

## **Structure for Non-Authoritative Documents**

### **Preliminary Draft Discussion Paper**

This draft Paper has been prepared by IFAC Staff for discussion purposes only.

#### **I. Objective**

1. The objective of this Paper is to explore a structure for the issue by IFAC's standards-setting Public Interest Activity Committees (PIACs) or their staff of non-authoritative documents, in response to an emerging issue or otherwise in the public interest, in a consistent manner across the PIACs.

#### **II. Need for Structure**

2. In addition to specifying the Standards, Practice Statements and other authoritative pronouncements to be issued, the PIACs' Terms of Reference indicate that the PIACs may also issue other pronouncements on matters covered by their mandates, thereby advancing such matters as the public's understanding of the roles and responsibility of the professional accountant. With one exception, they do not indicate the types of such other pronouncements or whether they are intended to be authoritative or non-authoritative.<sup>1</sup> Nor is there any common process or structure for the issue of other pronouncements established across the PIACs.
3. There are, however, a number of developments which increase the importance of having in place a structure for the issue of non-authoritative material following an acceptable and appropriate process that ensures quality of output. Firstly, some the PIACs' strategic plans indicate initiatives to develop guidance on specific topics or in respect of implementation support, though the form of such guidance has not yet been determined. The fact that there is no structure established for the development and issue of such guidance has, in part, delayed action towards specific output in some cases.
4. Secondly, there has been general support for the idea that the PIACs should be responsive to urgent and emerging issues and to be prepared to address matters of public interest in a timely manner. More specifically, some PIACs have been urged to consider the type of vehicles that might be appropriate for the issue of additional guidance (either authoritative or non-authoritative) that allows for such issues to be addressed in lieu of development or revision of a pronouncement, or help raise awareness of emerging issues, but that does not carry obligations on the professional accountant. In general, the process for such guidance should by necessity avoid the application of full due process for expediency, while maintaining an appropriate structure to PIAC pronouncements.

---

<sup>1</sup> Only the IAESB's Terms of Reference indicate the issue of Information Papers for Professional Accountants which are not authoritative. Information Papers promote discussion or debate on education and development issues affecting the accountancy profession, present findings, or describe situations of interest relating to education and development issues affecting the accountancy profession.

5. Thirdly, the wider use of PIACs' pronouncements will continue to drive the need for the PIACs to make clear their position on a specific matter, for example as experienced by the IAASB with respect to modifications to ISAs and representations of convergence by national standard setters.<sup>2</sup> It also increases the importance of being able to help raise awareness of matters requiring practitioner attention and to direct them to the provisions of existing pronouncements. In this regard, Staff of the IAASB has begun to issue non-authoritative "Staff Audit Practice Alerts," but it is fair to say that not all members of IAASB are fully comfortable with this activity in the absence a more formal process for the development and clearance of such documents.
6. In contrast to the situation of the PIACs, however, many national standard setters and other professional bodies have vehicles established to issue non-authoritative guidance, and make great use of them. In relation to auditing standards, for example:
  - The UK Auditing Practices Board (APB) issues Practice Notes and Bulletin under the authority of the APB though they have been developed without the full process of consultation and exposure used for APB Standards,<sup>3</sup> as does the American Institute of Certified Public Accountants' (AICPA) Auditing Standards Board (APB) for its interpretative publications such as Audit and Accounting Guides.<sup>4</sup>
  - In most cases, Staff of the national institute or standard setting body is also authorized to issue non-authoritative documents, for example: Staff of the AICPA<sup>5</sup>, the Canadian Institute of Chartered Accountants<sup>6</sup>, and the US PCAOB<sup>7</sup> issue non-authoritative documents such as Risk Alerts, Questions and Answers, Audit Practice Alerts and Practice Aids.

---

<sup>2</sup> IAASB Policy Position, July 2006, "Modifications to International Standards of the IAASB – A Guide for National Standard Setters that Adopt IAASB's International Standards but Find It Necessary to Make Limited Modifications."

<sup>3</sup> Practice Notes issued by the APB assist auditors in applying Auditing Standards of general application to particular circumstances and industries. Bulletins provide timely guidance on new and emerging issues. Practice Notes and Bulletins are persuasive rather than prescriptive. However, they are indicative of good practice, even though they may be developed without the full process of consultation and exposure used for APB Standards. A decision to establish, publish amend or withdraw non-mandatory notes, guidance and other material requires a simple majority vote of the APB. Before publishing/amending Practice Notes, the APB will usually seek the views of external commentators in a manner similar to that for Standards. In the case of other guidance material, the APB will decide the means by which it will obtain external views.

<sup>4</sup> Interpretive Publications, such as Interpretations of SASs, AICPA A&A Guides and Statements of Position, are not standards but issued under the authority of ASB after all ASB member have been provide an opportunity to consider and comment on whether it is consistent with the SASs. Auditor should be aware of and consider applicable to his audit. If the auditor does not apply the guidance, the auditor should be prepared to explain how he complied with the SAS provision addressed by such guidance.

<sup>5</sup> Other Auditing Publication, such as Auditing Practice Releases and Audit Risk Alerts, are published by AICPA and reviewed by Staff. They have no authoritative status; however, they may help the auditor understand and apply the SASs. If an auditor applies the guidance included in an other publication, he or she should be satisfied that, in judgment, it is both relevant to the circumstance of the audit, and appropriate. In determine whether an other auditing publication is appropriate, the auditor may wish to consider the degree to which the publication is

This recognizes the importance of additional guidance, in a timely manner to the effective implementation of standards, notwithstanding such documents being non-authoritative and not intended to change the substance of the underlying authoritative pronouncements or affect the responsibilities of professional accountants or others to whom the pronouncements are directed.

### III. Matters for Consideration

7. The main issue to be resolved is the question of the issue by a PIAC itself of additional guidance addressing considerations related to the applicability of its authoritative pronouncements. Some stakeholders will always challenge the appropriateness of allowing the issue of a document that relates to the subject matter of the standards or other pronouncements of a PIAC if there has not been due consultation with external commentators; it is simply unreasonable to assume that any document of a substantive nature could be effected through a non-authoritative document outside due process.
8. This issue is further complicated by differing views as to role and expected use of any such additional guidance. On one hand, if an issue is worthy of consideration by a PIAC, then there should be a relatively strong expectation that guidance issued by a PIAC should be addressed by relevant national bodies and considered in practice. This view leads to concerns of de facto extensions of the PIAC's standards, notwithstanding any statements to the effect that the guidance is not intended to impose obligations on the professional accountant. This raises the issue of how such guidance relates to the application material of the Standards. In contrast, a PIAC should be able to provide guidance that assists in the application of a pronouncement without fear that it will compromise the standards themselves. However, a proliferation of guidance that is not expected to be used or disseminated nationally is not particularly helpful.
9. Further, it may be argued that the PIACs' should use Practice Statements as the vehicle to provide guidance and practical assistance to professional accountants in implementing the PIACs' pronouncements and to promote good practice. Practice Statements are at present, however, part of authoritative pronouncements of the PIACs developed following full due process; this limits the speed by which they can be issued. In addition, for many the authority and obligation attaching to Practice Statements is ambiguous at best.

---

recognized as being helpful in understanding and applying the SASs... Other auditing publications published by the AICPA that have been reviewed by Staff are presumed to be appropriate.

<sup>6</sup> CICA's Risk Alerts, for example, provide an overview of current issues that may be of interest to public accountants who perform audit or review engagements. Risk Alerts are prepared and reviewed by Staff. They are not issued under the authority of the AASB. Practitioners are expected to use professional judgment in determining whether to apply the material in this publication in an assurance engagement. Such determination includes being satisfied that the material is both relevant to the circumstances of the assurance engagement and appropriate.

<sup>7</sup> PCAOB Staff Questions and Answers set forth the staff's opinions on issues related to the implementation of the standards of the PCAOB. The staff publishes questions and answers to help auditors implement, and the Board's staff administer, the Board's standards. Staff Audit Practice Alerts highlight new, emerging, or otherwise noteworthy circumstances that may affect how auditors conduct audits under the existing requirements of PCAOB standards and relevant laws. Auditors should determine whether and how to respond to these circumstances based on the specific facts presented. The statements contained in Staff Questions and Answers and Audit Practice Alerts are not rules of the Board, nor have they been approved by the Board.

10. The resolution of these issues appears to lie first in establishing an appropriate structure for the issue of non-authoritative guidance by the PIACs, one that makes absolutely clear:
- The nature, purpose, scope and authority of documents that may be issued, in particular the parameters as to what should, and should not, be included in such documents;
  - That such documents are not standards or other form of authoritative pronouncement of the PIAC;
  - That such documents have not been developed following full due process that is applied to the PIAC's authoritative pronouncements;
  - The expectation on the professional accountant (or otherwise) regarding the use of such documents;
  - The process followed in the development and issue of such documents, with the process consistent with the nature of the document and being markedly different from due process applied to authoritative documents to adequately delineate their status as non-authoritative; and
  - That such documents are to be published only on the PIACs' website (to limiting the potential for authority to be thought to attach to such documents as implied by virtue of their inclusion in the same document as the authoritative material issued by the PIACs).

It will then be necessary to explore and agree the style in which such documents are to be written, which necessarily will need to avoid language that is explicitly or implicitly prescriptive. For this purpose, however, the structure needs to precede drafting.

11. With respect to Staff publications such as Alerts that simply raise awareness of relevant provisions of a PIAC's pronouncements in the context of an emerging issue, it is presumed that it is appropriate to continue to allow such practice. However, it is necessary to consider strengthening the degree to which Staff is transparent and responsive to comments of the PIAC in terms of the consistency with the provisions of the PIAC's authoritative pronouncements.

#### **IV. Possible Model**

12. The following outlines a draft description of a possible model for the provision of non-authoritative documents that reflects the above considerations:

## **Documents Other than Authoritative Pronouncements of a PIAC**

1. In addition to International Standards, Interpretations, Practices Statements and other authoritative international pronouncements developed and issued by IFAC's Public Interest Activity Committees (PIACs) following due process approved by the Public Interest Oversight Board, there are two categories of other documents that may be published:

(i) Other PIAC Publications

(ii) PIAC Staff Publications

These publications are made available only on the PIACs' website.

### **Other PIAC Publications**

2. A PIAC may issue documents other than authoritative international pronouncements that fall within one of the following:

#### (a) Guidance Documents

Publications of this type may include, but are not limited to:

- Practice Guides, which provide assistance to professional accountants in applying the authoritative pronouncements of the PIAC to particular circumstances or, as appropriate, with timely guidance on new and emerging issues.
- Information or Briefing Papers, which promote discussion or debate on issues affecting the accountancy profession, present findings, or describe situations of interest relating to professional accountants.

An individual PIAC may use different titles for these or other documents of a similar nature, as appropriate in the circumstance. Each such publication, however, explains clearly its intended purpose and is in all cases descriptive rather than prescriptive.

Guidance documents are not standards or authoritative pronouncement of the PIAC. They have been developed without the full due process of consultation and exposure used for PIAC Standards, Interpretations, Practice Statements and other international authoritative pronouncements. Accordingly, they may not be applicable in all circumstance nor cover all relevant matters. While they are indicative of good practice, they do not establish any obligation on the professional accountant.

Guidance documents do not amend or override the Standards to which they relate that are currently effective, the texts of which alone are authoritative. Reading guidance documents is not a substitute for reading the Standards and other authoritative material. Guidance documents are not meant to be exhaustive and reference to relevant Standards themselves should always be made.

The professional accountant is expected to use professional judgment in considering whether to apply the material in this type of publication. Such consideration includes being satisfied that the material is both relevant to the circumstances and appropriate.

The PIACs ordinarily invite views on the matters addressed by a guidance document. Such comments assist the PIAC in keeping the subject matters of all such documents under review, and are welcome at any time. Based on comments received, the PIAC may determine future action with respect to the published guidance document. If the PIAC concludes that an authoritative pronouncement should be issued at a future date, it will do so following its normal due process.

#### (b) Policy or Position Statements

Publications of this type are issued when a PIAC believes it is appropriate to state its position in relation to a matter or circumstance in the interest of seeking a common understanding among national standard setters, practitioners, regulators and the public. They do not amend, modify or otherwise affect the application or substance of a pronouncement.

3. Guidance document and policy or position statements are non-authoritative. They are issued after approval by the PIAC in favor of issue. The affirmative vote of at least twelve PIAC members present at a meeting in person or by simultaneous telecommunications link or by proxy is required to approve a Guidance document and policy or position statement.

#### **PIAC Staff Publications**

4. Staff of a PIAC may issue documents intended to raise professional accountants' awareness in a timely manner of matters requiring their attention, to remind them of relevant provisions of existing pronouncements and to direct their attention to them, or to highlight new, emerging, or otherwise noteworthy circumstances. Publications of this type may include, but are not limited to Staff Practice Alerts or Staff Questions and Answers or other types of document of a similar nature. Each such publication is for information purposes only and is in all cases descriptive rather than prescriptive.
5. PIAC Staff publications are prepared and reviewed by Staff of the PIAC. They are not approved, disapproved, or otherwise acted upon by the PIAC and do not constitute authoritative or official pronouncements or statements of the PIAC or IFAC.
6. PIAC Staff publications have no authoritative status; however, they may help the professional accountant understand and apply the standards in the context of a particular development. These publications do not amend or override the Standards to which they relate that are currently effective, the texts of which alone are authoritative. Reading guidance documents is not a substitute for reading the Standards and other authoritative material. Guidance documents are not meant to be exhaustive and reference to relevant Standards themselves should always be made.

7. PIAC Staff publications are issued after all PIAC member have been provide an opportunity to consider and comment on whether it is consistent with the Standards, Practice Statements and other authoritative standards to which they relate. This includes the opportunity for all PIAC members to consider and comment on how inconsistencies, if any, identified by one or more of the PIAC members have been resolved.

**Matters for Discussion:**

- 1. Do you believe that a provision for the issue of non-authoritative pronouncements by the PIACs is necessary and appropriate? What risks arise and how might they be mitigated?**
- 2. Is there a more effective alternative to the above that should be considered?**
- 3. With respect to documents issued by PIAC Staff, is the proposal for all PIAC members to consider and comment on how inconsistencies, if any, identified by one or more of the PIAC members have been resolved sufficient to alleviate any present concerns that may exist?**