



International Federation of Accountants

545 Fifth Avenue, 14th Floor, New York, NY 10017 USA

Tel +1 (212) 286-9344 Fax +1 (212) 286-9570 www.ifac.org

Agenda Item

B

Committee: Joint Session of the IAASB and IESBA Consultative Advisory Groups

Meeting Location: New York

Meeting Date: March 8, 2011

IAASB CAG and IESBA CAG Joint Session—Definition of a Professional Accountant

Objective of Agenda Item

1. The objective of this Agenda Item is to obtain the IAASB and IESBA CAGs' input in relation to the IFAC Staff Consultation Paper, *Proposed Definition of "Professional Accountant"*.

Papers to Be Referred to during Discussion

2. The discussion on this topic will follow the structure of this CAG Paper.

Project Status and Timeline

3. 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.
4. The IAASB's Deputy Chair Diana Hillier is the IAASB's representative on the IFAC Task Force, supported by the Technical Director. Bob Rutherford is the IESBA representative on the IFAC Task Force supported by the Deputy Director.
5. The IFAC Task Force has asked that the Staff Consultation Paper be shared with each of IFAC's committees and standard-setting boards, for their reaction and input. For the IAASB, the Consultation Paper will be discussed at its March 2011 meeting. The IESBA had a preliminary discussion of the Consultation Paper at its February 2011 meeting. The IESBA has formed a small working group of IESBA members, chaired by Bob Rutherford, to further consider the implications of the proposal on the *Code of Ethics for Professional Accountants* (IESBA Code). The working group will meet in April 2011 and present its findings and recommendations to the IESBA at its June 2011 meeting.

IAASB and IESBA CAG PAPER

IAASB and IESBA CAG Agenda (March 2011)

Agenda Item B

Joint Public Session Material—Definition of a Professional Accountant

Matters for CAG Consideration

6. 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.
7. Amongst other concerns, the main perceived problems with the current definition of “professional accountant” 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.
 - 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.
8. Page 7 of **Agenda Item B.1** 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.
9. The IFAC Task Force recognizes that any new definition to be used within authoritative standards would need to be subjected to the due process of each standard-setting board. It also recognizes that if one standard-setting board changes its definition of “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.

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

IAASB and IESBA CAG PAPER

IAASB and IESBA CAG Agenda (March 2011)

Agenda Item B

Joint Public Session Material—Definition of a Professional Accountant

IAASB Context

10. The IAASB's pronouncements use a variety of terms, including: independent auditor; auditor; practitioner; professional accountant; and professional accountant in public practice, amongst others. Appendix 1 to this paper lists the terms used in IAASB's various pronouncements and recent exposure drafts, together with their definition where applicable.
11. 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 the proposal 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, IFAC's Statement of Membership Obligations (SMOs) and Compliance Program).

IESBA Context

12. The IESBA Code establishes ethical requirements for professional accountants which are defined in the IESBA Code as members of IFAC member bodies. Part A of the IESBA Code applies to all professional accountants. Part B of the IESBA Code applies to professional accountants in public practice which are defined as professional accountants, 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 professional accountants in public practice. Part C applies to professional accountants in business which are defined as professional accountants employed or engaged in an executive or non-executive capacity in such areas as commerce, industry, service, the public sector, education, the not for profit sector, regulatory bodies or professional bodies, or a professional accountant contracted by such entities. Appendix 2 to this paper lists the terms used in the IESBA Code.
13. The IESBA had a preliminary discussion of the impact of the proposed change to the definition at its February 2011 meeting. IESBA members expressed differing views on whether the proposed change was appropriate. Some IESBA members felt that it was important to reference members of IFAC member bodies. IFAC member bodies are required to comply with SMOs and, as such, there is some comfort of compliance with the IESBA Code. Others felt that a broader definition could be beneficial as it would broaden the applicability of the IESBA Code.
14. The IESBA has formed a small working group comprising four IESBA members to examine the implications of the changes and brainstorm other possible approaches. The working group will report back to the IESBA at its June 2011 meeting.

IAASB and IESBA CAG PAPER

IAASB and IESBA CAG Agenda (March 2011)

Agenda Item B

Joint Public Session Material—Definition of a Professional Accountant

Matters for Joint CAG Consideration

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:

- (a) Does the proposed definition, as presented in the enclosed Consultation Paper, have the potential to be applicable for the IAASB and IESBA?
- (b) Do you agree with the scope of the proposed definition as described in the Consultation Paper?
- (c) Are CAG members aware of potential barriers to its application by IAASB and IESBA?
- (d) Are there other issues or concerns of the CAGs' members that should be considered by the Task Force?

Material Presented—IAASB and IESBA CAGs PAPERS

Agenda Item B.1

IFAC Consultation Paper, *A Proposed Definition of "Professional Accountant,"* dated January 2011

IAASB and IESBA CAG PAPER

IAASB and IESBA CAG Agenda (March 2011)

Agenda Item B

Joint Public Session Material—Definition of a Professional Accountant

Appendix 1

IAASB Pronouncement	Terms Used (emphasis added)
Preface	<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).
Glossary	<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>²—An individual who is a member of an IFAC member body. • <u>Professional accountant in public practice</u>³—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>.
International Standards on Quality Control (ISQCs)	<p>ISQC 1⁴ applies to “firms of <u>professional accountants</u>” (paragraph 4). 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” Further, “firm” is defined as “A sole practitioner, partnership or corporation or other entity of <u>professional accountants</u>” (paragraph 12(g))</p>
International Standards on Auditing (ISAs)	<p>ISAs are directed to “independent auditors” (paragraph 1 of ISA 200⁵), 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</p>

² As defined in the IESBA Code.

³ As defined in the IESBA Code.

⁴ ISQC 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*

⁵ ISA 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing*

IAASB and IESBA CAG PAPER

IAASB and IESBA CAG Agenda (March 2011)

Agenda Item B

Joint Public Session Material—Definition of a Professional Accountant

IAASB Pronouncement	Terms Used (emphasis added)
	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 ⁶ defines both “engagement partner” and “firm” in the same way as ISQC 1.
Extant International Standards on Review Engagements (ISREs)	ISRE 2400 ⁷ uses the term “practitioner” which is defined in the Glossary of Terms as “a <u>professional accountant in public practice.</u> ” ISRE 2410 ⁸ uses the term “auditor.”
Exposure Draft (ED) of ISRE 2400 (Revised) ⁹	The ED of ISRE 2400 (Revised) 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 ¹⁰ applies to “ <u>professional accountants in public practice</u> ” but goes on to explain that the term “practitioners” will be used throughout ISAE 3000. ISAE 3402 ¹¹ 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.”
ED of ISAE 3410 ¹² and Latest Draft of ISAE 3000	ISAE 3410 applies to “practitioners” but does not define the term. The draft of ISAE 3000 ¹³ presented at the December IAASB meeting refers to practitioners also, and defines the term as “the person or persons conducting

⁶ ISA 220, *Quality Control for an Audit of Financial Statements*

⁷ ISRE 2400, *Engagements to Review Financial Statements*

⁸ ISRE 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*

⁹ Proposed ISRE 2400 (Revised), *Engagements to Review Historical Financial Statements*

¹⁰ ISAE 3000, *Assurance Engagements Other than Audits or Reviews of Historical Financial Statements*

¹¹ ISAE 3402, *Assurance Reports on Controls at a Service Organization*

¹² Proposed ISAE 3410, *Assurance Engagements on Greenhouse Gas Statements*

¹³ Proposed ISAE 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Statements*

IAASB and IESBA CAG PAPER

IAASB and IESBA CAG Agenda (March 2011)

Agenda Item B

Joint Public Session Material—Definition of a Professional Accountant

IAASB Pronouncement	Terms Used (emphasis added)
	<p>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>
Extant International Standards on Related Services (ISRSs)	<p>ISRS 4400¹⁴ 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> <p>ISRS 4410¹⁵ 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 <u>professional accountant in public practice</u>” (paragraph 1)</p>
ED of ISRS 4410 (Revised) ¹⁶	<p>ISRS 4410 (Revised) 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)).</p>
International Framework for Assurance Engagements	<p>The framework “provides a frame of reference for <u>professional accountants</u>”.</p>

¹⁴ ISRS 4400, *Engagements to Perform Agreed-upon Procedures Regarding Financial Information*

¹⁵ ISRS 4410, *Engagements to Compile Financial Statements*

¹⁶ Proposed ISRS 4410 (Revised), *Compilation Engagements*

IAASB and IESBA CAG PAPER

IAASB and IESBA CAG Agenda (March 2011)

Agenda Item B

Joint Public Session Material—Definition of a Professional Accountant

Appendix 2

IESBA Code Section	Terms Used (emphasis added)
Preface	This <i>Code of Ethics for Professional Accountants</i> establishes ethical requirements for professional accountants.
100.1	A distinguishing mark of the accountancy profession is its acceptance of the responsibility to act in the public interest. Therefore, a <u>professional accountant</u> 's responsibility is not exclusively to satisfy the needs of an individual client or employer. In acting in the public interest, a <u>professional accountant</u> shall observe and comply with this Code. If a <u>professional accountant</u> is prohibited from complying with certain parts of this Code by law or regulation, the <u>professional accountant</u> shall comply with all other parts of this Code.
200.1	This Part of the Code describes how the conceptual framework contained in Part A applies in certain situations <u>to professional accountants in public practice</u> . This Part does not describe all of the circumstances and relationships that could be encountered by a <u>professional accountant in public practice</u> that create or may create threats to compliance with the fundamental principles. Therefore, the <u>professional accountant in public practice</u> is encouraged to be alert for such circumstances and relationships
300.1	This Part of the Code describes how the conceptual framework contained in Part A applies in certain situations to <u>professional accountants in business</u> . This Part does not describe all of the circumstances and relationships that could be encountered by a <u>professional accountant in business</u> that create or may create threats to compliance with the fundamental principles. Therefore, the <u>professional accountant in business</u> is encouraged to be alert for such circumstances and relationships.
Definition	Professional accountant An individual who is a member of an IFAC member body.
Definition	Professional Accountant in Business A <u>professional accountant</u> employed or engaged in an executive or non-executive capacity in such areas as commerce, industry, service, the public sector, education, the not for profit sector, regulatory bodies or professional bodies, or a <u>professional accountant</u> contracted by such entities.
Definition	Professional Accountant in Public Practice A <u>professional accountant</u> , irrespective of functional classification (e.g., audit, tax or consulting) in a firm that provides professional services. This

IAASB and IESBA CAG PAPER

IAASB and IESBA CAG Agenda (March 2011)

Agenda Item B

Joint Public Session Material—Definition of a Professional Accountant

IESBA Code Section	Terms Used (emphasis added)
	term is also used to refer to a firm of <u>professional accountants</u> in public services.