



PROPOSED IFAC MEMBER BODY COMPLIANCE PROGRAM STRATEGY 2011–2014

Response to the Compliance Advisory Panel

Comments from ACCA
May 2011

ACCA (the Association of Chartered Certified Accountants) is the global body for professional accountants. We aim to offer business-relevant, first-choice qualifications to people of application, ability and ambition around the world who seek a rewarding career in accountancy, finance and management.

We support our 147,000 members and 424,000 students throughout their careers, providing services through a network of 83 offices and centres. Our global infrastructure means that exams and support are delivered – and reputation and influence developed – at a local level, directly benefiting stakeholders wherever they are based, or plan to move to, in pursuit of new career opportunities.

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GENERAL COMMENTS

ACCA strongly supports the IFAC Member Body Compliance Program, and wishes the Compliance Advisory Panel (CAP) every success. After a promising start, the challenge is to maintain momentum. However, the implementation of reforms will require a long term commitment from IFAC and its member bodies.

ACCA believes that business benefits from global standards. Those benefits flow from eliminating the differences between national standards regimes, and converging around common international standards that deliver comparability and transparency at a global level.

The Chairman's Statement, on page 4 states that 'the objective of the program – despite its title – is not punitive but to encourage all members and associates to continuously improve by adopting and successfully implementing international standards and best practice'. ACCA agrees that the Program should aim for continuous improvement, and not be punitive. Some flexibility is required during the relatively short period covered by this strategy review because, for some member bodies of IFAC, a change to international standards may not be possible in the short term.

For example, in developing markets, with few, if any, listed companies or large public interest entities, wholesale adoption of international standards in the near future may not be feasible when the costs and benefits of such a transition are evaluated. Nevertheless, we support the view of the PIOB included in the excerpts from the PIOB's Fifth Public Report in appendix 3 of the consultation paper, namely:

'The PIOB believes that the compliance program has become, and will continue to be, an important platform for encouraging and facilitating convergence toward international standards.'

Perhaps the biggest obstacle to achieving the Program's aims is scale. Many IFAC member bodies are small, such that their members cannot fund the arrangements that are required to comply with the Statements of Membership Obligations (SMOs), particularly SMO 1 and SMO 6. We acknowledge that, to help overcome this obstacle, IFAC has been working with the World Bank and other donors, to persuade them to fund the implementation of the SMOs.

We broadly welcome the strategy and urge the CAP to focus on monitoring the implementation of the action plans, so that there is a move towards *effective* compliance with the SMOs. However, we wish to point out that relying on World Bank Reports on the Observance of Standards and Codes (ROSC reports) to confirm compliance with standards has its limitations, because ROSC reports are not prepared frequently. As stated in the PIOB's Public Report on page 20 of the consultation paper:

'The World Bank plays a broader and more macro role in determining whether countries are complying with adopted standards, through its Reports on the Observance of Standards and Codes (ROSC) initiative.'

We agree with the Chairman's Statement that 'it may take many years before the required actions have been completed'. In the meantime, IFAC should be strongly congratulated on launching the Program and for focusing the attention of its member bodies on improving their standards. Some developing countries may take a generation or more to accumulate the human resources required to implement the standards themselves.

ACCA has played a significant role in enabling local people of ability and dedication to qualify as professional accountants in countries where the opportunity to do so may have been strictly limited. We have also, for many years, shared the skills and knowledge of ACCA members and staff with a number of organisations worldwide. Globally, we advise and work under contract with a number of professional bodies and regulators. We have also undertaken a number of consulting assignments funded by the World Bank or the Inter-American Development Bank to strengthen systems of regulation.

Currently, ACCA undertakes audit monitoring on behalf of 13 other professional bodies and regulators under contract. Most of the professional bodies are members of IFAC, and ACCA assists them in complying with SMO 1. ACCA does not endeavour to recover all its costs under these contracts, but delivers advice and services to those who need it, thereby contributing to the profession's reputation as a whole.

SPECIFIC SECTIONS OF THE CONSULTATION PAPER

CAP Self-Assessment for the Monitoring Group's 2009-2010 Review of IFAC Reforms

Before commenting on the Compliance Program looking forward, it is appropriate to consider the 2009-2010 review as set out in appendix 2 to the consultation paper.

The review states:

'The primary emphasis of the Program is to encourage continuous improvement by professional accountancy organizations through an ongoing assessment of their commitment to use best endeavors to adopt and support implementation of international financial reporting, auditing, ethical, education, and public sector accounting standards as well as to operate or otherwise support robust quality assurance and investigation and disciplinary mechanisms.'

This is restated in section 3 of the consultation paper, and ACCA strongly supports this aim. Nevertheless, it is implicit in this statement that the Program is of little value if continuous improvement is not, in fact, achieved.

Core Elements

We note that:

'All IFAC members are required to use their "best endeavors" to adopt and support implementation of these international standards and best practices within their countries, recognizing that in many jurisdictions the authority to establish standards and practices does not exist within the member but in some other regulatory body.'

We agree that it is highly appropriate to set the standard as one of 'best endeavors'. This is necessary in order for the Program to retain its momentum. We also agree with the caveat that the authority to establish standards may lie with regulatory bodies that are not professional bodies. It must be accepted

that these regulatory bodies may have legitimate reasons for keeping their own national standards, especially in the short term.

We note that five member bodies were 'expelled for failure to satisfactorily participate' in the fact-gathering exercise relating to the regulatory arrangements in their jurisdictions, while a sixth body resigned its IFAC membership. This, in fact, strengthens the Program, and demonstrates the commitment of the CAP to meeting its aims.

Outcomes

We have the following comments concerning the outcomes listed in this section of the 2009-2010 review:

1. With regard to recognition, the review states:

'... the SMOs have become recognized as the international benchmarks for professional accountancy organizations; in particular, the World Bank ROSC A&A reports specifically refer to the SMOs as part of their Policy Recommendations to governments and professional accountancy organizations.'

We welcome the recognition of the SMOs, by the World Bank and others, as the international benchmarks. However, we would advocate a broader view in respect of developing countries, such as that taken by the United Nations Conference on Trade and Development (UNCTAD) in its approach to capacity-building.

2. The promotion of mentoring relationships involving the 'most developed member bodies', as referred to in the outcomes listed, is to be encouraged. As noted, it is key that developing accountancy bodies must be able to 'clearly communicate their challenges, required actions and need for assistance including resources'. Lack of resources - both human and financial - will hold back the progress of developing countries for many years but it is crucial that donor agencies focus their attention on the real and immediate needs of developing countries.

Section 3, Member Body Compliance Program

The following statement is prominent within the consultation paper:

'The primary emphasis of the Program is to encourage continuous improvement by professional accountancy organizations through an ongoing assessment of their commitment to use best endeavors to adopt and support implementation of international financial reporting, auditing, ethical, education, and public sector accounting standards as well as to operate or otherwise support robust quality assurance and investigation and disciplinary mechanisms.'

This is very worthy, but it should be acknowledged that the priorities of member bodies in developing countries may be quite different to those in developed countries. In particular, standards prepared for use in developed countries may not be so relevant in developing countries. Also, in many developing countries, professional bodies are not very strong or influential, and government agencies may hold the key to reforms.

The UNCTAD capacity-building project takes account of the whole financial accounting and auditing architecture, and so goes well beyond the remit of professional bodies. It includes government agencies and educational institutions, without which the process of reform cannot be achieved.

Section 4, Program's Vision, Value and Goals

The Program's stated vision includes the following statement:

'In the spirit of encouragement and improvement the Compliance Program strives to be a meaningful global platform for the national adoption and implementation of international standards on private and public sectors accounting, auditing, ethics, education and best practices.'

This may be perceived as being too ambitious but we support this aim. Many national governments will want to retain national standards for their own purposes including, for example, accounting for taxation. In other countries, while international standards may have been adopted for certain entities, they

have not been adopted for all entities. Even in the European Union, use of International Financial Reporting Standards is only required for consolidated accounts of public interest entities and, in many states, national standards may still be applied in respect of separate entities.

Among the Program's Values is the 'understanding and appreciation of differing regulatory frameworks, national environments and stages of development of PAOs around the world.' The importance of this should not be underestimated.

Section 5, Strategy

We note that the Program intends to ensure that professional accountancy organisations (PAOs) around the world 'understand the need for successful adoption and implementation of international standards and best practices'. As already made clear in our response to this consultation, the approach regarding the employment of international standards and best practice may not be immediately relevant to the needs of many developing countries. Rather, we endorse the strategy to 'establish and/or maintain strong relationships with government agencies and other countries' stakeholders', which we perceive as being crucial.

Within the objective of collaboration, we note the Program's strategy of 'providing continuous input into the World Bank Accounting and Auditing ROSC process through peer reviews and other projects.' We understand that IFAC is also collaborating with UNCTAD on its capacity-building project, and believe that this should also feature clearly within the strategy.

Section 6, Work Plan

We note that the detailed work plan for 2011 is given, in appendix 6, for information only. We assume that this is because respondents to the consultation paper are expected to focus on the strategy. Nevertheless, the tables in appendices 5 and 6 are unclear, because the terms used within them are not defined. For example, the detailed work plan (appendix 6) starts with a column headed 'service area', but the 'activities and projects' listed in appendix 5 are not allocated to service areas.

We also have the following comments concerning the Work Plan:

1. Broadly, the activities and projects listed in appendix 5 as relating to the key strategic goal of 'quality and continuous improvement' reflect the strategy set out in section 5 of the paper. Although the table does not make clear how the Program intends to meet the strategic goal of encouraging recognition of the SMOs as the international benchmark, compliance with the SMOs by IFAC member bodies will ensure that this is achieved.
2. The activities and projects listed in appendix 5 as relating to the key strategic goal to 'influence agendas and actions' do not relate to the strategic goals of:
 - educating the professional accountancy organisations (or others) on the need for adoption of international standards, or
 - enhancing focus on specific strategic countries or groups of countries.
3. The activities and projects listed in appendix 5 as relating to the key strategic goal of 'information and knowledge sharing' do not relate to the strategic goals of:
 - being a central repository of information on the status of the accountancy profession around the world (essentially, 'business as usual'), or
 - promoting Compliance Program Action Plans to external users and stakeholders.

We also feel that the latter is unclear, but believe that it should relate to publicising the work that a member body and IFAC are carrying out to implement the SMOs, indicating that both organisations are working in the public interest and, in some cases, encouraging cooperation from external users and stakeholders in implementing the Action Plans.

4. Under the key strategic goal of 'collaboration', there is only one example of collaboration (ie with the World Bank). However, there are other examples of collaboration within the strategic goals set out within the strategy (section 5) that do not appear to have been addressed within the work program.

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