

29 February 2012

ACCA COMMENTS ON IFAC REVISED STATEMENTS OF MEMBERSHIP OBLIGATIONS

1. ACCA is pleased to have the opportunity to provide comments on the proposed revisions to the Statements of Membership Obligations (SMOs). ACCA strongly supports the SMOs as a framework for professional accountancy organisations to ensure they continue to work in the public interest and demonstrate a commitment to the implementation of international standards. ACCA welcomes the drivers behind the revisions – to reflect the changes in the regulatory and standard setting environment – and the overall aim to make the SMOs easier to understand and apply for all professional accountancy organisations.

2. Specific comments and recommendations on each SMO are outlined below:

SMO 1

3. ACCA welcomes the extension of the scope of SMO 1 to require quality assurance review programmes of IFAC member bodies to cover the audits of all financial statements, not merely those of listed companies. The public is entitled to expect that the audits of the financial statements of all entities are undertaken to a satisfactory standard and that they can therefore rely on the financial statements that have been audited. ACCA believes that the quality assurance review systems implemented by IFAC member bodies in compliance with SMO 1 are making a profound contribution to the improvement in the quality of audit work globally.

4. ACCA agrees with the extension of SMO 1 as included in paragraph 16 to cover engagements other than audit. While the extension of the quality review system to cover other forms of assurance engagements is in the public interest and enhances the reputation of the profession, caution should be exercised if the scope of quality assurance reviews is extended to cover engagements for which there are no generally accepted standards. In such cases, the member body should develop and promulgate appropriate standards to ensure that firms are clear as to how such engagements should be performed.

5. ACCA welcomes the introduction of the requirement in paragraphs 30 and 31 that member bodies develop and publish the criteria for determining whether the overall outcome of a quality assurance review is satisfactory. This is particularly important because in implementing quality assurance review systems member bodies have developed different criteria to assess quality assurance review outcomes.
6. However, as the leader in global standard setting, IFAC should plan to develop common criteria for the assessment of audit work and quality assurance review outcomes to ensure that all member bodies assess outcomes consistently. This would reduce the risk that a firm's quality controls and compliance with auditing standards could be assessed as satisfactory under one member body's quality assurance review programme but be assessed as unsatisfactory under another member body's quality assurance review programme.
7. ACCA believes that peer review does not provide a sufficiently independent and credible quality assurance review system for the auditors of listed companies. We therefore believe that IFAC should consider the developments in the United States and the European Union which prohibit peer review for quality assurance review systems that cover the auditors of listed companies and adopt similar restrictions.

SMO 2

8. ACCA supports the revisions made to SMO 2 but would highlight an inconsistency between the explanations of direct responsibility in SMOs 2 and 4 (see SMO 2 paragraph 6(a) and SMO 4 paragraph 6(a)). ACCA would recommend that SMO 2 paragraph 6(a) is reworded to reflect SMO 4 paragraph 6(a).

SMO 3

9. ACCA supports the proposed revisions to SMO 3 and has no comments on the changes made.

SMO 4

10. ACCA supports the proposed revisions to SMO 4 and has no comments on the changes made.

SMO 5

11. ACCA supports the proposed revisions to SMO 5 which is consistent with the criteria requirements for other accounting standards.

SMO 6

12. ACCA considers that the applicability framework included in SMO 6 provides sufficient clarity on what is expected of member bodies with varying degrees of responsibility for the SMO area.
 - a. ACCA particularly welcomes the strengthening of the 'public interest' test as the key benchmark for compliance, so that where a PAO has direct responsibility for the area covered by the SMO, the only valid reason for departing from a requirement of the SMO is that it is in the public interest to do so (paragraph 6).
 - b. ACCA also welcomes the new requirement that the reasons for any such departure be publicly documented. Publicising the reasons to the wider stakeholder group in this way will improve transparency and accountability and, hopefully, encourage PAOs to aim for minimal departure from SMO requirements.
 - c. It may be of value for IFAC to indicate how much time will be given to a PAO to implement the SMO requirements before suspending or removing the PAO from membership.
13. ACCA also considers that the descriptions of the concepts of adoption and implementation are sufficiently clear.
14. ACCA welcomes the introduction in paragraph 14 of the distinction between a member's liability for disciplinary action and a firm's liability for the same issue. However, it appears that paragraph 14 is also suggesting that a more lenient approach be taken towards members than towards firms. If that is the intention, ACCA would question whether such an approach is in the public interest. ACCA would suggest that some clarification to the drafting is necessary:
 - a. In the second bullet point, ACCA does not believe the references to misconduct and negligence should be qualified by the inclusion

of 'wilful' and 'gross' respectively, as the preceding paragraph 13 already acknowledges that misconduct does not have to be wilful, nor negligence gross, in order to amount to a disciplinary matter.

- b. It is not clear why the third bullet point requires the pattern of failures to have been 'identified through a rigorous inspection process' (as opposed to, for example, during the course of an investigation into a complaint). ACCA would therefore suggest the words in inverted commas are removed.
 - c. The third and fourth bullet points appear to be useful factors to take into account when considering whether to take disciplinary action. However, ACCA suggests they are factors which ought to be taken into account in any case, irrespective of whether it concerns an individual member or a firm.
15. ACCA is concerned that paragraph 19 leaves the composition of the investigative and prosecutorial teams and committees entirely up to the PAO.
- a. If the SMO is to reflect current best practice and developments in the regulatory environment internationally, it should, at minimum, include a requirement that there be no members of the PAO's governing Council on any of its investigative or prosecutorial teams or committees. This is not a recent development in regulation – by way of example it has been enshrined in ACCA's regulations for over twelve years. The omission of this requirement from the SMO puts the SMO out of line with stakeholder and public expectations of the profession.
 - b. ACCA currently advocates that accountants should be in the minority in the composition of investigative and prosecutorial committees and this is the standard enshrined in ACCA's rules. However, ACCA appreciates that this may be a significant step from current practices in some regulators and PAOs and therefore would recommend that IFAC advocates current accepted best practice in order to maintain public confidence in the disciplinary process, which is that accountants should not be in the majority (i.e. could comprise half the committee).

16. ACCA welcomes the introduction of the principle of proportionality to the section on sanctions, and the focus on the balance that must be struck between the public interest and the interests of the member. In ACCA's experience, when deciding sanction, disciplinary tribunals sometimes develop too much sympathy for the individual member's position and lose sight of the public interest and the interests of the membership as a whole.
17. The new section on Public Interest Considerations is a welcome addition, and ACCA believes it is very effective to group certain requirements under that heading to highlight why they are important. However, in ACCA's view there are two significant omissions which give rise to the same concerns as expressed in above.
 - a. There is no reference to disciplinary hearings having to be held in public. Public hearings are standard best practice in the current regulatory environment and a cornerstone of transparency in regulation (subject always to a provision that the tribunal can hold all or part of a hearing in private if it is appropriate to do so).
 - b. The same applies to the absence of a requirement to publish the outcomes of disciplinary hearings as and when they take place. While the SMO does refer in paragraph 50 to an annual digest of outcomes, and in paragraph 46 to publishing case outcomes for the educational benefit of members and students, there is no reference to the public interest in the outcome being published immediately following the hearing. It is important for the reputation of the profession and the protection of the public that members of the public are made aware of disciplinary action taken against members as and when it occurs, particularly where they may be in public practice.
18. ACCA welcomes the new section on dual membership in paragraph 53, as it is important for good regulation and the protection of the public that after being disciplined by one regulator, members should not be able to remain in good standing with another regulator due simply to the second regulator's ignorance of the action taken by the first. However, ACCA would recommend that this goes beyond just 'encouraging' PAOs to 'consider informing' the other regulator. We can see that where an investigation does not result in disciplinary action, there may be little point in referring the outcome to the other regulator. But ACCA would

stress that it is in the public interest to make it a requirement to inform the other regulator of the outcome of disciplinary action.

SMO 7

19. In relation to paragraph 12, ACCA would recommend that IFAC is positive in encouraging the use of IFRS for SMEs as opposed to the current wording where member bodies are 'encouraged to consider' the use of IFRS for SMEs. ACCA would also advocate that paragraph 14 is widened to 'IFAC member bodies are encouraged to take part in the IASB's due process including comments on discussion papers and exposure drafts.'

Please direct any requests for clarifications to:

Andrew Steele
Director – Corporate Development, ACCA
+44 207 059 5765
andrew.steele@accaglobal.com