

March 1, 2012

Russell Guthrie
Executive Director, Quality and Member Relations
International Federation of Accountants

Dear Russell,

Re: Proposed Revisions to the Statements of Membership (SMOs)

The Small and Medium Practices (SMP) Committee of the International Federation of Accountants (IFAC) values the opportunity to provide comments to you on the proposed revisions to the Statements of Membership (SMO) recently approved by the IFAC Board. In responding, the SMP Committee has endeavored to focus on the aspects of most relevance to its constituents.

General Comments

One of the SMP Committee's key objectives is to ensure the needs of the SMP and small and medium sized entity (SME) sectors are considered by standard setters, regulators, and policy makers, by stressing the need for a stable platform of regulation and standards that are relevant to SMEs and SMPs and capable of being applied in a manner proportionate to size of practice or entity. While SMOs are neither regulation nor standards they do impose obligations on IFAC member bodies and hence similar criteria - proportionate, relevant and stable – ought to be considered used when assessing the SMOs. We believe that the changes are largely to do with clarifying member body obligations, rather than substantively changing their requirements, and as such present no significant issues in so far as they relate to and impact SMPs. Moreover, any substantive changes, such as a few instances where there is an incremental increase in requirements, appear to meet the 'test' of being in the public interest as well as proportionate, relevant and stable in so far as they ultimately impact SMPs.

While we accept that translations are necessary for high quality adoption and implementation of standards that are applied directly within a particular jurisdiction, translations do consume significant resources of non-English speaking bodies, especially smaller ones. These resources may divert member body resources away from direct support to SMPs. Hence, we suggest consideration be given to restricting the translation requirement in some way, perhaps to final standards that are directly applied by practitioners.



Specific Comments

1. *SMO 1 – Quality Assurance*

Perhaps the most significant substantive change to the SMOs as far as SMEs and SMPs are concerned concerns the scope of the Quality Assurance (QA) review systems that shall be established by IFAC member bodies and associates. In the former version of the SMO, the scope of these quality assurance review systems covers at least audits of financial statements of listed entities. Based on the task force as well as the CAP deliberations, the scope has been extended to all audits of financial statements. While the SMP Committee recognizes that this will impose an additional demands on those member bodies that presently only cover audits of listed entities, we believe this is justified on public interest grounds. A number of member bodies already have QA systems that extend to all audits. This extension of QA should encourage member bodies to extend their QA systems and in turn help improve the quality of SME audits and any other services that the member body chooses to extend the QA system to include. We do, however, recognize that many audits of SMEs are voluntary rather than a statutory requirement and that the public interest argument is stronger in respect of the latter. Furthermore, we note that the design of the SMO enables it to be applied in a proportionate manner. For example, we note the SMO encourages, but does not require, extension to services other than audit. We also appreciate that for non-audit services a model for a risk-based approach has also been clarified and expanded to further assist member bodies and associates in developing more flexible and risk-focused QA review systems. We suggest that consideration be given to this risk-based model being extended to voluntary SME audits, since an overly stringent system may result in disproportionate costs, particularly in situations where an SMP had just a few voluntary SME audits.

Finally, the committee believes that QA systems, appropriately positioned and promoted by a member body, can be an effective way of positively differentiating SMPs from their competitors, help SMPs manage their risk, and enhance the reputation and credibility of the profession more generally. Applied effectively and proportionately, the benefits of operating a QA system may more than offset the costs.

2. *SMO 7 – International Financial Reporting Standards*

We welcome the clarification that the requirements for use of full IFRSs relate only to public interest entities. In addition, we appreciate the expanded application guidance encouraging the use of IFRS for SMEs as a possible standard for non-public interest entities. These changes strike the right balance between promoting international convergence of SME financial reporting and delegating responsibility for determining the most appropriate SME financial reporting standard to national jurisdictions.



Other Comments

In addition to comments and views on specific matters highlighted in the Explanatory Memorandum of the Exposure Draft, the CAP invited our opinion on the usefulness of the SMOs and the Member Body Compliance Program. We believe these are key instruments in helping IFAC build and maintain the reputation and credibility of the Global Accountancy profession. In addition, we see the Compliance Program as providing the 'market intelligence' and insights to help IFAC better focus its efforts on building the capacity of member bodies, with SMPs ultimately being one of the main beneficiaries of this capacity building.

Please do not hesitate to contact me should you wish to discuss any of the matters raised in this letter. We also welcome further discussions on how the SMP Committee can support the work of the CAP.

Kind regards,

A handwritten signature in black ink, which appears to read 'Giancarlo Attolini'. The signature is written in a cursive style and is positioned below a short horizontal line.

Giancarlo Attolini
Chair, IFAC SMP Committee