ⁷), after which only the term “the auditor” is used. An auditor is defined as “The person or persons conducting the audit, usually the engagement partner or other members of the engagement team, or, as applicable, the firm. Where an ISA expressly intends that a requirement or responsibility be fulfilled by the engagement partner, the term ‘engagement partner’ rather than ‘auditor’ is used. ‘Engagement partner’ and ‘firm’ are to be read as referring to their public sector equivalents where relevant” (paragraph 13(d) of ISA 200). ISA 220 ⁸ defines both “Engagement Partner” and “Firm” in the same way as ISQC1.
Extant International Standards on Review Engagements (ISREs) Exposure Draft (ED) of ISRE 2400¹¹	ISRE 2400 ⁹ uses the term “practitioner” which is defined in the Glossary of Terms as “a <u>professional accountant in public practice.</u> ” ISRE 2410 ¹⁰ uses the term “auditor.” The ED of ISRE 2400 is intended to apply to a practitioner, who is defined as “A <u>professional accountant in public practice</u> who conducts the review engagement. The term includes the practitioner or other members of the engagement team, or, as applicable, the firm. Where this ISRE expressly intends that a requirement or responsibility be fulfilled by the engagement partner, the term ‘engagement partner’ rather than ‘practitioner’ is used. ‘Engagement partner’ and ‘firm’ are to be read as referring to their public sector equivalents where relevant.” (paragraph 17(e)).
Extant International Standards on Assurance Engagements (ISAEs)	ISAE 3000 applies to “professional accountants in public practice” but goes on to explain that the term “practitioners” will be used throughout ISAE 3000.

⁷ ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*

⁸ ISA 220, *Quality Control for an Audit of Financial Statements*

⁹ International Standards on Review Engagements (ISRE) 2400, *Engagements to Review Financial Statements*

¹⁰ ISRE 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*

¹¹ Proposed ISRE 2400 (Revised), *Engagements to Review Historical Financial Statements*

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IAASB Pronouncement	Terms Used (emphasis added)
<p>ED of ISAE 3410¹³ and Latest Draft of ISAE 3000</p>	<p>ISAE 3420¹² refers to “service auditors” which are defined as “A <u>professional accountant in public practice</u> who, at the request of the service organization, provides an assurance report on controls at a service organization.”</p> <p>ISAE 3410 applies to “practitioners” but does not define the term. The draft of ISAE 3000¹⁴ presented at the December IAASB meeting refers to practitioners also, and defines the term as ‘the person or persons conducting the engagement (usually the engagement partner or other members of the engagement team, or, as applicable, the firm) by applying assurance skills and techniques to obtain reasonable assurance or limited assurance, as appropriate, about whether the subject matter information is free from material misstatement. In a direct engagement, the practitioner both measures or evaluates the underlying subject matter against the criteria and obtains reasonable assurance or limited assurance, as appropriate, about whether the outcome of that measurement or evaluation is free from material misstatement. Where this ISAE expressly intends that a requirement or responsibility be fulfilled by the engagement partner, the term “engagement partner” rather than “practitioner” is used (paragraph 8(k) of ISAE 3000).</p>
<p>Extant International Standards on Related Services (ISRSs)</p>	<p>ISRS 4400 refers to establishing standards and providing guidance for auditors... (paragraph 1). A footnote to paragraph 1 explains that “The term ‘auditor’ is used throughout the pronouncements of the International Auditing and Assurance Standards Board when describing both audit, review, other assurance and related services that may be performed. Such reference is not intended to imply that a person performing review, other assurance or related services need be the auditor of the entity’s financial statements.”</p>

¹² ISAE 3420, *Assurance Reports on Controls at a Service Organization*

¹³ Proposed ISAE 3410, *Assurance Engagements on Greenhouse Gas Statements*

¹⁴ Proposed ISAE 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Statements*

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IAASB Pronouncement	Terms Used (emphasis added)
	ISRS 4410 ¹⁵ uses the term “accountant” and explains further that “for the purposes of this ISRS and to distinguish between an audit and a compilation engagement the term ‘accountant’ (rather than ‘auditor’) has been used throughout to refer to a professional accountant in public practice” (paragraph 1)
ED of ISRS 4410¹⁶	ISRS 4410 refers to “practitioners” which is defined as “A <u>professional accountant in public practice</u> who conducts the compilation engagement. The term includes the engagement partner or other members of the engagement team, or, as applicable, the firm. Where this ISRS expressly intends that a requirement or responsibility be fulfilled by the engagement partner, the term ‘engagement partner’ rather than ‘practitioner’ is used. ‘Engagement partner’ and ‘firm’ are to be read as referring to their public sector equivalents where relevant.” (paragraph 15(f)).
International Framework for Assurance Engagements (the Framework)	The framework “provides a frame of reference for <u>professional accountants</u> .”

¹⁵ ISRS 4410, *Engagements to Compile Financial Statements*

¹⁶ Proposed ISRS 4410, *Compilation Engagements*