

Statements of Membership
Obligations 1 – 7



The mission of the International Federation of Accountants (IFAC) is to serve the public interest, strengthen the accountancy profession worldwide and contribute to the development of strong international economies by establishing and promoting adherence to high-quality professional standards, furthering the international convergence of such standards and speaking out on public interest issues where the profession's expertise is most relevant.

The IFAC Board approved the Statements of Membership Obligations (SMOs) for issue in March 2004. The SMOs clarify and strengthen IFAC's membership obligations and seek to enhance the performance of accountants worldwide. The IFAC Council will be asked to ratify the SMOs in November 2004.

The SMOs will serve as the foundation for IFAC's Membership Compliance Program, which will assist IFAC, its members and others in identifying successes and challenges in convergence towards international standards and regulation.

Copies of this paper may be downloaded free of charge from the IFAC website at <http://www.ifac.org>.

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ACCOMPANYING MEMORANDUM TO STATEMENTS OF MEMBERSHIP OBLIGATIONS

Introduction

Statements of Membership Obligations (SMOs or Statements) are issued by the IFAC Board and provide clear benchmarks to current and potential IFAC member organizations to assist them in ensuring high quality performance by professional accountants. The Statements cover a member body's obligations to support the work of IFAC, the work of the International Accounting Standards Board, and obligations regarding quality assurance and investigation and discipline.

The SMOs will form the basis of the IFAC Member Body Compliance Program. Member bodies will be required to perform self-assessments of their compliance with each of the SMOs including an assessment of actual standards in place in comparison to the relevant IFAC standards.

Applicability

The SMOs apply to full and associate members of IFAC. Unless the context otherwise requires, associate members are included within the term "member body." In applying these Statements to associate members, IFAC will recognize (a) the different level of obligations that apply to associate members under the IFAC Constitution, and (b) the stage of development, availability of resource, and scope of activities of each associate member and its members.

These Statements do not apply to affiliate members. Consistent with the obligations relating to affiliate members in the IFAC Constitution, however, affiliate members are expected to support the development and implementation of these Statements.

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 full and associate members, IFAC will take into account the relevance and application of SMO obligations to each member body in assessing the level of compliance. This recognizes the fact that some member bodies and their members operate in different sectors of the profession. In evaluating a member body's compliance with the SMOs as part of the IFAC Member Body Compliance Program, a member body's stage of development will also be considered.

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

Black and Grey Lettering

The SMOs have been written using the International Auditing and Assurance Standards Board's (IAASB) drafting conventions, including the use of black and grey lettering. 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.

The IAASB is currently reviewing its drafting conventions. The IFAC Board may also re-evaluate the drafting conventions used in the SMOs in light of the outcome of the IAASB's review and other input received.

SMO Contents

SMO 1 – QUALITY ASSURANCE

Subject Matter

SMO 1 is to be applied by member bodies of IFAC to quality assurance review programs for their members 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.

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.

Related Documents

International Professional Practice Statement (IPPS) 1, "Assuring the Quality of Professional Services" was issued by the IFAC Council in August 1999. IPPS 1 will be superseded by SMO 1 once effective.

SMO 2 – INTERNATIONAL EDUCATION STANDARDS FOR PROFESSIONAL ACCOUNTANTS AND OTHER EDCOM 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 Guidelines for Professional Accountants (IEGs) and International Education Papers for Professional Accountants (IEPs) issued by the Education Committee of IFAC (EDCOM). 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 Ethics Committee of IFAC.

IFAC Code of Ethics for Professional Accountants

SMO 4 has been prepared to apply in respect of the existing IFAC Code which serves as a model on which to base national ethical guidance. In July 2003, the IFAC Board approved for exposure revisions to the IFAC Code. The proposed revisions change the authority of the IFAC Code. The revisions include the statement: “No member body or firm is allowed to apply less stringent standards than those stated in this Code. However, if member bodies or firms are prohibited from complying with certain parts of this Code by law or regulation, they should comply with other parts of this Code.”

When the final Code is released, this SMO will be revised as appropriate to reflect the change in status of the Code.

Related Documents

Statements of Policy of Council, “Preface to Ethical Requirements of (Name of Member Body)” and “Implementation and Enforcement of Ethical Requirements” were issued by the IFAC Council in November 1990 and January 1998, respectively. These documents will be superseded by SMO 4 once effective.

SMO 5 – INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS AND OTHER PSC GUIDANCE

Subject Matter

SMO 5 sets out the obligations of member bodies of IFAC in relation to International Public Sector Accounting Standards (IPSASs) and other guidance issued by the Public Sector Committee (PSC) of IFAC.

SMO 6 – INVESTIGATION AND DISCIPLINE

Subject Matter

SMO 6 is to be applied by member bodies of IFAC in 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). 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.

SMO 7 – INTERNATIONAL FINANCIAL REPORTING STANDARDS

Subject Matter

SMO 7 sets out the obligations of member bodies of IFAC in relation to International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB).

STATEMENT OF MEMBERSHIP OBLIGATIONS 1
QUALITY ASSURANCE
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This Statement of Membership Obligations (SMO) is issued by the IFAC Board. It is to be applied by member bodies of IFAC to quality assurance review programs for their members 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.

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 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 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.

This SMO applies to full and associate members of IFAC. Unless the context otherwise requires, associate members are included within the term “member body.” In applying this SMO to associate members, IFAC will recognize (a) the different level of obligations that applies to associate members under the IFAC Constitution, and (b) the stage of development, availability of resource, and scope of activities of each associate member and its members.

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

Despite the general application of SMOs to full and associate members, IFAC will take into account the relevance and application of the obligations to each member body in assessing the level of compliance. This recognizes the fact that some member bodies and their members operate in different sectors of the profession. In evaluating a member body’s compliance with the SMOs as part of the IFAC Member Body Compliance Program, a member body’s stage of development will also be considered.

In exceptional circumstances, a member body may depart from the obligations of this SMO, if doing so will fulfill its public interest duties more effectively. The member body should be prepared to justify the departure. A member body that fails to follow the obligations of this SMO, or justify satisfactorily why it has departed from them, 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).

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:
 - (a) For specific types of engagements (for example, International Standard on Auditing 220 (ISA 220), “Quality Control For Audits of Historical Financial Information”), 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”).
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:
 - (a) “Best endeavors” – 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;
 - (b) “Firm”^{*} – a sole practitioner, partnership, corporation or other entity of professional accountants;
 - (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;

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

- (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.

Scope of Quality Assurance Review Program

5. **The member body should ensure a mandatory quality assurance review program is in place for those of its members performing audits of financial statements of, as a minimum, listed entities. The member body should establish and publish criteria for evaluating all other 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 quality assurance review.**
6. **Where government, regulators or other appointed authorities perform any of the functions covered in this Statement, 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.**
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.**
8. IFAC believes that it is desirable for a wide range of professional services performed by professional accountants to be subject to quality assurance review programs that are commensurate with the nature of the services. It therefore encourages member bodies to extend the scope of quality assurance review programs 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

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

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.

9. Criteria for extending the scope of engagements that will be subject to a quality assurance review include:
 - The number and range of stakeholders who may make decisions based on the auditor's report.
 - The extent to which the subject matter and the auditor's report are of public interest, or may affect the public's confidence in public institutions or public administration.
10. The implementation of an appropriate system of quality control is the responsibility of individual firms. The member body requires its members (a) to adhere to a code of ethics (such as the IFAC Code¹), and (b) to implement a system of quality control for the performance of audit engagements in accordance with ISQC 1 and ISA 220.

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.**
12. Individual 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 those policies and procedures.

Other Quality Control Guidance

13. **The member body should assist its members to:**
 - (a) **Understand the objectives of quality control; and**
 - (b) **Implement and maintain appropriate systems of quality control.**
14. Assistance may take various forms, depending upon the needs within a country, including:
 - Developing guidelines for comprehensive Continuing Professional Development (CPD) programs. These could include (a) guidance on planning or evaluating the adequacy of in-house training, or (b) CPD programs mandated by the member body or local licensing authority.
 - Providing CPD programs to firms without their own programs, including those that are specifically directed to implementing quality control policies and procedures.
 - Providing guidelines for conducting effective internal inspection programs.

¹ In July 2003, the IFAC Board approved for exposure revisions to the IFAC Code. The proposed revisions change the authority of the IFAC Code. The revisions include the statement: "No member body or firm is allowed to apply less stringent standards than those stated in this Code. However, if member bodies or firms are prohibited from complying with certain parts of this Code by law or regulation, they should comply with other parts of this Code." When the final Code is released, this SMO will be revised as appropriate to reflect the change in status of the Code.

- 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. Potential sources to perform the assessment include a firm, member body employees or individuals recommended by the member body.

The Design of the Quality Assurance Review Program

15. **The subject of the quality assurance review program may be either a firm or a partner as determined by the member body.**
 - (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:**
 - (i) **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 the member body includes);**
 - (ii) **The partner complies with that system; and**
 - (iii) **The partner has adhered to professional standards and regulatory and legal requirements in performing audits of financial statements selected for review.**
16. Where the firm is the subject of the quality assurance review, the review will need to 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 take into account the system of quality control of the partner's firm to conclude whether the system is adequate, and whether the firm has complied with such system.
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 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.

18. **The member body should publish a description of the scope and design of its quality assurance review program and related procedures to be followed by quality assurance review teams.**
19. The member body includes the following procedures in its quality assurance review program guidelines:
 - Requiring and determining whether quality assurance review teams receive training in the conduct of quality assurance reviews.
 - Evaluating the independence of the members of the quality assurance review teams.
 - Evaluating whether quality assurance review teams have the technical skill and knowledge, the specialized experience, and the authority, to perform quality assurance reviews with professional competence.
 - 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.
 - Evaluating corrective actions taken by the member with regards to the results of previous quality assurance reviews.
 - Documenting the performance of quality assurance review procedures in a manner that permits the 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.
 - 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.
 - Imposing, where applicable, added corrective, educational, or monitoring procedures that provide for fair and consistent treatment of each member.
 - 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.
 - Maintaining the confidentiality of client information.

Review Cycle

20. **A member body should choose either a cycle or a risk-based approach for selecting members for review. The member body should provide that all firms or partners performing audits of financial statements to be reviewed are considered in the selection process.**

Cycle Approach

21. **Member bodies that select a cycle approach should:**
 - (a) **Adopt a maximum cycle of three years when a firm is the subject of the review; and**
 - (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.**
22. The review cycle for partners is determined by the member body. The length of the review cycle takes into consideration the frequency the partner is reviewed under the firm's internal monitoring program, as well as the procedures performed.
23. It may be appropriate to review some members more frequently. For example, the review cycle may be shortened if the results of the previous review were less than satisfactory. The member body may identify additional appropriate reasons for conducting reviews more frequently.

Risk-Based Approach

24. **Member bodies that select a risk-based approach should consider various risk factors when determining the firms or partners to be reviewed. Member bodies should ensure that firms or partners are reviewed with reasonable frequency even if not selected for review based on risk factors.**
25. Examples of risk factors include:
 - (a) Number of listed entity clients.
 - (b) Number of entities considered to be of public interest.
 - (c) Past results of quality assurance reviews, including:
 - (i) Failure to meet Continuing Professional Development requirements;
 - (ii) Independence violations; or
 - (iii) Deficiencies in the design of, or compliance with the firm's system of quality control.

Other Considerations

26. Audits of financial statements subject to selection for review are ordinarily completed and issued audits of financial statements with fiscal years periods ending during the review period. If a more recent auditor's report has been issued during the review, consideration is given to reviewing that audit.
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 review the quality assurance review team consults with the member body on the scope of the quality assurance review or other actions that may be taken.

Quality Assurance Review Team Procedures

28. **The member body should require quality assurance review teams to follow procedures that are based on published guidelines. These procedures should include reviews of engagement working papers and discussions with appropriate personnel.**
29. **The procedures performed during the quality assurance review should include:**
 - **An assessment of the system of quality control relating to audits of financial statements of listed entities.**
 - **Sufficient review of the quality control policies and procedures and reviews of engagement working papers to evaluate:**
 - **The functioning of that system of quality control, and compliance with it; and**
 - **The compliance with professional standards and regulatory and legal requirements in respect of audits of financial statements.**
30. **The review of engagement working papers should include evaluating:**
 - **The existence and effectiveness of the system of quality control implemented by the member, and the performance of the engagement.**
 - **Compliance with professional standards and regulatory and legal requirements related to the engagement.**
 - **The sufficiency and appropriateness of evidence documented in the working papers.**
 - **Based on the above, whether the auditor's reports are appropriate in the circumstances.**
31. **Procedures the quality assurance review team may consider when performing the quality assurance review include:**
 - **Obtaining a sufficient understanding of:**
 - **The nature and extent of the member's audit practice and the methodologies used.**
 - **The design of the member's system of quality control.**
 - **The internal ethical and independence policies and procedures.**
 - **The member'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 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's monitoring procedures.**
 - **Reviewing compliance with the member's system of quality control relating to audits of financial statements.**

- 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 conclusion.
- Holding a closing meeting with the member to discuss the quality assurance review team's results, conclusions, recommendations, and the type of report to be issued.
- Providing the member with conclusions and recommendations for corrective actions.

Documentation

32. **The quality assurance review team should document matters that:**
- (a) **Provide evidence supporting the quality assurance review report; and**
 - (b) **Establish that the quality assurance review was carried out in accordance with the guidelines the member body established.**
33. The quality assurance review team maintains documentation that supports the work performed, 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.).
34. During the quality assurance review, the quality assurance review team:
- (a) Documents the planning of the 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 the nature, cause, pattern, pervasiveness, and significance of any deficiencies in the design of the firm's system of quality control and in the firm's compliance with its system;
 - (c) Evaluates the nature, cause, pattern, pervasiveness, and significance of any deficiencies in the performance of an engagement; and
 - (d) Summarizes conclusions.
35. **The member body should determine how long to retain documentation after completion of the quality assurance review. The time should be long enough to allow the member body or its oversight body, if any, to maintain appropriate oversight of the quality assurance review process.**

The Quality Assurance Review Team

Skills and Competence

36. **Members of the quality assurance review team should have the necessary competencies to perform the work expected of them. These competencies include:**
- (a) **Appropriate professional education;**
 - (b) **Relevant professional experience; and**

(c) Specific training on performing quality assurance reviews.

37. **Members of the quality assurance review team should possess certification or credentials the member body requires.**
38. Those who select and approve the quality assurance review team consider which of the following competencies and areas of expertise are required in the quality assurance review:
 - Understanding of professional standards and regulatory and legal requirements.
 - Understanding the guidelines the member body sets for performing quality assurance reviews.
 - Understanding and practical experience of audit engagements and quality assurance reviews through appropriate training and participation.
 - Appropriate technical knowledge, including knowledge of relevant information technology.
 - Knowledge of specific industries.
 - 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.
40. **The quality assurance review team should consist of an appropriate number of reviewers to accomplish the review within a reasonable time period.**

The Quality Assurance Review Team Leader

41. **A quality assurance review team leader should be assigned for each quality assurance review assignment. The quality assurance review team leader should:**
 - (a) **Supervise the conduct of the quality assurance review;**
 - (b) **Communicate the quality assurance review team’s conclusions to the member; and**
 - (c) **Prepare the quality assurance review report.**
42. The quality assurance review team leader has significant involvement in the planning of the quality assurance review, and at the member’s closing meeting. The quality assurance review team leader is involved in discussing significant conclusions with the member and the quality assurance review team, and interacts with the member and the quality assurance review team during the quality assurance review.
43. The quality assurance review team leader attends review training courses approved by the member body to obtain current knowledge of the quality assurance review process, and otherwise maintains competencies in conducting such reviews.

Ethical Requirements

44. **The member body and quality assurance review team should consider the fundamental principles set out in the IFAC Code (in addition to relevant national codes of ethics) in relation to the quality assurance review team's conduct of a review.**
45. **When selecting a review team for an individual quality assurance review assignment, those responsible for selection and approval should consider whether the independence of the quality assurance review team leader and each member of the quality assurance review team has been determined. Quality assurance review team members are expected to be independent of the member and the member's clients selected for review.**
46. Independence is addressed by the IFAC Code with respect to assurance engagements. Even though the report issued by the quality assurance review team may not be an assurance report, independence of quality assurance review team members is required by this SMO.
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 does not, however, impair independence, so long as the fees charged are not material to either party, and the services are not an integral part of the member's system of quality control.
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 appointed.

Confidentiality

49. **As stated in the IFAC Code or relevant national codes of ethics, the member body should exempt members from professional client confidentiality requirements concerning audit engagement working papers for the purpose of quality assurance reviews.**
50. **The quality assurance review team should follow confidentiality requirements similar to those established for professional accountants performing audits of financial statements.**
51. The obligation of professional confidentiality binds (a) all persons who work or have worked for the member body, regulator or other competent authority responsible for administering and overseeing the quality assurance review program and (b) all persons involved with the applicable oversight system.

Reporting

52. **The quality assurance review team leader should issue a written quality assurance review report to the reviewed firm or partner upon completion of each quality assurance review assignment. The report should include the following elements:**
 - **The guidance (referred to in paragraph 18) utilized by the quality assurance review team.**

- **Where the subject of the quality assurance review program is a firm, a conclusion on:**
 - **Whether the firm's system of quality control has been designed to meet the requirements of the quality control standards described in paragraph 11; and**
 - **Whether the firm has complied with its system of quality control during the review period.**
 - **Where the subject of the quality assurance review program is a partner, a conclusion on:**
 - **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 11; and**
 - **Whether the partner, through the firm, has complied with the firm's system of quality control during the review period.**
 - **Reasons for negative conclusions on the above.**
 - **Recommendations for areas of improvement at both firm wide and engagement level.**
53. The member body determines the form of the quality assurance review report and the nature of the conclusion to be reached (e.g., opinion and limited assurance).
54. **The reviewed member should provide a timely written response to the recommendations and conclusions of the quality assurance review report, including planned actions and expected time of completion or implementation. The response should be addressed to the quality assurance review team or the member body. The expected time of completion should be reasonable and agreed by the member, quality assurance review team, and member body.**
55. **The member body should prepare and make available to the public an annual report summarizing the results of the quality assurance review program and send copies of the report to regulatory authorities, on request.**
56. The annual report does not have to include detail regarding specific members (partners or firms), or clients.

Corrective and Disciplinary Actions

57. **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.**
58. The member body (or a committee of the member body with appropriate delegated powers) considers the conclusions of each quality assurance review report. When a quality assurance

review report includes unsatisfactory conclusions, the member body may require a member to provide representations and explanations, including corrective actions the member plans to take.

59. **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.**
60. The member body may consider various forms of corrective actions, including:
 - Requiring the firm to take corrective measures, including appropriate actions with respect to individual personnel, and engagements.
 - Requiring additional continuing professional development.
 - Accelerated or special quality assurance reviews.
61. The member body may consider various forms of disciplinary actions including:
 - Admonishments, censures, or reprimands.
 - Fines.
 - Suspension from membership.
 - Expulsion from membership.
62. If a member body licenses its members, it may prohibit firms or individuals from performing audits of financial statements.

Effective Date

63. This SMO is effective for reviews commencing on or after December 31, 2005. Earlier application is encouraged.

STATEMENT OF MEMBERSHIP OBLIGATIONS 2
INTERNATIONAL EDUCATION STANDARDS FOR PROFESSIONAL
ACCOUNTANTS AND OTHER EDCOM GUIDANCE

CONTENTS

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This Statement 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.

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 International Education Standards for Professional Accountants (IESs), International Education Guidelines for Professional Accountants (IEGs) and International Education Papers for Professional Accountants (IEPs) issued by the Education Committee of IFAC (the EDCOM). 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.

This SMO applies to full and associate members of IFAC. Unless the context otherwise requires, associate members are included within the term “member body.” In applying this SMO to associate members, IFAC will recognize (a) the different level of obligations that applies to associate members under the IFAC Constitution and (b) the stage of development, availability of resource, and scope of activities of each associate member and its members.

This SMO does not apply to affiliate members. Consistent with the obligations relating to affiliate members in the IFAC Constitution, however, affiliate members are expected to support the development and implementation of IESs, IEGs and IEPs issued by the EDCOM.

Despite the general application of SMOs to full and associate members, IFAC will take into account the relevance and application of the obligations to each member body in assessing the level of compliance. This recognizes the fact that some member bodies and their members operate in different sectors of the profession. In evaluating a member body’s compliance with the SMOs as part of the IFAC Member Body Compliance Program, a member body’s stage of development will also be considered.

In exceptional circumstances, a member body may depart from the obligations of this SMO, if doing so will fulfill its public interest duties more effectively. The member body should be prepared to justify the departure. A member body that fails to follow the obligations of this SMO, or justify satisfactorily why it has departed from them, may be suspended or removed from membership.

Obligations

1. **Member bodies should notify their members of all IESs, IEGs and IEPs issued by the EDCOM.**
2. The EDCOM exposes proposed IESs and IEGs for public comment. Member bodies are encouraged to notify their members of all exposure drafts issued by the EDCOM and to encourage them to comment on behalf of those members that have an interest in education and development requirements for the accountancy profession.
3. **Member bodies should use their best endeavors:**
 - (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 requirements; and**
 - (b) **To assist with the implementation of IESs, or national education and development requirements that incorporate IESs.**

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.
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, IEGs and IEPs is contained in the Framework for International Education Statements issued by the EDCOM.

Effective Date

8. This SMO is effective as of December 31, 2004. Earlier application is encouraged.

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

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This Statement 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.

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 International Standards, related Practice Statements and other papers issued by the International Auditing and Assurance Standards Board (IAASB). 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.

This SMO applies to full and associate members of IFAC. Unless the context otherwise requires, associate members are included within the term “member body.” In applying this SMO to associate members, IFAC will recognize (a) the different level of obligations that applies to associate members under the IFAC Constitution and (b) the stage of development, availability of resource, and scope of activities of each associate member and its members.

This SMO does not apply to affiliate members. Consistent with the obligations relating to affiliate members in the IFAC Constitution, however, affiliate members are expected to support the development and implementation of International Standards and related Practice Statements issued by the IAASB.

Despite the general application of SMOs to full and associate members, IFAC will take into account the relevance and application of the obligations to each member body in assessing the level of compliance. This recognizes the fact that some member bodies and their members operate in different sectors of the profession. In evaluating a member body’s compliance with the SMOs as part of the IFAC Member Body Compliance Program, a member body’s stage of development will also be considered.

In exceptional circumstances, a member body or associate member may depart from the obligations of this SMO, if doing so will fulfill its public interest duties more effectively. The member body or associate member should be prepared to justify the departure. A member body that fails to follow the obligations of this SMO or justify satisfactorily why it has departed from them, may be suspended or removed from membership.

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. 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. In developing International Standards and related Practice Statements, the IAASB exposes proposed International Standards and ordinarily exposes 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.
4. **Member bodies should use their best endeavors:**
 - (a) **To incorporate the International Standards and related Practice Statements 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 and related Practice Statements into their national standards or related other pronouncements; and**
 - (b) **To assist with the implementation of International Standards and related Practice Statements, or national standards and related other pronouncements that incorporate International Standards and related Practice Statements.**

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 and related Practice Statements issued by the IAASB.

5. **Member bodies should implement a process that provides for the timely, accurate and complete translation of International Standards and related Practice Statements, 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.**

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.

Effective Date

7. This SMO is effective as of December 31, 2004. Earlier application is encouraged.

STATEMENT OF MEMBERSHIP OBLIGATIONS 4
IFAC CODE OF ETHICS FOR PROFESSIONAL ACCOUNTANTS
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	Paragraphs
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This Statement 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.

This SMO sets out the obligations of member bodies in relation to the IFAC Code of Ethics for Professional Accountants (the IFAC Code) and other pronouncements issued by the IFAC Ethics Committee of IFAC (the Ethics Committee). 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.

This SMO applies to full and associate members of IFAC. Unless the context otherwise requires, associate members are included within the term “member body.” In applying this SMO to associate members, IFAC will recognize (a) the different level of obligations that applies to associate members under the IFAC Constitution and (b) the stage of development, availability of resource, and scope of activities of each associate member and its members.

This SMO does not apply to affiliate members. Consistent with the obligations relating to affiliate members in the IFAC Constitution, however, affiliate members are expected to support the development and implementation of the Code and other pronouncements of the Ethics Committee.

Despite the general application of SMOs to full and associate members, IFAC will take into account the relevance and application of the obligations to each member body in assessing the level of compliance. This recognizes the fact that some member bodies and their members operate in different sectors of the profession. In evaluating a member body’s compliance with the SMOs as part of the IFAC Member Body Compliance Program, a member body’s stage of development will also be considered.

In exceptional circumstances, a member body may depart from the obligations of this SMO, if doing so will fulfill its public interest duties more effectively. The member body should be prepared to justify the departure. A member body that fails to follow the obligations of this SMO or justify satisfactorily why it has departed from them, may be suspended or removed from membership.

Obligations¹

1. **Member bodies should use their best endeavors to implement the IFAC Code and other pronouncements developed by the Ethics Committee, when and to the extent possible under local circumstances.**
2. **Member bodies should notify their members of the provisions of the IFAC Code and other pronouncements developed by the Ethics Committee.**
3. The Ethics Committee 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 Ethics Committee and to encourage them to comment on behalf of those members that have an interest in ethics for professional accountants.
4. **The IFAC Code is intended to serve as a model on which to base national ethical guidance. It sets standards of conduct and states the fundamental principles that should be observed by professional accountants. The global accountancy profession operates in an environment with different cultures and regulatory requirements. In those instances where a national requirement is in conflict with a provision in the IFAC Code, the national requirement should prevail. The basic intent of the IFAC Code, however, should always be respected. Section 8, “Independence for Assurance Engagements,” of the IFAC Code establishes a conceptual framework for independence requirements for assurance engagements that is the international standard on which national standards should be based. Accordingly, no member body is allowed to apply less stringent standards than those stated in that section. However, if member bodies are prohibited from complying with certain parts of Section 8 by law or regulation, they should comply with all other parts of that section.**
5. **Member bodies should use their best endeavors to incorporate the fundamental principles set out in the IFAC Code in their national code of ethics, or where responsibility for the development of national codes of ethics lies with third parties to persuade those responsible for developing those national codes to incorporate the IFAC Code principles.**
6. **Member bodies should have procedures to ensure that failure to comply with ethical requirements is investigated and appropriate disciplinary action taken.**
7. Failure by members to comply with ethical requirements or the inability to justify departures therefrom may constitute professional misconduct that could give rise to disciplinary action. Member bodies determine the appropriate course of action with consideration of the obligations contained in SMO 6, “Investigation and Discipline.”

¹ In July 2003, the IFAC Board approved for exposure revisions to the IFAC Code. The proposed revisions change the authority of the IFAC Code. The revisions include the statement: “No member body or firm is allowed to apply less stringent standards than those stated in this Code. However, if member bodies or firms are prohibited from complying with certain parts of this Code by law or regulation, they should comply with other parts of this Code.” When the final Code is released, this SMO will be revised as appropriate to reflect the change in status of the Code.

8. **Although this SMO acknowledges national codes of ethics, member bodies should, in implementing their obligations of membership, have as a central objective the convergence of the national code with the principles of the IFAC Code.**

Interpretation

9. 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.
10. For member bodies that wish to adopt the IFAC Code as their own ethical code, IFAC has developed wording that may be used to indicate the authority and applicability of the IFAC Code in their country. The wording is contained in the appendix to this SMO.
11. 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.
12. 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.
 - 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.
13. 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.

Effective Date

14. This SMO is effective as of December 31, 2004. Earlier application is encouraged.

Appendix

This Preface has been approved by the Council of the [Name of Member Body] for publication.

1. The [Name of Member Body], as a member of the International Federation of Accountants (IFAC), is committed to the IFAC's broad objective of developing and enhancing a coordinated worldwide accountancy profession with common standards. In working toward this objective, IFAC develops guidance on ethics for professional accountants. IFAC believes that issuing such guidance will improve the degree of uniformity of professional ethics throughout the world.
2. As an obligation of its membership, the [Name of Member Body] is obliged to support the work of IFAC by (a) informing its members of every pronouncement developed by IFAC, and (b) implementing those pronouncements, when and to the extent possible under local circumstances.
3. The [Name of Member Body] has determined to [either a or b]:
 - (a) adopt the IFAC Code of Ethics for Professional Accountants as the ethical requirements in [Name of Country]. The Council of [Name of Member Body] has prepared an explanatory foreword [attachment A] that sets out the status and effective date of this decision.
 - (b) adopt the IFAC Code of Ethics for Professional Accountants as the basis for approved ethical requirements in [Name of Country]. The Council of [Name of Member Body] has prepared an explanatory foreword [attachment B] that sets out the status and effective date of this decision and identifies significant differences between the IFAC guidance and the law or practice in [Name of Country] and how such differences have been resolved.

An explanatory foreword will be issued on the status of each additional IFAC pronouncement on Ethics that is adopted by the Council of [Name of Member Body]. Where the Council of [Name of Member Body] deems it necessary, it may develop additional ethical requirements on matters of relevance in [Name of Country] not covered by an IFAC pronouncement.

4. Members of [Name of Member Body] are expected to comply with the ethical requirements issued by [Name of Member Body]. Apparent failure to do so may lead the [Name of Appropriate Disciplinary Committee of Member Body] to investigate the member's conduct.
5. It is not practical to establish ethical requirements that apply to all situations and circumstances professional accountants may encounter. Professional accountants should therefore consider the ethical requirements as the basic principles they should follow in performing their work.
6. The date from which members are expected to observe pronouncements on ethics is set out in the explanatory foreword.

Attachment A

Code of Ethics for Professional Accountants

[Title]

Explanatory Foreword

The Council of [Name of Member Body] has determined that this Code should be adopted. All members of [Name of Member Body] are required to observe this Code in respect of professional services performed in [Name of Country] after [Month, Day, Year].

Attachment B

Code of Ethics for Professional Accountants

[Title]

Explanatory Foreword

The Council of [Name of Member Body] has determined that this Code should be adopted, subject to the following explanatory note. All members of [Name of Member Body] are required to observe this Code in respect of professional services performed in [Name of Country] after [Month, Day, Year].

Explanatory Note

Section 14 Under [Name of Country] legislation, professional accountants are not permitted to advertise their services. Thus sections 14.2 and 14.3 are not relevant in [Name of Country].

STATEMENT OF MEMBERSHIP OBLIGATIONS 5
INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS
AND OTHER PSC GUIDANCE

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Effective Date	5

This Statement 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.

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 International Public Sector Accounting Standards (IPSASs), and other pronouncements issued by the Public Sector Committee of IFAC (the PSC). 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.

This SMO applies to full and associate members of IFAC. Unless the context otherwise requires, associate members are included within the term “member body.” In applying this SMO to associate members, IFAC will recognize (a) the different level of obligations that applies to associate members under the IFAC Constitution and (b) the stage of development, availability of resource, and scope of activity of each associate member and its members.

This SMO does not apply to affiliate members. Consistent with the obligations relating to affiliate members in the IFAC Constitution, however, affiliate members are expected to support the development and implementation of the Standards and other guidance issued by the PSC.

Despite the general application of SMOs to full and associate members, IFAC will take into account the relevance and application of the obligations to each member body in assessing the level of compliance. This recognizes the fact that some member bodies and their members operate in different sectors of the profession. In evaluating a member body’s compliance with the SMOs as part of the IFAC Member Body Compliance Program, a member body’s stage of development will also be considered.

In exceptional circumstances, a member body may judge it necessary to depart from the obligations of this SMO. The member body should be prepared to justify the departure. A member body that fails to follow the obligations of this SMO or justify satisfactorily why it has departed from them, may be suspended or removed from membership.

Obligations

1. **Member bodies should notify their members of all IPSASs, guidelines, studies and occasional papers developed by the PSC.**
2. The PSC exposes proposed IPSASs for public comment. Member bodies are encouraged to notify their members of all exposure drafts issued by the PSC and to encourage them to comment on behalf of those members that have an interest in public sector accounting standards.
3. **Member bodies should use their best endeavors:**
 - (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**
 - (b) **To assist with the implementation of IPSASs, or national public sector accounting standards that incorporate IPSASs.**

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.

Effective Date

5. This SMO is effective as of December 31, 2004. Earlier application is encouraged.

STATEMENT OF MEMBERSHIP OBLIGATIONS 6
INVESTIGATION AND DISCIPLINE
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This Statement of Membership Obligations (SMO) is issued by the IFAC Board. It is to be applied by member bodies of IFAC in 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), it is necessary to consider the whole text of the SMO, including the explanatory and other material contained in the SMO.

This SMO applies to full and associate members of IFAC. Unless the context otherwise requires, associate members are included within the term “member body.” In applying this SMO to associate members, IFAC will recognize (a) the different level of obligations that applies to associate members under the IFAC Constitution and (b) the stage of development, availability of resource, and scope of activities of each associate member and its members.

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

Despite the general application of SMOs to full and associate members, IFAC will take into account the relevance and application of the obligations to each member body in assessing the level of compliance. This recognizes the fact that some member bodies and their members operate in different sectors of the profession. In evaluating a member body’s compliance with the SMOs as part of the IFAC Member Body Compliance Program, a member body’s stage of development will also be considered.

In exceptional circumstances, a member body may depart from the obligations of this SMO, if doing so will fulfill its public interest duties more effectively. The member body should be prepared to justify the departure. A member body that fails to follow the obligations of this SMO, or justify satisfactorily why it has departed from them, may be suspended or removed from membership.

Definitions

1. In this SMO, the following terms have the meanings attributed below:
 - (a) “Best endeavors” – 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;
 - (b) “Member” – an individual who is a member of a member body;
 - (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

2. 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.
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 black-lettered provisions set out the obligations of IFAC member bodies relating to discipline and enforcement.
4. **IFAC member bodies should provide in their constitution and rules 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).**

Misconduct includes all and any of the following:

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

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

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 without reference to a tribunal. Where separate departments of the member body deal with each category, the two departments should liaise with (including giving reports to) each other, to ensure an effective link between regulatory action and investigation and discipline.

6. Where the law or practice in the jurisdiction of a member body does not consider regulatory breaches as "misconduct," member bodies should ensure that the sanctions applicable to both include restriction and 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 Powers and Processes

12. **Where the member body has responsibility for investigation and discipline, its rules should, to the extent that local laws permit, include all powers necessary to enable authorized personnel to carry out an effective investigation. Such rules should also (a) require members (and member firms) to co-operate in the investigation of complaints and to respond promptly to all communications from the member body, and (b) provide for sanctions in the event of failure to comply. Member bodies should also foster good professional relationships with public authorities, to enable them to effectively administer the investigative and disciplinary processes.**
13. **Member bodies should 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 be given the responsibility of managing these processes, to ensure that all investigative and disciplinary processes are consistent with the rules of natural justice and other applicable laws.**
14. Subject to the preceding paragraph, the composition of member bodies’ investigative and prosecutorial teams and committees is essentially the decision of each member body. 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 composed of individuals from different professional backgrounds, with non-accountant, ‘public interest’ representation. Any individual(s) serving on the Investigation Committee may be asked to assist in the detailed investigation of a particular case.

15. **In all cases, the member body should confirm at the outset that any individual chosen from the committee to assist in an investigation is independent from (a) the subject of the investigation, and (b) anyone connected with or interested in the matter investigated. If a conflict exists at the outset, or arises during the investigation, the nominee should immediately stand down. Similar considerations apply equally to anyone connected with the investigation and hearing of cases.**
16. **On completion of the investigation process, the Investigation Committee should review the evidence and decide whether there appears to be a case to answer. If the Investigation Committee is satisfied that there is a case to answer, the matter should be referred to a disciplinary tribunal or similar grouping and professional charges should be laid.**
17. Many cases can be dealt with without the need for a full tribunal hearing, if the parties agree an alternative solution, 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 complainer, 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

19. **A tribunal or other body with responsibility for disciplinary matters should be established to hear cases where the investigation committee has decided to lay professional charges. To avoid delay, a panel or similar grouping should be established from which individuals can be drawn to sit as judges at hearings. Tribunals should contain a balance of professional expertise and outside judgment. For this reason, they should be composed of accountants and non-accountants. No one who is a member of the investigation committee or the disciplinary tribunal should serve on both at the same time, or in relation to the same case.**
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 appropriate test.
21. It is appropriate that there is 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. In some jurisdictions, senior lawyers are 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. 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 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 be legally qualified or that the independent legal adviser be also present.

22. **The tribunal should exhibit independence. How this is done may vary from jurisdiction to jurisdiction, but institutional rules should exist that prevent the member body from influencing the disciplinary tribunal’s operational work, decision-making, or imposition of sanctions. Further, only the appeal tribunal referred to in Paragraph 23 may amend or reverse a decision of the tribunal.**

Rights of Representation and Appeal

23. **Member bodies’ rules should 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 throughout the investigative and disciplinary process. These rules should also permit the defendant to appeal the conviction and any imposed sanction. Where local laws and public interest considerations permit, any order made against the defendant should be suspended by the tribunal that convicted the defendant, pending the hearing of that appeal. The appeal tribunal should not include a prosecutor or a member of the first tribunal, or any other individual who was concerned with the original conviction. The appeal process should include the same procedures as apply to hearings before the disciplinary tribunal.**
24. In some jurisdictions, the Investigation Committee (or equivalent body) may file an appeal if its members consider that any sanction imposed by the disciplinary tribunal is too lenient. No appeal is permitted, however, by the member’s governing body.

Administrative Processes

25. **Member bodies should establish time targets for disposal of all cases, and should aim to meet them whenever possible. Normally, any time set for disposal should begin on the date the member body received information sufficient to justify commencing an investigation.**
26. **Member bodies should maintain and operate tracking mechanisms, to ensure that all investigations and prosecutions are promptly handled, and that all necessary action is taken at the appropriate stage. These mechanisms should include a form of exception reporting. It 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 of the member body, or the Chair of the Investigation Committee, or equivalent.**

27. Unnecessary delay threatens effective investigation and prosecution of cases. It is potentially unfair to complainers and defendants alike, and can be fatal to an otherwise substantiated case. Accordingly, it is recommended that investigations and disciplinary hearings take place as expeditiously as possible. In cases where it is not necessary to have a formal disciplinary hearing, an appropriate 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. The commencement of criminal or civil proceedings or investigations by outside agencies may delay investigations and prosecutions by member bodies. Judgments and other information from such other proceedings and investigations may, however, assist the member body in its subsequent investigation and prosecution of cases.
28. Tracking mechanisms are designed to monitor progress in investigations and prosecutions, and to prompt those concerned to take timely action to minimize delay.
29. In many jurisdictions, confidentiality of proceedings is desirable to the good standing of the investigative and disciplinary process; however, member bodies give due consideration to local laws and public interest considerations in relation to a defendant's rights. Member bodies develop their own policies on what publicity will be given to the disposal of cases. Member bodies are cautioned to release to third parties only information that the law permits to be made public or that is authorized for release by those responsible for such decisions.
30. **Member bodies should introduce and maintain a procedure requiring (a) notification to all persons employed or otherwise participating in the investigative and disciplinary processes (or having access to information concerning such processes) of the importance of maintaining confidentiality, and (b) a binding agreement to maintain that confidentiality.**
31. **Member bodies should maintain secure and confidential facilities for the storage of case papers and other evidence.**
32. 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 and the member. It reduces loss and prevents tampering with or removal of evidence.
33. **Member bodies should maintain complete records of all investigations and disciplinary processes both during the proceedings and the retention period the member body establishes for these purposes.**
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 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 member body. Such records may be maintained in electronic or paper format. Member bodies are advised to refer to legislation in their jurisdictions that deal with the handling, storage and use of data and confidential information.

35. Reports of disciplinary and similar proceedings can be a valuable educational tool, in that they (a) relate to real life events, (b) demonstrate the practical application of standards, rules and the ethical code, and (c) identify pitfalls to be avoided. For this reason, it is recommended that member bodies publish case reports and encourage students and qualified members to study them. They 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 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 such reports issue them after consulting those responsible for the investigative and prosecutorial process.

Effective Date

36. This SMO is effective as of December 31, 2005. Earlier application is encouraged.

STATEMENT OF MEMBERSHIP OBLIGATIONS 7
INTERNATIONAL FINANCIAL REPORTING STANDARDS
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This Statement 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.

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 International Financial Reporting Standards (IFRSs), issued by the International Accounting Standards Board (IASB). 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.

This SMO applies to full and associate members of IFAC. Unless the context otherwise requires, associate members are included within the term “member body.” In applying this SMO to associate members, IFAC will recognize (a) the different level of obligations that applies to associate members under the IFAC Constitution and (b) the stage of development, availability of resource, and scope of activities of each associate member and its members.

This SMO does not apply to affiliate members. Consistent with the obligations relating to affiliate members in the IFAC Constitution, however, affiliate members are expected to support the development and implementation of the Standards issued by the IASB.

Despite the general application of SMOs to full and associate members, IFAC will take into account the relevance and application of the obligations to each member body in assessing the level of compliance. This recognizes the fact that some member bodies and their members operate in different sectors of the profession. In evaluating a member body’s compliance with the SMOs as part of the IFAC Member Body Compliance Program, a member body’s stage of development will also be considered.

In exceptional circumstances, a member body may depart from the obligations of this SMO, if doing so will fulfill its public interest duties more effectively. The member body should be prepared to justify the departure. A member body that fails to follow the obligations of this SMO or justify satisfactorily why it has departed from them may be suspended or removed from membership.

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.
3. **Member bodies should use their best endeavors:**
 - (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**
 - (b) **To assist with the implementation of IFRSs, or national accounting standards that incorporate IFRSs.**

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.

Effective Date

5. This SMO is effective as of December 31, 2004. Earlier application is encouraged.