

March 5, 2012

Via website posting: www.ifac.org

Re: Exposure Draft: **Statements of Membership Obligations 1-7 (Revised)**

Dear Sir/Madam:

The Certified General Accountants Association of Canada (CGA-Canada) welcomes the opportunity to comment on the Exposure Draft: **Statements of Membership Obligations 1-7 (Revised)**. We have first provided general comments followed by responses to specific questions.

We commend the IFAC Compliance Advisory Panel for its work on the revised Statements of Membership Obligations. Over the period from when the program was launched in 2004 to today, we have observed the growth of the compliance regime, and maturity of member bodies and associates that participate. As such, these revisions are both needed and timely, if continuous improvement, adjusted benchmarking, and credibility of the accountancy profession are to be engendered and promoted.

SMO 1 — Quality Assurance

We note that the proposed revised SMO is more comprehensive than the extant SMO, and we are in general agreement with the proposed revisions, subject to the following observations:

- We suggest adopting a cycle approach of maximum three years, instead of six years as proposed in paragraph 35(b), when a firm performs audits of financial statements of non-public interest entities. We are concerned that six years is an unduly long interval between two reviews and may, hence, not be effective in the timely detection and rectification of deficiencies.
- With respect to paragraph 39, we also suggest inclusion of such quantitative dimensions as size of the firm and the number of years of experience as risk factors in determining the firms or partners to be reviewed in priority.
- We observe inconsistency between the requirements of implementation review when undertaken by the public oversight body (annually per paragraph 80) and in other cases (bi-annually per paragraph 81). We suggest further clarifying these requirements, and making them consistent in both instances.
- We believe that formal mentorship programs are very useful for new practitioners and, hence, the SMO should provide application guidance on quality assurance review of formal systems of mentorship in professional accountancy organizations.
- We support the broader scope extending the review system to include all audits of financial statements. While we appreciate that this might represent additional work for member bodies, not currently covering these engagements, the doctrine of protection of public interest renders the effort defensible.

SMO 5 — International Public Sector Accounting Standards

We concur with the proposed revised SMO and acknowledge the improvements in clarity. We also welcome the addition of the translation requirements similar to SMO 3 in the case of SMO 2, SMO 4 and SMO 5. In the instance of SMO 5, we also welcome the proposal to align its format with that of other SMOs, although in most of the jurisdictions the responsibility for setting public sector accounting standards is not typically, or necessarily, vested with the professional accountancy organizations. We agree that the flexibility of the applicability framework for the proposed revised SMO 5 can deal with such differences.

SMO 6 — Investigation and Discipline

We wish to make the following suggestions:

- Paragraphs 13 and 23 seem to imply that unsatisfactory work by the professional accountant should automatically trigger investigation and disciplinary proceedings by the member body. We believe that, in the interest of equity and natural justice, such proceedings should not be initiated when unsatisfactory work is a result of circumstances beyond the control of the professional accountant, and not because of any other deficiency. We suggest more clarity on this issue.
- The term “professional charges” in paragraphs 25 and 27 should be replaced by the term “professional misconduct charges”.
- The meaning of the term “alternative solution” in paragraph 26 should be clarified. In short, it is suggested that the intention is meant to be interpreted as an “alternate dispute resolution”.
- In paragraph 35, the term “qualified lawyer or other person” should be replaced by the term “any person” or “counsel”, and the term “suspended” should be replaced by the term “held in abeyance”.
- The word “prosecution” in paragraph 39 should be replaced by the word “adjudication”.
- Paragraph 53 should be reworded as follows (suggested changes are highlighted) in order to include membership of professional organizations other than professional accountancy organizations:

To the extent that local laws permit, in relation to members of member bodies holding two or more memberships in professional organizations, member bodies are encouraged to consider informing relevant qualifying professional accountancy other relevant professional organizations about the outcome of the investigative proceeding.

SMO 7 — International Financial Reporting Standards

We support the proposed revised SMO and welcome improved clarity indicating that use of full IFRS relates only to public-interest entities.

Specific Comments

Question 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

We believe that the proposed applicability framework provides sufficient clarity regarding

the responsibilities of the professional accountancy organizations across the jurisdictions and across the responsibility areas. Also, the framework is sufficiently flexible to enable professional accountancy organizations to discharge their obligations under the proposed revised SMOs effectively.

Question 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?

Response

We believe that the descriptions of the two concepts *adoption* and *implementations* are comprehensive enough to encompass a broad range of actions and initiatives required by the professional accountancy organizations. We also appreciate that the proposed revised SMOs are drafted on the principles of plain English. However, we believe that the clarity can be further enhanced by the use of bold font for the main requirements and regular font for the other guidance.

We also suggest locating all the definitions for the proposed revised SMOs in a separate appendix for the sake of convenience, consistency and avoiding duplication. For example, the definitions of “professional standards” are worded differently in paragraph 86(d) of SMO-1 and paragraph 59 of SMO-6, and are specific to the respective SMOs. We believe that a single comprehensive definition relevant to both the SMOs would be more appropriate.

Should you wish to discuss the contents of this comment paper or require further elaboration on any of the items presented herein, please do not hesitate to contact Kamallesh Gosalia at kgosalia@cga-canada.org or alternatively the undersigned at rlefevre@cga-canada.org.

Sincerely,



Rock Lefebvre, MBA, CFE, FCIS, FCGA
Vice-President, Research & Standards