

Mark Up of Revisions
Final Pronouncement
November 2012

*The Board of the International Federation of
Accountants*

**Statements of Membership
Obligations (SMOs) 1-7
(Revised)**



Staff Note:

This mark-up document has been prepared by the IFAC Member Body Development staff for readers seeking to further understand the changes to original SMOs. For overview and explanation of changes please refer to the *Comparison Guide the 2012 SMO Revisions*.

Please note that largest proportion of mark-up highlights relate to the reorganization of explanations of key concepts. In the original SMOs the explanation of the best endeavors concept, applicability framework, and IFAC compliance assessment was not consistently located, leading to potential confusion and misunderstanding by users and other stakeholders. To address this issue, the revised SMOs have been redrafted to clearly communicate the expectations of member bodies when they have varying degrees of responsibility for an SMO area.

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STATEMENTS OF MEMBERSHIP OBLIGATIONS 1-7

(REVISED)

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PREFACE TO THE STATEMENTS OF MEMBERSHIP OBLIGATIONS

Fundamental Objective of the SMOs

1. The International Federation of Accountants (IFAC)'s Board is committed to the goal of developing a set of Statements of Membership Obligations (SMOs) that provide clear benchmarks to current and potential IFAC member bodies, to assist them in ensuring high-quality performance by professional accountants. The SMOs cover IFAC member bodies' obligations to support the (a) adoption and implementation of international standards and other pronouncements issued by the International Auditing and Assurance Standards Board (IAASB), International Accounting Education Standards Board (IAESB), International Ethics Standards Board for Accountants (IESBA), International Public Sector Accounting Standards Board (IPSASB), and International Accounting Standards Board (IASB), as well as (b) the establishment of quality assurance and investigation and disciplinary systems.

Introduction

2. This preface to the SMOs is issued to facilitate understanding of the scope and authority of the SMOs.
3. The IFAC Board establishes the SMOs and has the authority to determine, where appropriate, amendments, additions, or repeals to the SMOs.¹ In accordance with the Compliance Advisory Panel (CAP)'s Terms of Reference,² the CAP and IFAC Compliance staff are responsible for (a) reviewing the relevance, sufficiency, and efficacy of the SMOs, and (b) making related recommendations regularly to the Board.
4. The CAP and the due process procedures for SMO revisions are subject to oversight by the Public Interest Oversight Board (PIOB).
5. The SMOs were originally approved by the IFAC Board for issue in March 2004 and ratified by the IFAC Council in November 2004. ~~Changes to the original SMOs are summarized in the Revisions section below.~~ In November 2006, the IFAC Board approved limited editorial revisions to the SMOs.

Applicability

SMO Compliance Requirement and Use of Best Endeavors

6. In accordance with the IFAC Constitution, paragraph 2.3.b., IFAC member bodies are required to comply with the SMOs.
7. Member bodies have an obligation to identify and undertake actions to fulfill the requirements set out within the SMOs. The use of the word "shall" in specific provisions of the SMOs imposes a requirement on the member body to comply with those provisions in accordance with the

¹ As stated in provision 6.4 (m) of the International Federation of Accountants' Bylaws.

² The CAP Terms of Reference were approved by the IFAC Board in March 2012 and are available on the IFAC website.

applicability framework as outlined in each SMO. Other sections using present tense serve as explanatory or application material to support the related requirement(s).

8. IFAC recognizes that its member bodies operate under different national legal and regulatory frameworks, and are comprised of professionals working in different sectors of the accountancy profession. Accordingly, IFAC member bodies in different jurisdictions may have different degrees of responsibility for meeting the requirements in each SMO.
9. A member body's specific actions are to be considered in the context of the degree of their responsibility for each SMO area, as explained in the applicability framework of each SMO (see also Diagram 1 at page 7). Each SMO also includes a section explaining the IFAC compliance assessment process.
10. In accordance with the applicability framework as outlined in each SMO, member bodies may be required, under certain circumstances, to use their best endeavors to comply with specific requirements of the SMO where they have no responsibility, or have shared responsibility, for the area covered by the SMO. A member body will have been considered to have used its best endeavors if it could not reasonably do more than it has done and is doing to meet the requirements of the SMO.

IFAC Member Body Compliance Program

11. The SMOs form the basis of the IFAC Member Body Compliance Program. Member bodies are required to perform ongoing self-assessments of their compliance with each of the SMOs' requirements, including an assessment of actual standards in place in comparison compared to the relevant IFAC and IASB international standards. Associates Furthermore, member bodies are also required to participate in the Compliance Program and complete self-assessments required to develop, meaningfully execute, and regularly update their own action plans to demonstrate their continuing progress toward membership compliance with the SMOs' requirements.

~~Self-assessments are also required to be completed by IFAC member body and associate applicants to demonstrate their ability to comply with the SMOs. In applying these Statements to existing associates or new applicants, IFAC will recognize the stage of development, availability of resource, and scope of activities of each associate or applicant and its members.~~

Best Endeavors

~~These Statements require member bodies to use their best endeavors to meet the obligations. A member body will have been considered to have used "best endeavors" if it could not reasonably do more than it has done and is doing to meet the particular membership obligation.~~

~~Despite the general application of SMOs to member bodies and self-assessments also required of associates, IFAC will take into account the relevance of individual SMO obligations to each member body and associate in assessing its level of compliance. This recognizes the fact that some member bodies and their members operate in different sectors of the profession and some SMOs may not apply to them in their entirety.~~

~~In exceptional circumstances, a member body or associate may depart from the obligations contained in these Statements, if doing so will fulfill its public interest duties more effectively. The member body or associate should be prepared to justify the departure. A member body or associate that fails to follow the~~

~~obligations of these Statements, or justify satisfactorily why it has departed from them, may be suspended or removed from membership.~~

~~When assessing compliance with the SMOs, IFAC will consider projects and initiatives underway at the standard setting level that could impact the structure or content of the applicable standards. Due recognition will be given to the potential impact on national standard setting activities as well as the associated timeframe required to accommodate changes in the structure and content of standards. Member bodies and associates will not be assessed as non-compliant as long as there is an agreed action plan and timetable for achieving compliance and progress against the plan can be demonstrated.~~

~~It is important to understand that it is possible for member bodies and associates to comply with the obligations of an SMO, even if government, regulators or other appointed authorities carry out some or all of the functions specified in that SMO. In such circumstances, the obligation of IFAC member bodies and associates is to use their best endeavors to encourage those entrusted with those functions to implement them in accordance with the provisions of these Statements and to assist them in implementing those functions when appropriate.~~

Bold and Grey Lettering

~~The SMOs have been written using bold lettering to describe a member body's obligations and grey lettering to describe explanatory and other related material. This means that in order to understand and apply the obligations (identified in bold type), it is necessary to consider the whole text of the SMO, including the explanatory and other material contained in the SMO.~~

SMO Contents

12. The SMOs also apply to IFAC associates as they move toward IFAC membership. Associates must complete self-assessments to demonstrate their current compliance status and ability to further address the SMOs' requirements. Associates are required to develop, meaningfully execute, and regularly update their own action plans to demonstrate their progress toward compliance with the SMOs' requirements.
13. Applicants for IFAC membership or associate status must also complete self-assessments to demonstrate their ability to address the SMOs' requirements. Associate applicants are encouraged to submit action plans that identify their planned actions to further meet IFAC's membership requirements.

SMO Subject Areas

~~SMO 1~~ **Quality Assurance**

Subject Matter

14. SMO 1 sets out the requirements of an IFAC member body with respect to quality assurance review programs for their members performing certain audits systems for its members who perform audits, review, other assurance, and related services engagements of financial statements. It applies whether the member bodies carry out such programs on their own behalf, on behalf of the profession, or on behalf of governments, regulators or other agencies, or whether the programs are carried out by another body.

~~Quality Control Standards~~

~~SMO 1 requires member bodies to establish and publish quality control standards and guidance requiring firms to implement a system of quality control in accordance with the International Standard on Quality Control (ISQC) 1.~~

~~SMO 2—International Education Standards for Professional Accountants and Other IAESB Guidance~~

~~Subject Matter~~

~~SMO 2 sets out the obligations of member bodies of IFAC in relation to International Education Standards for Professional Accountants (IESs), International Education Practice Statements for Professional Accountants (IEPSs) and International Education Information Papers for Professional Accountants (IEIPs)~~

SMO 2—International Education Standards for Professional Accountants and Other Pronouncements Issued by the IAESB

15. SMO 2 sets out the requirements of an IFAC member body with respect to international standards and other pronouncements issued by the International Accounting Education Standards Board (IAESB) of IFAC. It applies whether the member bodies issue such standards, or whether the standards are issued by another body.

~~SMO 3—International Standards, Related Practice Statements and Other Papers Issued by the IAASB~~

~~Subject Matter~~

~~SMO 3 sets out the obligations of member bodies of IFAC in relation to quality control, auditing and assurance standards for its members. It applies whether the member bodies issue such standards, or whether the standards are issued by another body.~~

~~SMO 4—IFAC Code of Ethics for Professional Accountants~~

~~Subject Matter~~

~~SMO 4 sets out the obligations of member bodies of IFAC in relation to the IFAC Code of Ethics for Professional Accountants (the IFAC Code) and other pronouncements issued by the International Ethics Standards Board for Accountants (IESBA) of IFAC, an independent standard-setting body.~~

SMO 3—International Standards and Other Pronouncements Issued by the IAASB

16. SMO 3 sets out the requirements of an IFAC member body with respect to international standards and other pronouncements issued by the International Auditing and Assurance Standards Board (IAASB), an independent standard-setting body.

SMO 4—IESBA Code of Ethics for Professional Accountants

17. SMO 4 sets out the requirements of an IFAC member body with respect to the *Code of Ethics for Professional Accountants* (IESBA Code of Ethics) issued by the International Ethics Standards Board for Accountants (IESBA), an independent standard-setting body. Due to the nature of ethical requirements, SMO 4 requires adoption and implementation of standards no less stringent than the *IESBA Code of Ethics*.

~~SMO 5~~—International Public Sector Accounting Standards and Other [Pronouncements Issued by the IPSASB](#)—**Guidance**

Subject Matter

18. SMO 5 sets out the ~~obligations~~requirements of an IFAC member ~~bodies of IFAC in relation~~body with respect to International Public Sector Accounting Standards (IPSASs) and other ~~guidance~~pronouncements issued by the International Public Sector Accounting Standards Board (IPSASB) ~~of IFAC~~, an independent standard-setting body.

~~SMO 6~~—Investigation and Discipline

Subject Matter

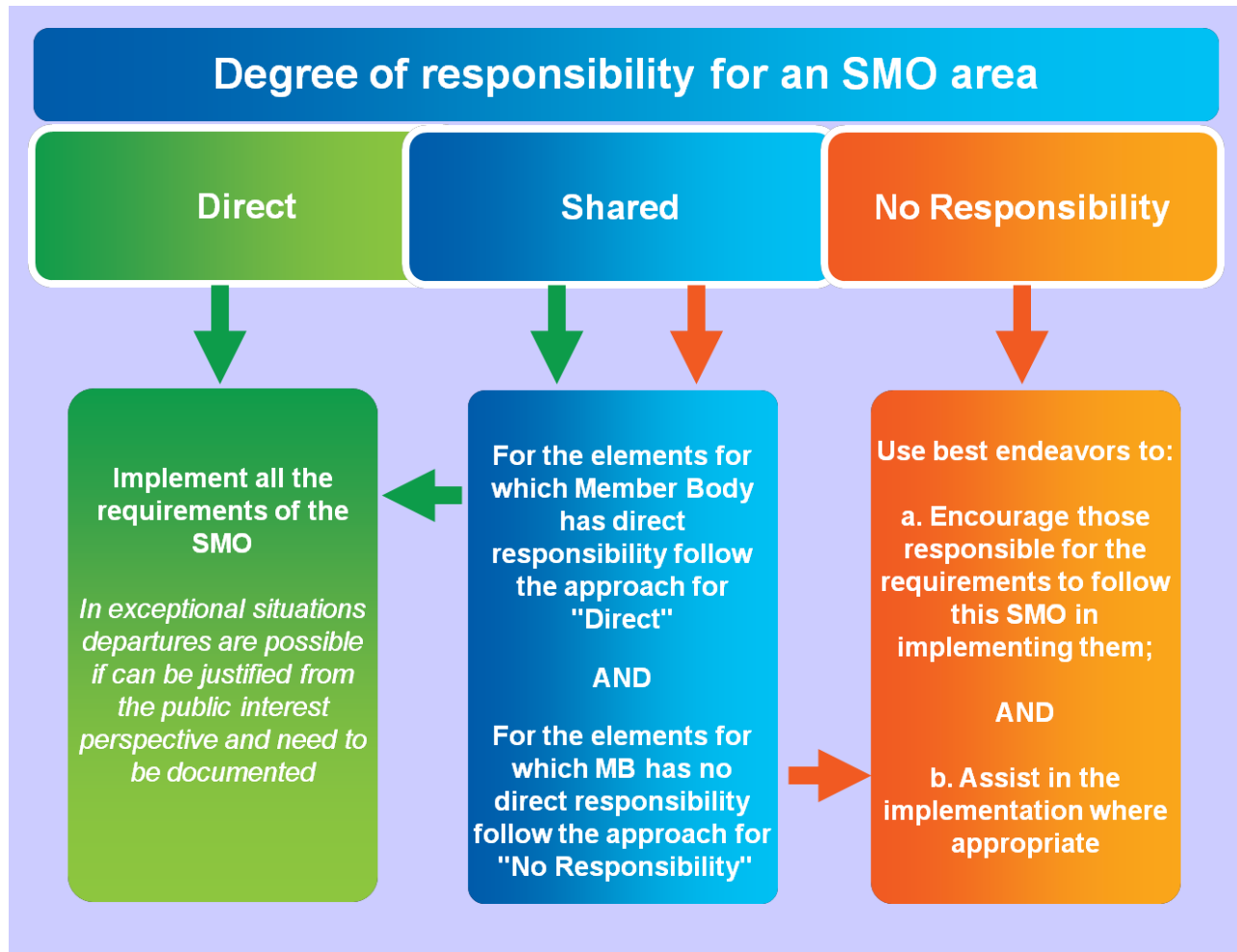
19. SMO 6 ~~is to be applied by member bodies of IFAC in~~sets out the requirements of an IFAC member body with respect to mechanisms that provide for the investigation and discipline of ~~misconduct, including, but not limited to, breaches of~~those professionals who fail to exercise and maintain the professional standards and ~~rules by their individual members (and, if local laws and practices permit, by their member firms).~~ SMO 6 ~~specifically acknowledges that legal systems are very different from country to country. It also states reduced requirements that enable member bodies to comply with SMO 6 in countries where the investigative and disciplinary process is wholly or largely the responsibility of government or other outside agency.~~ related obligations of an IFAC member body.

~~SMO 7~~—International Financial Reporting Standards

Subject Matter (IFRSs) and Other Pronouncements Issued by the IASB

20. SMO 7 sets out the ~~obligations~~requirements of an IFAC member ~~bodies of IFAC in relation~~body with respect to International Financial Reporting Standards (IFRSs) issued by the ~~IASB~~, International Accounting Standards Board (IASB), an independent standard-setting body.

Diagram 1 Illustration of the Applicability Framework



STATEMENT OF MEMBERSHIP OBLIGATIONS 1
QUALITY ASSURANCE

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Obligation

1. [In accordance with the IFAC Constitution, paragraph 2.3.b., IFAC member bodies are required to comply with the Statements of Membership Obligations \(SMOs\).](#)

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2. This ~~Statement of Membership Obligations (SMO)~~ **SMO** is issued by the IFAC Board. ~~It is to be applied by member bodies of and sets out requirements of an IFAC member body with respect to quality assurance review programs for their members~~ **systems for firms** performing certain audit engagements of financial statements. ~~It applies whether the member bodies carry out such programs on their own behalf, on behalf of the profession, or on behalf of governments, regulators or other agencies, or whether the programs are carried out by another body, review, other assurance, and related services engagements.~~³ **To understand and address the requirements, it is necessary to consider the entire text of the SMO.**

~~Where government, regulators or other appointed authorities perform any of the functions covered by of this SMO, member bodies should (a) use their best endeavors to encourage those responsible for these functions to follow this SMO in implementing them, and (b) assist them in that implementation where appropriate.~~

~~This SMO sets out the obligations of member bodies in relation to quality assurance review programs. To understand and apply the obligations (identified in bold type), it is necessary to consider the whole text of the SMO, including the explanatory and other material contained in the SMO.~~

~~Associates are also required to complete self-assessments of compliance with SMOs to demonstrate their continuing progress toward membership. In applying this Statement to associates, IFAC will recognize the stage of development, availability of resource, and scope of activities of each associate and its members.~~

~~This SMO does not apply to affiliates. Consistent with the obligations relating to affiliates in the IFAC Bylaws, however, affiliates are expected to support the development and implementation of this SMO.~~

3. **Quality assurance is addressed at three levels: the engagement level, the firm level, and the body responsible for the quality assurance review system.**
4. **The International Auditing and Assurance Standards Board (IAASB) establishes standards and provides guidance on quality control policies and procedures for:**
- (a) **specific types of engagements (for example, International Standard on Auditing (ISA) 220, *Quality Control For an Audit of Financial Statements*), and**
 - (b) **a firm's responsibilities for its system of quality control for audits and reviews of financial statements,⁴ and other assurance and related services engagements (International Standard on Quality Control (ISQC) 1, *Quality Controls for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*).**
5. **Refer to Paragraphs 18–22 for more information about audits that are to be covered by the quality assurance review system.**
6. **IFAC member bodies have responsibility for quality assurance review systems in respect of firms, but only to the extent that they are performing engagements in the jurisdiction or jurisdictions of the IFAC member body's domicile (as recorded in its application for admission to membership in IFAC).**
7. **In some jurisdictions, quality assurance review systems for firms performing audits of listed or other public interest entities are operated by an external authority, while systems for firms performing all**

³ Firm is defined at paragraph 88

⁴ System of quality control is defined at paragraph 88.

other audits are operated by IFAC member bodies. In such cases, and for efficiency reasons, IFAC member bodies shall give due consideration to quality assurance systems operated by the other appointed authority to ensure there is no undue overlap between the systems.

Applicability Framework

8. ~~Despite the general application of SMOs to member bodies and the self-assessments also required of associates, IFAC will take into account the relevance of individual SMO obligations to each member body and associate in assessing its level of compliance. This recognizes the fact~~IFAC recognizes that ~~some~~its member bodies ~~and associates and their members~~ operate under different national legal and regulatory frameworks, and are comprised of professionals working in different sectors of the accountancy profession ~~and an SMO may not apply to them in its entirety.~~ Accordingly, IFAC member bodies in different jurisdictions may have different degrees of responsibility for meeting the requirements in this SMO.
9. Without prejudice to the existence of more complex national frameworks, IFAC member bodies may have:
- (a) direct responsibility for the area covered by this SMO. The mandate, explicitly given to the IFAC member body or otherwise implied through general consensus,⁵ specifies that it is responsible for setting the rules and operating the quality assurance review system;
 - (b) no responsibility for the area covered by this SMO. The IFAC member body has no mandate, explicitly given or otherwise implied through general consensus,⁶ for any responsibility for setting the rules and operating the quality assurance review system as government, regulators, or other appointed authorities have direct responsibility for the area covered by this SMO; or
 - (c) shared responsibility with government, regulators, or other appointed authorities. The mandate, explicitly given to the IFAC member body or otherwise implied through general consensus,⁷ specifies that it has some responsibility for the area relating to this SMO.

Direct Responsibility

10. Where IFAC member bodies have direct responsibility they shall implement all the requirements of this SMO.
11. In exceptional circumstances, ~~a~~an IFAC member body may depart from ~~the obligations~~a requirement of this SMO; if doing so ~~will fulfill its~~is determined by the member body to be in the public interest ~~duties more effectively. The~~. If this is the case, the IFAC member body should be prepared toshall justify and publicly document the departure. ~~A~~Any IFAC member body that (a) fails to follow the ~~obligations~~requirements of this SMO, ~~or justify and (b) does not document~~ satisfactorily why it has departed from ~~them~~it, may be suspended or removed from membership.

~~A member body is responsible for quality assurance review programs in respect of their members only to the extent that they are performing engagements in the country or countries of the member body's domicile (as recorded in its application for admission to membership in IFAC).~~

⁵ In accordance with the IFAC Bylaws, paragraph 2.1, in the case of general consensus, evidence must exist that the IFAC member body has the support of the public and other key stakeholders.

⁶ Ibid.

⁷ Ibid.

Introduction

- ~~1. Quality control is addressed at three levels: the engagement level, the firm level and the member body level.~~
- ~~2. The International Auditing and Assurance Standards Board (IAASB) establishes standards and provides guidance on quality control policies and procedures:~~

No Responsibility

12. Where IFAC member bodies have no responsibility for this area they shall use their best endeavors to:
 - (a) ~~For specific types of engagements (for example, International Standard on Auditing 220 (ISA 220), "Quality Control For Audits of Historical Financial Information"), and~~encourage those responsible for the requirements to follow this SMO in implementing them; and
 - (b) ~~For a firm's responsibilities for its system of quality control for audits and reviews of historical financial information, and other assurance and related services engagements (International Standard on Quality Control 1 (ISQC 1), "Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements")-~~assist in the implementation where appropriate.
- ~~3. This SMO establishes the obligations of IFAC member bodies that relate to quality assurance review programs for their members performing certain audit engagements of financial statements.~~

Definitions

- ~~4. In this SMO, the following terms have the meanings attributed below:~~
13. (a) ~~"Best endeavors" — A~~An IFAC member body ~~has~~will have been considered to have used ~~"its best endeavors" if it could not reasonably do more than it has done and is doing to meet the particular membership obligation;~~requirements of this SMO.

Shared Responsibility

14. Where IFAC member bodies have shared responsibility for this area they shall:
 - (a) implement those requirements for which they have direct responsibility in accordance with paragraphs 10 and 11; and
 - (b) ~~"Firm"* — a sole practitioner, partnership, corporation or other entity of professional accountants;~~take actions specified in paragraphs 12 and 13 for those requirements where they have no direct responsibility.
 - (c) ~~"Listed entity"* — an entity whose shares, stock or debt are quoted or listed on a recognized stock exchange, or are marketed under the regulations of a recognized stock exchange or other equivalent body;~~
 - (d) ~~"Member" — a member of an IFAC member body, limited to either individuals who are partners in firms, or firms;~~
-

- ~~(e) “Partner”^{*}— any individual with authority to bind the firm with respect to the performance of a professional services engagement;~~
- ~~(f) “Professional standards”^{*}— IAASB engagement standards, as defined in the IAASB’s “Preface to the International Standards on Quality Control, Auditing, Assurance and Related Services,” and relevant ethical requirements, which ordinarily comprise Parts A and B of the IFAC Code of Ethics for Professional Accountants (the IFAC Code) and relevant national ethical requirements;~~
- ~~(g) “Quality assurance review” — a review to determine whether the member (i) is subject to (partner) or has (firm) an adequate system of quality control, (ii) is in compliance with such system, and (iii) has adhered to professional standards and regulatory and legal requirements in performing engagements;~~
- ~~(h) “Quality assurance review team” — individuals (including the quality assurance review team leader) who a member body or member employs or engages to perform a quality assurance review;~~
- ~~(i) “Quality assurance review team leader” — an experienced professional accountant who a member body or member employs or engages to lead a quality assurance review;~~
- ~~(j) “System of quality control”^{*} — policies designed to provide a firm with reasonable assurance that (i) the firm and its personnel comply with professional standards and regulatory and legal requirements, and (ii) reports issued by the firm or partners are appropriate in the circumstances, and the procedures necessary to implement and monitor compliance with those policies.~~

Requirements and Application Guidance

Scope of Quality Assurance Review **Program**System

~~15. 5. The member body should ensure~~In accordance with the applicability framework, a mandatory quality assurance review ~~program is~~system shall be in place for ~~those of its members~~firms performing audits of financial statements ~~of, as a minimum, listed entities. The member body should establish and publish criteria for evaluating all other. In jurisdictions where coverage of all audits of financial statements to determine whether they should be included in the scope of the program; any engagements meeting these criteria should be included in the scope of the~~(in accordance with paragraphs 34 through 41) creates an undue burden, priority shall be given to statutory audits and audits of financial statements of public interest entities. Nevertheless, all firms performing audits of financial statements shall be subject to the possibility of selection for quality assurance review.⁸

~~6. Where government, regulators or other appointed authorities perform any of the functions covered in this Statement, member bodies should:~~

^{*}As defined in ISQC 1 published in February 2004.

^{*}As described in ISQC1 published February 2004.

⁸ Quality Assurance Review is defined at paragraph 88.

~~(a) Use their best endeavors to encourage those responsible for those functions to follow this SMO in implementing them; and~~

~~(b) Assist them in that implementation where appropriate.~~

~~7. Also, the member body should obtain an understanding of the scope of such quality assurance review programs. If this scope is materially narrower than the scope of the requirements of this SMO, the member body should establish a program to deal with those aspects of the scope of this SMO which are not within the scope of the program established by the government, regulatory or other appointed authority.~~

16. ~~8. IFAC believes that it~~Because the public places greater interest in audits of financial statements, it is appropriate for mandatory quality assurance review systems to apply to at least those engagements. It is desirable, however, for a wide~~the largest~~ range of professional services performed by professional accountants to be subject to quality assurance review ~~programs~~systems that are commensurate with the nature of the services. ~~It therefore encourages member bodies to extend the scope of~~Therefore, parties responsible for the quality assurance review ~~programs~~system are encouraged to extend their scope to cover as many professional services as possible. ~~The public interest, however, requires that certain types of engagements be subject to mandatory quality assurance reviews. It is the responsibility of member bodies to identify criteria, or risk factors, for selecting engagements to be subject to mandatory quality assurance review. Because the public places greater reliance on audits of financial statements of listed entities, it is appropriate that mandatory quality assurance review programs apply at least to those engagements.~~including, for example, other assurance engagements, preparation of financial statements, or internal audit services.

17. Criteria, or risk factors, shall be established and published for evaluating all other engagements to determine whether they shall be included in the scope of the system. Any engagements meeting these criteria shall be included in the scope of the quality assurance review.

18. ~~9.~~ Criteria for extending the scope of engagements that will be subject to a quality assurance review include:

(a) ~~the~~the number and range of stakeholders who may make decisions based on the ~~auditor's report.~~engagement result;

(b) ~~the~~the extent to which the subject matter and the ~~auditor's report.~~engagement results are of public interest, or may affect the public's confidence in public institutions or public administration;

(c) the identification of unusual circumstances or risks in an engagement or class of engagement; and

(d) laws and regulations requiring inclusion of specific engagements in the scope of the quality assurance review system.

Quality Control Standards

19. In accordance with the applicability framework, IFAC member bodies shall identify and undertake actions to: (a) have ISQC 1 and other relevant standards adopted and implemented as required by SMO 3—International Standards on Auditing and Other IAASB Pronouncements; and (b) requirements established for firms to implement a system of quality control in their jurisdictions.

(a) Adoption is concerned with the decision that international standards are appropriate for use in specific national financial reporting environments and with the actions necessary to effect those decisions,⁹ including incorporation into national requirements or requiring the use of international standards through law. Adoption may include a process to review draft international standards, translation, public exposure of proposed standards, approval, incorporation into national requirements as necessary, and promulgation of final standards, and, where applicable, a convergence process to eliminate or minimize differences between international and national standards.

(b) Implementation may include a process to build awareness of the adopted standards, provide relevant education and training, develop or disseminate implementation guidance, and any other activities that promote proper understanding and use of the standards in practice.

20. ~~10.~~ The implementation of an appropriate system of quality control is the responsibility of **individual firms**. ~~The member body requires its members~~ Firms shall be required (a) to adhere to a code of ethics (such as the IFAC Code), and (b) ~~to implement a system of quality control~~ Code of Ethics for Professional Accountants [IESBA Code of Ethics] issued by the International Ethics Standards Board for Accountants), and (b) ~~to implement a system of quality control~~ for the performance of audit, review, other assurance, and related services engagements in accordance with applicable standards (ISQC ~~1 and~~ 1, ISA ~~220-220~~, etc.) adopted in a jurisdiction.

Quality Control Standards

~~11. The member body should establish and publish quality control standards and guidance requiring firms to implement a system of quality control in accordance with ISQC 1.~~

21. ~~12. Individual firms~~ Firms are responsible for implementing policies and procedures that comply with ISQC 1. ~~The member body establishes a quality assurance review program that monitors compliance with these policies and procedures. ISQC 1 provides guidance on the elements that shall be addressed by the policies and procedures of the systems of quality control established by firms.~~

22. A quality assurance review system monitors compliance with those policies and procedures.

Other Quality Control Guidance

23. ~~13. The~~ IFAC member body should bodies shall assist ~~its members to~~ firms in:

- (a) ~~Understand~~ understanding the objectives of quality control; and
- (b) ~~Implement~~ implementing and ~~maintain~~ maintaining appropriate systems of quality control.

24. ~~14.~~ Assistance may take various forms, depending upon the needs within a ~~country~~ jurisdiction, including:

- raising firms' awareness of the objective of quality control and the related quality control standards by developing seminars and publishing specific explanatory documents about quality control and quality assurance;
- ~~Developing~~ developing guidelines for comprehensive Continuing Professional Development (CPD) programs. These could include (a) guidance on planning or evaluating the adequacy

⁹ As stated in the *IFAC Strategic Plan for 2011-2014*, which is available on the IFAC website.

of in-house training, ~~or~~ and (b) CPD programs mandated by the IFAC member body or local licensing authority¹⁰;

- ~~Providing~~providing CPD programs to firms without their own programs, including ~~these programs~~ that are specifically directed ~~to~~toward implementing quality control policies and procedures¹⁰;
- ~~Providing~~providing guidelines for conducting effective internal inspection ~~programs, systems;~~ and
- ~~Implementing~~implementing voluntary programs that enable firms to obtain an independent, confidential assessment of their quality control policies and procedures, apart from any formal quality assurance review ~~program~~system. Potential sources to perform the assessment include a firm, IFAC member body's employees, or individuals recommended by the IFAC member body.

25. In setting up these CPD programs, the IFAC member body may refer to SMO 2—International Education Standards (IESs) for Professional Accountants and Other Pronouncements Issued by the IAESB, and ensure that such programs and other training activities are established and maintained in compliance with the IESs and other relevant standards and guidance.

The Design of the Quality Assurance Review ~~Program~~System

Subject of the Quality Assurance Review System

26. 15. ~~The subject of the quality assurance review program may~~system shall be either a firm or a partner,¹⁰ as determined at the national level by the ~~member body,~~responsible party. In both cases, the quality assurance review system shall be designed to obtain reasonable assurance that:
- ~~(a) Where the firm is the subject, the program should be designed to obtain reasonable assurance that:~~
- ~~(i) The firm has an adequate system of quality control for its practice relating to audits of financial statements of listed entities (and of other entities or engagements the member body includes);~~
 - ~~(ii) The firm complies with that system; and~~
 - ~~(iii) The firm and engagement teams have adhered to professional standards and regulatory and legal requirements in performing audits of financial statements selected for review.~~
- ~~(b) Where a partner is the subject, the program should be designed to obtain reasonable assurance that:~~
- (a) (i) The~~the firm has or the~~ partner is subject to an adequate system of quality control for the practice ~~of the partner's firm~~ relating to audits of financial statements ~~of listed entities~~ (and ~~of other entities or~~ engagements that the ~~member~~ body responsible for the quality assurance review system includes as part of its scope);
- (b) (ii) The~~the firm or the~~ partner complies with that system of quality control; ~~and~~

¹⁰ Partner is defined at paragraph 88.

(c) ~~(iii) The~~ the firm, or the partner, has adhered to professional standards and regulatory and legal requirements in performing audits of financial statements ~~selected for review, (and other engagements that the body responsible for the quality assurance review system includes as part of its scope).~~¹¹

27. ~~16.~~ Where the firm is the subject of the quality assurance review, the review ~~will need to~~ shall take into account the work of individual partners to conclude whether the firm has adhered to professional standards and applicable regulatory and legal requirements in respect of audit engagements. Where a partner is the subject of the quality assurance review, the review ~~will also need to~~ shall take into account the system of quality control of the partner's firm to conclude whether ~~the~~ that system is adequate, and whether the firm has complied with ~~such~~ that system.

28. ~~17.~~ When evaluating the adequacy of a firm's system of quality control, ~~the member body considers that~~ the elements of the system of quality control are considered as firm- wide ~~and are~~, not necessarily engagement- specific. However, the firm may establish additional policies and require additional procedures for audits of financial statements ~~of listed entities.~~

Basis for Reaching an Overall Conclusion on a Quality Assurance Review

29. Suitable criteria for determining whether the overall outcome of a quality assurance review can be considered to be satisfactory shall be developed and published.

30. In developing these criteria, paragraphs 25, 27, and 57 of this SMO may be referenced to obtain further guidance on this topic.

Description of the Scope and Design of the Quality Assurance Review System

31. ~~18. The member body should publish a~~ A description of the scope and design of ~~its~~ the quality assurance review ~~program~~ system and related procedures to be followed by quality assurance review teams ~~shall be published.~~¹²

32. ~~19. The member body includes the following~~ Examples of procedures that may be considered in ~~its~~ the quality assurance review ~~program~~ system guidelines include:

(a) ~~Requiring~~ requiring and determining whether quality assurance review teams receive training in the conduct of quality assurance reviews_i;

(b) ~~Evaluating~~ evaluating the independence of the members of the quality assurance review teams_i;

(c) ~~Evaluating~~ evaluating whether quality assurance review teams have the technical skill and knowledge, the specialized experience, and the authority₇ to perform quality assurance reviews with professional competence_i;

~~Assessing compliance with international accounting standards (either International Financial Reporting Standards or International Public Sector Accounting Standards) and International Standards on Auditing to the extent such standards are used in the engagements included in the scope of the review.~~

(d) ~~Evaluating~~ evaluating corrective actions taken by the ~~member~~ firm with ~~regards~~ regard to the results of previous quality assurance reviews_i;

¹¹ Professional standards are defined at paragraph 88.

¹² Quality assurance review team is defined at paragraph 88.

- (e) ~~Documenting~~ documenting the performance of quality assurance review procedures in a manner that permits the IFAC member body or an oversight body to objectively determine whether quality assurance reviews were performed with due care and in compliance with the relevant standards;
- (f) ~~Reporting~~ reporting the conclusions of quality assurance reviews to appropriate individuals in a manner that assists the subjects of reviews to (a) identify and implement any necessary corrective actions, and (b) make other desirable improvements in quality control policies and procedures;
- (g) ~~Imposing~~ imposing, where applicable, added corrective, educational, or monitoring procedures that provide for fair and consistent treatment of each ~~member~~ firm; and
~~Imposing disciplinary measures on those who refuse to cooperate in the conduct of the review, fail to take necessary corrective action, or are found to have serious deficiencies in performance that cannot be dealt with by meaningful remedial or educational measures.~~
- (h) ~~Maintaining~~ maintaining the confidentiality of client information.

Review Cycle

33. ~~20.~~ A ~~member body should choose either a~~ cycle ~~or a~~ based, risk-based, or mixed approach for selecting ~~members~~ firms for quality assurance review. ~~The member body should provide that all shall be used. All~~ firms or partners performing audits of financial statements ~~to~~ shall be ~~reviewed~~ are considered in the selection process.

Cycle Approach

34. ~~21.~~ Member bodies Jurisdictions that select a cycle approach ~~should~~ shall:
- (a) ~~Adopt~~ adopt a cycle of a maximum ~~cycle~~ of three years when a firm ~~is the subject of the review; and~~ performs audits of financial statements of public interest entities;
 - (b) ~~Take into consideration the quality and effectiveness of the internal inspection program of a partner's firm when a partner is the subject of the quality assurance review.~~ adopt a cycle of a maximum of six years when a firm performs audits of financial statements of non-public interest entities; and
 - (c) take into consideration the quality and effectiveness of the quality control system of a partner's firm when a partner is the subject of the quality assurance review.
35. ~~22.~~ The quality assurance review cycle for partners ~~is~~ shall be determined ~~by the member body~~. The length of the quality assurance review cycle takes into consideration the frequency of review of the partner ~~is reviewed~~ under the firm's ~~internal monitoring program~~ quality control system, as well as the procedures performed.
36. ~~23.~~ It may be appropriate to review some ~~members~~ firms more frequently. For example, the quality assurance review cycle may be shortened if the results of the previous quality assurance review were less than satisfactory. ~~The member body may identify additional~~ Additional appropriate reasons for conducting quality assurance reviews more frequently may be identified.

Risk-Based Approach

37. ~~24. Member bodies~~ Jurisdictions that select a risk-based approach ~~should~~ shall consider various risk factors when determining the firms or partners to be reviewed. ~~Member bodies should ensure that firms in priority. Firms~~ or partners ~~are~~ shall be reviewed with reasonable frequency even if not selected ~~for~~ in priority for quality assurance review based on risk factors.
38. ~~25.~~ Examples of risk factors include:
- ~~(a) Number of listed entity clients.~~
- ~~(b) Number~~ the number of entities considered to be of public interest;
 - past investigations and disciplinary procedures against the firm;
 - the number of years of experience of the partners or the number of years of existence of the firm; and
 - ~~(c) Past~~ past results of quality assurance reviews, including:
 - ~~(i) Failure~~ a failure to meet ~~Continuing Professional Development~~ CPD requirements;
 - ~~(ii) Independence~~ independence violations; or
 - ~~(iii) Deficiencies~~ deficiencies in the design of, or compliance with, the firm's system of quality control.

Mixed Approach

39. For efficiency and effectiveness, a mixed approach that includes cycle- and risk-based elements for selecting firms for quality assurance review may be developed.
40. In defining the exact mixed approach for the quality assurance review, additional factors may also be considered, including:
- (a) specific risk elements in defining the length of the quality assurance review cycle; and
- (b) past results of quality assurance reviews and awareness of non-compliance with quality control standards or other professional standards.
- The assessment of risk factors may result in quality assurance reviews taking place earlier than otherwise planned for firms performing audits of financial statements.

Other Considerations

41. ~~26.~~ Audits of financial statements subject to selection for quality assurance review are ordinarily completed and issued audits of financial statements with fiscal ~~years-year~~ periods ending during the quality assurance review period. If a more recent auditor's report has been issued during the quality assurance review, consideration is given to reviewing that audit.
42. ~~27.~~ If, during or after a quality assurance review period, a firm under review has (a) made a significant acquisition of all or a portion of another firm's practice, or (b) divested itself of a significant portion of its practice, before commencing the quality assurance review the quality assurance review team ~~consults~~ shall consult with the ~~member~~ body responsible for the quality assurance review system on the scope of the quality assurance review or other actions that may be taken.

Quality Assurance Review Team Procedures

43. ~~28. The member body should require quality~~ Quality assurance review teams shall be required to follow procedures that are based on published guidelines. These procedures ~~should~~shall include reviews of ~~engagement~~audit working papers and discussions with appropriate personnel.
44. ~~29.~~The procedures performed during the quality assurance review ~~should~~shall include:
- (a) ~~An~~An assessment of the system of quality control relating to audits of financial statements ~~of listed entities.~~;
 - (b) ~~Sufficient~~a review of the quality control policies and procedures and reviews of ~~engagement~~audit working papers to evaluate:
 - (i) ~~The~~the functioning of ~~that~~the system of quality control, and compliance with it; and
 - (ii) ~~The~~the compliance with professional standards and regulatory and legal requirements in respect of audits of financial statements. ~~;~~ and
 - (c) an assessment of compliance with accounting and auditing framework, including an assessment of compliance with international accounting standards (either International Financial Reporting Standards [IFRSs] or International Public Sector Accounting Standards [IPSASs]) and International Standards on Auditing (ISAs), to the extent that such standards are used in the engagements included in the scope of the review.
45. ~~30.~~The review of ~~engagement~~audit working papers ~~should~~shall include evaluating:
- (a) ~~The~~the existence and effectiveness of the system of quality control implemented by the ~~member~~firm, and the performance of the ~~engagement~~audit;
 - (b) ~~Compliance~~compliance with professional standards and regulatory and legal requirements related to the engagement. ~~;~~
 - (c) ~~The~~the sufficiency and appropriateness of evidence documented in the working papers. ~~;~~ and
 - (d) ~~Based~~based on the above, whether the ~~auditor's~~audit reports are appropriate in the circumstances.
46. ~~31.~~Procedures the quality assurance review team may consider when performing the quality assurance review include:
- ~~Obtaining~~obtaining a sufficient understanding of:
 - ~~The~~the nature and extent of the ~~member~~firm's audit practice and the methodologies used. ~~;~~
 - ~~The~~the design of the ~~member's~~system of quality control. of the firm;
 - ~~The internal~~the firm's ethical and independence policies and procedures. ~~;~~ and
 - ~~The member~~the firm's training policies and procedures. ~~;~~
 - ~~Testing the effectiveness of the member's monitoring procedures in place for the period under review, and whether the quality assurance reviewer can rely on them by determining whether the quality assurance reviewer can rely on the effectiveness of the firm's monitoring processes in place for the period under review by testing the effectiveness of the firm's monitoring procedures and~~ performing tests of the conclusions of the applicable period's

monitoring as a source of evidence. It may be useful to plan the quality assurance review concurrent with the ~~member firm~~'s monitoring procedures¹³:

- ~~Reviewing~~reviewing compliance with the ~~member firm~~'s system of quality control relating to audits of financial statements¹³;
- ~~Reassessing~~reassessing the adequacy of the scope of the quality assurance review by evaluating the results to determine whether additional procedures are necessary to support or reach a conclusion¹³;
- ~~Holding~~holding a closing meeting with the ~~member firm~~ to discuss the quality assurance review team's results, conclusions, recommendations, and the type of report to be issued¹³; ~~and~~
- ~~Providing~~providing the ~~member firm~~ with conclusions and recommendations for corrective actions.

Documentation

~~47. 32.~~ The quality assurance review team ~~should~~shall document matters that:

- (a) ~~Provide~~provide evidence supporting the quality assurance review report; and
- (b) ~~Establish~~establish that the quality assurance review was carried out in accordance with the guidelines ~~the member body~~ established by the body responsible for the quality assurance review system.

~~48. 33.~~ The quality assurance review team ~~maintains~~shall maintain documentation that supports the work performed, including findings, recommendations, and conclusions. The quality assurance review team leader instructs the quality assurance review team on how to prepare, store, and retain documentation (programs, checklists, etc.).¹³

~~49. 34.~~ During the quality assurance review, the quality assurance review team:

- (a) ~~Documents~~documents the planning of the quality assurance review, the scope of work performed, the conclusions reached, and comments made to the firm or partner that were not deemed sufficiently significant to be included as a finding;
- (b) ~~Evaluates~~evaluates the nature, cause, pattern, pervasiveness, and significance of any deficiencies in the design of the firm's system of quality control¹³ and in the firm's compliance with its system;
- (c) ~~Evaluates~~evaluates the nature, cause, pattern, pervasiveness, and significance of any deficiencies in the performance of an engagement; and
- (d) ~~Summarizes~~summarizes conclusions.

~~50. 35.~~ The ~~member body should determine how long to retain~~length of the period for retaining documentation after completion of the quality assurance review shall be determined. The ~~time should~~timeframe shall be long enough to allow the IFAC member body or its oversight body, if any, to maintain appropriate oversight of the quality assurance review process.

¹³ Quality assurance review team leader is defined at paragraph 88

The Quality Assurance Review Team

Resources

51. The body responsible for the quality assurance review system shall ensure the availability of appropriate expertise and adequate financial and other resources to enable timely and effective quality assurance reviews. A suitably qualified, senior member of staff shall be given the responsibility for managing quality assurance reviews, to ensure that all quality assurance reviews are consistent with applicable laws and regulations.

Skills and Competence

52. ~~36.~~ Members of the quality assurance review team ~~should~~shall have the necessary competencies to perform the work expected of them. These competencies include:

- (a) ~~Appropriate~~appropriate professional education;
- (b) ~~Relevant~~relevant professional experience; and
- (c) ~~Specific~~specific training on performing quality assurance reviews.

~~37. Members of the quality assurance review team should possess certification or credentials the member body requires.~~

53. ~~38. Those who select~~In selecting and ~~approve~~approving the quality assurance review team ~~consider which of, consideration shall be given to~~ the following competencies and areas of expertise ~~are required in the quality assurance review:~~

- (a) ~~Understanding of~~understanding professional standards and regulatory and legal requirements;
- (b) ~~Understanding~~understanding the guidelines ~~the member body sets~~established for performing quality assurance reviews;
- (c) ~~Understanding~~understanding and practical experience of audit engagements and quality assurance reviews through appropriate training and participation;
- (d) ~~Appropriate~~appropriate technical knowledge, including knowledge of relevant information technology;
- (e) ~~Knowledge~~knowledge of specific industries; and
- (f) ~~Ability~~ability to apply professional judgment.

~~39. Individuals selected as quality assurance review team leaders and members of quality assurance review teams are members in good standing in the profession. An individual may not serve as a quality assurance reviewer if his or her ability to practice public accountancy has been limited in any way by a regulatory, profession-wide monitoring organization, or enforcement body until the limitation or restriction has been removed.~~

54. ~~40.~~ The quality assurance review team ~~should~~shall consist of an appropriate number of reviewers to accomplish the review within a reasonable time ~~period~~.

The Quality Assurance Review Team Leader

55. ~~41.~~ A quality assurance review team leader ~~should~~shall be assigned for each quality assurance review assignment. The quality assurance review team leader ~~should~~shall.

- (a) ~~Supervises~~supervise the conduct of the quality assurance review;
 - (b) ~~Communicate~~communicate the quality assurance review team's conclusions to the ~~member~~firm; and
 - (c) ~~Prepare~~be responsible for preparing the main quality assurance review report and gathering applicable review-related documents.
56. The quality assurance team leader shall possess certification or credentials required by the body responsible for the quality assurance review system.
57. Individuals selected as quality assurance review team leaders are members in good standing in the profession. Individuals may not serve as quality assurance team leaders if their ability to practice public accountancy has been limited in any way by a regulatory or profession-wide monitoring organization or an enforcement body, until the limitation or restriction has been removed.
58. ~~42.~~The quality assurance review team leader has significant involvement in the planning of the quality assurance review, and at the ~~member~~firm's closing meeting. The quality assurance review team leader is involved in discussing significant conclusions with the ~~member~~firm and the quality assurance review team, and interacts with the ~~member~~firm and the quality assurance review team during the quality assurance review.
59. ~~43.~~The quality assurance review team leader attends quality assurance review training courses approved by the ~~member~~body responsible for the quality assurance review system to obtain current knowledge of the quality assurance review process, and otherwise maintains competencies in conducting such reviews.

Ethical Requirements

60. ~~44. The member body and~~In conducting a quality assurance review, the quality assurance review team ~~should consider the fundamental~~shall comply with the objectivity and confidentiality principles set out inof the ~~IFAC Code (in addition to relevant national codes of ethics) in relation to the quality assurance review team's conduct of a review.~~IESBA Code of Ethics or applicable national ethical requirements.¹⁴
61. ~~45.~~When selecting a quality assurance review team for an individual quality assurance review assignment, those responsible for selection and approval ~~should~~shall consider whether the ~~independence~~objectivity of the quality assurance review team leader and each member of the quality assurance review team has been ~~determined~~assessed and confirmed. Quality assurance review team members are expected to be independent of the ~~member~~firm and the ~~member~~firm's clients selected for review.
62. ~~46. Independence is addressed by the IFAC Code with respect to assurance engagements~~Objectivity and confidentiality are addressed by the IESBA Code of Ethics. The body responsible for the quality assurance review system and the quality assurance review team are encouraged to refer to the IESBA Code of Ethics requirements for specific guidance on these topics. Even though the report issued by the quality assurance review team ~~may~~does not need to be an assurance report, ~~independence of quality assurance review team members is required by~~ this SMO requires objectivity of quality assurance review team members with respect to the professional services they deliver.

¹⁴ National ethical requirements shall be adopted in accordance with the requirements of SMO 4—*IESBA Code of Ethics*.

63. Firms and their peers shall not perform reciprocal quality assurance reviews where peer reviews are authorized by law.
64. ~~47. Firms and their peers should not perform reciprocal quality assurance reviews.~~ Performance of other reciprocal professional services by the quality assurance review team and the member firm does not, however, impair independence, ~~so long as if~~ (a) the fees charged are not material to either party, and (b) the services are not an integral part of the member firm's system of quality control.
65. ~~48.~~ If concerns regarding threats to the independence of the quality assurance review team cannot be eliminated or reduced to an acceptable level by appropriate safeguards to the satisfaction of all parties, a different quality assurance review team ~~is~~ shall be appointed.

Confidentiality

66. ~~49.~~ As stated in the IFAC/ESBA Code of Ethics or relevant national ~~codes of ethics, the member body should exempt members~~ ethical requirements, and where not forbidden by law, individuals or firms under review shall be exempted from professional client confidentiality requirements concerning audit engagement working papers for the purpose of quality assurance reviews.
67. ~~50.~~ The quality assurance review team ~~should~~ shall follow confidentiality requirements similar to those established for professional accountants performing audits of financial statements.
68. In accordance with the legislative framework, consent of the client may be required to exempt individuals or firms under review from professional client confidentiality requirements concerning audit engagement working papers for the purpose of quality assurance reviews.
69. ~~51.~~ The obligation of professional confidentiality binds (a) all persons who work or have worked for the IFAC member body, regulator, public oversight body, or other competent authority responsible for administering and overseeing the quality assurance review program system and (b) all persons involved with the applicable oversight system.

Reporting

70. ~~52.~~ The quality assurance review team leader ~~should issue~~ shall be responsible for issuing a written quality assurance review report to the reviewed firm or partner upon completion of each quality assurance review assignment. The report ~~should~~ shall include the following elements:
- ~~☐~~ ~~The guidance (referred to in paragraph 18) utilized by the quality assurance review team.~~
 - (a) ☐☐ Where the subject of the quality assurance review program system is a firm, a conclusion on:
 - (i) ~~o Whether~~ whether the firm's system of quality control has been designed to meet the requirements of the quality control standards described in paragraph ~~14~~ 21; and
 - (ii) ~~o Whether~~ whether the firm has complied with its system of quality control during the quality assurance review period.
 - (b) ☐☐ Where the subject of the quality assurance review program system is a partner, a conclusion on:

- (i) ~~e-Whether~~whether the partner has been subject to a system of quality control designed to meet the requirements of the quality control standards described in paragraph ~~44~~21; and
 - (ii) ~~e-Whether~~whether the partner, through the firm, has complied with the firm's system of quality control during the quality assurance review period.
- (c) ~~☐☐~~Reasons for negative conclusions on the above.
- (d) ~~☐☐~~Recommendations for ~~areas of~~ improvement at both the firm -wide and engagement level.
71. ~~53.~~The ~~member~~body responsible for the quality assurance review system determines the form of the quality assurance review report and the nature of the conclusion to be reached (e.g., opinion and limited assurance).
72. ~~54.~~The reviewed ~~member—should~~firm shall provide a timely written response to the recommendations and conclusions of the quality assurance review report, including planned actions and expected ~~time of~~timeframe for completion or implementation. The response ~~should~~shall be addressed to the quality assurance review team or the ~~member~~body responsible for the quality assurance review system. The expected ~~time of~~timeframe for completion ~~should~~shall be reasonable and agreed to by the ~~member,~~firm, the quality assurance review team, and ~~member body~~the body responsible for the quality assurance review system.
- ~~55.—The member body should prepare and make available to the public an annual report~~
73. ~~56.~~Subject to local laws and regulations, an annual report shall be prepared and made available to the public, summarizing the results of the quality assurance review ~~program and send copies~~system. Copies of the report shall be sent to regulatory and public oversight authorities, on request.
74. ~~57.~~For confidentiality purposes, the annual report ~~does~~may not ~~have to~~ include detail regarding specific ~~members~~ (~~partners of,~~ firms), or clients.

Corrective and Disciplinary Actions

75. ~~58.~~The ~~member body should require each member to make appropriate corrections to its system of quality control, or in its compliance with policies and procedures. When a member subsequently fails to demonstrate compliance with professional standards and regulatory and legal requirements, the member body should take appropriate disciplinary action.~~
- ~~59.—The member body (or a committee of the member body with appropriate delegated powers) considers the~~ conclusions of each quality assurance review report shall be considered by the body responsible for the quality assurance review system. When a quality assurance review report includes an unsatisfactory ~~conclusions,~~ the member body may require a member to provide representations and explanations, including corrective actions the member plans to take. conclusion, the firm to which that conclusion applies shall be required to take appropriate corrective action.
- ~~60.—The member body should clearly establish a link between less than satisfactory results of quality assurance reviews and the initiation of corrective and disciplinary actions under its disciplinary system.~~

~~61.—The member body~~

76. Corrective action may be necessary to address (a) lack of cooperation, (b) failings in development or application of a system of quality control, or (c) failure to comply, maintain, or apply professional standards. The body responsible for the quality assurance review system may consider various forms of corrective ~~actions, including~~ action to be taken with respect to firms or partners, taking into consideration the educative purpose of the quality assurance review system, and the level of seriousness of the failure of the firm or partner. Corrective actions may include:

- requiring revisions or additions to quality control policies and procedures or audit methodology;
- ~~Requiring the firm to take corrective measures, including appropriate actions with respect to individual personnel, and engagements.~~ requiring additional CPD;
- ~~Requiring~~ requiring additional ~~continuing professional development.~~ quality assurance reviews;
- ~~Accelerated or special quality assurance reviews.~~ restrictions on the type of work a firm can perform or for taking on new assignments;

~~62.—The member body may consider various forms of disciplinary actions including:~~

- ~~Admonishments~~ admonishments, censures, ~~or~~ and reprimands;
- ~~Fines.~~
- ~~Suspension from membership.~~ finances/payments of costs; and
- ~~Expulsion from~~ suspension of membership or expulsion.

77. ~~63.—If a member body licenses its members, it may prohibit firms or individuals~~ the body responsible for the quality assurance review system licenses firms to perform audits, it may exercise sanctions through the licensing system by suspending or prohibiting firms from performing audits of financial statements.

78. Where (a) the body responsible for the quality assurance review system (or its committee with appropriately delegated powers) considers that an unsatisfactory conclusion of quality assurance reviews represents serious failings by the firm or partner, and (b) there is no mechanism in place to take corrective action under the quality assurance review system to address this unsatisfactory conclusion, a link shall be established between unsatisfactory conclusion of quality assurance reviews and the initiation of disciplinary proceedings.

79. Actions taken as a consequence of unsatisfactory results of quality assurance reviews that constitute disciplinary action shall be carried out under a disciplinary system that is established in accordance with the provisions of SMO 6—*Investigation and Discipline*.

Considerations of Public Oversight

80. The body responsible for the quality assurance review system shall consider closely cooperating with its oversight body, if any, and sharing information about the functioning of the quality assurance review system, as needed.

81. The body responsible for the quality assurance review system may also (a) generally consider how best to contribute to the development of the regulation of the profession and, in this respect, (b) refer to the IFAC Policy Position Paper, *Regulation of the Accountancy Profession*.¹⁵

Review of Implementation and Effectiveness

82. Regular reviews of the proper implementation and effectiveness of the quality assurance review system shall be performed to ensure that it functions as intended and in accordance with the requirements of this SMO. When reviews of the proper implementation and effectiveness of the quality assurance review system reveal issues in the proper functioning of the system, action shall be taken to ensure these specific issues are addressed as soon as practicable. Performing the review of the proper implementation and effectiveness of the quality assurance review system is recommended every two years to ensure the system functions as intended and in accordance with this SMO. However, the cycle of the review may need to be shortened for recently established quality assurance review systems.
83. An IFAC member body responsible for the quality assurance review system is not required to perform any implementation and effectiveness reviews when they are undertaken at least every two years by the public oversight body, if any, or another equivalent organization.

IFAC Compliance Assessment

84. In assessing compliance with this SMO, IFAC will give due consideration to the applicability framework and the best endeavors concept, as well as the differing national environments, stages of development, and other relevant environmental factors.
85. IFAC will take into account the relevance of individual SMO requirements to each IFAC member body in assessing its level of compliance. This recognizes that some IFAC member bodies and their members operate in different sectors of the profession, and that some SMOs may not apply to them in their entirety.
86. In addressing the requirements of this SMO, IFAC member bodies are encouraged to consider priorities, processes, and challenges specific to their jurisdiction and constituency. Consequently, they shall develop an action plan, obtain internal agreement on a timetable for achieving compliance and demonstrate progress against the plan. If not, they shall satisfactorily justify why they have not done so or they may be suspended or removed from membership for non-compliance.

Effective Date

87. This SMO is effective for quality assurance reviews commencing on or after ~~December 31, 2005~~ January 1st, 2014, with early implementation permitted, and was last amended as of ~~November 10, 2006.XXX~~.

Definitions

88. In this SMO, the following terms have the definitions attributed below.

¹⁵ The IFAC Policy Position Paper, *Regulation of the Accountancy Profession*, is available on the IFAC website.

- (a) Firm—a sole practitioner, partnership, or corporation, or other entity of professional accountants, as defined in ISQC 1.
- (b) Partner—any individual with authority to bind the firm with respect to the performance of a professional services engagement, as defined in ISQC 1.
- (c) Public Interest Entities—as defined in the IESBA Code of Ethics.
- (d) Professional standards—For the purpose of this SMO, IAASB pronouncements, as defined in the IAASB's Preface to the International Standards on Quality Control, Auditing, Review, Other Assurance, and Related Services, and relevant ethical requirements, which ordinarily comprise the IESBA Code of Ethics and relevant national ethical requirements.
- (e) Quality assurance review—a review to determine whether the partner is subject to, or the firm has, (i) an adequate system of quality control, (ii) is in compliance with such system, and (iii) has adhered to professional standards and regulatory and legal requirements in performing engagements.
- (f) Quality assurance review team—individual(s), including the quality assurance review team leader, employed or engaged to perform a quality assurance review.
- (g) Quality assurance review team leader—an experienced professional accountant employed or engaged to lead a quality assurance review.
- (h) System of quality control—policies designed to provide a firm with reasonable assurance that (i) the firm and its personnel comply with professional standards and applicable legal and regulatory requirements, and (ii) reports issued by the firm or engagement partners are appropriate in the circumstances, as defined in ISQC 1.

STATEMENT OF MEMBERSHIP OBLIGATIONS 2
INTERNATIONAL EDUCATION STANDARDS FOR PROFESSIONAL ACCOUNTANTS AND OTHER
PRONOUNCEMENTS ISSUED BY THE IAESB-GUIDANCE

CONTENTS

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Obligation

1. ~~This Statement~~In accordance with the IFAC Constitution, paragraph 2.3.b., IFAC member bodies are required to comply with the Statements of Membership Obligations (SMO) ~~is issued by the IFAC Board. It is to be applied by member bodies of IFAC to education requirements for its members. It applies whether the member bodies set such requirements, or whether the requirements are set by another body.~~ SMOs.

~~Where government, regulators or other appointed authorities perform any of the functions covered by this SMO, member bodies should (a) use their best endeavors to encourage those responsible for those functions to follow this SMO in implementing them, and (b) assist them in that implementation where appropriate.~~

Scope

2. This SMO ~~is issued by the IFAC Board and~~ sets out ~~the obligations of member bodies in relation to International Education Standards for Professional Accountants (IESs), International Education Practice Statements for Professional Accountants (IEPSs) and International Education Information Papers for Professional Accountants (IEIPs)~~requirements for IFAC member bodies with respect to international standards issued by the International Accounting Education Standards Board (IAESB) ~~of, an independent standard-setting body supported by IFAC.~~¹⁶ To understand and ~~apply the obligations (identified in bold type)~~address the requirements, it is necessary to consider the ~~whole~~entire text of the SMO, ~~including the explanatory and other material contained in the SMO.~~
3. ~~Associates are also required to complete self-assessments of compliance with SMOs to demonstrate their continuing progress toward membership. In applying this Statement to associates, IFAC will recognize the stage of development, availability of resource, and scope of activities of each associate and its members.~~
4. ~~This SMO does not apply to affiliates. Consistent with the obligations relating to affiliates in the IFAC Bylaws, however, affiliates are expected to support the development and implementation of IESs, IEPSs and IEIPs issued by the IAESB.~~
5. International standards issued by the IAESB comprise International Education Standards (IESs). The IAESB also issues International Education Practice Statements (IEPSs) and International

¹⁶ The IAESB's Terms of Reference (TOR) provide additional and up-to-date information regarding this independent standard-setting body. The IAESB's TOR are available on the IFAC website.

Education Information Papers (IEIPs), which provide guidance and assistance to IFAC member bodies in implementing international standards, and promote good practice.

6. A description of, and the authority attached to, IESs, IEPs, and IEIPs are contained in the Framework for International Education Statements issued by the IAESB.

Applicability Framework

7. ~~Despite the general application of SMOs to member bodies and the self-assessments also required of associates, IFAC will take into account the relevance of individual SMO obligations to each member body and associate in assessing its level of compliance. This recognizes the fact~~IFAC recognizes that ~~some~~its member bodies ~~and associates and their members~~ operate under different national legal and regulatory frameworks, and are comprised of professionals working in different sectors of the accountancy profession—and an SMO may not apply to them in its entirety. Accordingly, IFAC member bodies in different jurisdictions may have different degrees of responsibility for meeting the requirements in this SMO.
8. Without prejudice to the existence of more complex national frameworks, IFAC member bodies may have:
- (a) direct responsibility for the area covered by this SMO. The mandate, explicitly given to the IFAC member body or otherwise implied through general consensus,¹⁷ specifies that it is responsible for adopting and implementing professional accountancy education standards and guidance;
 - (b) no responsibility for the area covered by this SMO. The IFAC member body has no mandate, explicitly given or otherwise implied through general consensus,¹⁸ for any responsibility for adopting and implementing professional accountancy education standards and guidance as government, regulators, or other appointed authorities have direct responsibility for the area covered by this SMO; or
 - (c) shared responsibility with government, regulators, educational institutions, or other appointed authorities. The mandate, explicitly given to the IFAC member body or otherwise implied through general consensus,¹⁹ specifies that it has some responsibility for the area relating to this SMO.

Direct Responsibility

9. Where IFAC member bodies have direct responsibility they shall implement all the requirements of this SMO.
10. In exceptional circumstances, ~~a~~an IFAC member body may depart from ~~the obligations~~a requirement of this SMO; if doing so ~~will fulfill its~~is determined by the member body to be in the public interest ~~duties more effectively. The~~. If this is the case, the IFAC member body ~~should be prepared to~~shall justify and publicly document the departure. ~~A~~Any IFAC member body that (a) fails to follow the ~~obligations~~requirements of this SMO, ~~or justify and~~ (b) does not document satisfactorily why it has departed from ~~them~~it, may be suspended or removed from membership.

¹⁷ In accordance with the IFAC Bylaws, paragraph 2.1, in the case of general consensus, evidence must exist that the IFAC member body has the support of the public and other key stakeholders.

¹⁸ Ibid.

¹⁹ Ibid.

Obligations

- ~~1. Member bodies should notify their members of all IESs, IEPs and IEIPs issued by the IAESB.~~
- ~~2. The IAESB exposes proposed IESs and IEPs for public comment. Member bodies are encouraged to notify their members of all exposure drafts issued by the IAESB and to encourage them to comment on behalf of those members that have an interest in education and development requirements for the accountancy profession.~~

No Responsibility

11. ~~3. Member~~Where IFAC member bodies ~~should~~have no responsibility for this area they shall use their best endeavors to:
 - (a) ~~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 for the accountancy profession, or where responsibility for the development of national education and development requirements lies with third parties, to persuade those responsible to incorporate the essential elements of IESs in those~~encourage those responsible for the requirements to follow this SMO in implementing them; and
 - (b) ~~To assist~~ within the implementation ~~of IESs, or national education and development requirements that incorporate IESs~~where appropriate.

Interpretation

12. ~~4. A~~An IFAC member body ~~has~~will have been considered to have used "its best endeavors" if it could not reasonably do more than it has done and is doing to meet the ~~particular membership obligation.~~requirements of this SMO.
- ~~5. IESs prescribe standards of generally accepted "good practice" in the education and development of professional accountants. They establish the essential elements (e.g., the subject matter, methods and techniques) that accounting education and development programs are expected to contain.~~
- ~~6. IFAC recognizes the wide diversity of culture, language and educational, legal and social systems in the countries of member bodies and the variety of functions performed by professional accountants. It is for each member body to determine the detailed requirements of their education and development programs, while meeting the requirements set out in the IESs.~~
- ~~7. A description of, and the authority attached to, IESs, IEPs and IEIPs is contained in the Framework for International Education Statements issued by the IAESB.~~

Shared Responsibility

13. Where IFAC member bodies have shared responsibility for this area they shall:
 - (a) implement those requirements for which they have direct responsibility in accordance with paragraphs 7 and 8; and

- (b) take actions specified in paragraphs 9 and 10 for those requirements where they have no responsibility.

Requirements and Application Guidance

14. In accordance with the applicability framework, IFAC member bodies shall identify and undertake actions to have the international standards issued by the IAESB adopted and implemented in their jurisdictions.
- (a) Adoption is concerned with the decision that international standards are appropriate for use in specific national financial reporting environments and with the actions necessary to effect those decisions,²⁰ including incorporation into national requirements or requiring the use of international standards through law. Adoption may include a process to review draft international standards, translation, public exposure of proposed standards, approval, incorporation into national requirements as necessary, and promulgation of final standards, and, where applicable, a convergence process to eliminate or minimize differences between international and national standards.
- (b) Implementation may include a process to build awareness of the adopted standards, provide relevant education and training, develop or disseminate implementation guidance and any other activities that promote proper understanding and use of the standards in practice.
15. In jurisdictions where English is not an official or widely used language, and where international standards have not been translated, IFAC member bodies shall assess their priorities and challenges and consider whether there is a need for translation of these standards to ensure their proper adoption and implementation. Where such a need exists, IFAC member bodies shall use their best endeavors to have a process established, or otherwise support a process to provide for the timely, accurate, and complete translation of international standards and, to the extent practicable, of related exposure drafts.²¹
16. IFAC member bodies shall notify their members of all new, proposed, and revised international standards and other pronouncements issued by the IAESB.
17. IFAC member bodies are encouraged to comment on IAESB exposure drafts.

IFAC Compliance Assessment

18. In assessing compliance with this SMO, IFAC will give due consideration to the applicability framework and the best endeavors concept, as well as to the differing national environments, stages of development, and other relevant environmental factors.
19. IFAC will take into account the relevance of individual SMO requirements to each IFAC member body in assessing its level of compliance. This recognizes that some IFAC member bodies and their members operate in different sectors of the profession, and that some SMOs may not apply to them in their entirety.
20. In addressing the requirements of this SMO, IFAC member bodies need to consider priorities, processes, and challenges specific to their jurisdiction and constituency. Consequently, they shall

²⁰ As stated in the IFAC Strategic Plan for 2011-2014, which is available on the IFAC website.

²¹ Translations, if any, shall be made in line with the IFAC Policy Statement, *Policy for Translating and Reproducing Standards Issued by the International Federation of Accountants*, available on the IFAC website.

develop an action plan, obtain internal agreement on a timetable for achieving compliance, and demonstrate progress against the plan. If not, they shall satisfactorily justify why they have not done so or they may be suspended or removed from membership for non-compliance.

Effective Date

21. ~~8.~~ This SMO is effective as of ~~December 31, 2004~~ January 1st, 2013 and was last amended as of ~~November 10, 2006~~ MM, DD, YYYY.

STATEMENT OF MEMBERSHIP OBLIGATIONS 3
INTERNATIONAL STANDARDS, ~~RELATED PRACTICE STATEMENTS~~ AND OTHER
~~PAPERS~~ PRONOUNCEMENTS ISSUED BY THE IAASB

CONTENTS

	Paragraphs
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Obligation

1. ~~This Statement~~In accordance with the IFAC Constitution, paragraph 2.3.b., IFAC member bodies are required to comply with the Statements of Membership Obligations (SMO) is issued by the IFAC Board. ~~It is to be applied by member bodies of IFAC in the development of quality control, auditing, review, other assurance, and related services standards for its members. It applies whether the member bodies issue such standards, or whether the standards are issued by another body (SMOs).~~

~~Where government, regulators or other appointed authorities perform any of the functions covered by this SMO, member bodies should (a) use their best endeavors to encourage those responsible for those functions to follow this SMO in implementing them, and (b) assist them in that implementation where appropriate.~~

Scope

2. This SMO is issued by the IFAC Board and sets out ~~the obligations of requirements for IFAC member bodies in relation to International Standards, related Practice Statements and other papers with respect to international standards and other pronouncements~~ issued by the International Auditing and Assurance Standards Board (IAASB) ~~of, an independent standard-setting body supported by IFAC.~~²² To understand and ~~apply the obligations (identified in bold type)~~address the requirements, it is necessary to consider the whole entire text of the SMO, ~~including the explanatory and other material contained in the SMO.~~
3. ~~Associates are also required to complete self-assessments of compliance with SMOs to demonstrate their continuing progress toward membership. In applying this Statement to associates, IFAC will recognize the stage of development, availability of resource, and scope of activities of each associate and its members.~~The Preface to the International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements (Preface) facilitates understanding of the scope and authority of the pronouncements the IAASB issues, as set forth in the IAASB's Terms of Reference.
4. ~~This SMO does not apply to affiliates. Consistent with the obligations relating to affiliates in the IFAC Bylaws, however, affiliates are expected to support the development and implementation of International Standards and related Practice Statements issued by the IAASB.~~
5. In accordance with the Preface, non-authoritative material, like Practice Notes issued by the IAASB and staff publications is not part of the IAASB's International Standards.

Applicability Framework

6. ~~Despite the general application of SMOs to member bodies and the self-assessments also required of associates, IFAC will take into account the relevance of individual SMO obligations to each member body and associate in assessing its level of compliance. This recognizes the fact~~IFAC recognizes that some~~its~~ member bodies ~~and associates and their members~~ operate under different national legal and regulatory frameworks, and are comprised of professionals working in different sectors of the accountancy profession ~~and an SMO may not apply to them in its entirety.~~

²² The IAASB's Terms of Reference (TOR) provide additional and up-to-date information about this independent standard-setting body. The IAASB's TOR are available on the IFAC website.

Accordingly, IFAC member bodies in different jurisdictions may have different degrees of responsibility for meeting the requirements in this SMO.

7. Without prejudice to the existence of more complex national frameworks, IFAC member bodies may have:
- (a) direct responsibility for the area covered by this SMO. The mandate, explicitly given to the IFAC member body or otherwise implied through general consensus,²³ specifies that it is responsible for adopting and implementing auditing standards and guidance;
 - (b) no responsibility for the area covered by this SMO. The IFAC member body has no mandate, explicitly given or otherwise implied through general consensus,²⁴ for any responsibility for adopting and implementing auditing standards and guidance as government, regulators, or other appointed authorities have direct responsibility for the area covered by this SMO; or
 - (c) shared responsibility with government, regulators, or other appointed authorities. The mandate, explicitly given to the IFAC member body or otherwise implied through general consensus,²⁵ specifies that it has some responsibility for the area relating to this SMO.

Direct Responsibility

8. Where IFAC member bodies have direct responsibility they shall implement all the requirements of this SMO.
9. In exceptional circumstances, ~~a~~an IFAC member body may depart from ~~the obligations~~a requirement of this SMO, if doing so ~~will fulfill its~~is determined by the member body to be in the public interest~~duties more effectively. The~~. ~~If this is the case, the IFAC member body should be prepared to~~shall justify and publicly document the departure. ~~Any IFAC member body that (a) fails to follow the obligations~~requirements of this SMO, ~~or justify and (b) does not document~~ satisfactorily why it has departed from ~~them~~it, may be suspended or removed from membership.

²³ In accordance with the IFAC Bylaws, paragraph 2.1, in the case of general consensus, evidence must exist that the IFAC member body has the support of the public and other key stakeholders.

²⁴ Ibid.

²⁵ Ibid.

Obligations

- ~~1. Member bodies should notify their members of all International Standards, related Practice Statements and other papers issued by the IAASB.~~
- ~~2. International Standards issued by the IAASB comprise International Standards on Quality Control (ISQCs), International Standards on Auditing (ISAs), International Standards on Review Engagements (ISREs), International Standards on Assurance Engagements (ISAEs), and International Standards on Related Services (ISRSs). The IAASB also issues related Practice Statements and other papers to provide interpretive guidance and practical assistance to professional accountants in implementing International Standards and to promote good practice. A description of, and the authority attaching to, International Standards, related Practice Statements and other papers are contained in the Preface to the International Standards on Quality Control, Auditing, Assurance and Related Services.~~
- ~~3. The IAASB exposes proposed International Standards and proposed Practice Statements for public comment. Member bodies are encouraged to notify their members of all exposure drafts issued by the IAASB and to encourage them to comment on behalf of those members that have an interest in quality control, auditing, review, other assurance, or related services standards.~~

No Responsibility

- ~~10. 4. Member~~Where IFAC member bodies ~~should~~ have no responsibility for this area they shall use their best endeavors to:
 - ~~(a) encourage those responsible for the requirements to follow this SMO in implementing them; and~~
 - ~~(b) assist in the implementation where appropriate.~~
- ~~11. An IFAC member body will have been considered to have used its best endeavors if it could not reasonably do more than it has done and is doing to meet the requirements of this SMO.~~

Shared Responsibility

- ~~12. Where IFAC member bodies have shared responsibility for this area they shall:
 - ~~(a) implement those requirements for which they have direct responsibility in accordance with paragraphs 7 and 8; and~~
 - ~~(b) take actions specified in paragraphs 9 and 10 for those requirements where they have no responsibility.~~~~

Requirements and Application Guidance

- ~~13. In accordance with the applicability framework, IFAC member bodies shall identify and undertake actions to have the international standards issued by the IAASB adopted and implemented in their jurisdictions.
 - ~~(a) 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; and~~ Adoption is concerned with the decision that international standards are appropriate for use in specific national financial reporting environments and with the actions necessary to effect those decisions,²⁶ including incorporation into national requirements or requiring the use of international standards through law. Adoption may include a process to review draft international standards, translation, public exposure of proposed standards, approval, incorporation into national requirements as necessary, and promulgation of final standards, and, where applicable, a convergence process to eliminate or minimize differences between international and national standards.²⁷

- (b) ~~To assist with the implementation of International Standards or national standards and related other pronouncements that incorporate International Standards. This includes promoting the use of related Practice Statements, or the development of national pronouncements that incorporate related Practice Statements or that provide similar implementation guidance.~~ Implementation may include a process to build awareness of the adopted standards, provide relevant education and training, develop or disseminate implementation guidance and any other activities that promote proper understanding and use of the standards in practice.

~~Although the Constitution of IFAC and this SMO acknowledge national standards, member bodies should, in implementing their obligations of membership, have as a central objective the convergence of national standards or related other pronouncements with International Standards issued by the IAASB.~~

~~5. Member bodies should implement a process that provides~~

14. In jurisdictions where English is not an official or widely used language, and where international standards have not been translated, IFAC member bodies shall assess their priorities and challenges and consider whether there is a need for translation of these standards to ensure their proper adoption and implementation. Where such a need exists, IFAC member bodies shall use their best endeavors to have a process established, or otherwise support a process to provide for the timely, accurate, and complete translation of International Standards, and for the timely dissemination of such translations where the International Standards are generally used by professional accountants in the jurisdictions of those member bodies, or where an understanding of International Standards is necessary for the proper implementation or interpretation of national standards.

²⁶ As stated in the *IFAC Strategic Plan for 2011-2014*, which is available on the IFAC website.

²⁷ Modifications, if any, shall be made in line with the IAASB Statement, *Modifications to International Standards of the International Auditing and Assurance Standards Board (IAASB) – A Guide for National Standard Setters That Adopt IAASB's International Standards but Find It Necessary to Make Limited Modifications*. The Statement is available on the IAASB website.

Interpretation

- ~~6. A member body has used “best endeavors” if it could not reasonably do more than it has done and is doing to meet the particular membership obligation.~~ international standards and, to the extent practicable, of related exposure drafts.²⁸
15. IFAC member bodies shall notify their members of all new, proposed, and revised international standards and other pronouncements issued by the IAASB.
16. IFAC member bodies shall promote the use of IAASB practice notes and other non-authoritative material to provide guidance and practical assistance.
17. IFAC member ~~bodies are encouraged to~~ comment on IAASB exposure drafts.

IFAC Compliance Assessment

18. In assessing compliance with this SMO, IFAC will give due consideration to the applicability framework and the best endeavors concept, as well as the differing national environments, stages of development, and other relevant environmental factors.
19. IFAC will take into account the relevance of individual SMO requirements to each IFAC member body in assessing its level of compliance. This recognizes that some IFAC member bodies and their members operate in different sectors of the profession, and that some SMOs may not apply to them in their entirety.
20. In addressing the requirements of this SMO, IFAC member bodies need to consider priorities, processes, and challenges specific to their jurisdiction and constituency. Consequently, they shall develop an action plan, obtain internal agreement on a timetable for achieving compliance, and demonstrate progress against the plan. If not, they shall satisfactorily justify why they have not done so or they may be suspended or removed from membership for non-compliance.

Effective Date

21. ~~7-~~ This SMO is effective as of ~~December 31, 2004~~ January 1st, 2013 and was last amended as of ~~as of November 10, 2006.~~ MM, DD, YYYY.

²⁸ Translations, if any, shall be made in line with the IFAC Policy Statement, *Policy for Translating and Reproducing Standards Issued by the International Federation of Accountants*, available on the IFAC website.

1. STATEMENT OF MEMBERSHIP OBLIGATIONS 4

IFACIESBA CODE OF ETHICS FOR PROFESSIONAL ACCOUNTANTS

CONTENTS

	Paragraphs
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Obligation

- ~~This Statement~~ In accordance with the IFAC Constitution, paragraph 2.3.b., IFAC member bodies are required to comply with the Statements of Membership Obligations (SMOs) ~~is issued by the IFAC Board. It is to be applied by member bodies of IFAC to ethics standards for professional accountants. It applies whether the member bodies issue such standards, or whether the standards are issued by another body.~~

~~Where government, regulators or other appointed authorities perform any of the functions covered by this SMO, member bodies should (a) use their best endeavors to encourage those responsible for those functions to follow this SMO in implementing them, and (b) assist them in that implementation where appropriate.~~

Scope

- This SMO ~~is issued by the IFAC Board and~~ sets out ~~the obligations of~~ requirements for IFAC member bodies ~~in relation with respect~~ to the ~~IFAC Code of Ethics for Professional Accountants (the IFAC/IESBA Code of Ethics) and other pronouncements~~ issued by the International Ethics Standards Board for Accountants (IESBA) ~~of, an independent standard-setting body supported by IFAC.~~²⁹ To understand and ~~apply the obligations (identified in bold type)~~ address the requirements, it is necessary to consider the ~~whole entire~~ text of the SMO, ~~including the explanatory and other material contained in the SMO.~~
- ~~Associates are also required to complete self-assessments of compliance with SMOs to demonstrate their continuing progress toward membership. In applying this Statement to associates, IFAC will recognize the stage of development, availability of resource, and scope of activities of each associate and its members.~~
- ~~This SMO does not apply to affiliates. Consistent with the obligations relating to affiliates in the IFAC Bylaw, however, affiliates are expected to support the development and implementation of the Code and other pronouncements of the IESBA.~~
- The IESBA develops ethical standards and guidance for use by professional accountants. The IESBA also fosters international debate on ethical issues faced by accountants.
- The IESBA Code of Ethics establishes the fundamental principles of professional ethics for professional accountants, and provides a conceptual framework and guidance for applying those principles.

Applicability Framework

- ~~Despite the general application of SMOs to member bodies and the self-assessments also required of associates, IFAC will take into account the relevance of individual SMO obligations to each member body and associate in assessing its level of compliance. This recognizes the fact~~ IFAC recognizes that some its member bodies and associates and their members operate under different national legal and regulatory frameworks, and are comprised of professionals working in different sectors of the accountancy profession and an SMO may not apply to them in its entirety. Accordingly, IFAC member bodies in different jurisdictions may have different degrees of responsibility for meeting the requirements in this SMO.

²⁹ The IESBA's Terms of Reference (TOR) provide additional and up-to-date information about this independent standard-setting body. The IESBA's TOR are available on the IFAC website.

8. Without prejudice to the existence of more complex national frameworks, IFAC member bodies may have:

- (a) direct responsibility for the area covered by this SMO. The mandate, explicitly given to the IFAC member body or otherwise implied through general consensus,³⁰ specifies that it is responsible for adopting and implementing ethical requirements for its members;
- (b) no responsibility for the area covered by this SMO. The IFAC member body has no mandate, explicitly given or otherwise implied through general consensus,³¹ for any responsibility for adopting and implementing ethical requirements for its members as government, regulators, or other appointed authorities have direct responsibility for the area covered by this SMO; or
- (c) shared responsibility with government, regulators, or other appointed authorities. The mandate, explicitly given to the IFAC member body or otherwise implied through general consensus,³² specifies that it has some responsibility for the area relating to this SMO.

Direct Responsibility

9. Where IFAC member bodies have direct responsibility they shall implement all the requirements of this SMO.

In exceptional circumstances, ~~a~~an IFAC member body may depart from ~~the obligations~~a requirement of this SMO, if doing so ~~will fulfill its~~is determined by the member body to be in the public interest ~~duties more effectively. The~~. If this is the case, the IFAC member body ~~should be prepared to~~shall justify and publicly document the departure. ~~Any IFAC~~ member body that (a) fails to follow the ~~obligations~~requirements of this SMO, ~~or justify~~ and (b) ~~does not document~~ satisfactorily why it has departed from ~~them~~it, may be suspended or removed from membership.

³⁰ In accordance with the IFAC Bylaws, paragraph 2.1, in the case of general consensus, evidence must exist that the IFAC member body has the support of the public and other key stakeholders.

³¹ Ibid

³² Ibid.

Obligations

- ~~1. Member bodies should notify their members of the provisions of the IFAC Code of Ethics and other pronouncements developed by IESBA.~~
- ~~2. IESBA exposes proposed revisions to the IFAC Code for public comment. Member bodies are encouraged to notify their members of all exposure drafts issued by the IESBA and to encourage them to comment on behalf of those members that have an interest in ethics for professional accountants.~~
- ~~3. The IFAC Code establishes the fundamental principles of professional ethics for professional accountants and provides a conceptual framework and guidance for applying those principles.~~

No Responsibility

10. Where IFAC member bodies have no responsibility for this area they shall use their best endeavors to:
 - (a) encourage those responsible for the requirements to follow this SMO in implementing them; and
 - (b) assist in the implementation where appropriate.
11. An IFAC member body will have been considered to have used its best endeavors ~~if it could not reasonably do more than it has done and is doing to meet the~~ requirements of this SMO.

Shared Responsibility

12. Where IFAC member bodies have shared responsibility for this area they shall:
 - (a) implement those requirements for which they have direct responsibility in accordance with paragraphs 7 and 8; and
 - (b) take actions specified in paragraphs 9 and 10 for those requirements where they have no responsibility.

Requirements and Application Guidance

13. ~~4. Member~~In accordance with the applicability framework, IFAC member bodies shall identify and undertake actions to have the IESBA Code of Ethics adopted and implemented in their jurisdictions. Given the importance of consistent, high-quality ethical standards, IFAC 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.~~ IESBA Code of Ethics.
- ~~5. Where responsibility for the development of national codes of ethics lies with third parties, member bodies should, in implementing their obligations of membership, have as a central objective the convergence of the national code with the IFAC Code. Member bodies should use their best endeavors to persuade those responsible for developing those national codes to incorporate the IFAC Code.~~

Interpretation

~~6. A member body has used its “best endeavors” if it could not reasonably do more than it has done and is doing to meet the particular membership obligation.~~

~~7. Member~~

~~(a) *Adoption* is concerned with the decision that international standards are appropriate for use in specific national financial reporting environments and with the actions necessary to effect those decisions,³³ including incorporation into national requirements or requiring the use of international standards through law. Adoption may include a process to review draft international standards, translation, public exposure of proposed standards, approval, incorporation into national requirements as necessary, and promulgation of final standards, and, where applicable, a convergence process to eliminate or minimize differences between international and national standards.~~

~~(b) *Implementation* may include a process to build awareness of the adopted standards, provide relevant education and training, develop or disseminate implementation guidance and any other activities that promote proper understanding and use of the standards in practice.~~

~~14. In jurisdictions where English is not an official or widely used language, and where international standards have not been translated, IFAC member bodies shall assess their priorities and challenges and consider whether there is a need for translation of these standards to ensure their proper adoption and implementation. Where such a need exists, IFAC member bodies shall use their best endeavors to have a process established, or otherwise support a process to provide for the timely, accurate, and complete translation of international standards and, to the extent practicable, of related exposure drafts.³⁴~~

~~15. IFAC member bodies shall notify their members of the new, proposed, and revised provisions of the IESBA *Code of Ethics and other pronouncements* issued by the IESBA.~~

~~16. IFAC member bodies are encouraged to make counseling and advice available to their members to help resolve ethical conflicts. Doing so plays an important part in implementing ethical requirements. For example, member bodies can (a) provide a service that responds to questions raised by individual members on interpretations of ethical requirements, or (b) form appropriate committees within member bodies who monitor their ethical requirements.~~

~~8. An interpretation/advice/counseling service will ordinarily include the following features:~~

~~Its purpose and operating procedures are clear, understandable and widely promoted to the members.~~

~~Its operating procedures provide safeguards to (a) avoid having to consider unreasonable questions from members, and (b) make the questioner responsible for clearly setting out the facts and circumstances.~~

~~Those who are responsible for providing the advice hold positions at a level commensurate with such authority and have sufficient technical expertise and practical experience to provide such advice.~~

³³ As stated in the *IFAC Strategic Plan for 2011-2014*, which is available on the IFAC website.

³⁴ Translations, if any, shall be made in line with the IFAC Policy Statement, *Policy for Translating and Reproducing Standards Issued by the International Federation of Accountants*, available on the IFAC website.

- ~~☐ Inquiries are ordinarily made on a confidential basis.~~
- ~~☐ Results of any interpretation/counseling/advice questions that are of broad interest are subject to publication (on a “no-name” basis) for the members as an educational method.~~
- 9. ~~Introducing a communication program designed to make individual members aware of all ethical requirements, and the consequences of non-compliance, may assist member bodies to implement ethical requirements. Information may be communicated in such ways as:~~
 - ~~☐ Members’ handbooks.~~
 - ~~☐ Technical releases.~~
 - ~~☐ Professional journals.~~
 - ~~☐ Reports on disciplinary hearings and activities.~~
 - ~~☐ Programs of continuing professional development.~~
 - ~~☐ Newsletters.~~
 - ~~☐ Financial and business press.~~
 - ~~☐ Responses from the appropriate committee to requests for advice.~~ comment on IESBA exposure drafts.

IFAC Compliance Assessment

17. In assessing compliance with this SMO, IFAC will give due consideration to the applicability framework and the best endeavors concept, as well as the differing national environments, stages of development, and other relevant environmental factors.
18. IFAC will take into account the relevance of individual SMO requirements to each IFAC member body in assessing its level of compliance. This recognizes that some IFAC member bodies and their members operate in different sectors of the profession, and that some SMOs may not apply to them in their entirety.
19. In addressing the requirements of this SMO, IFAC member bodies need to consider priorities, processes, and challenges specific to their jurisdiction and constituency. Consequently, they shall develop an action plan, obtain internal agreement on a timetable for achieving compliance, and demonstrate progress against the plan. If not, they shall satisfactorily justify why they have not done so or they may be suspended or removed from membership for non-compliance.

Effective Date

20. ~~40.~~ This SMO is effective as of ~~December 31, 2004~~ January 1st, 2013 and was last amended as of ~~November 10, 2006~~ MM, DD, YYYY.

STATEMENT OF MEMBERSHIP OBLIGATIONS 5
INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS AND OTHER PRONOUNCEMENTS
ISSUED BY THE IPSASB **GUIDANCE**

CONTENTS

	Paragraphs
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Interpretation	4
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Obligation

- ~~This Statement~~In accordance with the IFAC Constitution, paragraph 2.3.b., IFAC member bodies are required to comply with the Statements of Membership Obligations (SMO) ~~is issued by the IFAC Board. It is to be applied by member bodies of IFAC to public sector accounting standards. It applies whether the member bodies issue such standards, or whether the standards are issued by another body~~(SMOs).

~~Where government, regulators or other appointed authorities perform any of the functions covered by this SMO, member bodies should (a) use their best endeavors to encourage those responsible for those functions to follow this SMO in implementing them, and (b) assist them in that implementation where appropriate.~~

Scope

- This SMO ~~is issued by the IFAC Board and~~ sets out ~~the obligations~~requirements of an IFAC member ~~bodies in relation~~body with respect to International Public Sector Accounting Standards (IPSASs), and other pronouncements issued by the International Public Sector Accounting Standards Board (IPSASB) ~~of, an independent standard-setting body supported by IFAC.~~³⁵ To understand and ~~apply the obligations (identified in bold type)~~address the requirements, it is necessary to consider the ~~whole~~entire text of the SMO, ~~including the explanatory and other material contained in the SMO.~~
- ~~Associates are also required to complete self-assessments of compliance with SMOs to demonstrate their continuing progress toward membership. In applying this SMO to associates, IFAC will recognize the stage of development, availability of resource, and scope of activity of each associate and its members.~~
- ~~This SMO does not apply to affiliates. Consistent with the obligations relating to affiliates in the IFAC Bylaws, however, affiliates are expected to support the development and implementation of the Standards and other guidance issued by the IPSASB.~~
- The IPSASB focuses on the accounting and financial reporting needs of (a) national, regional, and local governments, (b) related governmental agencies, and (c) the constituencies they serve. It addresses these needs by issuing and promoting benchmark guidance and facilitating the exchange of information among accountants and those who work in the public sector, or rely on its work.

Applicability Framework

- ~~Despite the general application of SMOs to member bodies and the self-assessments also required of associates, IFAC will take into account the relevance of individual SMO obligations to each member body and associate in assessing its level of compliance. This recognizes the fact~~IFAC recognizes that ~~some~~its member bodies ~~and associates and their members~~ operate under different national legal and regulatory frameworks, and are comprised of professionals working in different sectors of the accountancy profession ~~and an SMO may not apply to them in its entirety.~~ Accordingly, IFAC member bodies in different jurisdictions may have different degrees of responsibility for meeting the requirements in this SMO.

³⁵ The IPSASB's Terms of Reference (TOR) provide additional and up-to-date information about this independent standard-setting body. The IPSASB's TOR are available on the IFAC website.

7. Without prejudice to the existence of more complex national frameworks, IFAC member bodies may have:
- (a) direct responsibility for the area covered by this SMO. The mandate, explicitly given to the IFAC member body or otherwise implied through general consensus,³⁶ specifies that it is responsible for adopting and implementing public sector accounting standards;
 - (b) no responsibility for the area covered by this SMO. The IFAC member body has no mandate, explicitly given or otherwise implied through general consensus,³⁷ for any responsibility for adopting and implementing public sector accounting standards as government, regulators, or other appointed authorities have direct responsibility for the area covered by this SMO; or
 - (c) shared responsibility with government, regulators, or other appointed authorities. The mandate, explicitly given to the IFAC member body or otherwise implied through general consensus,³⁸ specifies that it has some responsibility for the area relating to this SMO.

Direct Responsibility

8. Where IFAC member bodies have direct responsibility they shall implement all the requirements of this SMO.
9. In exceptional circumstances, ~~a~~an IFAC member body may ~~judge it necessary to~~ depart from ~~the obligations~~a requirement of this SMO. ~~The member body should be prepared to justify if doing so is determined by the member body to be in the public interest. If this is the case, the IFAC member body shall justify and publicly document the departure.~~ ~~Any IFAC~~ member body that (a) fails to follow the ~~obligations~~requirements of this SMO, ~~or justify and (b) does not document~~ satisfactorily why it has departed from ~~them~~it, may be suspended or removed from membership.

³⁶ In accordance with the IFAC Bylaws, paragraph 2.1, in the case of general consensus, evidence must exist that the IFAC member body has the support of the public and other key stakeholders.

³⁷ Ibid.

³⁸ Ibid.

Obligations

- ~~1. Member bodies should notify their members of all IPSASs, guidelines, studies and occasional papers developed by the IPSASB.~~
- ~~2. The IPSASB exposes proposed IPSASs for public comment. Member bodies are encouraged to notify their members of all exposure drafts issued by the IPSASB and to encourage them to comment on behalf of those members that have an interest in public sector accounting standards.~~

No Responsibility

- ~~10. 3. Member~~Where IFAC member bodies ~~should~~have no responsibility for this area they shall use their best endeavors to:
 - ~~(a) 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, and disclose the fact of such compliance; and~~encourage those responsible for the requirements to follow this SMO in implementing them; and
 - ~~(b) To assist~~ within the implementation ~~of IPSASs, or national public sector accounting standards that incorporate IPSASs~~where appropriate.

Interpretation

- ~~4. A member body has used "best endeavors" if it could not reasonably do more than it has done and is doing to meet the particular membership obligation.~~
11. An IFAC member body will have been considered to have used its best endeavors if it could not reasonably do more than it has done and is doing to meet the requirements of this SMO.

Shared Responsibility

12. Where IFAC member bodies have shared responsibility for this area they shall:
 - (a) implement those requirements for which they have direct responsibility in accordance with paragraphs 7 and 8; and
 - (b) take actions specified in paragraphs 9 and 10 for those requirements where they have no responsibility.

Requirements and Application Guidance

13. In accordance with the applicability framework, IFAC member bodies shall identify and undertake actions to have the international standards issued by the IPSASB adopted and implemented in their jurisdictions.
 - (a) Adoption is concerned with the decision that international standards are appropriate for use in specific national financial reporting environments and with the actions necessary to effect

those decisions,³⁹ including incorporation into national requirements or requiring the use of international standards through law. Adoption may include a process to review draft international standards, translation, public exposure of proposed standards, approval, incorporation into national requirements as necessary, and promulgation of final standards, and, where applicable, a convergence process to eliminate or minimize differences between international and national standards.

(b) *Implementation* may include a process to build awareness of the adopted standards, provide relevant education and training, develop or disseminate implementation guidance and any other activities that promote proper understanding and use of the standards in practice.

14. In jurisdictions where English is not an official or widely used language, and where international standards have not been translated, IFAC member bodies shall assess their priorities and challenges and consider whether there is a need for translation of these standards to ensure their proper adoption and implementation. Where such a need exists, IFAC member bodies shall use their best endeavors to have a process established, or otherwise support a process to provide for the timely, accurate, and complete translation of international standards and, to the extent practicable, of related exposure drafts.⁴⁰
15. IFAC member bodies shall notify their members of all new, proposed, and revised IPSAS and other pronouncements issued by the IPSASB.
16. IFAC member **bodies are encouraged to** comment on IPSASB exposure drafts.

IFAC Compliance Assessment

17. In assessing compliance with this SMO, IFAC will give due consideration to the applicability framework and the best endeavors concept, as well as the differing national environments, stages of development, and other relevant environmental factors.
18. IFAC will take into account the relevance of individual SMO requirements to each IFAC member body in assessing its level of compliance. This recognizes that some IFAC member bodies and their members operate in different sectors of the profession, and that some SMOs may not apply to them in their entirety.
19. In addressing the requirements of this SMO, IFAC member bodies need to consider priorities, processes, and challenges specific to their jurisdiction and constituency. Consequently, they shall develop an action plan, obtain internal agreement on a timetable for achieving compliance, and demonstrate progress against the plan. If not, they shall satisfactorily justify why they have not done so or they may be suspended or removed from membership for non-compliance.

Effective Date

20. ~~5-~~This SMO is effective as of ~~December 31, 2004~~January 1st, 2013 and was last amended as of ~~November 10, 2006~~MM, DD, YYYY.

³⁹ As stated in the *IFAC Strategic Plan for 2011-2014*, which is available on the IFAC website.

⁴⁰ Translations, if any, shall be made in line with the IFAC Policy Statement, *Policy for Translating and Reproducing Standards Issued by the International Federation of Accountants*, which is available on the IFAC website.

STATEMENT OF MEMBERSHIP OBLIGATIONS 6
INVESTIGATION AND DISCIPLINE

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Obligation

1. In accordance with the IFAC Constitution, paragraph 2.3.b., IFAC member bodies are required to comply with the [Statements of Membership Obligations \(SMOs\)](#).

Scope

2. This ~~Statement of Membership Obligations (SMO)~~ SMO is issued by the IFAC Board. ~~It is to be applied by member bodies of IFAC in~~ and sets out the requirements of an IFAC member body with respect to investigation and disciplinary systems, which provide for the investigation and discipline of misconduct, including, but not limited to, breaches of professional standards and rules by their individual members (and, if local laws and practices permit, by their member firms). ~~It applies whether the member bodies carry out such programs on their own behalf, on behalf of the profession, or on behalf of governments, regulators or other agencies, or whether the programs are carried out by another body.~~

~~Where government, regulators or other appointed authorities perform any of the functions covered by this SMO, member bodies should (a) use their best endeavors to encourage those responsible for those functions to follow this SMO in implementing them, and (b) assist them in that implementation where appropriate. This SMO sets out the obligations of member bodies in relation to investigation and discipline. To understand and apply the obligations (identified in bold type) **those who fail to exercise and maintain professional standards.**⁴¹ To understand and address the requirements, it is necessary to consider the **whole** entire text of the SMO, including the explanatory and other material contained in the SMO.~~

~~Associates are also required to complete self-assessments of compliance with SMOs to demonstrate their continuing progress toward membership. In applying this Statement to associates, IFAC will recognize the stage of development, availability of resource, and scope of activities of each associate and its members.~~

~~This SMO does not apply to affiliates. Consistent with the obligations relating to affiliates in the IFAC Bylaws, however, affiliates are expected to support the development and implementation of this SMO.~~

Applicability Framework

3. ~~Despite the general application of SMOs to member bodies and the self-assessments also required of associates, IFAC will take into account the relevance of individual SMO obligations to each member body and associate in assessing its level of compliance. This recognizes the fact~~ IFAC recognizes that **some** its member bodies and associates and their members operate under different national legal and regulatory frameworks, and are comprised of professionals working in different sectors of the accountancy profession ~~and an SMO may not apply to them in its entirety.~~ Accordingly, IFAC member bodies in different jurisdictions may have different degrees of responsibility for meeting the requirements in this SMO.
4. Without prejudice to the existence of more complex national frameworks, IFAC member bodies may have:

⁴¹ Professional standards are defined at paragraph 69.

- (a) direct responsibility for the area covered by this SMO. The mandate, explicitly given to the IFAC member body or otherwise implied through general consensus,⁴² specifies that it is responsible for setting the rules and operating the investigation and disciplinary system;
- (b) no responsibility for the area covered by this SMO. The IFAC member body has no mandate, explicitly given or otherwise implied through general consensus,⁴³ for any responsibility for setting the rules and operating the investigation and disciplinary system as government, regulators, or other appointed authorities have direct responsibility for the area covered by this SMO; or
- (c) shared responsibility with government, regulators, or other appointed authorities. The mandate, explicitly given to the IFAC member body or otherwise implied through general consensus,⁴⁴ specifies that it has some responsibility for the area relating to this SMO.

Direct Responsibility

- 5. Where IFAC member bodies have direct responsibility they shall implement all the requirements of this SMO.
- 6. In exceptional circumstances, ~~an IFAC~~ member body may depart from ~~the obligations a requirement~~ of this SMO, if doing so ~~will fulfill its~~ is determined by the member body to be in the public interest ~~duties more effectively. The~~. If this is the case, the IFAC member body should be prepared to shall justify and publicly document the departure. ~~Any IFAC~~ member body that (a) fails to follow the ~~obligations requirements~~ of this SMO, ~~or justify and (b) does not document~~ satisfactorily why it has departed from ~~them~~it, may be suspended or removed from membership.

⁴² In accordance with the IFAC Bylaws, paragraph 2.1, in the case of general consensus, evidence must exist that the IFAC member body has the support of the public and other key stakeholders.

⁴³ Ibid.

⁴⁴ Ibid.

Definitions

~~1. In this SMO, the following terms have the meanings attributed below:~~

No Responsibility

7. Where IFAC member bodies have no responsibility for this area they shall use their best endeavors to:
- (a) encourage those responsible for the requirements to follow this SMO in implementing them;
and
 - (b) assist in the implementation where appropriate.
8. ~~(a) "Best endeavors" — An IFAC member body has~~will have been considered to have used "its best endeavors" if it could not reasonably do more than it has done and is doing to meet the ~~particular membership obligation;~~requirements of this SMO.

Shared Responsibility

9. Where IFAC member bodies have shared responsibility for this area they shall:
- (a) implement those requirements for which they have direct responsibility in accordance with paragraphs 5 and 6; and
 - (b) "Member" — an individual who is a member of a member body;take actions specified in paragraphs 7 and 8 for those requirements where they have no responsibility.
 - ~~(c) "Member firm" — a sole practitioner, partnership or corporation of professional accountants that is in membership, or otherwise subject to the authority, of a member body.~~

Introduction

Requirements and Application Guidance

Scope of the Investigative and Disciplinary System

10. ~~2. In accordance with the applicability framework, IFAC member bodies shall identify and undertake actions to have a~~ just and effective investigative and disciplinary ~~regime provides a means of bringing to account those who fail to maintain high professional standards. A member body, the state, or an outside agency may provide such a regime.~~system in place for their members.
- ~~3. SMO 6 recognizes the existence of differing approaches, methodologies and local conditions in relation to membership in professional bodies. In some jurisdictions, the state has responsibility for licensing of auditors and/or accountants. In others, the member body has that responsibility. Similarly, membership in member bodies may be voluntary, or necessary for the granting and/or maintaining of practicing rights. Against that background, the following bold-lettered provisions set out the obligations of IFAC member bodies relating to discipline and enforcement.~~
11. Each member shall be made aware of:

(a) all provisions of the code of ethics and other applicable professional standards, rules, and requirements (and any amendments), whether issued by the International Ethics Standards Board for Accountants or by the responsible body at the national level; and

(b) the consequences of non-compliance with these codes, standards, rules, and requirements.

12. ~~4. IFAC member bodies should provide~~ Bodies responsible for the investigation and disciplinary system shall, in their constitution and rules, provide for the investigation and discipline of misconduct, including breaches of professional standards ~~and rules~~ by ~~their~~ individual members (and, if local laws and practices permit, by firms).

13. Misconduct includes ~~all and~~ any and all of the following:

- ~~Criminal~~ criminal activity;
- ~~Acts~~ acts or omissions likely to bring the accountancy profession into disrepute;
- ~~Breaches~~ breaches of professional standards; including breaches of ethical requirements;
~~— Breaches of ethical requirements;~~
- ~~Gross~~ gross professional negligence;
- ~~A~~ a number of less serious instances of professional negligence that, cumulatively, may indicate unfitness to exercise practicing rights; and
- ~~Unsatisfactory~~ unsatisfactory work.

Each jurisdiction is free to decide ~~that if~~ “misconduct” also includes ~~lesser~~ other instances of professional ~~negligence~~ misconduct.

14. Where local laws and public interest considerations permit, a proportional response shall be elaborated in relation to the individual member’s responsibility versus an issue with the firm. Possible elements to take into consideration include evaluating if:

- the failures were systemic;
- the firm leadership was complicit in the misconduct;
- it forms part of a pattern of failures that have not been corrected in due time; and
- it represents a sufficient public concern.

15. ~~5.~~ In some jurisdictions, some instances of misconduct that normally require a reference to a disciplinary tribunal or similar body are distinguished from regulatory breaches, which can be effectively dealt with under the ~~member body’s or external~~ regulatory rules of the body responsible for the investigation and disciplinary system without reference to a tribunal. Where separate departments of the ~~member~~ responsible body deal with each category, the two departments ~~should~~ shall liaise with (including giving reports to) each other, to ensure an effective link between regulatory action and investigation and discipline.

16. ~~6.~~ Where the law or practice in the jurisdiction ~~of a member body~~ does not consider regulatory breaches as “misconduct,” ~~member bodies should~~ the responsible body shall ensure that the sanctions ~~applicable to both~~ include restriction ~~and or~~ removal of practicing rights.

Sanctions

- ~~7. IFAC member bodies should operate a just and effective investigative and disciplinary regime unless (a) such a regime is maintained by a third party, or (b) local laws prevent it. That regime should allow those who judge such issues to impose a range of penalties, including, if local laws permit:~~
- ~~• Reprimand;~~
 - ~~• Loss or restriction of practice rights;~~
 - ~~• Fine/payment of costs;~~
 - ~~• Loss of professional title (designation); and~~
 - ~~• Exclusion from membership.~~
- ~~8. It is particularly important that the penalties include loss of professional designation, restriction and removal of practicing rights, and exclusion from membership. Such a regime protects clients and other stakeholders, demonstrating to the outside world that the profession is playing its part in maintaining and enhancing professional standards and, ultimately, removing from the profession those who do not deserve to belong in it.~~

Provision of Information and Guidance to Members

- ~~9. Member bodies should make each member fully aware of~~
- ~~(a) all provisions of the ethical code and other applicable professional standards, rules and requirements (and any amendments), whether issued by IFAC or at the national level by the member body, and~~
 - ~~(b) the consequences of non-compliance.~~

Liaison with Outside Bodies

- ~~10. Member bodies should ensure that they comply with all obligations under local laws requiring them to:~~
- ~~(a) Report possible involvement in serious crimes and offences by members or member firms to the appropriate public authority; and~~
 - ~~(b) Disclose related information to that authority.~~

Initiation of Proceedings

- ~~11. It is recommended that member bodies consider adopting both an “information-based” approach and a “complaints-based” approach to investigation and discipline. Action that is complaints-based is triggered by the receipt of a complaint by the member body against an individual member or firm. Typically, such complaints come from a client or regulatory agency. The information-based approach is not a substitute for the complaints-based approach, but an additional process that offers the public further protection. It does so by permitting the investigative and disciplinary arm of the member body to commence an investigation (even when there has been no complaint) when information is received from reliable sources that indicates the possibility of misconduct. The information-based approach has the following benefits:~~

- ~~It enables the system to be proactive in the public interest, rather than reactive;~~
- ~~It may allow the member body to identify conduct of potential concern at an early stage; and~~
- ~~It can also provide additional assurance to outside stakeholders that the profession is actively concerned with protecting the public interest and maintaining the highest possible standards within the profession.~~

Investigative and Disciplinary Powers and Processes

17. ~~42. Where~~ The rules of the member body has responsibility responsible for the investigation and ~~discipline, its rules should~~ disciplinary system shall, to the extent that local laws permit, include all powers necessary to enable authorized personnel to carry out an effective investigation. Such rules ~~should~~ shall also (a) require individual members (and member firms) to ~~co-operate~~ cooperate in the investigation of complaints, and to respond promptly to all communications ~~from~~ on the ~~member body~~ subject, and (b) provide for sanctions in the event of failure to comply. ~~Member bodies should also foster good~~ Good professional relationships with public authorities ~~shall also be fostered~~, to enable ~~them~~ authorities to effectively administer the investigative and disciplinary processes.
18. ~~43. Member bodies should~~ The body responsible for the investigation and disciplinary system shall ensure the availability of appropriate expertise and adequate financial and other resources to enable timely investigative and disciplinary action. A suitably qualified, senior member of staff ~~of the member body should~~ shall be given the responsibility ~~of~~ for managing ~~these~~ investigative and disciplinary processes, to ensure that all investigative and disciplinary processes are consistent with the rules of natural justice and other applicable laws.

Composition of Investigative and Disciplinary Teams and Committees

19. ~~44.~~ Subject to the preceding paragraph, the composition of ~~member bodies~~ the investigative and prosecutorial teams and committees ~~is essentially~~ shall be governed by the decision of each ~~member~~ body responsible for the investigation and disciplinary system. Some ~~member~~ bodies deploy mixed teams of volunteer members and staff of appropriate skill and experience. In many cases, ~~member bodies appoint~~ an investigation committee is appointed and composed of individuals from different professional backgrounds, ~~with~~ including non-~~accountant,~~ accountants and "public interest" representation. Any individual(s) serving on the ~~Investigation Committee~~ investigation committee may be asked to assist in the detailed investigation of a particular case.

Initiation of Proceedings

20. The body responsible for the investigation and disciplinary system shall adopt both a "complaints-based" and an "information-based" approach to investigation and discipline.

Complaints-Based Approach

21. Action that is complaints based is triggered by the receipt of a complaint by the body responsible for the investigation and disciplinary system against an individual member or firm. Such complaints may come from a client or regulatory agency.

Information-Based Approach

22. The information-based approach is not a substitute for the complaints-based approach, but an additional process that offers the public further protection. It does so by permitting the investigative and disciplinary arm of the responsible body to commence an investigation (even when there has been no complaint) when information is received from reliable sources that indicates the possibility of misconduct. The information-based approach has the following benefits:
- it enables the system to be proactive in the public interest;
 - it may allow for the identification of conduct of potential concern at an early stage; and
 - it can provide additional assurance to outside stakeholders that the profession is actively concerned with protecting the public interest and maintaining the highest possible standards within the profession.
23. As required by SMO 1—Quality Assurance, where (a) the body responsible for the quality assurance review system (or its committee with appropriate delegated powers) considers that an unsatisfactory conclusion of quality assurance reviews represents serious failings by the firm or partner, and (b) there is no mechanism in place to take corrective action under the quality assurance review system to address this unsatisfactory conclusion, a link shall be established between an unsatisfactory conclusion of quality assurance reviews and the initiation of disciplinary proceedings.

The Investigative Process

24. ~~15. In all cases, the member body should confirm at~~ At the outset of an investigation process, it shall be confirmed that any individual chosen from the committee to assist in an investigation is independent ~~from~~ of (a) the subject of the investigation, and (b) anyone connected with or interested in the matter ~~investigated~~ under investigation. If a conflict of interest exists at the outset, or arises during the investigation, the nominee ~~should~~ shall immediately ~~stand down~~ withdraw from the case. Similar considerations apply equally to anyone connected with the investigation and hearing of cases.
25. ~~16.~~ On completion of the investigation process, the investigation committee shall review the evidence and decide whether there appears to be a case to ~~answer~~ pursue. If the ~~Investigation Committee~~ investigation committee is satisfied that there is a case to ~~answer~~ pursue, the matter ~~should~~ shall be referred to a disciplinary tribunal or similar grouping, and professional charges ~~should be laid.~~ shall be brought to the extent local laws permit. The investigative process may be placed on hold if the matter being investigated comes or is currently before a court or regulatory authority.
26. ~~17.~~ Many cases can be dealt with handled by the investigation committee without the need for a full tribunal hearing, if the parties agree on an alternative ~~solution~~ dispute resolution, or if the defendant admits the charge or charges.
- ~~18. Member bodies should establish and maintain a process for the independent review of complaints by clients and others in cases where it has been decided, following investigation, that the matter will not be referred to a disciplinary hearing. The objective of this review process is to study the available information and decide whether the investigation committee reached the reasonable decision on the basis of complete information. The detail of the process is a matter for member bodies. However, the existence of an effective external review~~

~~process is essential to demonstrate that the member body's investigative processes recognize human rights and effectively serve the public interest. This is important not only to the defendant, the complainant, and others involved in the investigative and disciplinary process, but also to the reputation of the professional body and the profession at national and international level.~~

The Disciplinary Process

- ~~27. 19.~~ A tribunal or other body with responsibility for disciplinary matters ~~should~~shall be established to hear cases where the investigation committee has decided to ~~lay~~bring professional charges. To avoid delay, a panel or similar grouping ~~should~~shall be established as soon as possible from which individuals can be drawn to sit as judges at hearings. Tribunals ~~should contain~~shall comprise a balance of professional expertise and outside judgment. For this reason, they ~~should~~shall be composed of accountants and non-accountants. No ~~one who is~~person shall be a member of both the investigation committee ~~or~~and the disciplinary tribunal ~~should serve on both~~ at the same time, ~~or~~nor can a member of the investigation committee in relation to a specific case be subsequently appointed to the disciplinary tribunal to hear the same case.
- ~~28. 20.~~ One of the established tests for invoking disciplinary processes is that the member's (or member firm's) conduct has fallen significantly short of what might reasonably have been expected in the circumstances, but it is for each body to establish ~~the~~an appropriate test(s).
- ~~29. 21.~~ It is appropriate ~~that there is~~to have a senior lawyer ~~to~~ act as independent adviser to members of the tribunal on evidential, procedural, and other matters, such as the burden and standard of proof necessary to support the conclusions of the ~~Investigation Committee~~investigation committee. The tribunals shall also include legally qualified personnel, or have permanent access to legal advisors during the disciplinary proceeding. In some jurisdictions, ~~a~~ senior ~~lawyers are~~lawyer is retained to chair the tribunal. A small panel of senior lawyers might be established, from which an individual could be drawn to act as adviser or to chair hearings as they ~~arose~~arise. The senior staff member assigned to investigation and prosecution, an outside lawyer, or another suitably qualified individual, may conduct prosecutions. ~~The member or member firm being prosecuted is entitled to make representations in any form to the disciplinary tribunal.~~ In some jurisdictions, provision is made for the ~~Chair~~chair alone to deal with preliminary issues, to reduce the time spent by other members of the tribunal. If this practice is adopted, it is appropriate that the ~~Chair~~chair be legally qualified, or that ~~the~~an independent legal adviser ~~be~~ also be present.
- ~~30. 22.~~ The tribunal ~~should~~shall exhibit independence. How this is done may vary from jurisdiction to jurisdiction, but institutional rules ~~should~~shall exist that prevent the ~~member~~ body responsible for the investigation and disciplinary system from influencing the disciplinary tribunal's operational work, decision-making, or imposition of sanctions. Further, only the appeal tribunal referred to in Paragraph ~~23~~35 may amend or reverse a decision of the tribunal.

Sanctions

- ~~31. The system shall allow those who judge such issues to impose a range of penalties, including, if local laws permit:~~
- ~~•~~ reprimands;
 - ~~•~~ fine/payment of costs;
 - ~~•~~ loss or restriction of practice rights;

- loss of professional title (designation);
- suspension from membership; and
- exclusion from membership.

32. It is particularly important that, if local laws permit, the penalties include (a) loss of professional designation, (b) restriction and removal of practicing rights, and (c) exclusion from membership. Such a system protects clients and other stakeholders, demonstrating to the public that the profession is dedicated to maintaining and enhancing professional standards and, ultimately, removing from the profession those who do not deserve to belong in it.

Proportionality of Sanctions

33. In deciding what sanction is appropriate, the tribunal or other body with responsibility for disciplinary matters shall weigh the interests of the member and the public interest. This includes the protection of members of the public, maintaining public confidence in the profession, and maintaining proper standards of professional conduct.

34. To ensure (a) consistency in the sanctioning process, and (b) that any sanction imposed is both proportionate to the level of seriousness of the misconduct and the minimum necessary to achieve the purpose, the tribunal shall develop and use a set of guiding principles when imposing sanctions. The tribunal shall also take into account all the circumstances of the case, including:

- any aggravating or mitigating factors relevant to the conduct in question;
- the personal circumstances of the individual, and any other mitigation advanced by the individual or firm, e.g., circumstances that pertain at the date of the tribunal's decision; and
- any character and/or other references provided in support of the individual or firm.

Rights of Representation and Appeal

35. ~~23. Member bodies' rules should~~The rules of the body responsible for the investigation and disciplinary system shall permit a qualified lawyer or other person chosen by the defendant to accompany and represent the defendant at all disciplinary hearings, and to advise ~~him or her~~the defendant throughout the investigative and disciplinary process. These rules ~~should~~shall also permit the defendant to appeal the ~~conviction~~findings and any imposed sanction. Where local laws and public interest considerations permit, any order made against the defendant ~~should~~shall be suspended by the tribunal that ~~convicted~~found against the defendant, pending the hearing of that appeal. The appeal tribunal ~~should~~shall not include a prosecutor or a member of the first tribunal, or any other individual who was ~~concerned with~~involved in the original ~~conviction~~findings. The appeal process ~~should~~shall include the same procedures as apply to hearings before the disciplinary tribunal.

36. ~~24.~~In some jurisdictions, the ~~Investigation Committee (or equivalent body)~~investigation committee may file an appeal if ~~its members consider~~the committee considers that ~~any~~the sanction imposed by the disciplinary tribunal is too lenient. ~~No~~However, no appeal is permitted, ~~however~~, by the member's governing body.

Administrative Processes

37. ~~25. Member bodies should~~The body responsible for the investigation and disciplinary system shall establish ~~time~~timeframe targets for disposal of all cases, and ~~should~~shall aim to meet them whenever possible. Normally, any ~~time~~timeframe set for disposal ~~should~~shall begin on the date ~~the member body received~~ information ~~that was~~ sufficient to justify commencing an investigation ~~was received~~.
38. ~~26. Member bodies should maintain and operate tracking~~Tracking mechanisms ~~shall be maintained and operated~~, to ensure that all investigations and prosecutions are promptly handled, and that all necessary action is taken at the appropriate stage. These mechanisms ~~should~~shall include a form of exception reporting. ~~It~~They would require the person responsible for the investigative and disciplinary process to report any material delay in investigation or prosecution to a designated person, such as the ~~CEO~~chief executive officer of the ~~member~~responsible body, ~~or the Chair~~chair of the ~~Investigation Committee~~investigation committee, or ~~an~~ equivalent person.
39. ~~27.~~Unnecessary delay threatens effective investigation and prosecution of cases. It is potentially unfair to ~~complainers~~complainants and defendants alike, and can be ~~fatal~~detrimental to an otherwise substantiated case. Accordingly, it is recommended that investigations and disciplinary hearings take place as expeditiously as possible. ~~In cases where~~Where it is not necessary to have a formal disciplinary hearing, an appropriate timeframe target might be to complete the process ~~within a matter of months. Equally, it is recognized that large complex cases may take several years to complete~~as quickly as practicable. The commencement of criminal or civil proceedings or investigations by outside agencies may delay investigations and prosecutions by ~~member bodies~~the body responsible for the investigation and disciplinary system. Judgments and other information from such other proceedings and investigations may, however, assist the ~~member~~ body responsible for the investigation and disciplinary system in its subsequent investigation and prosecution of cases.
40. ~~28.~~Tracking mechanisms are designed to monitor progress in investigations and prosecutions, and to prompt those ~~concerned~~involved to take timely action to minimize delay.
41. ~~29.~~In many jurisdictions, confidentiality of proceedings ~~is desirable~~contributes to the good standing of the investigative and disciplinary process; ~~however, member bodies give.~~ However, due consideration shall be given to local laws and public interest considerations in relation to a defendant's rights. ~~Member bodies develop their~~The body responsible for the investigation and disciplinary system develops its own policies on what publicity will be given to the disposal of cases. ~~Member bodies are cautioned to release~~Caution shall be taken in releasing to third parties only that information ~~that~~ the law permits to be made public, or that is authorized for release by those responsible for such decisions.
42. ~~30. Member bodies should introduce and maintain a procedure requiring (a) notification to all~~All persons employed or otherwise participating in the investigative and disciplinary processes (or having access to information concerning such processes) shall be notified of the importance of maintaining confidentiality, ~~and (b) a~~ A binding agreement to maintain that confidentiality shall be signed by all relevant parties.
31. ~~Member bodies should maintain secure and confidential facilities for the storage of case papers and other evidence.~~

43. ~~32. Secure and confidential facilities shall be maintained for the storage of case papers and other evidence.~~ Secure and confidential handling and storage of papers and other evidence protects the interests of all parties to the investigative and disciplinary processes, particularly the ~~complainer~~complainant and the ~~member~~body responsible for disciplinary matters. It reduces ~~the potential~~ loss ~~of evidence,~~ and prevents tampering with or removal of ~~that~~ evidence.
44. ~~33. Member bodies should maintain complete~~Complete records of all investigations and disciplinary processes, both during the proceedings and the retention period ~~the member body establishes,~~ shall be established and maintained for these purposes.
45. ~~34. Effective record-~~ keeping is important to track and maintain records of all investigations and disciplinary processes. In this way, persistent offenders can be identified and reliable statistics produced. This demonstrates that there is an active and effective investigative and disciplinary process in place. Accurate and complete records are also helpful in answering complaints about the handling of a case, particularly since these may arise ~~even~~ years after the case has been dealt with. Each ~~member body will develop~~body responsible for the investigation and disciplinary system develops its own document retention policies. It is recommended that records be retained long enough to ensure that relevant information is available to protect the public interest and the members of the IFAC member body. Such records may be maintained in electronic or paper format. ~~Member bodies are advised to~~ it is advised that each body responsible for the investigation and disciplinary system refer to legislation in their jurisdictions that ~~deal with~~relates to the handling, storage, and use of data and confidential information.
46. ~~35. Reports of disciplinary and similar proceedings can be a valuable educational tool, in that they~~ (a) relate to ~~real life~~actual events; (b) demonstrate the practical application of standards, rules, and the ~~ethical~~ code, of ethics; and (c) identify pitfalls to be avoided. ~~For this reason, it is recommended that member bodies publish~~Therefore, publishing case reports and ~~encourage~~encouraging students and qualified members to study them. ~~They can provide a valuable opportunity for education. Case reports~~ are useful whether or not they identify the names of individuals, ~~firms~~ and third parties involved. In all circumstances, ~~it is important to ensure that the rights of all concerned (for example, the rights~~the timing of publication or content of such reports shall not adversely affect the right of those involved in related civil or criminal cases) ~~are not adversely affected by the timing or content of such reports.~~ Where circumstances permit, ~~those responsible for~~third parties intending to produce such reports shall issue them after consulting those responsible for the investigative and prosecutorial process.

Public Interest Considerations

47. IFAC member bodies shall ensure that the public is aware that an investigative and disciplinary system exists in its jurisdiction, so that issues it wishes to raise may be forwarded to the relevant committee of the responsible body. To the extent local laws permit, the public shall be made aware of disciplinary action against members.
48. The body responsible for the investigation and disciplinary system shall establish and maintain a process for the independent review of complaints by clients and others in cases where it has been decided, following investigation, that the matter will not be referred to a disciplinary hearing.
49. The objective of this review process is to study the available information and decide whether the investigation committee reached a reasonable decision on the basis of complete information. The details of the process are a matter for the body responsible for the investigation and disciplinary

system. However, the existence of an effective independent review process is essential to demonstrate that the investigative processes recognize human rights and natural justice and effectively serve the public interest. This is important not only to the defendant, the complainant, and others involved in the investigative and disciplinary process, but also to the reputation of the body responsible for the investigation and disciplinary system and the profession at the national and international level.

50. An annual report shall be prepared and made available to the public summarizing the results of investigative and disciplinary proceedings. Copies of the report shall also be made available, upon request, to the appropriate public authority.
51. The disclosure of specific information in such annual reports pertaining to the individual's or firms' identity(ies), and their clients, is governed by the existing local regulations.

Liaison with Outside Bodies

52. To the extent that local laws permit, the body responsible for the investigation and disciplinary system shall ensure that it:
 - (a) reports possible involvement in serious crimes and offences by members to the appropriate public authority; and
 - (b) discloses related information to that authority.
53. To the extent that local laws permit, and IFAC member bodies are aware that members subject to disciplinary proceedings belong to other professional accountancy organizations or other professional organizations, member bodies shall consider informing such organizations regarding the outcome of disciplinary proceedings.

Review of Implementation and Effectiveness

54. Regular reviews of the proper implementation and effectiveness of the investigation and disciplinary system shall be performed to ensure that it functions as intended and in accordance with the requirements of this SMO. When reviews of the proper implementation and effectiveness of the investigation and disciplinary system reveal issues in the proper functioning of the system, action shall be taken to ensure that these specific issues are addressed as soon as practicable. An IFAC member body responsible for the investigation and disciplinary system is not required to perform any implementation and effectiveness reviews when they are undertaken at least annually by an external organization.

IFAC Compliance Assessment

55. In assessing compliance with this SMO, IFAC will give due consideration to the applicability framework and the best endeavors concept, as well as the differing national environments, stages of development, and other relevant environmental factors.
56. IFAC will take into account the relevance of individual SMO requirements to each IFAC member body in assessing its level of compliance. This recognizes that some IFAC member bodies and their members operate in different sectors of the profession, and that some SMOs may not apply to them in their entirety.
57. In addressing the requirements of this SMO, IFAC member bodies need to consider priorities, processes, and challenges specific to their jurisdiction and constituency. Consequently, they shall

develop an action plan, obtain internal agreement on a timetable for achieving compliance, and demonstrate progress against the plan. If not, they shall satisfactorily justify why they have not done so or they may be suspended or removed from membership for non-compliance.

Effective Date

58. ~~36.~~ This SMO is effective as of ~~December 31, 2005~~ January 1st, 2013 and was last amended as of ~~November 10, 2006~~ MM, DD, YYYY.

Definitions

59. In this SMO, the following terms have the definitions attributed below:

(a) Professional standards—For the purpose of this SMO, a range of applicable international standards or the equivalent standards of the jurisdiction in which the IFAC member bodies and associates carry out practice in the field of accounting and auditing, generally recognized as promulgating best global accounting principles. The non-exhaustive international standards list includes (a) pronouncements of the International Auditing and Assurance Standards Board (IAASB), as defined in the IAASB's *Preface to the International Standards on Quality Control, Auditing, Review, Other Assurance, and Related Services*; (b) ethical requirements, which ordinarily comprise the *Code of Ethics* for Professional Accountants of the International Ethics Standards Board for Accountants; (c) International Educational Standards (IESs), issued by the International Accounting Education Standards Board; (d) International Financial Reporting Standards issued by the International Accounting Standards Board; and (d) International Public Sector Accounting Standards issued by the International Public Sector Accounting Standards Board. Each IFAC member body is free to incorporate additional relevant standards into the above list.

1. STATEMENT OF MEMBERSHIP OBLIGATIONS 7

**INTERNATIONAL FINANCIAL REPORTING STANDARDS AND OTHER PRONOUNCEMENTS
ISSUED BY THE IASB**

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Obligation

- ~~This Statement~~In accordance with the IFAC Constitution, paragraph 2.3.b., IFAC member bodies are required to comply with the Statements of Membership Obligations (SMO) ~~is issued by the IFAC Board. It is to be applied by member bodies of IFAC to financial reporting standards for professional accountants. It applies whether the member bodies issue such standards, or whether the standards are issued by another body~~(SMOs).

~~Where government, regulators or other appointed authorities perform any of the functions covered by this SMO, member bodies should (a) use their best endeavors to encourage those responsible for those functions to follow this SMO in implementing them, and (b) assist them in that implementation where appropriate.~~

Scope

- This SMO ~~is issued by the IFAC Board and~~ sets out ~~the obligations of~~requirements for IFAC member bodies ~~in relation with respect~~ to International Financial Reporting Standards (IFRSs), ~~and other pronouncements~~ issued by the International Accounting Standards Board (IASB). To understand and ~~apply the obligations (identified in bold type)~~address the requirements, it is necessary to consider the ~~whole~~entire text of the SMO, ~~including the explanatory and other material contained in the SMO.~~
- ~~Associates are also required to complete self-assessments of compliance with SMOs to demonstrate their continuing progress toward membership. In applying this Statement to associates, IFAC will recognize the stage of development, availability of resource, and scope of activities of each associate and its members.~~
- ~~This SMO does not apply to affiliates. Consistent with the obligations relating to affiliates in the IFAC Bylaws, however, affiliates are expected to support the development and implementation of the Standards issued by the IASB.~~
- ~~The IASB is the independent standard-setting body of the IFRS Foundation. The IASB is responsible for developing and publishing IFRSs and IFRS for SMEs, and for approving interpretations of IFRSs developed by the IFRS Interpretations Committee.~~

Applicability Framework

- ~~Despite the general application of SMOs to member bodies and the self-assessments also required of associates, IFAC will take into account the relevance of individual SMO obligations to each member body and associate in assessing its level of compliance. This recognizes the fact~~IFAC recognizes that ~~some~~its member bodies ~~and associates and their members~~ operate ~~under different national legal and regulatory frameworks, and are comprised of professionals working in different sectors of the~~ accountancy profession ~~and an SMO may not apply to them in its entirety.~~ Accordingly, IFAC member bodies in different jurisdictions may have different degrees of responsibility for meeting the requirements in this SMO.
- Without prejudice to the existence of more complex national frameworks, IFAC member bodies can have:

- (a) direct responsibility for the area covered by this SMO. The mandate, explicitly given to the IFAC member body or otherwise implied through general consensus,⁴⁵ specifies that it is responsible for adopting and implementing accounting standards;
- (b) no responsibility for the area covered by this SMO. The IFAC member body has no mandate, explicitly given or otherwise implied through general consensus,⁴⁶ for any responsibility for adopting and implementing accounting standards as government, regulators, or other appointed authorities have direct responsibility for the area covered by this SMO; or
- (c) shared responsibility with government, regulators, or other appointed authorities. The mandate, explicitly given to the IFAC member body or otherwise implied through general consensus,⁴⁷ specifies that it has some responsibility for the area relating to this SMO.

Direct Responsibility

8. Where IFAC member bodies have direct responsibility they shall implement all the requirements of this SMO.
9. In exceptional circumstances, an IFAC member body may depart from ~~the obligations~~ requirement of this SMO, if doing so ~~will fulfill its~~ is determined by the member body to be in the public interest ~~duties more effectively. The~~. If this is the case, the IFAC member body ~~should be prepared to~~ shall justify and publicly document the departure. ~~A~~Any IFAC member body that (a) fails to follow the ~~obligations~~ requirements of this SMO, ~~or justify and (b) does not document~~ satisfactorily why it has departed from ~~them~~ it, may be suspended or removed from membership.

⁴⁵ In accordance with the IFAC Bylaws, paragraph 2.1, in the case of general consensus, evidence must exist that the IFAC member body has the support of the public and other key stakeholders.

⁴⁶ Ibid.

⁴⁷ Ibid.

Obligations

- ~~1. Member bodies of IFAC should support the work of the IASB by notifying their members of every IFRS.~~
- ~~2. The IASB exposes proposed IFRSs for public comment. Member bodies are encouraged to notify their members of all exposure drafts issued by the IASB and to encourage them to comment on behalf of those members that have an interest in accounting standards.~~

No Responsibility

- ~~10. 3. Member~~Where IFAC member bodies ~~should~~have no responsibility for this area they shall use their best endeavors to:
 - ~~(a) 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; and~~encourage those responsible for the requirements to follow this SMO in implementing them; and
 - ~~(b) To assist within the implementation of IFRSs, or national accounting standards that incorporate IFRSs~~where appropriate.

Interpretation

- ~~4. A member body has used “best endeavors” if it could not reasonably do more than it has done and is doing to meet the particular membership obligation.~~
11. An IFAC member body will have been considered to have used its best endeavors if it could not reasonably do more than it has done and is doing to meet the requirements of this SMO in.

Shared Responsibility

12. Where IFAC member bodies have shared responsibility for this area they shall:
 - (a) implement those requirements for which they have direct responsibility in accordance with paragraphs 6 and 7; and
 - (b) take actions specified in paragraphs 8 and 9 for those requirements where they have no responsibility.

Requirements and Application Guidance

13. In accordance with the applicability framework, IFAC member bodies shall identify and undertake actions to have the IFRSs issued by the IASB adopted and implemented for at least public interest entities⁴⁸ in their jurisdictions.

⁴⁸ Public interest entities are defined by the Code of Ethics for Professional Accountants, which is available on the IFAC website.

- (a) Adoption is concerned with the decision that international standards are appropriate for use in specific national financial reporting environments and with the actions necessary to effect those decisions,⁴⁹ including incorporation into national requirements or requiring the use of international standards through law. Adoption may include a process to review draft international standards, translation, public exposure of proposed standards, approval, incorporation into national requirements as necessary, and promulgation of final standards, and, where applicable, a convergence process to eliminate or minimize differences between international and national standards.
- (b) Implementation may include a process to build awareness of the adopted standards, provide relevant education and training, develop or disseminate implementation guidance and any other activities that promote proper understanding and use of the standards in practice.
14. Responsible parties are encouraged to consider the use of IFRS for SMEs in relation to non-public interest entities.
15. In jurisdictions where English is not an official or widely used language and where international standards have not been translated, IFAC member bodies shall assess their priorities and challenges and consider whether there is a need for translation of these standards to ensure their proper adoption and implementation. Where such a need exists, IFAC member bodies shall use their best endeavors to have a process established, or otherwise support a process to provide for the timely, accurate, and complete translation of international standards and, to the extent practicable, of related exposure drafts. Therefore, IFAC member bodies are encouraged to assist in the translation processes undertaken by the IFRS Foundation or to work with the IFRS Foundation to establish a process for translation into the national language of the IFAC member body.⁵⁰
16. IFAC member bodies are encouraged to comment on IASB exposure drafts.

IFAC Compliance Assessment

17. In assessing compliance with this SMO, IFAC will give due consideration to the applicability framework and the best endeavors concept, as well as the differing national environments, stages of development, and other relevant environmental factors.
18. IFAC will take into account the relevance of individual SMO requirements to each IFAC member body in assessing its level of compliance. This recognizes that some IFAC member bodies and their members operate in different sectors of the profession, and that some SMOs may not apply to them in their entirety.
19. In addressing the requirements of this SMO, IFAC member bodies need to consider priorities, processes, and challenges specific to their jurisdiction and constituency. Consequently, they shall develop an action plan, obtain internal agreement on a timetable for achieving compliance, and demonstrate progress against the plan. If not, they shall satisfactorily justify why they have not done so or they may be suspended or removed from membership for non-compliance.

⁴⁹ As stated in the *IFAC Strategic Plan for 2011-2014*, which is available on the IFAC website.

⁵⁰ More information about the IFRS official translation process can be found on the IASB website at www.ifrs.org.

Effective Date

20. ~~5-~~This SMO is effective as of ~~December 31, 2004~~January 1st, 2013 and was last amended as of ~~November 10, 2006~~MM, DD, YYYY.

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ISBN: _____

Published by:





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