The Institute of Chartered Accountants in Australia

12 March 2012

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

Email: www.ifac.org

Dear Mr Guthrie

Re: IFAC Statements of Membership Obligations 1 - 7 (Revised)

The Institute of Chartered Accountants in Australia (Institute) is pleased to have the opportunity to respond to the exposure draft for the IFAC Statements of Membership Obligations 1 - 7 (Revised).

The Institute is the professional body for Chartered Accountants in Australia and members operating throughout the world. Representing more than 70,000 professionals and business leaders, the Institute has a pivotal role in upholding financial integrity in society. Members strive to uphold the profession's commitment to ethics and quality in everything they do, alongside an unwavering dedication to act in the public interest.

Chartered Accountants hold diverse positions across the business community, as well as in professional services, government, not-for-profit, education and academia. The leadership and business acumen of members underpin the Institute's deep knowledge base in a broad range of policy areas impacting the Australian economy and domestic and international capital markets.

The Institute was established by Royal Charter in 1928 and today represents more than 58,000 members and around 12,500 talented graduates working and undertaking the Chartered Accountants Program.

The Institute is a founding member of the Global Accounting Alliance (GAA), which is an international coalition of accounting bodies and an 800,000-strong network of professionals and leaders worldwide.

In summary we fully support efforts to encourage continuous improvement by IFAC member bodies. We provide the following comments in relation to the proposed revised SMOs.

General comments

- Notifying members

  We note that paragraph 14 of a number of SMOs state that "IFAC member bodies shall notify their members of all new, proposed, and revised international standards, related practice statements, and other papers issued by the:

  - IAESB (SMO 2)
  - IAASB (SMO 3)
  - IESBA (SMO 4)
  - IPSASB (SMO 5)."

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However this statement does not appear in SMO 7, which deals with the IASB, and there is no explanation in the exposure draft for this differentiation. We encourage IFAC to explain why this approach has been adopted.

SMO 1: Quality Assurance

- Extension of the scope of quality assurance review systems to all audits of financial statements

  We support the concept that review systems be extended to all audits as a matter of public interest. However, we are concerned the regulatory burden on micro audit firms and micro clients may be onerous if the review system is applied in the same way to these firms as to larger firms and auditors of public interest entities. Therefore we suggest SMO 1 explicitly acknowledge there may be more flexibility in the review system applied to micro audit firms, for example where the firms only conduct non-statutory audits.

- Reference to quality assurance review teams

  The SMO refers to quality assurance review teams. We suggest that this revision to SMO 1 amend the wording to recognise that a review may be conducted by an individual quality assurance reviewer, where appropriate. In Australia the Institute's quality review program for audit services provided by the major firms (Big 4, etc) recognises the audit inspection program conducted by the Australian Securities and Investments Commission, Australia's corporate, markets and financial services regulator. As a professional accounting body we focus on the audit services provided by practices other than the major firms, and use individual reviewers, rather than teams, commensurate with the size and nature of the firms under review.

- Paragraphs 57-59, and 69

  We suggest that the SMO recognise that the planning of, and the reporting on, a review, may be conducted jointly by the member body, together with the quality assurance reviewer.

- Paragraph 66

  We suggest that this paragraph be amended to acknowledge that in some jurisdictions, due to legal reasons regarding client confidentiality, written client consents must be obtained from individual clients prior to the client's engagement file being available for review by the quality assurance reviewer.

SMO 2: International Education Standards for Professional Accountants and Other IAESB Guidance

We have no specific comments in relation to SMO 2.

SMO 3: International Standards, Related Practice Statements, and Other Papers Issued by the IAASB

We have no specific comments in relation to SMO 3.

SMO 4: IESBA Code of Ethics for Professional Accountants

We have no specific comments in relation to SMO 4.

SMO 5: International Public Sector Accounting Standards and Other IPSASB Guidance

- Title

  We suggest "and Other IPSASB Guidance" read "and Other Papers Issued by the IPSASB". These words are consistent with those of SMO 3.

- Paragraph 3

  We think this paragraph would be improved if it were more consistent with the words used in the Preface to the International Public Sector Accounting Standards. We suggest the following:

  "The IPSASB focuses on the general purpose financial statements reporting needs of all public sector entities. Public sector entities include national governments, regional governments (for example, state, provincial, territorial), local governments (for example, city, town) and their component entities (for example, departments, agencies, boards, commissions), unless otherwise stated. The IPSASB does not concern itself with the reporting needs of Government Business Enterprises as they apply International Financial Reporting Standards (IFRSs) which are issued by the International Accounting Standards Board (IASB). The IPSASB addresses these reporting needs of public sector entities by issuing International Public Sector Accounting Standards (IPSASs) and publishing other documents which provide guidance on issues and experiences in financial reporting in the public sector."

- Paragraph 5

  We acknowledge the truth of this paragraph. However, we question its need (and what it adds) - especially as over time the situation may well change.

- Paragraph 12

  We are concerned with the wording used in the first part of paragraph 12, as it implies that the standards as issued by the IPSASB should be adopted and implemented, whereas some jurisdictions may go through an endorsement process or just incorporate the requirements into their own GAAP which should of itself be sufficient to meet the obligation. Therefore we think this wording needs clarification.

SMO 6: Investigation and Discipline

- Paragraph 19

  The SMO refers to investigative and prosecutorial teams and committees. We suggest that the SMO expressly recognise that an investigation may be conducted by an individual member of staff. If the SMO is amended, amendments will also be required to paragraphs 24, 25, 27 and 36.

- Paragraph 26

  This paragraph allows for cases to be dealt with without the need for a full Tribunal hearing, if the parties agree on an alternative solution or if the defendant admits the charge or charges. While this may be appropriate in circumstances of a commercial dispute, we do not agree that this is appropriate where there is a disciplinary issue and allegations of non-compliance with the By-laws have been made. It is important for the Tribunal process to be open and transparent, and for it to be clear that the Tribunal should consider if there is a need for sanctions against a member for conduct in breach of the By-laws. Accordingly, a Tribunal should consider the issue/allegation.

- Paragraph 29

  Paragraph 21 of the current version of SMO 6 is similar to this paragraph however, we note it is not a mandatory requirement.

  The Institute has a legally qualified Secretary to the Tribunal who sits with the Tribunal members and is able to assist them with any queries they may have regarding evidential, procedural or other matters. However, the role of the Secretary to the Tribunal is not limited to acting as independent adviser to the Tribunal.

  We also have some lawyers who sit on the Tribunal as non-accountant members. However, there may not be lawyers sitting on the Tribunal in every instance. The person who conducts the prosecutions (who we refer to as the Institute representative) is also a senior lawyer. The chair of the Tribunal is not a lawyer, but an accountant. This is in accordance with our By-laws. Our By-laws do not provide for the chair alone to deal with preliminary issues.

  In general, we consider that the emphasis on the necessary involvement of lawyers in the Tribunal process in the manner noted above could lead to increased formality and legality of the process and detract from the essential benefits of judgment by a member's peers and lay people, in the public interest.

  We suggest that this paragraph not be mandatory. For the reasons set out above, we regard the compulsory emphasis on legal personnel being involved in the Tribunal's processes as being too restrictive. While we agree that it is important for the professional conduct process to be rigorous, open and transparent, the Australian regulatory framework does not provide for a compulsory legal process and in our opinion the objectives of a proper transparent process can equally be achieved by expressing the contents of this paragraph in non-mandatory language.

- Paragraph 34

  This paragraph requires the Tribunal to "develop and utilize sanctioning guidelines when imposing sanctions". We do not believe this should be a mandatory requirement.

  The Tribunal is not a Court of law and it does not have a repository of binding legal precedents. However, the Tribunal does take into account the matters noted in the paragraph (namely, all the circumstances of the case, including any aggravating or mitigating factors, the personal circumstances of the individual and any other mitigation advanced by the individual or the firm and any character and/or other references provided in support of the individual or firm).

  The result of this is that each decision of the Tribunal is decided on its facts, although with regard to the matters set out above. This is an important principle in relation to the independence of each Tribunal in considering the specific circumstances put before it.

  The Tribunal also has regard to issues of proportionality by reference to all the circumstances of the case, including those set out above.

  For the reasons set out above, we suggest this be expressed in non-mandatory language.

- Paragraph 36

  This paragraph permits the investigation committee to file an appeal if the committee considers that the sanction imposed by the disciplinary tribunal is too lenient, but does not permit an appeal by the member's governing body.

  The Institute's By-laws provide that appeals can be made by either the member or the Institute's President. As the President is not an employee of the Institute, and is independent of the investigation and prosecution process, we regard him or her as having sufficient independence to make such decisions.

  We would therefore suggest that this obligation be amended to provide that no appeal be permitted by members of the investigation and prosecution team.

- Paragraph 48

  This paragraph requires the establishment of 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 Institute's policy does not provide for the independent review of decisions which do not refer matters for disciplinary hearing. The reason for this is that the focus of the Institute's disciplinary process is on the conduct of its members, as the Institute does not have the power to provide any form of redress to persons suffering loss as a result of the actions or omissions of members. All such issues need to be pursued through the normal legal process. Where this process results in an adverse finding against a member, the Institute then considers if disciplinary action is justified.

  The Institute has also initiated a mediated service, which can be accessed by members or their clients to resolve disputes as an alternative to formal legal proceedings. Where there is evidence of inappropriate conduct, the Institute reserves the right to initiate disciplinary proceedings against any member or members involved in the dispute.

  For the reasons set out above, we suggest that this be expressed in non-mandatory language.

SMO 7: International Financial Reporting Standards (IFRSs)

- Title

  We suggest the inclusion of the words ", Interpretations and Other Papers Issued by the IASB".

- Paragraph 2

  We suggest the third line of this paragraph include a reference to Interpretations.

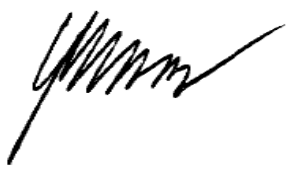
- Paragraph 11

  We are concerned with the wording used in the first part of paragraph 11, as it implies that the standards as issued by the IASB should be adopted and implemented, whereas some jurisdictions may go through an endorsements process or just incorporate the requirements into their own GAAP which should of itself be sufficient to meet the obligation (even if their own GAAP has additional requirements). Therefore we think this wording needs clarification.

  Paragraphs 11 and 12 refer to public interest entities as defined by the *Code of Ethics* of the IESBA and use this definition to differentiate those entities that would use IFRS as issued by the IASB and those that would use IFRS for SMEs. In contrast, the IASB uses the term public accountability. IFRS for SMEs would not allow a publicly accountable entity to adopt its standard, and this definition may well include entities that are not listed but hold assets in a fiduciary capacity (such as trusts, schemes, banks, insurance companies, etc). We are unsure if these type of entities are clearly captured in the public interest entity criteria as defined by the *Code of Ethics*.

We would be happy to elaborate on any of the foregoing matters should you wish.

Yours sincerely



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