

October 2016

IFAC Member Compliance
Program—
Working Procedures





IFAC serves the public interest and strengthens the accountancy profession by:

- Supporting the development of high-quality international standards;
- Promoting the adoption and implementation of these standards;
- Building the capacity of professional accountancy organizations; and
- Speaking out on public interest issues.

Copyright © October 2016 by the International Federation of Accountants® (IFAC®). For copyright, trademark, and permissions information, please see [page 14](#).

CONTENTS

	Page
SECTION 1 Member Compliance Procedures.....	4
Introduction.....	4
Principles to Support Participation in the Program and SMO Fulfillment	4
Best Endeavors	4
Communication, Assistance, Review, and Enforcement (CARE)	5
Role of the CAP	5
Update Cycles: Frequency and Criteria	5
Annual Updates	6
Biennial Updates with Monitoring Call	6
Monitoring Participation in the Compliance Program.....	7
Monitoring SMO Fulfillment.....	8
Enforcement Procedures	9
Failure to Participate in the Program	9
Failure to Demonstrate Progress in Addressing SMO Requirements.....	10
Failure to Comply with Other Membership Criteria	11
Expulsion Considerations	12
Deferred Enforcement Considerations	13

SECTION 1 Member Compliance Procedures

Introduction

1. The IFAC Member Compliance Program (the Program) is the responsibility of the IFAC staff reporting to the Chief Executive Officer. The IFAC Board established the Compliance Advisory Panel (CAP) to oversee the implementation and operation of the Program.
2. In accordance with the IFAC Bylaws, IFAC member organizations are required to fulfill the requirements specified in the Statements of Membership Obligations (SMOs) and participate in the Program to demonstrate that they are maintaining their good standing and addressing the requirements of IFAC membership.
3. The SMOs cover the obligations of member organizations 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.
4. In addition to fulfillment with SMOs, the staff monitor, on a risk basis, other IFAC membership criteria set out in the IFAC Bylaws, such as financial and operational viability and an appropriate governance structure. Often lack of progress in addressing the SMO requirements is associated with challenges with governance and resources. Where a member organization does not demonstrate progress in addressing the SMO requirements, staff will undertake a review of the organization's fulfillment of other membership criteria.

Principles to Support Participation in the Program and SMO Fulfillment

Best Endeavors

5. IFAC recognizes that its member organizations operate in differing legal and regulatory environment, and are comprised of professionals working in different sectors of the accountancy profession. Accordingly, IFAC member organizations in different jurisdictions may have different degrees of responsibility for meeting the requirements set in SMOs.
6. In accordance with the *applicability framework*, as outlined in each SMO, member organizations 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.¹
7. 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. Each SMO includes a section explaining the IFAC assessment process.

¹ According to the *applicability framework* of the SMOs, member bodies are required to adopt and implement international standards and best practices where they have direct responsibility, and to promote and support adoption to the responsible organizations where they do not have direct responsibility. Member bodies prepare, execute, and update their SMO Action Plans to demonstrate how they already fulfill SMO requirements or their plans to fulfill requirements.

Communication, Assistance, Review, and Enforcement (CARE)

8. To guide the application of compliance procedures, the following four key pillars—Communication, Assistance, Review, and Enforcement (CARE)—form mainstays integral to all processes and actions carried out by the staff when working with the member organizations in the Compliance Program:
 - (a) **Communication** between the staff and the member organizations is essential to ensuring that member organizations understand the expectations of the Program, their obligations, and the potential consequences for failure to demonstrate use of their best endeavors to address the SMO requirements.
 - (b) **Assistance** to member organizations is a key factor in staff’s approach to working with organizations struggling to progress on the SMOs. Assistance to member organizations, provided either by IFAC staff or other parties, is considered as part of each step in the procedures.
 - (c) **Review** of member organizations’ ongoing progress in achieving fulfillment with SMO requirements is an essential element of the framework, whereby staff monitor progress and provide timely feedback with a view to ensure the appropriate responses and actions are being taken to encourage progress and improvement.
 - (d) **Enforcement** actions are to be taken in cases where member organizations fail to participate in the Program or demonstrate progress. The potential for enforcement action, incremental and consistent application, and follow-through are essential elements for maintaining credibility and motivating action.

Role of the CAP

9. On an ongoing basis, the CAP reviews a representative sample of draft SMO Action Plans and Dashboard Reports (DBRs) as well as those SMO Action Plans that may be particularly complex or sensitive.
10. During its meetings, the staff regularly provide the CAP with an update on the status of the SMO Action Plan submissions and the performance of member organizations in addressing the SMO requirements. Any specific issue raised by the CAP in relation to an SMO Action Plan may be discussed with the member organization in question.
11. Should the member organization disagree with the staff’s assessment of the status of adoption of international standards or the degree of fulfillment of SMO requirements as assessed in the DBR, the staff present the matter for the review of the CAP. Following the CAP’s decision, the member organization may request the IFAC Board to reconsider its request.

Update Cycles: Frequency and Criteria

12. As is explained below in the section on *Monitoring Participation in the Compliance Program*, member organizations are required to participate in the Program by submitting regular updates of their SMO Action Plans. The staff assess progress made in the implementation of the SMO Action Plans and present their assessment in DBRs.
13. Depending on the staff’s assessment of the member organizations’ level of fulfillment of the SMOs and the member organization’s timely submission of the SMO Action Plans as well as an assessment of other factors such as regulatory changes and or structural changes to the profession, the staff,

with the advice and oversight of the CAP, place member organizations on either an annual or biennial update cycle.

14. The criteria for each cycle is described below. An explanation of the ratings for SMO fulfillment is described in the section on [Monitoring SMO Fulfillment](#).

Annual Updates

15. Member organizations are required to submit written annual updates of their SMO Action Plans when they meet any of the following criteria:
 - (a) One or more of the SMO areas rated *Not Active* in DBR;
 - (b) Four or more areas rated as *Consider* and/or *Plan* in DBR;
 - (c) Failure to satisfy the *Minimum Threshold*;²
 - (d) Enforcement action³ taken within the past two years;
 - (e) Became an Associate of IFAC within the last two (2) years; or
 - (f) Fail to timely submit SMO Action Plan (within six (6) months of the update due date) for two (2) consecutive years.
16. Organizations rated *Not Active* will also be required to participate in a six month monitoring call with the staff.

Biennial Updates with Monitoring Call

17. Member organizations are required to submit written biennial updates of their SMO Action Plans when they meet all of the following criteria:
 - (a) The *Minimum Threshold* is met;
 - (b) Four or more of the SMO areas rated at *Execute* or above;
 - (c) No area rated as *Not Active*;
 - (d) No enforcement action taken within the past two (2) years; and
 - (e) Timely submission of SMO Action Plan (no later than six (6) months after the update due date).
18. All member organizations on a biennial reporting schedule must participate in annual monitoring calls with the staff. The staff report to the CAP on annual monitoring calls on an ongoing basis.

² The *Minimum Threshold* is an additional qualitative benchmark to identify areas of risk related to SMO fulfillment. A member organization does not satisfy the minimum threshold when:

- (a) The jurisdiction adoption status is rated *Not Adopted* in the DBR, AND
- (b) The corresponding SMO rating in the DBR for the member organization is *Consider*.

³ Enforcement action includes either issuance of a suspension warning, a suspension recommendation, or suspension or expulsion from IFAC membership. Enforcement action may be taken for any cause cited within the IFAC Bylaws, whether related to participation in the Program, fulfillment of IFAC admission criteria (including the SMOs), payment of financial contributions to IFAC, or bringing the profession into disrepute. Enforcement action for failure to make financial contributions to IFAC is managed by the IFAC Planning and Finance Committee.







19. In addition, at any point in time, if deemed necessary by the staff with the guidance and oversight of the CAP, the update cycle may be changed to annual if:
 - (a) If a member organization fails to meet all of the above criteria;
 - (b) The regulatory or standard-setting framework is undergoing significant changes that may affect the member organization's fulfillment with IFAC admission criteria, including the SMOs; and
 - (c) If the member organization is part of a merger or restructuring that may affect the organizations fulfillment with the IFAC admission criteria, including the SMOs.

Monitoring Participation in the Compliance Program

20. IFAC member organizations are required to conduct a self-assessment against the requirements of SMOs, identify areas where further actions are needed to achieve SMO fulfillment, and to develop SMO Action Plans to present plans towards their fulfillment. In cases where a member organization demonstrates fulfillment of the SMO requirements, SMO Action Plans are developed to evidence the existence of ongoing processes to maintain SMO fulfillment.
21. To ensure uniform presentation and content of SMO Action Plans, member organizations are provided with the SMO Action Plan template and the *SMO Action Plan Update Explanatory Note* prepared by the staff as guidance.
22. Member organizations submit draft SMO Action Plans, both first iterations and subsequent updates, to the staff for review and feedback. First iterations of the SMO Action Plans are usually prepared as part of the membership admission process.
23. Three months prior to the update due date, staff send out a reminder email indicating that the member organization is scheduled for an update of its SMO Action Plan.
24. Upon the submission of the SMO Action Plan, staff review the progress made in achieving fulfillment of SMOs, provide their feedback on the content of the SMO Action Plan, request clarifications as necessary, and present an assessment of the status of adoption and the SMO fulfillment in a DBR. The DBR and comments by staff on the draft SMO Action Plan are shared with the member organization for review and consideration.
25. The staff work with the IFAC member organization to finalize the SMO Action Plan and the DBR and republish the SMO Action Plan on the IFAC website. Information from the DBR informs the jurisdiction and the member organization's profiles published on the IFAC website. Conference calls with key representatives of the member organization responsible for the SMO Action Plan execution are often held with the staff as part of the process.
26. The IFAC member organization has ownership of the SMO Action Plan, and therefore, the draft Plan should be discussed and agreed by its leadership prior to its publication on the IFAC website. Publication of the SMO Action Plans requires an approval from the member organization's President or the Board, evidenced by a signed letter of confirmation sent to the staff.
27. Upon publication of the SMO Action Plan and the DBR on the IFAC website, the staff notify member organization of the fact and indicate the time of the next due update.

Monitoring SMO Fulfillment

28. Based on the information contained in the SMO Action Plan, additional research, and communications with the member organization, staff prepare a DBR that provides:
 - (a) A description of the legal, regulatory, and standard-setting context in the jurisdiction;
 - (b) A staff assessment of the status of adoption of international standards underlying the SMO areas in the jurisdiction; and
 - (c) A staff assessment of the member organization’s fulfillment with the SMOs, and—where necessary—staff’s recommendations for further improvements to address SMO requirements.
29. DBRs are shared with the member organizations for review and consideration as part of the SMO Action Plan update process. Member organizations are also advised that the information from the DBR informs the jurisdiction and the member organization’s profiles published on the IFAC website.
30. The following criteria are used to establish the extent of fulfillment with each of the SMO areas:

SMO Fulfillment Status	Definition
 Sustain	The organization maintains well-established ongoing processes to fulfill its relevant obligations. The organization considers, plans, executes, reviews, and improves as part of an ongoing commitment to continuous improvement. or Given the nature of its mandate, membership composition, and the legal and regulatory environment, the organization is not involved in activities related to this area.
 Review & Improve	The organization has recently fulfilled its relevant obligation and is reviewing the implemented plan to identify and apply improvements.
 Execute	The organization is executing its plan.
 Plan	The organization has a defined plan to fulfill the SMO requirements.
 Consider	The organization is considering how to fulfill the SMO requirements.
 Not Active	The organization is not actively addressing the SMO requirements.

31. Any organization rated *Not Active* in any SMO area is a potential enforcement risk with respect to SMO fulfillment, which should be addressed according to the Enforcement Procedures described below.

Enforcement Procedures

32. According to the IFAC Bylaws, Members and Associates are required to participate in the Member Compliance Program to demonstrate that they are maintaining their good standing and addressing the requirements of IFAC membership or association.⁴
33. A member organization may be suspended by the Board for failure to maintain fulfillment with the relevant admission criteria and obligations.⁵
34. A member organization shall be suspended for the period commencing with the Board's approval of the suspension and ending at the start of the following year's Ordinary meeting of the Council. At the end of the suspension period, and upon recommendation of the Board, the Council shall approve either the expulsion of such Member or Associate or an extension of the suspension period.⁶
35. Enforcement actions may be triggered by the following events:
 - (a) Failure to participate in the Program;
 - (b) Failure to demonstrate progress in addressing the requirements of SMOs; and
 - (c) Failure to comply with the other IFAC membership criteria.
36. Each member organization's use of best endeavors, the applicability framework, and its context are all taken into consideration when considering enforcement actions. As described above, the staff use CARE as an integral part of engagement with member organizations in the Compliance Program.

Failure to Participate in the Program

37. Member organizations are required to participate in the Member Compliance Program by submitting updates of their SMO Action Plans on a specified schedule described above.
38. Staff continuously monitor submission deadlines and proactively reaches out to member organizations to:
 - (a) Remind them of an approaching deadline; and
 - (b) If the deadline has passed, contact them by email, phone, mail, and/or fax to understand the reasons for the delay.
39. The staff seek assistance from relevant stakeholder(s) such as a Regional Organization (RO), Accountancy Grouping (AG), mentor, former sponsor, and IFAC Board or committee members.
40. Member organizations that fail to submit meaningful updates to their SMO Action Plans in a timely manner or fail to be responsive to staff's communications, may be suspended and eventually expelled from IFAC membership.
41. Member organizations may request extensions for the submission of the SMO Action Plan if they present valid reasons for not meeting the agreed timeframes and maintain regular and open communication with the staff.

⁴ IFAC Bylaws, Section XII, p. 24.

⁵ IFAC Bylaws, Section IV, p. 7.

⁶ IFAC Bylaws, Section IV, p. 8.

42. If no meaningful response is received within two months of the deadline, the CAP is advised of possible suspension and staff issues a Suspension Warning Letter, which communicates the possibility of consideration for suspension from IFAC membership to the member or associate.
43. The Suspension Warning Letter is sent by the IFAC Executive Director to advise the non-respondent that:
 - (a) It failed to meet the allocated timeframe and has not provided any reasonable explanation for not meeting the deadline;
 - (b) Suspension recommendation will be made to the next IFAC Board meeting; and
 - (c) The member organization can avoid suspension by contacting the staff and providing an explanation of delay and/or evidence of progress made prior to the Board meeting that will consider the suspension recommendation.
44. If no meaningful response is received, the staff makes the suspension recommendation to the Board.
45. If suspension is approved by the Board, the Executive Director, in an official letter, advises the relevant member organization about:
 - (a) The fact of suspension for failure to participate in the Member Compliance Program; and
 - (b) Steps that the suspended body needs to take for the suspension to be removed.

Failure to Demonstrate Progress in Addressing SMO Requirements

46. Member organizations are required to use their best endeavors to address the SMO requirements, according to the applicability framework, and demonstrate progress in fulfilling the SMO requirements through their SMO Action Plans.
47. Staff monitor the status of SMO fulfillment of the member organizations and proactively reaches out to them to:
 - (a) Address the recommendations included in the last iteration of the DBR; and
 - (b) Encourage them to contact staff with any concerns and/or questions related to fulfilling the SMOs.
48. Member organizations that fail to address the SMO requirements and/or demonstrate progress in their SMO Action Plans are rated *Not Active*. Member organizations rated *Not Active* in any SMO area are given one year to address staff's recommendations.
49. The staff may consult relevant stakeholder(s) such as an RO, AG, mentor, former sponsor, an IFAC Board or committee member to understand the challenges of the organization and potential options for seeking assistance.
50. A *Not Active* assessment in any SMO area triggers staff's review of the member organization's fulfillment with other membership criteria described below.
51. If the member organization does not address staff's recommendations in the SMO area(s) rated at *Not Active* during the update one year later, staff communicates the possibility of consideration for suspension from IFAC membership to the organization.

52. The CAP is advised of possible suspension and an official Suspension Warning Letter is sent by the IFAC Executive Director to advise the organization that:
 - (a) It failed to address staff's recommendations and sufficiently address the SMO requirements;
 - (b) A suspension recommendation will be made to the next IFAC Board meeting; and
 - (c) The member organization can avoid suspension by contacting the staff and providing an explanation and/or evidence of its commitment to resolve the situation prior to the Board meeting that will consider the suspension recommendation.
53. If no meaningful response is received, the staff makes the suspension recommendation to the Board.
54. If suspension is approved by the Board, the IFAC Executive Director, in an official letter, advises the relevant member organization about:
 - (a) The fact of suspension for failure to address the SMO requirements;
 - (b) Steps that the suspended member organization needs to take to remove the suspension; and
 - (c) Potential sources of assistance and/or guidance.

Failure to Comply with Other Membership Criteria

55. Continuous failure to demonstrate progress in addressing the SMOs as evidenced by existence of a *Not Active* assessment of any SMO area, will trigger an assessment of the member organization's fulfillment with the membership criteria.
56. To initiate the review, the staff request the organization to submit information necessary to establish the extent of its fulfillment with other membership criteria. Specifically, the member organization is required to submit:
 - (a) Audited financial statements for the last three years;
 - (b) Information regarding its governance structure; and
 - (c) Information on staffing and its internal operating structure.
57. The staff conduct a review of submitted information and notify the CAP about the results of the review.
58. As indicated previously, the staff recognize that IFAC member organizations operate in differing legal and regulatory environments, are comprised of professionals working in different sectors of the accountancy profession, have different sizes, operating capacities. These factors may affect how membership criteria are fulfilled and are taken into consideration by the staff as is the procedure for assessing new PAOs for admission to IFAC.
59. The staff may consult relevant stakeholder(s) such as an RO, AG, mentor, former sponsor, an IFAC Board or committee member to understand the challenges of the organization and potential options for seeking assistance.
60. In case staff conclude that the member organization does not continue to meet other membership criteria, the CAP is advised of possible suspension and staff issue a Suspension Warning Letter, which communicates the possibility of consideration for suspension from IFAC membership to the member or associate should the latter fail to resolve the situation.

61. The Suspension Warning Letter is sent by the IFAC Executive Director to advise the organization that:
 - (a) It fails to meet the other membership criteria;
 - (b) A suspension recommendation will be made to the next IFAC Board meeting; and
 - (c) The member organization can avoid suspension by contacting the staff and providing an explanation and/or evidence of its commitment to resolve the situation prior to the Board meeting that will consider the suspension recommendation.
62. A suspension recommendation is submitted to the Board and its next meeting. If suspension is approved by the Board, the IFAC Executive Director, in an official letter, advises the relevant member organization about:
 - (a) The fact of suspension for failure to meet the relevant membership criteria;
 - (b) Steps that the suspended body needs to take to remove the suspension; and
 - (c) Potential sources of assistance and/or guidance.

Expulsion Considerations

63. According to the IFAC Bylaws, member organizations are suspended for the period commencing with the Board's approval of the suspension and ending at the start of the following year's Ordinary meeting of the Council. During the suspension period:
 - (a) The staff proactively reach out to the member organization, including seeking assistance from relevant RO or AG and other contacts that can assist in contacting the member organization in question;
 - (b) The CAP and staff consider whether expulsion recommendations be made to the IFAC Board;
 - (c) The member organization is officially advised about the possibility of expulsion;
 - (d) An expulsion recommendation is considered by the Board;
 - (e) If approved, the Board makes an expulsion recommendation to the IFAC Council; and
 - (f) The member organization is officially advised about expulsion recommendation being forwarded to the IFAC Council.
64. If no meaningful response is received and the cause is not resolved, the Council considers the expulsion recommendation.
65. If the Council approves expulsion recommendation, relevant IFAC Constitution and Bylaws provisions apply.
66. The organization is advised about the expulsion from IFAC membership in an official letter and is encouraged to contact the staff who can provide guidance and facilitate assistance in required developments.
67. Expelled organizations are included into the engagement process for non-member PAOs that are interested in seeking membership in IFAC, in which the staff continue to apply the CARE framework.

Deferred Enforcement Considerations

68. In specific circumstances, member organizations may be considered for enforcement deferral in accordance with a specific process as described below:
- (a) Member organizations may be proposed for enforcement deferral in the case of political, military, humanitarian, or natural disaster reasons that are known from available public information;
 - (b) The staff will attempt to contact relevant member organizations to learn about the impact on the member organization. Other relevant sources (ROs, AGs, donor agencies, etc.) will also be consulted;
 - (c) All cases are to be agreed by the IFAC Executive Director and the CAP; and
 - (d) The deferral can be granted for up to two years.

Exposure Drafts, Consultation Papers, and other IFAC® publications are published by, and copyright of, IFAC.

IFAC does not accept responsibility for loss caused to any person who acts or refrains from acting in reliance on the material in this publication, whether such loss is caused by negligence or otherwise.

The IFAC logo, 'International Federation of Accountants®', and 'IFAC' are registered trademarks and service marks of IFAC.

Copyright © October 2016 by the International Federation of Accountants (IFAC). All rights reserved. Written permission from IFAC is required to reproduce, store or transmit, or to make other similar uses of, this document. Contact permissions@ifac.org.

ISBN: 978-1-60815-245-2

Published by:





529 Fifth Avenue, New York, NY 10017
T + 1 (212) 286-9344 F +1 (212) 286-9570
www.ifac.org