



*Monday, March 05, 2012*

**Executive Director,  
Quality and Member Relations  
International Federation of Accountants  
545 Fifth Avenue, 14th Floor,  
New York, New York 10017 USA**

*Dear Sir,*

*ICPAK is pleased at being provided with the chance to comment on the Proposed Revised Statements of Membership Obligations. (SMOs)*

*Our general comments are as follows:-*

*On the overall, ICPAK is in agreement with the revisions on the SMOs. More specifically:-*

#### **SMO 1**

*The revision that requires the scope of Quality Assurance systems to incorporate all audits of financial statements is welcome. In Kenya, the Quality Review program has since its inception covered audits of both Public Interest financial statements and non-Public Interest financial statements. From our experience, this has helped audit firms auditing non-PI entities to improve on their quality of audit work done.*

*The QA review program in Kenya is under the control of ICPAK but arising from the latest Report on Observance of Standards and Code (ROSC) review 2010, a recommendation to establish an independent review body has been made. As such, the additional guidance for regimes having two review mechanisms is very useful as Kenya moves in this direction.*

*The revision to establish review cycles of a maximum of 3 years for firms that perform audits of PI entities and a maximum of 6 years for firms that perform audits of non-PI entities is also welcome. From our experience, the highest risk is attached to audits of PI entities and focus should be on firms auditing such entities. Where the review cycle for audits of non-PIs is pegged to that of audits of PIs (3 year cycle), the regulatory body is stretched in terms of resources and we believe this distinction will help regulatory bodies to be more effective in their regulatory role.*

*With regards to paragraph 18 &19, there is need to develop additional guidance material on extension of the scope of QA review systems to cover other professional services such as internal audit, tax consulting services etc.*

*The clarification on the applicability framework and best endeavours concept is quite useful and realistic to the extent that there are instances when the regulatory body is not able to drive certain agenda items directly and recognition that such circumstances exist is useful. The guidance on what to do under various circumstances is very useful and we are in agreement with the recommendations.*

#### **SMO 2, SMO 3, SMO 4 and SMO 5**

*As mentioned above, the clarification on the applicability framework and best endeavours concept as revised is welcome and very useful for PAOs. ICPAK proposes no change on these two concepts.*

#### **SMO 6**

*The link between SMO 1 and 6 (Paragraph 74-78 of SMO 1) is appropriate. In Kenya, the Quality Review Framework has actually addresses this as it requires firms found to have unsatisfactory reports arising from the QA reviews to be channelled through the disciplinary mechanisms of the Institute.*

*The provision to have Member bodies share information with other PAOs (Refer to Paragraph 53 of SMO 6) where errant members get disciplined is well informed and supportive of the spirit and letter of Mutual Recognition Agreements. ICPAK has in the recent past signed a Mutual Recognition Agreement with PAOs in Uganda, Tanzania, Rwanda and Burundi and a clause therein supports the sharing of information especially where a member holding dual membership gets disciplined.*

*As such, this provision is welcome.*

#### **SMO 7**

*The clarification on the applicability framework and best endeavours (Paragraph 4-10 of SMO 7) concept is welcome.*

*ICPAK adopted the use of full IFRS IN 1999 for both PI and non PI entities. The provision to have full IFRS being used as a minimum by PI entities is commendable given that non PIs now*

*have an option in the use of IFRS for SMEs. A lot of sensitization will be required on the part of PAOs to get non PI entities to take up the use of IFRSs for SMEs.*

*Our specific comments are appended.*

*Requests for Specific Comments:*

*In addition to general comments, and views on specific matters highlighted above, our responses to the specific questions are highlighted below:-*

*1. Considering differing national regulatory environments around the world, does the applicability framework included in each SMO provide sufficient clarity on what is expected of member bodies, when they have varying degrees of responsibility for an SMO area?*

#### **RESPONSE**

*ICPAK's view on the applicability framework is that it is spot on and reflects the reality on the ground. There are instances where the PAO will have direct responsibility; in some it will have shared responsibility whereas in others it will have nil responsibility. The guidance provided on what to do under each situation will make it easy for the PAO to review analyze and come up with a well informed decision on how to apply each SMO.*

*With regards to expanding the scope of QA reviews to cover other professional services, there will be need to provide additional guidance material on this area, more so for non-assurance services.*

*2. The SMOs refer to adoption and implementation of international standards and provide descriptions of both concepts to ensure that both terms are understood in their broader meaning. Are these descriptions sufficient to ensure clear understanding that adoption and implementation encompasses a broad range of actions including national convergence, harmonization, incorporation, transposition, and integration of international standards into national frameworks?*

*ICPAK adopted the use of IFRS and International Standards on Auditing in 1999 and 2000 respectively. The decision was made by Council of ICPAK which approved the discontinuation of the use of local standards and since then, Standards emanating from IFAC are taken as is with minor if any modifications. The implementation component is a different thing altogether as it entails various sensitization and capacity building initiatives.*

*The definitions provided for in page 8 and 9 are clear and elaborate enough to aid PAOs understand the process of adoption and implementation of SMOs.*

*We believe that we have addressed the issues which in our opinion deserve to be addressed. Should you have any query on the same, please contact Richard Kamami on [richard.kamami@icpak.com](mailto:richard.kamami@icpak.com).*

*Yours Faithfully.*

*Richard Kamami*

*Manager, Compliance & Regulatory Affairs*