

May 30, 2011

Compliance Advisory Panel  
International Federation of Accountants  
Attention: Senior Technical Manager  
Compliance Program  
545 Fifth Avenue, 14<sup>th</sup> Floor  
New York 10017  
USA

Dear Sir(s):

**Re.: Consultation Paper “Proposed IFAC Member Body Compliance Program Strategy 2011-2014”**

We would like to thank you for the opportunity to provide the Compliance Advisory Panel (CAP) with our comments on the Consultation Paper “Proposed IFAC Member Body Compliance Program Strategy 2011-2014” (hereinafter referred to as the “paper”).

We would like to welcome the CAP consulting with stakeholders on the strategy of the IFAC Member Body Compliance Program (hereinafter, referred to as the “program”) through the paper. It is important that stakeholders and, in particular, member bodies that are subject to the program, have an opportunity to evaluate the strategic intentions of the CAP for the program for the next few years and to make their views known to the CAP, IFAC and the PIOB on the relevant issues.

One matter of general concern to us is the increasing administrative burden on member bodies associated with proposals to enrich the compliance program (i.e., broadening the questions in relation to the action plans, “enhancing” the SMOs through their revision, and, in particular, the proposed new SMO on governance, which we consider to be unnecessary). It is important that IFAC consider the impact of changes to the compliance program on the administrative burden that member bodies will need to bear to service compliance program requirements.

## General Issues

As a general observation, it appears to us that much of the paper involves measures that have already been approved by IFAC Board and represent the implementation of PIOB recommendations. The main additions in the strategy beyond this appear to relate to the proposed activities, timeline and delivery method. Perhaps the paper should clarify to stakeholders exactly what has already been approved by IFAC Board and what is actually subject to consultation.

However, we note two issues that appear to go beyond what has been approved by IFAC Board and the current SMOs. First, the language within the paper speaks of the "...national *adoption and* implementation of international standards...". We note that following SMOs use very different language:

- SMO 2 states "To incorporate the essential elements of the content and process of education and development on which IESs are based into their national education and development requirements..."
- SMO 3 states: "To incorporate the International Standards issued by the IAASB into their national standards or related other pronouncements, or where responsibility for the development of national standards or related other pronouncements lies with third parties, to persuade those responsible to incorporate the International Standards into their national standards or related other pronouncements..."
- SMO 4 states: "Member bodies should not apply less stringent standards than those stated in the IFAC Code of Ethics. If a member body is prohibited from complying with certain parts of the Code by law or regulation, it should comply with all other parts of the Code."
- SMO 5 states: "To incorporate the requirements of IPSASs into their national public sector accounting requirements, or where responsibility for the development of national public sector accounting standards for financial reporting by governments and others in public sector organizations lies with third parties, to persuade those responsible for developing those requirements that general purpose financial statements of public sector entities other than government business enterprises (GBEs) should comply with IPSASs."
- SMO 7 states: "To incorporate the requirements of IFRSs in their national accounting requirements, or where the responsibility for the development of national accounting standards lies with third parties, to persuade those responsible for developing those requirements that general purpose financial statements should comply with IFRSs, or with local accounting standards that are converged with IFRS, and disclose the fact of such compliance."

None of the SMOs speak of "adoption". We believe that outright adoption of international standards at a national level is unlikely to be a realistic goal for the foreseeable future for many major jurisdictions and that therefore the use of language in the strategy paper should be amended to reflect the obligations actually set forth in the SMOs.

Second, the language within the paper speaks of the “national adoption and implementation of... *best practices*”. We are not aware of any IFAC obligation to adopt and implement “best practices” in relation to such areas as private and public sectors accounting, auditing, and ethics, etc. Furthermore, it is unclear what “best practices” in this context are (i.e., which pronouncements are being addressed) and how they should be distinguished from “good practice” and “adequate practice” (the latter of which is actually set forth in standards). We therefore recommend that the reference to “best practices” be deleted from the paper.

One matter requiring further clarification is what the PIOB actually oversees. Sometimes the paper suggests that the PIOB oversees the CAP (as is mentioned in the CAP terms of reference), and sometimes the paper suggests that the PIOB oversees the program. Is it one, or the other, or both?

### **Strategy**

As a general comment, specific strategic goals should generally be measurable or capable of being evaluated to determine whether such goals have been achieved. Many of the strategic goals mentioned in Section 5 under Strategy seem to us to be open-ended activities without any measurable benchmark.

This is exemplified by the second last strategic goal under “influence agendas and actions” (“providing policy advice....”) and the last two strategic goals under “collaboration” (“providing continuous input into the World Bank...” and “assisting regulators...”). The success of these activities is likely to relate in some way to the resources expended on them. Consequently, we believe that the strategy needs to set forth some measurable goals in these areas so that the strategy does not become a “blank check” with respect to drawing on resources.

Under Quality and continuous improvement, the strategy described in Section 5 includes the strategic goal of “enhancing the enforcement framework in support of the CAP mandate”. This suggests to us that the CAP intends to enhance member obligations in the SMOs. However, it is not clear to us from the rest of the paper what such “enhancement” entails. The strategy should clarify the intended direction of any such “enhancement” so that member bodies have an opportunity to comment on the strategic direction of such an enhancement before it is drafted into a detailed exposure draft of revised SMOs as described will be forthcoming in Appendices 5 and 6.

### **Work Plan Outline**

It is unclear to us what the activity and project “Combine and maintain Parts 1 and 2” under the Strategic Goal “Information and Knowledge Sharing” in Appendix 5 signifies. We understand the need to maintain Parts 1 and 2 of the compliance program, but we do not understand how Parts 1 and 2 can be combined. Combining Parts 1 and 2, if we understand it correctly, seems to us to be a potentially time and resource intensive exercise of little value.

### **Editorial Matters**

The paper often speaks of “*continuous* improvement”. This seems to us to be a misnomer because it is unlikely the intention to mean improvement in real time. We suggest that the word “continuous” be replaced with “continual”. Furthermore, we also suggest that “and/or” be replaced with “or”, since “and/or” is ambiguous and “or” is inclusive unless the context or the use of “either-or” makes its use exclusive.

We hope that our views will be helpful to the CAP. If you have any questions relating to our comments in this letter, we would be pleased to be of further assistance.

Yours truly,



Reiner Veidt  
Executive Director



Klaus-Peter Feld  
Executive Director