



# **A Proposed Definition of ‘Professional Accountant’**

*A Staff Paper Prepared for Consultation*

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## I. Introduction

This paper proposes a revised definition for the term *professional accountant*, which could be used throughout IFAC groups<sup>1</sup>. It is presented for feedback and consultation to all IFAC groups.

A common international definition of the term *professional accountant* that could be widely understood, faithfully translated, and applied effectively would have utility to all stakeholders. It would support IFAC's mission to serve the public interest by contributing to the development, adoption and implementation of high-quality international standards and guidance. It would acknowledge that applicability of the international standards to professional accountants is not limited to those who have membership in IFAC member organizations. Further, while it may not be possible to achieve a common definition that satisfies all conceivable objectives, a common international definition, descriptive in nature, could serve as a universal foundation from which further adjustments could be made on different national levels and in different professional contexts – acting as a focal point of consideration for the diverse functions of professional accountants. Finally, it could provide the necessary foundation from which all IFAC groups can build upon with a greater degree of consistency and commonality.

We recognize that, if this definition is considered for use within the standard-setting boards that operate under the auspices of IFAC, it must be subjected to the normal due process of each independent standard-setting board. Naturally, if one IFAC 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.

## II. Objectives

In developing an international definition of the term *professional accountant*, several objectives have been considered. These objectives include:

1. To Provide a Foundation for Each of IFAC's Committees and the Independent Standard-Setting Boards it Supports for Identifying to Whom the International Standards<sup>2</sup> are Directed and for Whom they are Written - The definition of *professional accountant* should help identify those for whom international standards are developed where there is the presumption that those applying the standards have the requisite skills, training and

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<sup>1</sup> The term "IFAC Groups" refers to an independent standard-setting board, committee, advisory panel or other similar group associated with the International Federation of Accountants, other than the IFAC Board itself. It therefore includes the International Auditing and Assurance Standards Board (IAASB), the International Accounting Education Standards Board (IAESB), the International Ethics Standards Board for Accountants (IESBA), the International Public Sector Accounting Standards Board (IPSASB), the Compliance Advisory Panel (CAP), the Professional Accountants in Business (PAIB) Committee, the Small and Medium Practices (SMP) Committee, the Professional Accountancy Organizations Development Committee (PAODC) (formerly the Developing Nations Committee), and the Transnational Auditors Committee (TAC).

<sup>2</sup> By the term "International Standards" we refer to the professional standards issued by the IAASB, IAESB, IESBA, and IPSASB.

experience. The definition should facilitate the development of derivative definitions, if necessary and as appropriate, from its core principles.

2. To Provide a Central Reference for National Jurisdictions – As national processes will inevitably determine the specific applicability of international standards, the definition could serve as a universal starting point before it passes through the regulatory and legal “filters” applied by IFAC members, national standard setters, governments, and regulators.<sup>3</sup>
3. To Guide Public Awareness – The definition should facilitate a better understanding of the professional accountant by the general public and society at large. Such a definition could assist the regulatory community, government, academia, and other professions and industries.

### **III. Methodology for the Development of this Paper**

In November 2009, the chairs of IFAC’s committees and the standard-setting boards it supports identified the need to assess the current definition of the term *professional accountant*. The chairs discussed a number of issues with the current definition and concluded that a task force should be established to 1) further evaluate the current definition, and 2) determine whether an alternative could be developed for further consideration.

In March 2010, IFAC formed a task force comprised of a volunteer and a staff member from each of the boards and committees. The task force met on three occasions via teleconference and provided input to IFAC staff regarding the key issues that should be considered to assist staff in the development of this paper. The task force exchanged ideas through a series of informal discussion papers that noted various debates and perspectives. Through the outcomes of these discussions, IFAC staff has developed the current paper.

### **IV. Key Issues and Considerations**

Currently, the independent standard-setting boards define *professional accountant* as “an individual who is a member of an IFAC member body.” This definition resides in the *Code of Ethics for Professional Accountants* issued by the IESBA and also appears in the IAASB and IAESB glossaries of terms. In order to develop a definition which could serve as a starting point for consideration of the standard-setting boards, IFAC staff sought to address several key issues and considerations:

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<sup>3</sup> See Appendices A and B, which outline a potential framework to assist in exploring the applicability and relevance of the proposed definition both theoretically and practically.

### *Problems with the Existing Definition*

The problems with IFAC's current definition of professional accountant can be summarized as follows:

- a) 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.
- b) Its application and meaningfulness varies across different jurisdictions.
- c) It has the tendency to be circular and confusing. This confusion is often exacerbated in the translation process.
- d) It lacks specificity relative to non-professional accountants involved in the financial reporting process.
- e) 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.
- f) It does not acknowledge that professional standards are *adopted and enforced* at the national/regional/state level through many different professional and regulatory arrangements.
- g) It is often understood through custom and practice to apply only to the auditing side of the profession.
- h) 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.

### *Constructing a Modernized Definition*

In constructing a modernized definition of professional accountant, the task force considered the following issues:

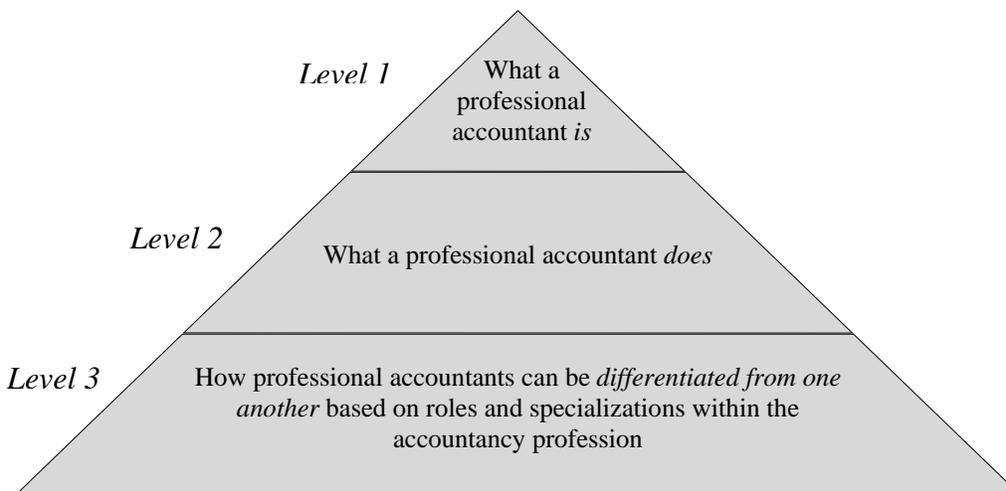
- a) The definition should include members of other organizations (other than IFAC member bodies) or individuals subject to qualification and oversight. It should avoid excluding many professional accountants in the public sector and in business.
- b) The definition should facilitate the identification of the primary users of professional standards set by the independent standard-setting boards that operate under the auspices of IFAC (e.g., auditors, practitioners, and assurance providers), regardless of whether they belong to an IFAC member body.
- c) The definition should provide some guidance at the national or jurisdictional level by enabling a clearer understanding of the intended users of IFAC standards.
- d) The definition should provide an understanding of the breadth of competence and functions that can be demonstrated by professional accountants.
- e) The definition should be brief, easy-to-understand, and provide the general public with a broad understanding of the field of accountancy.
- f) Because the term *professional accountant* may not be widely used at the national or jurisdictional level, those within a certain jurisdiction may not identify themselves by the term *professional accountant*, but would use the terms that exist in the law or regulation

of their jurisdiction. To help clarify this, the definition should clarify that many other terms may be used within various jurisdictions to refer to those encompassed in the term *professional accountant* and such terms within jurisdictions may be based on local law or regulation.

## V. The Proposed Definition of the Professional Accountant

### *A Definition Based on Three Descriptive Levels*

To address many of the issues set forth in the previous section, the proposed definition has been organized into three descriptive levels. On the highest and most definitive level, it states what a professional accountant *is* by emphasizing some form of official qualification (e.g., formal education, certification, and chartering). On the second level, it states what a professional accountant *does* by outlining the core responsibilities that imply the application of skills in the context of society's expectations (e.g., demonstrates competence, complies with *Code of Ethics for Professional Accountants* (the IESBA Code), and acts in the public interest). On the third level (which is optional and contingent upon the characteristics of each jurisdiction), it states that professional accountants can be differentiated from one another by certain factors, such as types of responsibilities (e.g., professional accountants in business, public sector accountants, and auditors) and the level of formal training or education generally subject to jurisdictional considerations.



### *The Proposed Definition of the Professional Accountant*

In keeping with this three-level, descriptive framework, the proposed definition of the term *professional accountant* is as follows:

The term *professional accountant* describes a person who has expertise in the field of accountancy, achieved through formal education and practical experience, and who:

- Demonstrates and maintains competence;
- Complies with a code of ethics;
- Is held to a high professional standard; and,
- Is subject to enforcement by a professional accountancy organization or other regulatory mechanism.

This definition encompasses the first two descriptive levels by stating what a professional accountant *is* and what a professional accountant *does*. The boards and committees could consider addressing the third descriptive level by adding the following statement:

Professional accountants can be differentiated from one another by certain factors such as competence, responsibilities, and services provided.

### **Explanatory Guidance:**

To assist in the understanding of the above definition of the term *professional accountant*, the following explanatory guidance might be provided in companion to it:

*Level 1: What is a professional accountant?*

Accountancy – A field of practice in which a professional accountant provides the measurement, recognition, preparation, analysis, and/or disclosure of financial and relevant nonfinancial information, or auditing of or provision of assurance and advisory services on financial information and, where applicable, nonfinancial information. Such information assists managers, investors, tax authorities, and other decision makers in resource-allocation decisions. The field of accountancy involves the study of accounting, auditing, finance, financial management, and/or tax.

*Level 2: What does a professional accountant do?*

Demonstrates and Maintains Competence – Specialized knowledge that is required in the widely-recognized body of learning in accountancy. Such learning is obtained through formal education programs and practical experience requirements. Competence is demonstrated through formal assessment, such as an examination, and is kept current through continuing education/continuing professional development.

Complies with a Code of Ethics and is Held to a High Professional Standard – The professional accountant:

- Acts with integrity.
- Acts on behalf of the public interest.
- Agrees to rules of conduct.
- Possesses the requisite skills, training, and experience to make the judgments necessary in applying the IESBA Code or other similar national/jurisdictional rules of conduct and ethical framework.
- Uses professional judgment based on principles and operates with a degree of autonomy.

Is Subject to Enforcement by a Professional Accountancy Organization or Another Regulatory Mechanism – The professional accountant has membership in a professional accountancy organization and/or is bound by another regulatory mechanism recognized within its jurisdiction as upholding defined high standards of performance (e.g., a licensing, regulatory or certifying body). The professional accountant agrees to comply with the organization's standards and ethical codes, and is subject to disciplinary action for violations, including, for example, revocation of any license, certification, or membership. In many jurisdictions, the provision of certain services (e.g., audit) requires specific licensing whereas other services (e.g. tax preparation) may not. Further, some aspects of enforcement may vary from jurisdiction to jurisdiction.

Other terms may be used within various jurisdictions to refer to individuals encompassed in the term *professional accountant*. Such terms may be based on local law or regulation.

*Level 3: How can professional accountants be differentiated from one another based on roles and specializations within the accountancy profession?*

The final component of the definition enables further differentiation among professional accountants. Such a differentiation should be based on competence, responsibilities, and services provided. As a result, the definition provides greater flexibility for jurisdictional mandates.

## **VI. The Scope of the Proposed Definition**

The proposed definition of the professional accountant cannot encompass every conceivable type of individual working in the field of accountancy. There are many highly-skilled individuals who may be functioning in one or more roles that may commonly fit within the public's broad understanding of the term "professional accountant," yet such individuals (e.g., accountants in business or providing accounting expertise within an organization) may not fall within the scope

of the proposed definition. For example, consider an individual who previously held a certification, license, or credential from a professional accountancy organization but is now working as an accountant for an entity that does not require such credentialing. Although the individual may have previously met the conditions indicated in the proposed definition and continues to work in the field of accountancy, the individual is no longer associated with an official professional accountancy organization and is not covered under any regulatory mechanism, and therefore is not a professional accountant under the proposed definition. Other similar situations may exist because of national or jurisdictional requirements. Nevertheless, the primary purpose of the proposed definition is use by IFAC's committees and the standard-setting boards it supports, and as such, these and other possible limitations of the definition are noted but do not affect the use of the definition for IFAC's purposes.

## **VII. Looking Ahead**

This paper has drawn two preliminary conclusions. First, the current definition of the *professional accountant* may not be sufficient for the needs of IFAC, its constituents, and beyond. Accordingly, the definition should be revised to ensure it has broad applicability and relevance. Second, a definition of *professional accountant*, comprised of three descriptive levels, may be an appropriate and effective way to facilitate a universal understanding of the term. It will meet the three objectives outlined in the beginning of this paper: to provide a foundation for each of IFAC's committees and the independent standard-setting boards it supports for identifying to whom the international standards are directed and for whom they are written; to serve as a central reference for national jurisdictions; and to guide public awareness.

Looking ahead, on a theoretical level, IFAC groups should be able to establish greater relevance to one another through the proposed definition because it provides a set of core principles. On a practical level, the definition should bridge some aspects of the disconnect between global professional standards and the jurisdictional realities of user constituencies. In this way, the definition should facilitate, not hamper, the international standards for use within local laws and regulations.

The acceptance of the proposed definition will ultimately be based on whether the need for such a definition outweighs the complexities that currently impede its realization. Further consideration is therefore needed to ensure that the definition will be useful on a practical level. This includes implementation support, compliance, and high-quality translations from institutions in each "user constituency" at the national and local levels.

## **Appendix A: The Applicability Framework for the Definition of the Professional Accountant**

### *Overview of the Applicability Framework*

In addition to explanatory notes, the definition of the professional accountant might also be issued with an applicability framework so that its use can be illustrated both theoretically and practically. The applicability framework should answer several questions:

1. What ensures the validity and relevance of the definition?
2. How do IFAC's committees and the independent standard-setting boards it supports understand the definition?
3. How is the definition enforced?
4. How does the definition impact the national/local domain?

The applicability framework suggests answers to these questions by organizing the various users, institutions, and environmental forces using relevant international standards into a model that demonstrates the impact of the definition from theory to practice. It can be summarized as the following (see page 11):

### Applicability Framework

Step	User, Institution, or Environmental Force	Impact of Definition
<p><u>Step 1:</u> Validity and Relevance of Definition</p> 	<p>As the global organization for the accountancy profession, IFAC proposes a definition of professional accountant based on universal elements of <i>professionalism</i> and attributes of <i>accountancy</i>. The definition synthesizes perspectives from each of IFAC's committees and the boards it supports, which collectively (due to the specializations of each) represent a wide range of roles in the accountancy profession.</p>	<p>The definition is conceptual. It is based primarily, but not exclusively, on principles. As a central point of reference, it should be able to retain its relevance to a broad audience of users and institutions. Input into the question of relevance will be obtained initially through an inclusive process of input received from all IFAC committees and the boards it supports.</p>
<p><u>Step 2:</u> Application of Definition on IFAC Level</p> 	<p>The definition is designed for broad interpretation. Each of IFAC's committees the independent standard-setting boards it supports will be able to derive specialized definitions from its core principles. These specialized definitions will help close the gap between what the standard says and for whom it is written (as well as the expectations that such individuals should be subject to).</p>	<p>IFAC will be able to identify the intended users of the standards and guidance it provides to the accountancy profession. Examples include professional accountants in business, professional auditors, professional accountants in academia, and professional accountants in the public sector.</p>
<p><u>Step 3:</u> Adoption, Implementation, Enforcement</p> 	<p>Several types of institutions will be involved in the adoption, implementation, and enforcement of standards that actualize the definition of professional accountants. On one level, IFAC member bodies will play a key role by complying with IFAC's Statements of Membership Obligations (SMOs) and working with national standard setters and other stakeholders in their jurisdictions. These parties will also facilitate the high-quality, faithful translation of the definition into local languages. On another level, regulators will also play a key role in implementing the definition by enforcing the standards as part of their oversight responsibilities.</p>	<p>At this step, the definition goes from being a theoretical convention to a practical one.</p> <p>Each "user constituency" has its own institutions, which work together to enforce IFAC's standards. The legal and regulatory environments of each constituency may necessitate a revised definition of the professional accountant in a local context. In such cases, one or more parts of the definition may be further clarified.</p>
<p><u>Step 4:</u> Impact in Local/ National Domain</p>	<p>In respect to the definition of the term <i>professional accountant</i>, the proposed definition will reduce ambiguities between the standards and the jurisdictions in which they are intended to apply. It would also improve the clarity of both standards and definition. It will also assist in clarifying the delineation between professional accountants and professional accounting technicians at the local level.</p>	<p>The profession will be better able to define itself, not only in terms of what it does, but also in the context of its obligation to the laws and expectations of society at large.</p>

### Appendix B: Applicability Framework Flowchart

