

Mark Up of Revisions from Exposure Draft to Final Pronouncement

November 2012

*The Board of the International Federation of
Accountants*

Statements of Membership Obligations (SMOs) 1-7 (Revised)



Staff Note:

This mark-up document has been prepared by the IFAC Member Body Development staff for readers seeking to understand the changes made following the Exposure Draft (released in December 2011). For overview of significant issues addressed by the CAP and staff in developing the final revised SMOs, readers can also refer to a *Summary of the Significant Issues and Conclusions*.

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~~EXPOSURE DRAFT~~**PROPOSED**—STATEMENTS OF MEMBERSHIP OBLIGATIONS 1-7
(REVISED)

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PREFACE TO THE STATEMENTS OF MEMBERSHIP OBLIGATIONS

Introduction

- ~~1. This preface to the Statements of Membership Obligations (SMOs) is issued to facilitate understanding of the scope and authority of the SMOs.~~
- ~~2. The International Federation of Accountants (IFAC)'s Board establishes the SMOs and has the authority to determine, where appropriate, amendments, additions, or repeals to the SMOs¹. In accordance with the Compliance Advisory Panel (CAP)'s Terms of Reference², the CAP and Compliance staff are responsible for (a) reviewing the relevance, sufficiency, and efficacy of the SMOs, and (b) making related recommendations regularly to the Board.~~
- ~~3. The CAP and the due process for SMO revisions are subject to oversight by the Public Interest Oversight Board (PIOB).~~

Fundamental Objective of the SMOs

- ~~4. The IFAC~~The International Federation of Accountants (IFAC)'s Board is committed to the goal of developing a set of Statements of Membership Obligations (SMOs) that ~~provides~~provide clear benchmarks to current and potential IFAC member bodies, to assist them in ensuring high-quality performance by professional accountants. The SMOs cover IFAC member ~~body's~~bodies' obligations to support the (a) adoption and implementation of international standards and other pronouncements issued by the International Auditing and Assurance Standards Board (IAASB), International Accounting Education Standards Board (IAESB), International Ethics Standards Board for Accountants (IESBA), International Public Sector Accounting Standards Board (IPSASB), and International Accounting Standards Board (IASB), as well as (b) the establishment of quality assurance and investigation and disciplinary systems.

Introduction

- ~~2. This preface to the SMOs is issued to facilitate understanding of the scope and authority of the SMOs.~~
- ~~3. The IFAC Board establishes the SMOs and has the authority to determine, where appropriate, amendments, additions, or repeals to the SMOs.¹ In accordance with the Compliance Advisory Panel (CAP)'s Terms of Reference,² the CAP and IFAC Compliance staff are responsible for (a) reviewing the relevance, sufficiency, and efficacy of the SMOs, and (b) making related recommendations regularly to the Board.~~

¹ ~~As stated in provision 6.4 (m) of the International Federation of Accountants' Bylaws~~

² ~~The CAP Terms of Reference were approved by the IFAC Board and the Public Interest Oversight Board (PIOB) in September 2008~~

¹ As stated in provision 6.4 (m) of the International Federation of Accountants' Bylaws.

² The CAP Terms of Reference were approved by the IFAC Board in March 2012 and are available on the IFAC website.

4. The CAP and the due process procedures for SMO revisions are subject to oversight by the Public Interest Oversight Board (PIOB).
5. The SMOs were originally approved by the IFAC Board for issue in March 2004 and ratified by the IFAC Council in November 2004. In November 2006, the IFAC Board approved limited editorial revisions to the SMOs.

SMO Compliance Requirement and Use of Best Endeavors

6. In accordance with the IFAC Constitution, paragraph 2.3.b., IFAC member bodies are required to comply with the SMOs.
7. Member bodies have an obligation to identify and undertake actions to fulfill the requirements set out within the SMOs. The use of the word “shall” in specific provisions of the SMOs imposes a requirement on the member body to comply with those provisions in accordance with the applicability framework as outlined in each SMO. Other sections using present tense serve as explanatory or application material to support the related requirement(s).
8. IFAC recognizes that its member bodies operate under different national legal and regulatory frameworks, and are comprised of professionals working in different sectors of the accountancy profession. Accordingly, IFAC member bodies in different jurisdictions may have different degrees of responsibility for meeting the requirements in each SMO.
9. A member body’s specific actions are to be considered in the context of the degree of their responsibility for each SMO area, as explained in the applicability framework of each SMO (see also Diagram 1 at page 7). Each SMO also includes a section explaining the IFAC compliance assessment process.
10. In accordance with the applicability framework as outlined in each SMO, member bodies may be required, under certain circumstances, to use their best endeavors to comply with specific requirements of the SMO where they have no responsibility, or have shared responsibility, for the area covered by the SMO. A member body will have been considered to have used its best endeavors if it could not reasonably do more than it has done and is doing to meet the requirements of the SMO.

IFAC Member Body Compliance Program

11. ~~6~~–The SMOs form the basis of the IFAC Member Body Compliance Program. Member bodies are required to perform ongoing self-assessments of their compliance with each of the ~~SMO~~SMOs’s requirements, including an assessment of ~~actual~~ standards in place ~~in comparison~~compared to the relevant international standards. Furthermore, member bodies are required to develop, meaningfully execute, and regularly update their own action plans to demonstrate their compliance with the SMOs’ requirements.
12. ~~7~~–The SMOs also apply to IFAC associates as they move ~~towards~~toward IFAC membership. Associates must complete self-assessments to demonstrate their current compliance status and ability to further address the SMOs’ requirements. Associates are required to develop, meaningfully execute, and regularly update their own action plans to demonstrate their progress ~~towards~~toward compliance with the SMOs’ requirements.
13. ~~8~~–Applicants for IFAC membership or associate status must also complete self-assessments to demonstrate their ability to address the SMOs’ requirements. Associate applicants are encouraged

to submit action plans that identify their planned actions to further meet IFAC's membership requirements.

Key Concepts

- ~~9.~~ In accordance with the IFAC Constitution, paragraph 2.3.b., IFAC member bodies are required to comply with the SMOs.
- ~~10.~~ IFAC recognizes that its member bodies operate under different national legal and regulatory frameworks, and are comprised of professionals working in different sectors of the accountancy profession. Accordingly, IFAC member bodies in different jurisdictions may have different degrees of responsibility for meeting the requirements in each SMO.
- ~~11.~~ Member bodies have an obligation to identify and undertake actions to fulfill the requirements set out within SMOs. The use of the word "shall" in specific provisions of the SMOs imposes a requirement on the member body to comply with those provisions in accordance with the applicability framework as outlined in each SMO.
- ~~12.~~ A member body's specific actions are to be considered in the context of the degree of their responsibility for the area of each SMO, as explained in the applicability framework in each SMO (see also diagram 1 at the end of this Preface). Each SMO also includes a section explaining the IFAC compliance assessment process.

SMO Subject ~~Matters~~ Areas

SMO 1—Quality Assurance

- ~~13.~~ 14. SMO 1 sets out the requirements of an IFAC member body with respect to quality assurance review systems for ~~their~~its members who perform audits, review, other assurance, and related services engagements of financial statements.

SMO 2—International Education Standards for Professional Accountants and Other Pronouncements Issued by the IAESB ~~Guidance~~

- ~~14.~~ 15. SMO 2 sets out the requirements of an IFAC member body with respect to international standards, ~~related practice statements~~, and other ~~papers~~pronouncements issued by the International Accounting Education Standards Board (IAESB), an independent standard-setting body.

SMO 3—International Standards, ~~Related Practice Statements~~, and Other ~~Papers~~Pronouncements Issued by the IAASB

- ~~15.~~ 16. SMO 3 sets out the requirements of an IFAC member body with respect to international standards, related non-authoritative practice ~~statements~~notes, and other ~~papers~~pronouncements issued by the International Auditing and Assurance Standards Board (IAASB), an independent standard-setting body.

SMO 4—~~IESBA~~ Code of Ethics for Professional Accountants

- ~~16.~~ 17. SMO 4 sets out the requirements of an IFAC member body with respect to the *Code of Ethics for Professional Accountants* (IESBA Code of Ethics) issued by the International Ethics Standards Board for Accountants (IESBA), an independent standard-setting body. Due to the nature of ethical

requirements, SMO 4 requires adoption and implementation of standards no less stringent than the IESBA *Code of Ethics*.

SMO 5 ~~—~~ *International Public Sector Accounting Standards and Other [Pronouncements Issued by the IPSASB](#)* ~~Guidance~~

[18.](#) ~~17.~~ SMO 5 sets out the requirements of an IFAC member body with respect to International Public Sector Accounting Standards (IPSASs),⁷ and other pronouncements issued by the International Public Sector Accounting Standards Board (IPSASB), an independent standard-setting body.

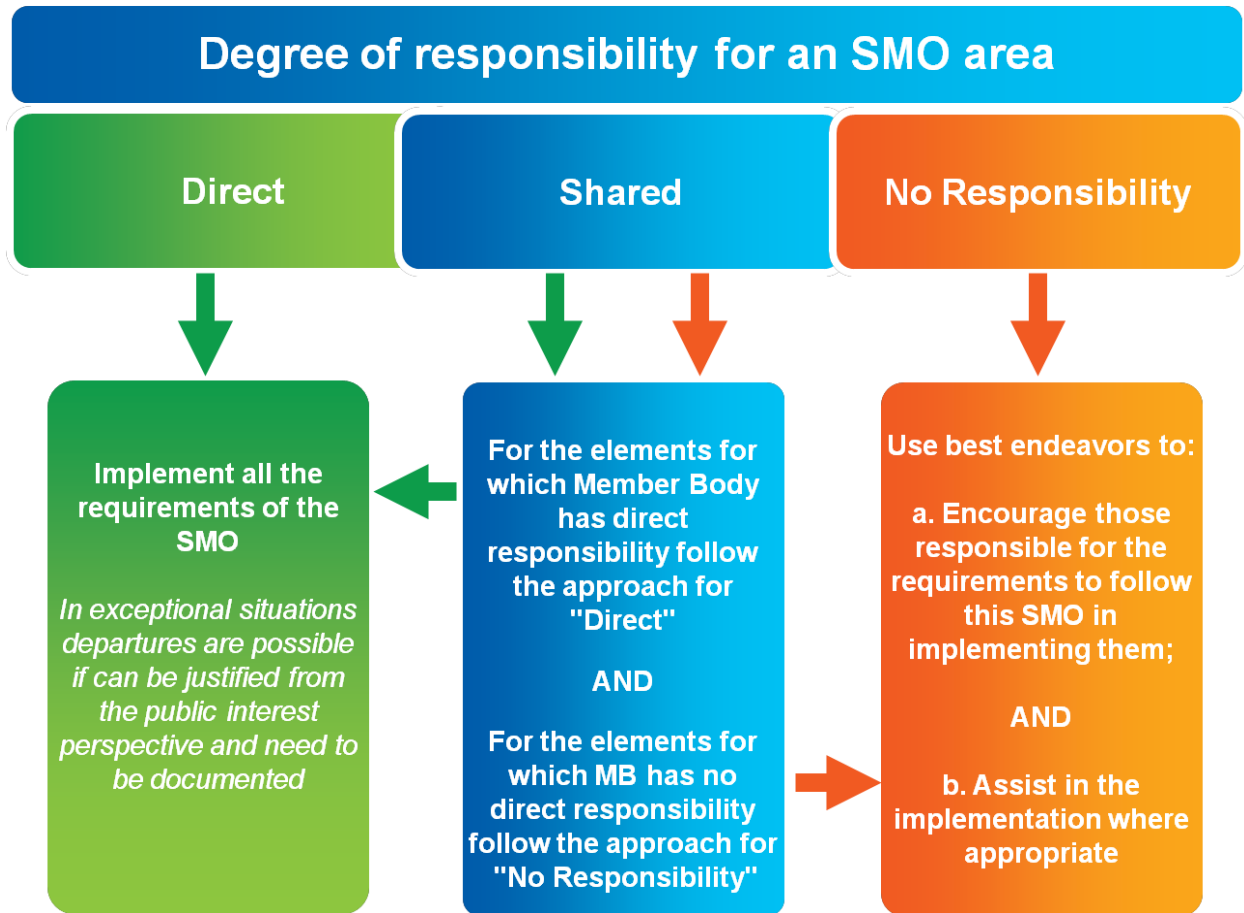
SMO 6 ~~—~~ *Investigation and Discipline*

[19.](#) ~~18.~~ SMO 6 sets out the requirements of an IFAC member body with respect to mechanisms that provide for the investigation and discipline of those [professionals](#) who fail to exercise and maintain [the](#) professional standards and related obligations of an IFAC member body.

SMO 7 ~~—~~ *International Financial Reporting Standards (IFRSs) [and Other Pronouncements Issued by the IASB](#)*

[20.](#) ~~19.~~ SMO 7 sets out the requirements of an IFAC member body with respect to International Financial Reporting Standards (IFRSs),⁷ issued by the International Accounting Standards Board (IASB), an independent standard-setting body.

Diagram 1 Illustration of the Applicability Framework



STATEMENT OF MEMBERSHIP OBLIGATIONS 1

QUALITY ASSURANCE

Obligation

1. In accordance with the IFAC Constitution, paragraph 2.3.b., IFAC member bodies are required to comply with the Statements of Membership Obligations [\(SMOs\)](#).

Scope

2. This ~~Statement of Membership Obligations (SMO)~~[SMO](#) is issued by the IFAC Board and sets out requirements of an IFAC member body with respect to quality assurance review systems for ~~their members~~[firms](#) performing certain audit, review, other assurance, and related services engagements ~~of financial statements~~.³ To understand and address the requirements, it is necessary to consider the entire text of the SMO.
3. Quality assurance is addressed at three levels: the engagement level, the firm level, and the body responsible for [the](#) quality assurance [review system](#).
4. The International Auditing and Assurance Standards Board (IAASB) establishes standards and provides guidance on quality control policies and procedures [for](#):
 - (a) ~~for~~ specific types of engagements (for example, International Standard on Auditing ~~220~~ (ISA ~~220~~), ~~“~~[220](#), *Quality Control For an Audit of Financial Statements*”), and
 - (b) ~~for~~ a firm's responsibilities for its system of quality control for audits and reviews of financial statements,⁴ and other assurance and related services engagements (International Standard on Quality Control (ISQC) 1, *Quality Controls for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*).
5. Refer to Paragraphs ~~15 to 20~~[18–22](#) for more information about ~~the scope of this SMO and the audits that are to be covered by the quality assurance review system~~.
6. IFAC member bodies have responsibility for quality assurance review systems in respect of ~~their members~~[firms](#), but only to the extent that they are performing engagements in the ~~country of~~[countries jurisdiction or jurisdictions](#) of the IFAC member body's domicile (as recorded in its application for admission to membership in IFAC).
7. In some jurisdictions, quality assurance [review](#) systems for firms performing audits of listed or other public interest entities are operated by an external authority, while systems for firms performing all other audits are operated by IFAC member bodies. In such cases, [and for efficiency reasons](#), IFAC member bodies shall give due consideration to quality assurance systems operated by the ~~external~~[other appointed](#) authority to ensure there is no undue overlap between the systems.

Applicability Framework

8. IFAC recognizes that its member bodies operate under different national legal and regulatory frameworks, and are comprised of professionals working in different sectors of the accountancy

³ [Firm is defined at paragraph 88.](#)

⁴ [System of quality control is defined at paragraph 88.](#)

profession. Accordingly, IFAC member bodies in different jurisdictions may have different degrees of responsibility for meeting the requirements in this SMO.

9. Without prejudice to the existence of more complex national frameworks, IFAC member bodies ~~can~~may have:
- (a) direct responsibility for the area covered by this SMO. The mandate, explicitly given to the IFAC member body or otherwise implied through general consensus,⁵ specifies that it is responsible for setting the rules and operating the quality assurance review system;~~or~~
 - (b) no responsibility for the area covered by this SMO. The IFAC member body has no mandate, explicitly given or otherwise implied through general consensus,~~that it has~~⁶ for any responsibility for setting the rules and operating the quality assurance review system [as government, regulators, or other appointed authorities have direct responsibility for the area covered by this SMO](#); or
 - (c) shared responsibility with government, regulators, or other appointed authorities. The mandate, explicitly given to the IFAC member body or otherwise implied through general consensus,⁷ specifies that it has some responsibility for the area relating to this SMO.

Direct Responsibility

10. Where IFAC member bodies have direct responsibility they shall implement all the requirements of this SMO.
11. In exceptional circumstances, an IFAC member body may depart from a requirement of this SMO⁷ if doing so is determined by the member body to be in the public interest. If this is the case, the IFAC member body shall justify and publicly document the departure. Any IFAC member body that (a) fails to follow the requirements of this SMO⁷ and (b) does not document satisfactorily why it has departed from it, may be suspended or removed from membership.

No Responsibility

12. Where [IFAC](#) member bodies have no responsibility [for this area](#) they shall use [their](#) best endeavors to:
- (a) encourage those responsible for the requirements to follow this SMO in implementing them; and
 - (b) assist in the implementation where appropriate.
13. An IFAC member body will have been considered to have used ~~“its~~ [best endeavors](#)~~”~~ if it could not reasonably do more than it has done and is doing to meet the requirements of this SMO.

⁵ [In accordance with the IFAC Bylaws, paragraph 2.1, in the case of general consensus, evidence must exist that the IFAC member body has the support of the public and other key stakeholders.](#)

⁶ [Ibid.](#)

⁷ [Ibid.](#)

Shared Responsibility

14. Where IFAC member bodies have shared responsibility for this area they shall:
- (a) implement those requirements for which they have direct responsibility in accordance with paragraphs 10 and 11; and
 - (b) take actions specified in paragraphs 12 and 13 for those requirements where they have no direct responsibility.

Requirements and Application Guidance

Scope of Quality Assurance Review System

15. A~~In accordance with the applicability framework, a~~ mandatory quality assurance review system shall be in place for firms performing audits of financial statements. ~~Depending on the legislative framework, due consideration~~In jurisdictions where coverage of all audits of financial statements (in accordance with paragraphs 34 through 41) creates an undue burden, priority shall be given to statutory audits and audits of financial statements of public interest entities. Nevertheless, all firms performing audits of financial statements shall be subject to the possibility of selection for quality assurance review.⁸
- ~~16. Criteria shall be established and published for evaluating all other engagements to determine whether they shall be included in the scope of the system; any engagements meeting these criteria shall be included in the scope of the quality assurance review.~~
- ~~17. Where other engagements are included in the scope of the system pursuant to paragraph 18, all requirements of this SMO related to audits of financial statements shall be also applied to these engagements.~~
16. ~~18.~~ Because the public places greater interest in audits of financial statements, it is appropriate for mandatory quality assurance review systems to apply to at least ~~to~~ those engagements. It is desirable, however, for the largest range of professional services performed by professional accountants to be subject to quality assurance review systems that are commensurate with the nature of the services. Therefore, parties responsible for the quality assurance review ~~systems~~system are encouraged to extend their scope to cover as many professional services as possible, including, for example, other assurance engagements, preparation of financial statements, or internal audit services. ~~Criteria, or risk factors, for selecting additional engagements to be subject to mandatory quality assurance review shall be identified (see paragraph 19 below).~~
17. Criteria, or risk factors, shall be established and published for evaluating all other engagements to determine whether they shall be included in the scope of the system. Any engagements meeting these criteria shall be included in the scope of the quality assurance review.
18. ~~19.~~ Criteria for extending the scope of engagements that will be subject to a quality assurance review include:
- (a) ~~the~~ number and range of stakeholders who may make decisions based on the engagement result;

⁸ Quality Assurance Review is defined at paragraph 88.

- (b) ~~–the extent to which the subject matter and the engagement results are of public interest, or may affect the public’s confidence in public institutions or public administration;~~
- (c) ~~–the identification of unusual circumstances or risks in an engagement or class of engagement; and~~
- (d) ~~–laws and regulations requiring inclusion of specific engagements in the scope of the quality assurance review system.~~

~~20. The implementation of an appropriate system of quality control is the responsibility of firms. Firms shall be required (a) to adhere to a code of ethics (such as the IESBA Code of Ethics), and (b) to implement a system of quality control for the performance of audit, review, other assurance, and related services engagements in accordance with ISQC 1 and ISA 220, as applicable.~~

Quality Control Standards

~~19. 21.~~ In accordance with the applicability framework, IFAC member bodies shall identify and undertake actions to: (a) have ISQC 1 and other relevant standards adopted, and implemented as required by SMO 3—International Standards on Auditing and Other IAASB Pronouncements; and (b) requirements established for firms to implement a system of quality control in their jurisdictions.

(a) ~~–“Adoption”~~ is concerned with the decision that international standards are appropriate for use in specific national financial reporting environments and with the actions necessary to effect those decisions^{3,9} including incorporation into national requirements or requiring the use of international standards through law. Adoption ~~typically includes~~ may include a process to review draft international standards, translation, public exposure of proposed standards, approval, incorporation into national requirements as necessary, and promulgation of final standards, and, where applicable, a convergence process to eliminate or minimize differences between international and national standards.

(b) ~~–“Implementation”~~ ~~typically includes~~ may include a process to build awareness of the adopted standards, provide relevant education and training, develop or disseminate implementation guidance, and any other activities that promote proper understanding and use of the standards in practice.

~~20. The implementation of an appropriate system of quality control is the responsibility of firms. Firms shall be required (a) to adhere to a code of ethics (such as the Code of Ethics for Professional Accountants [IESBA Code of Ethics] issued by the International Ethics Standards Board for Accountants), and (b) to implement a system of quality control for the performance of audit, review, other assurance, and related services engagements in accordance with applicable standards (ISQC 1, ISA 220, etc.) adopted in a jurisdiction.~~

~~21. 22.~~ Firms are responsible for implementing policies and procedures that comply with ISQC 1. ISQC 1 provides guidance on the elements that shall be addressed by the policies and procedures of the systems of quality control established by firms.

~~22. 23.~~ A quality assurance review system monitors compliance with those policies and procedures.

³ ~~As stated in the IFAC Strategic Plan for 2011-2014. The IFAC Strategic Plan is available on the IFAC website.~~

⁹ As stated in the IFAC Strategic Plan for 2011-2014, which is available on the IFAC website.

Other Quality Control Guidance

~~23.~~ ~~24. Relevant guidance on quality control standards shall be developed and published to IFAC member bodies shall~~ assist firms in:

- (a) understanding the objectives of quality control; and
- (b) implementing and maintaining appropriate systems of quality control.

~~24.~~ ~~25.~~ Assistance may take various forms, depending upon the needs within a ~~country~~ jurisdiction, including:

- raising firms' awareness of the objective of quality control and the related quality control standards by developing seminars and publishing specific explanatory documents about quality control and quality assurance;
- developing guidelines for comprehensive Continuing Professional Development (CPD) programs. These could include (a) guidance on planning or evaluating the adequacy of in-house training, and (b) CPD programs mandated by the IFAC member body or local licensing authority;
- providing CPD programs to firms without their own programs, including programs that are specifically directed ~~to~~ toward implementing quality control policies and procedures;
- providing guidelines for conducting effective internal inspection systems; and
- implementing voluntary programs that enable firms to obtain an independent, confidential assessment of their quality control policies and procedures, apart from any formal quality assurance review system. Potential sources to perform the assessment include a firm, IFAC member body's employees, or individuals recommended by the IFAC member body.

~~25.~~ ~~26.~~ In setting up these CPD programs, the IFAC member body may refer to SMO ~~2, 2~~ ~~International Education Standards (IESs) for Professional Accountants and other~~ ~~Other Pronouncements Issued by the IAESB~~ guidance, and ensure that such programs and other training activities are established and maintained in compliance with the IESs and other relevant standards and guidance.

The Design of the Quality Assurance Review System

Subject of the Quality Assurance Review System

~~26.~~ ~~27.~~ The subject of the quality assurance review system shall be either a firm or a partner,¹⁰ as determined at the national level ~~by the responsible party. In both cases, the quality assurance review system shall be designed to obtain reasonable assurance that:~~

~~(a) Where the firm is the subject, the system shall be designed to obtain reasonable assurance that:~~

~~(i) the firm has an adequate system of quality control for its practice relating to audits of financial statements (and other engagements that the body responsible for quality assurance includes as part of its quality assurance system);~~

~~(ii) the firm complies with that system; and~~

¹⁰ Partner is defined at paragraph 88.

- ~~(iii) the firm and engagement teams have adhered to professional standards and regulatory and legal requirements in performing audits of financial statements.~~
- ~~(b) Where a partner is the subject, the system shall be designed to obtain reasonable assurance that:~~
- (a) ~~(i) the firm has or~~ the partner is subject to an adequate system of quality control for the practice ~~of the partner's firm~~ relating to audits of financial statements (and other engagements that the body responsible for the quality assurance review system includes as part of its ~~quality assurance system~~); scope);
- (b) ~~(ii) the firm or~~ the partner complies with that system of quality control; ~~and~~
- (c) ~~(iii) the firm, or~~ the partner, has adhered to professional standards and regulatory and legal requirements in performing audits of financial statements (and other engagements that the body responsible for the quality assurance review system includes as part of its ~~quality assurance system~~); scope).¹¹
- ~~27. 28.~~ Where the firm is the subject of the quality assurance review, the review shall take into account the work of individual partners, to conclude whether the firm has adhered to professional standards and applicable regulatory and legal requirements in respect of audit engagements. Where a partner is the subject of the quality assurance review, the review shall take into account the system of quality control of the partner's firm to conclude whether that system is adequate, and whether the firm has complied with that system.
- ~~28. 29.~~ When evaluating the adequacy of a firm's system of quality control, the elements of the system of quality control are considered as firm- wide, not necessarily engagement- specific. However, the firm may establish additional policies and require additional procedures for audits of financial statements.

Basis for Reaching an Overall Conclusion on a Quality Assurance Review

- ~~29. 30.~~ Suitable criteria for determining whether the overall outcome of a quality assurance review can be considered to be satisfactory shall be developed and published.
- ~~30. 31.~~ In developing these criteria, paragraphs 25, 27, 29, 30, and ~~58~~57 of this SMO may be referenced to obtain further guidance on this topic.

Description of the Scope and Design of the Quality Assurance Review System

- ~~31. 32.~~ A description of the scope and design of the quality assurance review system and related procedures to be followed by quality assurance review teams shall be published.¹²
- ~~32. 33.~~ ~~The following~~ Examples of procedures ~~are included in~~ that may be considered in the quality assurance review system guidelines include:
- (a) ~~Requiring~~ requiring and determining whether quality assurance review teams receive training in the conduct of quality assurance reviews;

¹¹ Professional standards are defined at paragraph 88.

¹² Quality assurance review team is defined at paragraph 88.

- (b) ~~Evaluating~~evaluating the independence of the members of the quality assurance review teams;
- (c) ~~Evaluating~~evaluating whether quality assurance review teams have the technical skill and knowledge, the specialized experience, and the authority to perform quality assurance reviews with professional competence;
- ~~(d) Assessing compliance with international accounting standards (either International Financial Reporting Standards or International Public Sector Accounting Standards) and International Standards on Auditing to the extent that such standards are used in the engagements included in the scope of the review.~~
- ~~(d)~~ ~~(e)~~ ~~Evaluating~~evaluating corrective actions taken by the memberfirm with regard to the results of previous quality assurance reviews;
- ~~(e)~~ ~~(f)~~ ~~Documenting~~documenting the performance of quality assurance review procedures in a manner that permits the IFAC member body or an oversight body to objectively determine whether quality assurance reviews were performed with due care and in compliance with the relevant standards;
- ~~(f)~~ ~~(g)~~ ~~Reporting~~reporting the conclusions of quality assurance reviews to appropriate individuals in a manner that assists the subjects of reviews to (i) identify and implement any necessary corrective actions, and (ii) make other desirable improvements in quality control policies and procedures;
- ~~(g)~~ ~~(h)~~ ~~Imposing~~imposing, where applicable, added corrective, educational, or monitoring procedures that provide for fair and consistent treatment of each memberfirm; and
- ~~(h)~~ ~~(i)~~ ~~Maintaining~~maintaining the confidentiality of client information.

Review Cycle

33. ~~34.~~ A cycle-based, risk-based, or mixed approach for selecting firms for quality assurance review shall be used. All firms or partners performing audits of financial statements shall be considered in the selection process.

Cycle Approach

34. ~~35.~~ Jurisdictions that select a cycle approach shall:

- (a) adopt a cycle of a maximum of three years when a firm performs audits of financial statements of public interest entities ~~as defined in the IESBA Code of Ethics~~;
- (b) adopt a cycle of a maximum of six years when a firm performs audits of financial statements of non-public interest entities; and
- (c) take into consideration the quality and effectiveness of the ~~internal inspection~~quality control system of a partner's firm when a partner is the subject of the quality assurance review.

35. ~~36.~~ The quality assurance review cycle for partners shall be determined. The length of the quality assurance review cycle takes into consideration the frequency of review of the partner under the firm's ~~internal inspection~~quality control system, as well as the procedures performed.

36. ~~37.~~ It may be appropriate to review some firms more frequently. For example, the quality assurance review cycle may be shortened if the results of the previous quality assurance review were less

than satisfactory. Additional appropriate reasons for conducting quality assurance reviews more frequently may be identified.

Risk-Based Approach

37. ~~38.~~ Jurisdictions that select a risk-based approach shall consider various risk factors when determining the firms or partners to be reviewed in priority. Firms or partners shall be reviewed with reasonable frequency even if not selected in priority for quality assurance review based on risk factors.

38. ~~39.~~ Examples of risk factors include:

- ~~(a)~~ the number of entities considered to be of public interest~~;~~
- ~~(b)~~ past investigations and disciplinary procedures against the firm~~;~~
- the number of years of experience of the partners or the number of years of existence of the firm; and
- ~~(c)~~ past results of quality assurance reviews, including:
 - ~~(i)~~ a failure to meet CPD requirements;
 - ~~(ii)~~ independence violations; or
 - ~~(iii)~~ deficiencies in the design of, or compliance with, the firm's system of quality control.

Mixed Approach

39. ~~40.~~ For efficiency and effectiveness, a mixed approach that includes cycle- and risk-based elements for selecting firms for quality assurance review may be developed.

40. In defining the exact mixed approach for the quality assurance review, additional factors may also be considered, including:

- (a) specific risk elements in defining the length of the quality assurance review cycle; and
- (b) past results of quality assurance reviews and awareness of non-compliance with quality control standards or other professional standards.

~~41.~~ ~~In defining the exact mixed approach for the quality assurance review, additional factors may also be considered, including specific risk elements in defining the length of the review cycle, and past results of quality assurance reviews and awareness of non-compliance with quality control standards or other professional standards.~~ The assessment of risk factors may result in quality assurance reviews taking place earlier than otherwise planned for firms performing audits of financial statements.

Other Considerations

41. ~~42.~~ Audits of financial statements subject to selection for quality assurance review are ordinarily completed and issued audits of financial statements with fiscal ~~years-year~~ periods ending during the quality assurance review period. If a more recent auditor's report has been issued during the quality assurance review, consideration is given to reviewing that audit.

42. ~~43.~~ If, during or after a quality assurance review period, a firm under review has (a) made a significant acquisition of all or a portion of another firm's practice, or (b) divested itself of a

significant portion of its practice, before commencing the [quality assurance](#) review the quality assurance review team shall consult with the body responsible for the quality assurance review system on the scope of the quality assurance review or other actions that may be taken.

Quality Assurance Review Team Procedures

- ~~43.~~ ~~44.~~ Quality assurance review teams shall be required to follow procedures that are based on published guidelines. These procedures shall include reviews of audit working papers and discussions with appropriate personnel.
- ~~44.~~ ~~45.~~ The procedures performed during the quality assurance review shall include:
- ~~(a)~~ ~~–~~an assessment of the system of quality control relating to audits of financial statements;
 - ~~(b)~~ ~~–~~a review of the quality control policies and procedures and reviews of audit working papers to evaluate:
 - ~~(i)~~ ~~–~~the functioning of the system of quality control; and compliance with it; and
 - ~~(ii)~~ ~~–~~the compliance with professional standards and regulatory and legal requirements in respect of audits of financial statements; ~~and~~
 - ~~(c)~~ [an assessment of compliance with accounting and auditing framework, including an assessment of compliance with international accounting standards \(either International Financial Reporting Standards \[IFRSs\] or International Public Sector Accounting Standards \[IPSASs\]\) and International Standards on Auditing \(ISAs\), to the extent that such standards are used in the engagements included in the scope of the review.](#)
- ~~45.~~ ~~46.~~ The review of audit working papers shall include evaluating:
- ~~(a)~~ ~~–~~the existence and effectiveness of the system of quality control implemented by the firm, and the performance of the audit;
 - ~~(b)~~ ~~–~~compliance with professional standards and regulatory and legal requirements related to the engagement;
 - ~~(c)~~ ~~–~~the sufficiency and appropriateness of evidence documented in the working papers; and
 - ~~(d)~~ ~~–~~based on the above, whether the audit reports are appropriate in the circumstances.
- ~~46.~~ ~~47.~~ Procedures the quality assurance review team may consider when performing the quality assurance review include:
- obtaining a sufficient understanding of:
 - ~~○~~ ~~–~~the nature and extent of the ~~member~~[firm](#)'s audit practice and the methodologies used;
 - ~~○~~ ~~–~~the design of the system of quality control of the ~~member of the IFAC member body~~[firm](#);
 - ~~○~~ ~~–~~the firm's ethical and independence policies and procedures; and
 - ~~○~~ ~~–~~the firm's training policies and procedures; ~~i~~
 - [testing](#)~~determining whether the quality assurance reviewer can rely on~~ the effectiveness of the firm's monitoring ~~procedures~~[processes](#) in place for the period under review, ~~and whether the quality assurance reviewer can rely on them, by~~ [by testing the effectiveness of the firm's](#)

[monitoring procedures and](#) performing tests of the conclusions of the applicable period's monitoring as a source of evidence. It may be useful to plan the quality assurance review concurrent with the ~~member~~[firm](#)'s monitoring procedures;

- reviewing compliance with the firm's system of quality control relating to audits of financial statements;
- reassessing the adequacy of the scope of the quality assurance review by evaluating the results to determine whether additional procedures are necessary to support or reach a conclusion;
- holding a closing meeting with the firm to discuss the quality assurance review team's results, conclusions, recommendations, and the type of report to be issued; and
- providing the firm with conclusions and recommendations for corrective actions.

Documentation

[47.](#) ~~48.~~ The quality assurance review team shall document matters that:

- (a) provide evidence supporting the quality assurance review report; and
- (b) establish that the quality assurance review was carried out in accordance with the guidelines established by the body responsible for [the quality assurance review system](#).

[48.](#) ~~49.~~ The quality assurance review team shall maintain documentation that supports the work performed, including findings, recommendations, and conclusions. The quality assurance review team leader instructs the quality assurance review team on how to prepare, store, and retain documentation (programs, checklists, etc.).¹³

[49.](#) ~~50.~~ During the quality assurance review, the quality assurance review team:

- (a) documents the planning of the [quality assurance](#) review, the scope of work performed, the conclusions reached, and comments made to the firm or partner that were not deemed sufficiently significant to be included as a finding;
- (b) evaluates the nature, cause, pattern, pervasiveness, and significance of any deficiencies in the design of the firm's system of quality control, and in the firm's compliance with its system;
- (c) evaluates the nature, cause, pattern, pervasiveness, and significance of any deficiencies in the performance of an engagement; and
- (d) summarizes conclusions.

[50.](#) ~~54.~~ The length of the period for retaining documentation after completion of the quality assurance review shall be determined. The ~~time~~[timeframe](#) shall be long enough to allow the IFAC member body or its oversight body, if any, to maintain appropriate oversight of the quality assurance review process.

¹³ [Quality assurance review team leader is defined at paragraph 88](#)

The Quality Assurance Review Team

Resources

51. The body responsible for the quality assurance review system shall ensure the availability of appropriate expertise and adequate financial and other resources to enable timely and effective quality assurance reviews. A suitably qualified, senior member of staff shall be given the responsibility for managing quality assurance reviews, to ensure that all quality assurance reviews are consistent with applicable laws and regulations.

Skills and Competence

52. Members of the quality assurance review team shall have the necessary competencies to perform the work expected of them. These competencies include:

- (a) appropriate professional education;
- (b) relevant professional experience; and
- (c) specific training on performing quality assurance reviews.

~~53. Members of the quality assurance review team shall possess certification or credentials required by the body responsible for quality assurance review.~~

53. ~~54.~~ In selecting and approving the quality assurance review team, consideration shall be given to the following competencies and areas of expertise:

- (a) ~~Understanding of~~understanding professional standards and regulatory and legal requirements;
- (b) ~~Understanding of~~understanding the guidelines established for performing quality assurance reviews;
- (c) ~~Understanding~~understanding and practical experience of audit engagements and quality assurance reviews through appropriate training and participation;
- (d) ~~Appropriate~~appropriate technical knowledge, including knowledge of relevant information technology;
- (e) ~~Knowledge~~knowledge of specific industries; and
- (f) ~~Ability~~ability to apply professional judgment.

~~55. Individuals selected as quality assurance review team leaders and members of quality assurance review teams are members in good standing in the profession. Individuals may not serve as quality assurance reviewers if their ability to practice public accountancy has been limited in any way by a regulatory, profession-wide monitoring organization or enforcement body, until the limitation or restriction has been removed.~~

54. ~~56.~~ The quality assurance review team shall consist of an appropriate number of reviewers to accomplish the review within a reasonable time.

The Quality Assurance Review Team Leader

55. ~~57.~~ A quality assurance review team leader shall be assigned for each quality assurance review assignment. The quality assurance review team leader shall:

- (a) supervise the conduct of the quality assurance review;

- (b) communicate the quality assurance review team's conclusions to the firm; and
- (c) be responsible for preparing the main quality assurance review report and gathering applicable review-related documents.

56. The quality assurance team leader shall possess certification or credentials required by the body responsible for the quality assurance review system.

57. Individuals selected as quality assurance review team leaders are members in good standing in the profession. Individuals may not serve as quality assurance team leaders if their ability to practice public accountancy has been limited in any way by a regulatory or profession-wide monitoring organization or an enforcement body, until the limitation or restriction has been removed.

58. The quality assurance review team leader has significant involvement in the planning of the quality assurance review, and at the ~~member~~firm's closing meeting. The quality assurance review team leader is involved in discussing significant conclusions with the ~~member~~firm and the quality assurance review team, and interacts with the ~~member~~firm and the quality assurance review team during the quality assurance review.

59. The quality assurance review team leader attends quality assurance review training courses approved by the body responsible for the quality assurance review system to obtain current knowledge of the quality assurance review process, and otherwise maintains competencies in conducting such reviews.

Ethical Requirements

60. ~~The~~In conducting a quality assurance review, the quality assurance review team shall comply with the objectivity and confidentiality principles of the IESBA *Code of Ethics* ~~in relation to the quality assurance review team's conduct of a review shall be complied with.~~ or applicable national ethical requirements.¹⁴

61. When selecting a quality assurance review team for an individual quality assurance review assignment, those responsible for selection and approval shall consider whether the objectivity of the quality assurance review team leader and each member of the quality assurance review team has been assessed and confirmed. Quality assurance review team members are expected to be independent of the ~~member~~firm and the ~~member~~firm's clients selected for review.

62. Objectivity and confidentiality are addressed by the IESBA *Code of Ethics*. The body responsible for the quality assurance review system and the quality assurance review team are encouraged to refer to the IESBA *Code of Ethics* requirements for specific guidance on these topics. Even though the report issued by the quality assurance review team ~~may~~does not need to be an assurance report, this SMO requires objectivity of quality assurance review team members with respect to the professional services they deliver.

63. Firms and their peers shall not perform reciprocal quality assurance reviews where peer reviews are authorized by law.

64. Performance of other reciprocal professional services by the quality assurance review team and the firm does not, however, impair independence, if (a) the fees charged are not material to either party, and (b) the services are not an integral part of the firm's system of quality control.

¹⁴ National ethical requirements shall be adopted in accordance with the requirements of SMO 4—IESBA Code of Ethics.

65. If concerns regarding threats to the independence of the quality assurance review team cannot be eliminated or reduced to an acceptable level by appropriate safeguards to the satisfaction of all parties, a different quality assurance review team ~~is~~shall be appointed.

Confidentiality

66. As stated in the IESBA *Code of Ethics* or relevant national ~~codes of ethics~~ethical requirements, and where not forbidden by law, individuals or firms under review shall be exempted from professional client confidentiality requirements concerning audit engagement working papers for the purpose of quality assurance reviews.
67. The quality assurance review team shall follow confidentiality requirements similar to those established for professional accountants performing audits of financial statements.
68. In accordance with the legislative framework, consent of the client may be required to exempt individuals or firms under review from professional client confidentiality requirements concerning audit engagement working papers for the purpose of quality assurance reviews.
69. ~~68.~~–The obligation of professional confidentiality binds (a) all persons who work or have worked for the IFAC member body, regulator, public oversight body, or other competent authority responsible for administering and overseeing the quality assurance review system and (b) all persons involved with the applicable oversight system.

Reporting

70. ~~69.~~–The quality assurance review team leader shall be responsible for issuing a written quality assurance review report to the reviewed firm or partner upon completion of each quality assurance review assignment. The report shall include the following elements:
- ~~– Where the subject of the quality assurance review system is a firm, a conclusion on:~~
 - ~~○ whether the firm's system of quality control has been designed to meet the requirements of the quality control standards described in paragraph 22; and~~
 - ~~○ whether the firm has complied with its system of quality control during the review period.~~
 - (a) –Where the subject of the quality assurance review system is a ~~partner~~firm, a conclusion on:
 - (i) ~~○ whether the partner has been subject to a firm's~~ system of quality control has been designed to meet the requirements of the quality control standards described in paragraph ~~22~~21; and
 - (ii) whether the firm has complied with its system of quality control during the quality assurance review period.
 - (b) Where the subject of the quality assurance review system is a partner, a conclusion on:
 - (i) whether the partner has been subject to a system of quality control designed to meet the requirements of the quality control standards described in paragraph 21; and
 - (ii) ~~○ whether the partner, through the firm, has complied with the firm's system of quality control during the~~ quality assurance review period.
 - (c) –Reasons for negative conclusions on the above.
 - (d) –Recommendations for improvement at both the firm-wide and engagement level.

71. ~~70.~~ The body responsible for the quality assurance review system determines the form of the quality assurance review report and the nature of the conclusion to be reached (e.g., opinion and limited assurance).
72. ~~71.~~ The reviewed ~~member~~firm shall provide a timely written response to the recommendations and conclusions of the quality assurance review report, including planned actions and expected ~~time of~~timeframe for completion or implementation. The response shall be addressed to the quality assurance review team or the body responsible for the quality assurance review system. The expected ~~time of~~timeframe for completion shall be reasonable and agreed to by the ~~member,~~firm, ~~the~~ quality assurance review team, and the body responsible for the quality assurance review system.
73. ~~72.~~ ~~An~~Subject to local laws and regulations, an annual report shall be prepared and made available to the public, summarizing the results of the quality assurance review system. Copies of the report shall be sent to regulatory and public oversight authorities, on request.
74. ~~73.~~ For confidentiality purposes, the annual report may not include detail regarding specific partners, firms, or clients.

Corrective and Disciplinary Actions

75. ~~74.~~ The conclusions of each quality assurance review report shall be considered by the body responsible for the quality assurance review system. When a quality assurance review report includes an unsatisfactory conclusion, the firm to which that conclusion ~~applied~~applies shall be required to take appropriate corrective action.
76. ~~75.~~ Corrective action may be necessary to address (a) lack of cooperation, (b) failings in development or application of a system of quality control, or (c) failure to comply, maintain, or apply professional standards. The body responsible for the quality assurance review system may consider various forms of corrective action to be taken with respect to firms or partners, taking into consideration the educative purpose of the quality assurance review system, and the level of seriousness of the failure of the firm or partner. ~~The corrective~~Corrective actions may include:
- requiring revisions or additions to quality control policies and procedures or audit methodology;
 - requiring additional CPD;
 - requiring additional quality assurance reviews;
 - restrictions on the type of work a firm can perform or for taking on new assignments;
 - admonishments, censures, and reprimands;
 - fines/payments of costs; and
 - suspension of membership or expulsion.
77. ~~76.~~ If the body responsible for the quality assurance review system licenses firms to perform audits, it may exercise sanctions through the licensing system by suspending or prohibiting firms from performing audits of financial statements.
78. ~~77.~~ Where (a) the body responsible for the quality assurance review system (or its committee with ~~appropriate~~appropriately delegated powers) considers that an unsatisfactory conclusion of quality assurance reviews represents serious failings by the firm or partner, and (b) there is no mechanism

~~requirement~~in place to take corrective action under the quality assurance review system to address this unsatisfactory conclusion, a link shall be established between unsatisfactory conclusion of quality assurance reviews and the initiation of disciplinary proceedings.

79. ~~78.~~ Actions taken as a consequence of unsatisfactory results of quality assurance reviews that constitute disciplinary action shall be carried out under a disciplinary system that is established in accordance with the provisions of SMO ~~6.6~~—Investigation and Discipline.

Considerations of Public Oversight

80. ~~79.~~ The body responsible for the quality assurance review system ~~is encouraged to closely cooperate~~shall consider closely cooperating with its oversight body, if any, and ~~to share~~sharing information about the functioning of the quality assurance review system, as needed. ~~They~~
81. The body responsible for the quality assurance review system may also (a) generally consider how best to contribute to the development of the regulation of the profession and, in this respect, (b) refer to the IFAC Policy Position Paper, Regulation of the Accountancy Profession.⁴¹⁵

Review of Implementation and Effectiveness

82. ~~80.~~ Regular reviews of the proper implementation and effectiveness of the quality assurance review system shall be performed to ensure that it functions as intended and in accordance with the requirements of this SMO. When reviews of the proper implementation and effectiveness of the quality assurance review system reveal issues in the proper functioning of the system, action shall be taken to ensure these specific issues are addressed as soon as practicable. ~~An IFAC member body responsible for the quality assurance system is not required to perform any implementation reviews when they are undertaken at least annually by the public oversight body, if any, or another equivalent organization.~~Performing the review of the proper implementation and effectiveness of the quality assurance review system is recommended every two years to ensure the system functions as intended and in accordance with this SMO. However, the cycle of the review may need to be shortened for recently established quality assurance review systems.
- ~~81.~~ ~~Performing the review of the proper implementation of the quality assurance review system is recommended every two years. The cycle of the review may, however, need to be shortened for very new quality assurance review systems.~~
83. ~~An IFAC member body responsible for the quality assurance review system is not required to perform any implementation and effectiveness reviews when they are undertaken at least every two years by the public oversight body, if any, or another equivalent organization.~~

IFAC Compliance Assessment

84. ~~82.~~ In assessing compliance with this SMO, IFAC will give due consideration to the applicability framework and the best endeavors concept, as well as the differing national environments, stages of development, and other relevant environmental factors.
85. ~~83.~~ IFAC will take into account the relevance of individual SMO requirements to each IFAC member body in assessing its level of compliance. This recognizes that some IFAC member bodies and their

⁴15 The IFAC Policy Position Paper, Regulation of the Accountancy Profession, is available on the IFAC website.

members operate in different sectors of the profession, and that some SMOs may not apply to them in their entirety.

~~86.~~ ~~84.~~ In addressing the requirements of this SMO, IFAC member bodies ~~need~~ are encouraged to consider priorities, processes, and challenges specific to their jurisdiction and constituency. Consequently, they shall develop an action plan, obtain internal agreement on a timetable for achieving compliance and demonstrate progress against the plan. If not, they shall satisfactorily justify why they have not done so or they may be suspended or removed from membership for non-compliance.

Effective Date

~~87.~~ ~~85.~~ This SMO is effective for quality assurance reviews commencing on or after ~~XXX~~ January 1st, 2014, with early implementation permitted, and was last amended as of XXX.

Definitions

~~88.~~ ~~86.~~ In this SMO, the following terms have the ~~meanings~~ definitions attributed below~~:~~_;

- (a) ~~“Firm”*~~—a sole practitioner, partnership, or corporation, or other entity of professional accountants~~;~~ as defined in ISQC 1.
- (b) ~~“Partner”*~~—any individual with authority to bind the firm with respect to the performance of a professional services engagement~~;~~ as defined in ISQC 1.
- (c) ~~“Public Interest Entities”~~—as defined in the IESBA Code of Ethics ~~of the International Ethics Standards Board for Accountants (IESBA)[†];~~
- (d) ~~“Professional standards”~~—For the purpose of this SMO, IAASB Pronouncements pronouncements, as defined in the IAASB’s ~~“Preface to the International Standards on Quality Control, Auditing, Review, Other Assurance, and Related Services,”~~ and relevant ethical requirements, which ordinarily comprise the ~~IESBA Code of Ethics for Professional Accountants of the International Ethics Standards Board for Accountants (IESBA) (IESBA Code of Ethics)~~ and relevant national ethical requirements~~;~~_;
- (e) ~~“Quality assurance review”~~—a review to determine whether the ~~member~~ ~~(i)~~ partner is subject to ~~(as a partner),~~ or has ~~(as a~~ the firm has. (i) an adequate system of quality control, (ii) is in compliance with such system, and (iii) has adhered to professional standards and regulatory and legal requirements in performing engagements~~;~~_;
- (f) ~~“Quality assurance review team”~~—individual(s), ~~(including the quality assurance review team leader),~~ employed or engaged to perform a quality assurance review~~;~~_;
- (g) ~~“Quality assurance review team leader”~~—an experienced professional accountant employed or engaged to lead a quality assurance review;_;
- (h) ~~“System of quality control”~~—policies designed to provide a firm with reasonable assurance that (i) the firm and its personnel comply with professional standards and applicable legal and regulatory ~~and legal~~ requirements, and (ii) reports issued by the firm or engagement partners

* ~~As defined in ISQC 1.~~

[†] ~~The IESBA Code of Ethics is available through the IFAC website.~~

are appropriate in the circumstances, ~~and in accordance with the procedures necessary to implement and monitor compliance with these policies~~. as defined in ISQC 1.

STATEMENT OF MEMBERSHIP OBLIGATIONS 2

INTERNATIONAL EDUCATION STANDARDS FOR PROFESSIONAL ACCOUNTANTS AND OTHER PRONOUNCEMENTS ISSUED BY THE IAESB ~~GUIDANCE~~

Obligation

1. In accordance with the IFAC Constitution, paragraph 2.3.b., IFAC member bodies are required to comply with the Statements of Membership Obligations (SMOs).

Scope

2. This ~~Statement of Membership Obligations (SMO)~~SMO is issued by the IFAC Board and sets out requirements for IFAC member bodies with respect to international standards, ~~related practice statements, and other papers~~ issued by the International Accounting Education Standards Board (IAESB), an independent standard-setting body supported by IFAC.¹⁶ To understand and address the requirements, it is necessary to consider the entire text of the SMO.
3. International standards ~~and other publications~~ issued by the IAESB comprise International Education Standards (IESs) ~~for Professional Accountants~~, The IAESB also issues International Education Practice Statements (IEPSs) ~~for Professional Accountants~~, and International Education Information Papers (IEIPs) ~~for Professional Accountants~~. ~~IESs prescribe standards of generally accepted “good practice” in the education and development of professional accountants. They establish the essential elements (e.g., the subject matter, methods, and techniques) that accounting education and development programs are expected to contain, which provide guidance and assistance to IFAC member bodies in implementing international standards, and promote good practice.~~
4. A description of, and the authority attached to, IESs, IEPSs, and IEIPs are contained in the *Framework for International Education Statements* issued by the IAESB.

Applicability Framework

5. IFAC recognizes that its member bodies operate under different national legal and regulatory frameworks, and are comprised of professionals working in different sectors of the accountancy profession. Accordingly, IFAC member bodies in different jurisdictions may have different degrees of responsibility for meeting the requirements in this SMO.
6. Without prejudice to the existence of more complex national frameworks, IFAC member bodies ~~can~~may have:
 - (a) direct responsibility for the area covered by this SMO. The mandate, explicitly given to the IFAC member body or otherwise implied through general consensus,¹⁷ specifies that it is

¹⁶ The IAESB’s Terms of Reference (TOR) provide additional and up-to-date information regarding this independent standard-setting body. The IAESB’s TOR are available on the IFAC website.

¹⁷ In accordance with the IFAC Bylaws, paragraph 2.1, in the case of general consensus, evidence must exist that the IFAC member body has the support of the public and other key stakeholders.

responsible for adopting and implementing professional accountancy education standards and guidance;~~or~~

- (b) no responsibility for the area covered by this SMO. The IFAC member body has no mandate, explicitly given or otherwise implied through general consensus, ~~that it has~~¹⁸ for any responsibility for adopting and implementing professional accountancy education standards and guidance as government, regulators, or other appointed authorities have direct responsibility for the area covered by this SMO; or
- (c) shared responsibility with government, regulators, educational institutions, or other appointed authorities. The mandate, explicitly given to the IFAC member body or otherwise implied through general consensus,¹⁹ specifies that it has some responsibility for the area relating to this SMO.

Direct Responsibility

- 7. Where IFAC member bodies have direct responsibility they shall implement all the requirements of this SMO.
- 8. In exceptional circumstances, an IFAC member body may depart from a requirement of this SMO⁷ if doing so is determined by the member body to be in the public interest. If this is the case, the IFAC member body shall justify and publicly document the departure. Any IFAC member body that (a) fails to follow the requirements of this SMO⁷ and (b) does not document satisfactorily why it has departed from it, may be suspended or removed from membership.

No Responsibility

- 9. Where IFAC member bodies have no responsibility for this area they shall use their best endeavors to:
 - (a) encourage those responsible for the requirements to follow this SMO in implementing them; and
 - (b) assist in the implementation where appropriate.
- 10. An IFAC member body will have been considered to have used “its best endeavors” if it could not reasonably do more than it has done and is doing to meet the requirements of this SMO.

Shared Responsibility

- 11. Where IFAC member bodies have shared responsibility for this area they shall:
 - (a) implement those requirements for which they have direct responsibility in accordance with paragraphs 7 and 8; and
 - (b) take actions specified in paragraphs 9 and 10 for those requirements where they have no responsibility.

¹⁸ Ibid.

¹⁹ Ibid.

Requirements and Application Guidance

12. In accordance with the applicability framework, IFAC member bodies shall identify and undertake actions to have the international standards issued by the IAESB adopted and implemented in their jurisdictions.
- (a) ~~“Adoption”~~² is concerned with the decision that international standards are appropriate for use in specific national financial reporting environments and with the actions necessary to effect those decisions²,²⁰ including incorporation into national requirements or requiring the use of international standards through law. Adoption ~~typically includes~~ may include a process to review draft international standards, translation, public exposure of proposed standards, approval, incorporation into national requirements as necessary, and promulgation of final standards, and, where applicable, a convergence process to eliminate or minimize differences between international and national standards.
- (b) ~~“Implementation”~~ typically includes may include a process to build awareness of the adopted standards, provide relevant education and training, develop or disseminate implementation guidance and any other activities that promote proper understanding and use of the standards in practice.
13. In jurisdictions where English is not an official or widely used language, and where international standards have not been translated, IFAC member bodies shall assess their priorities and challenges and consider whether there is a need for translation of these standards to ensure their proper adoption and implementation. Where such a need exists, IFAC member bodies shall use their best endeavors to have a process established, or otherwise support a process to provide for the timely, accurate, and complete translation of international standards³ and, to the extent practicable, of related exposure drafts.²¹
14. IFAC member bodies shall notify their members of all new, proposed, and revised international standards, ~~related practice statements,~~ and other ~~papers~~ pronouncements issued by the IAESB.
15. IFAC member bodies are encouraged to comment on IAESB exposure drafts.

IFAC Compliance Assessment

16. In assessing compliance with this SMO, IFAC will give due consideration to the applicability framework and the best endeavors concept, as well as to the differing national environments, stages of development, and other relevant environmental factors.
17. IFAC will take into account the relevance of individual SMO requirements to each IFAC member body in assessing its level of compliance. This recognizes that some IFAC member bodies and their

² ~~As stated in the IFAC Strategic Plan for 2011-2014. The IFAC Strategic Plan is available on the IFAC website.~~

²⁰ As stated in the IFAC Strategic Plan for 2011-2014, which is available on the IFAC website.

³ ~~Translations, if any, shall be made in line with the IFAC Policy Statement, Policy for Translating and Reproducing Standards Issued by the International Federation of Accountants. The policy document is available on the IFAC website.~~

²¹ Translations, if any, shall be made in line with the IFAC Policy Statement, Policy for Translating and Reproducing Standards Issued by the International Federation of Accountants, available on the IFAC website.

members operate in different sectors of the profession, and that some SMOs may not apply to them in their entirety.

18. In addressing the requirements of this SMO, IFAC member bodies need to consider priorities, processes, and challenges specific to their jurisdiction and constituency. Consequently, they shall develop an action plan, obtain internal agreement on a timetable for achieving compliance, and demonstrate progress against the plan. If not, they shall satisfactorily justify why they have not done so or they may be suspended or removed from membership for non-compliance.

Effective Date

19. This SMO is effective as of ~~December 31, 2004~~January 1st, 2013 and was last amended as of MM, DD, YYYY.

STATEMENT OF MEMBERSHIP OBLIGATIONS 3

INTERNATIONAL STANDARDS, ~~PRACTICE STATEMENTS~~, AND OTHER ~~PAPERS~~PRONOUNCEMENTS ISSUED BY THE IAASB

Obligation

1. In accordance with the IFAC Constitution, paragraph 2.3.b., IFAC member bodies are required to comply with the Statements of Membership Obligations (SMOs).

Scope

2. This ~~Statement of Membership Obligations (SMO)~~SMO is issued by the IFAC Board and sets out requirements for IFAC member bodies with respect to international standards, ~~related practice statements~~, and other ~~papers~~pronouncements issued by the International Auditing and Assurance Standards Board (IAASB), an independent standard-setting body supported by IFAC.²² To understand and address the requirements, it is necessary to consider the entire text of the SMO.
3. International standards issued by the IAASB comprise International Standards on Quality Control (ISQCs), International Standards on Auditing (ISAs), International Standards on Review Engagements (ISREs), International Standards on Assurance Engagements (ISAEs), and International Standards on Related Services (ISRSs). The IAASB also issues non-authoritative practice statements⁴notes and other ~~papers~~pronouncements to provide guidance and practical assistance to professional accountants in implementing international standards, and to promote good practice.
4. A description of, and the authority ~~attaching~~attached to, international standards, practice ~~statements~~notes, and other ~~papers~~pronouncements are contained in the *Preface to the International ~~Standards on~~ Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements*.

Applicability Framework

5. IFAC recognizes that its member bodies operate under different national legal and regulatory frameworks, and are comprised of professionals working in different sectors of the accountancy profession. Accordingly, IFAC member bodies in different jurisdictions may have different degrees of responsibility for meeting the requirements in this SMO.
6. Without prejudice to the existence of more complex national frameworks, IFAC member bodies ~~can~~may have:

²² [The IAASB's Terms of Reference \(TOR\) provide additional and up-to-date information about this independent standard-setting body. The IAASB's TOR are available on the IFAC website.](#)

⁴ ~~The authoritative status of IAASB practice statements is currently under review by the IAASB and the reference may be changed accordingly in the final SMOs.~~

- (a) direct responsibility for the area covered by this SMO. The mandate, explicitly given to the IFAC member body or otherwise implied through general consensus,²³ specifies that it is responsible for adopting and implementing auditing standards and guidance;~~or~~
- (b) no responsibility for the area covered by this SMO. The IFAC member body has no mandate, explicitly given or otherwise implied through general consensus,~~that it has~~²⁴ for any responsibility for adopting and implementing auditing standards and guidance as government, regulators, or other appointed authorities have direct responsibility for the area covered by this SMO; or
- (c) shared responsibility with government, regulators, or other appointed authorities. The mandate, explicitly given to the IFAC member body or otherwise implied through general consensus,²⁵ specifies that it has some responsibility for the area relating to this SMO.

Direct Responsibility

- 7. Where IFAC member bodies have direct responsibility they shall implement all the requirements of this SMO.
- 8. In exceptional circumstances, an IFAC member body may depart from a requirement of this SMO⁷ if doing so is determined by the member body to be in the public interest. If this is the case, the IFAC member body shall justify and publicly document the departure. Any IFAC member body that (a) fails to follow the requirements of this SMO⁷ and (b) does not document satisfactorily why it has departed from it, may be suspended or removed from membership.

No Responsibility

- 9. Where IFAC member bodies have no responsibility for this area they shall use their best endeavors to:
 - (a) encourage those responsible for the requirements to follow this SMO in implementing them; and
 - (b) assist in the implementation where appropriate.
- 10. An IFAC member body will have been considered to have used “its best endeavors² if it could not reasonably do more than it has done and is doing to meet the requirements of this SMO.

Shared Responsibility

- 11. Where IFAC member bodies have shared responsibility for this area they shall:
 - (a) implement those requirements for which they have direct responsibility in accordance with paragraphs 7 and 8; and
 - (b) take actions specified in paragraphs 9 and 10 for those requirements where they have no responsibility.

²³ In accordance with the IFAC Bylaws, paragraph 2.1, in the case of general consensus, evidence must exist that the IFAC member body has the support of the public and other key stakeholders.

²⁴ Ibid.

²⁵ Ibid.

Requirements and Application Guidance

12. In accordance with the applicability framework, IFAC member bodies shall identify and undertake actions to have the international standards issued by the IAASB adopted and implemented in their jurisdictions.
- (a) ~~“Adoption”~~ is concerned with the decision that international standards are appropriate for use in specific national financial reporting environments and with the actions necessary to effect those decisions^{5, 26} including incorporation into national requirements or requiring the use of international standards through law. Adoption ~~typically includes~~ may include a process to review draft international standards, translation, public exposure of proposed standards, approval, incorporation into national requirements as necessary, and promulgation of final standards, and, where applicable, a convergence process to eliminate or minimize differences between international and national standards, ~~and consideration of necessary limited local modifications~~^{4, 267}.
- (b) ~~“Implementation”~~ ~~typically includes~~ may include a process to build awareness of the adopted standards, provide relevant education and training, develop or disseminate implementation guidance and any other activities that promote proper understanding and use of the standards in practice.
13. In jurisdictions where English is not an official or widely used language, and where international standards have not been translated, IFAC member bodies shall assess their priorities and challenges and consider whether there is a need for translation of these standards to ensure their proper adoption and implementation. Where such a need exists, IFAC member bodies shall use their best endeavors to have a process established, or otherwise support a process to provide for the timely, accurate, and complete translation of international standards⁷ and, to the extent practicable, of related exposure drafts.²⁸
14. IFAC member bodies shall notify their members of all new, proposed, and revised international standards, ~~related practice statements,~~ and other ~~papers~~ pronouncements issued by the IAASB.
15. ~~The~~ IFAC member bodies shall promote the use of IAASB practice ~~statements~~ notes and other ~~papers~~ pronouncements to provide guidance and practical assistance ~~shall be promoted~~.
16. IFAC member bodies are encouraged to comment on IAASB exposure drafts.

⁵ ~~As stated in the IFAC Strategic Plan for 2011-2014. The IFAC Strategic Plan is available on the IFAC website.~~

²⁶ As stated in the IFAC Strategic Plan for 2011-2014, which is available on the IFAC website.

⁶ ²⁷ ~~Modifications, if any, shall be made in line with the IAASB Policy: Permissions Statement, Modifications to International Standards of the International Auditing and Assurance Standards Board (IAASB): – A Guide for National Standard Setters that~~ That ~~Adopt IAASB’s International Standards but Find It Necessary to Make Limited Modifications. The Policy document~~ Permissions Statement is available ~~throughon~~ the IAASB website.

⁷ ~~Translations, if any, shall be made in line with the IFAC Policy Statement, Policy for Translating and Reproducing Standards Issued by the International Federation of Accountants. The policy document is available on the IFAC website.~~

²⁸ Translations, if any, shall be made in line with the IFAC Policy Statement, Policy for Translating and Reproducing Standards Issued by the International Federation of Accountants, available on the IFAC website.

IFAC Compliance Assessment

17. In assessing compliance with this SMO, IFAC will give due consideration to the applicability framework and the best endeavors concept, as well as the differing national environments, stages of development, and other relevant environmental factors.
18. IFAC will take into account the relevance of individual SMO requirements to each IFAC member body in assessing its level of compliance. This recognizes that some IFAC member bodies and their members operate in different sectors of the profession, and that some SMOs may not apply to them in their entirety.
19. In addressing the requirements of this SMO, IFAC member bodies need to consider priorities, processes, and challenges specific to their jurisdiction and constituency. Consequently, they shall develop an action plan, obtain internal agreement on a timetable for achieving compliance, and demonstrate progress against the plan. If not, they shall satisfactorily justify why they have not done so or they may be suspended or removed from membership for non-compliance.

Effective Date

20. This SMO is effective as of ~~December 31, 2004~~January 1st, 2013 and was last amended as of MM, DD, YYYY.

STATEMENT OF MEMBERSHIP OBLIGATIONS 4

IESBA CODE OF ETHICS FOR PROFESSIONAL ACCOUNTANTS

Obligation

1. In accordance with the IFAC Constitution, paragraph 2.3.b., IFAC member bodies are required to comply with the Statements of Membership Obligations [\(SMOs\)](#).

Scope

2. This ~~Statement of Membership Obligations (SMO)~~[SMO](#) is issued by the IFAC Board and sets out requirements for IFAC member bodies with respect to the *Code of Ethics for Professional Accountants* (IESBA Code of Ethics) issued by the International Ethics Standards Board for Accountants (IESBA), an independent standard-setting body supported by IFAC.²⁹ To understand and address the requirements, it is necessary to consider the entire text of the SMO.
3. The IESBA develops ethical standards and guidance for use by professional accountants. The IESBA also fosters international debate on ethical issues faced by accountants.
4. The IESBA *Code of Ethics* establishes the fundamental principles of professional ethics for professional accountants, and provides a conceptual framework and guidance for applying those principles.

Applicability Framework

5. IFAC recognizes that its member bodies operate under different national legal and regulatory frameworks, and are comprised of professionals working in different sectors of the accountancy profession. Accordingly, IFAC member bodies in different jurisdictions may have different degrees of responsibility for meeting the requirements in this SMO.
6. Without prejudice to the existence of more complex national frameworks, IFAC member bodies ~~can~~[may](#) have:
 - (a) direct responsibility for the area covered by this SMO. The mandate, explicitly given to the IFAC member body or otherwise implied through general consensus,³⁰ specifies that it is responsible for ~~setting~~[adopting and implementing](#) ethical requirements for its members; ~~or~~
 - (b) no responsibility for the area covered by this SMO. The IFAC member body has no mandate, explicitly given or otherwise implied through general consensus, ~~that it has~~³¹ [for any responsibility for setting adopting and implementing ethical requirements for its members as government, regulators, or other appointed authorities have direct responsibility for the area covered by this SMO](#); or

²⁹ [The IESBA's Terms of Reference \(TOR\) provide additional and up-to-date information about this independent standard-setting body. The IESBA's TOR are available on the IFAC website.](#)

³⁰ [In accordance with the IFAC Bylaws, paragraph 2.1, in the case of general consensus, evidence must exist that the IFAC member body has the support of the public and other key stakeholders.](#)

³¹ [Ibid.](#)

- (c) shared responsibility with government, regulators, or other appointed authorities. The mandate, explicitly given to the IFAC member body or otherwise implied through general consensus,³² specifies that it has some responsibility for the area relating to this SMO.

Direct Responsibility

7. Where IFAC member bodies have direct responsibility they shall implement all the requirements of this SMO.
8. In exceptional circumstances, an IFAC member body may depart from a requirement of this SMO⁷ if doing so is determined by the member body to be in the public interest. If this is the case, the IFAC member body shall justify and publicly document the departure. Any IFAC member body that (a) fails to follow the requirements of this SMO⁷ and (b) does not document satisfactorily why it has departed from it, may be suspended or removed from membership.

No Responsibility

9. Where IFAC member bodies have no responsibility for this area they shall use their best endeavors to:
- (a) encourage those responsible for the requirements to follow this SMO in implementing them; and
- (b) assist in the implementation where appropriate.
10. An IFAC member body will have been considered to have used “its best endeavors” if it could not reasonably do more than it has done and is doing to meet the requirements of this SMO.

Shared Responsibility

11. Where IFAC member bodies have shared responsibility for this area they shall:
- (a) implement those requirements for which they have direct responsibility in accordance with paragraphs 7 and 8; and
- (b) take actions specified in paragraphs 9 and 10 for those requirements where they have no responsibility.

Requirements and Application Guidance

12. In accordance with the applicability framework, IFAC member bodies shall identify and undertake actions to have the IESBA *Code of Ethics* adopted and implemented in their ~~jurisdiction~~jurisdictions. Given the importance of consistent, high -quality ethical standards, IFAC member bodies should not apply less stringent standards than those stated in the IESBA *Code of Ethics*.
- (a) ~~“Adoption”~~ is concerned with the decision that international standards are appropriate for use in specific national financial reporting environments and with the actions necessary to effect those decisions^{8, 33} including incorporation into national requirements or requiring the

³² Ibid.

⁸ ~~As stated in the IFAC Strategic Plan for 2011-2014. The IFAC Strategic Plan is available on the IFAC website.~~

³³ As stated in the IFAC Strategic Plan for 2011-2014, which is available on the IFAC website.

use of international standards through law. Adoption ~~typically includes~~ may include a process to review draft international standards, translation, public exposure of proposed standards, approval, incorporation into national requirements as necessary, and promulgation of final standards, and, where applicable, a convergence process to eliminate or minimize differences between international and national standards.

- (b) ~~–“Implementation” typically includes~~ may include a process to build awareness of the adopted standards, provide relevant education and training, develop or disseminate implementation guidance and any other activities that promote proper understanding and use of the standards in practice.
13. In jurisdictions where English is not an official or widely used language, and where international standards have not been translated, IFAC member bodies shall assess their priorities and challenges and consider whether there is a need for translation of these standards to ensure their proper adoption and implementation. Where such a need exists, IFAC member bodies shall use their best endeavors to have a process established, or otherwise support a process to provide for the timely, accurate, and complete translation of international standards⁹ and, to the extent practicable, of related exposure drafts. ³⁴
14. IFAC member bodies shall notify their members of the new, proposed, and revised provisions of the IESBA *Code of Ethics* and other pronouncements ~~developed~~ issued by the IESBA.
15. IFAC member bodies are encouraged to comment on IESBA exposure drafts.

IFAC Compliance Assessment

16. In assessing compliance with this SMO, IFAC will give due consideration to the applicability framework and the best endeavors concept, as well as the differing national ~~environments~~ enviroments, stages of development, and other relevant environmental factors.
17. IFAC will take into account the relevance of individual SMO requirements to each IFAC member body in assessing its level of compliance. This recognizes that some IFAC member bodies and their members operate in different sectors of the profession, and that some SMOs may not apply to them in their entirety.
18. In addressing the requirements of this SMO, IFAC member bodies need to consider priorities, processes, and challenges specific to their jurisdiction and constituency. Consequently, they shall develop an action plan, obtain internal agreement on a timetable for achieving compliance, and demonstrate progress against the plan. If not, they shall satisfactorily justify why they have not done so or they may be suspended or removed from membership for non-compliance.

Effective Date

19. This SMO is effective as of ~~December 31, 2004~~ January 1st, 2013 and was last amended as of MM, DD, YYYY.

⁹ ~~Translations, if any, shall be made in line with the IFAC Policy Statement, *Policy for Translating and Reproducing Standards Issued by the International Federation of Accountants*. The policy document is available on the IFAC website.~~

³⁴ Translations, if any, shall be made in line with the IFAC Policy Statement, *Policy for Translating and Reproducing Standards Issued by the International Federation of Accountants*, available on the IFAC website.

STATEMENT OF MEMBERSHIP OBLIGATIONS 5

INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS

AND OTHER PRONOUNCEMENTS ISSUED BY THE IPSASB

GUIDANCE

Obligation

1. In accordance with the IFAC Constitution, paragraph 2.3.b., IFAC member bodies are required to comply with the Statements of Membership Obligations (SMOs).

Scope

2. This ~~Statement of Membership Obligations (SMO)~~SMO is issued by the IFAC Board and sets out requirements of an IFAC member body with respect to International Public Sector Accounting Standards (IPSASs), and other pronouncements issued by the International Public Sector Accounting Standards Board (IPSASB), an independent standard-setting body supported by IFAC.³⁵ To understand and address the requirements, it is necessary to consider the entire text of the SMO.
3. The IPSASB focuses on the accounting and financial reporting needs of (a) national, regional, and local governments, (b) related governmental agencies, and (c) the constituencies they serve. It addresses these needs by issuing and promoting benchmark guidance and facilitating the exchange of information among accountants and those who work in the public sector, or rely on its work.

Applicability Framework

4. IFAC recognizes that its member bodies operate under different national legal and regulatory frameworks, and are comprised of professionals working in different sectors of the accountancy profession. Accordingly, IFAC member bodies in different jurisdictions may have different degrees of responsibility for meeting the requirements in this SMO.
- ~~5. While it is possible for an IFAC member body to have direct responsibility for public sector accounting standards, it is recognized that most IFAC member bodies have no or very limited responsibility for this area.~~
5. ~~6.~~ Without prejudice to the existence of more complex national frameworks, IFAC member bodies ~~can~~may have:
 - (a) direct responsibility for the area covered by this SMO. The mandate, explicitly given to the IFAC member body or otherwise implied through general consensus,³⁶ specifies that it is responsible for adopting and implementing public sector accounting standards;~~or~~

³⁵ The IPSASB's Terms of Reference (TOR) provide additional and up-to-date information about this independent standard-setting body. The IPSASB's TOR are available on the IFAC website.

³⁶ In accordance with the IFAC Bylaws, paragraph 2.1, in the case of general consensus, evidence must exist that the IFAC member body has the support of the public and other key stakeholders.

- (b) no responsibility for the area covered by this SMO. The IFAC member body has no mandate, explicitly given or otherwise implied through general consensus, ~~that it has~~³⁷ for any responsibility for adopting and implementing public sector accounting standards as government, regulators, or other appointed authorities have direct responsibility for the area covered by this SMO; or
- (c) shared responsibility with government, regulators, or other appointed authorities. The mandate, explicitly given to the IFAC member body or otherwise implied through general consensus,³⁸ specifies that it has some responsibility for the area relating to this SMO.

Direct Responsibility

- 6. ~~7.~~ Where IFAC member bodies have direct responsibility they shall implement all the requirements of this SMO.
- 7. ~~8.~~ In exceptional circumstances, an IFAC member body may depart from a requirement of this SMO~~7~~ if doing so is determined by the member body to be in the public interest. If this is the case, the IFAC member body shall justify and publicly document the departure. Any IFAC member body that (a) fails to follow the requirements of this SMO~~7~~ and (b) does not document satisfactorily why it has departed from it, may be suspended or removed from membership.

No Responsibility

- 8. ~~9.~~ Where IFAC member bodies have no responsibility for this area they shall use their best endeavors to:
 - (a) encourage those responsible for the requirements to follow this SMO in implementing them; and
 - (b) assist in the implementation where appropriate.
- 9. ~~10.~~ An IFAC member body will have been considered to have used “its best endeavors” if it could not reasonably do more than it has done and is doing to meet the requirements of this SMO.

Shared Responsibility

- 10. ~~11.~~ Where IFAC member bodies have shared responsibility for this area they shall:
 - (a) implement those requirements for which they have direct responsibility in accordance with paragraphs 7 and 8; and
 - (b) take actions specified in paragraphs 9 and 10 for those requirements where they have no responsibility.

Requirements and Application Guidance

- 11. ~~12.~~ In accordance with the applicability framework, IFAC member bodies shall identify and undertake actions to have the international standards issued by the IPSASB adopted and implemented in their jurisdictions.

³⁷ Ibid.

³⁸ Ibid.

- (a) ~~“Adoption”~~ is concerned with the decision that international standards are appropriate for use in specific national financial reporting environments and with the actions necessary to effect those decisions^{40, 39}, including incorporation into national requirements or requiring the use of international standards through law. Adoption ~~typically includes~~ may include a process to review draft international standards, translation, public exposure of proposed standards, approval, incorporation into national requirements as necessary, and promulgation of final standards, and, where applicable, a convergence process to eliminate or minimize differences between international and national standards.
- (b) ~~“Implementation”~~ ~~typically includes~~ may include a process to build awareness of the adopted standards, provide relevant education and training, develop or disseminate implementation guidance and any other activities that promote proper understanding and use of the standards in practice.
12. ~~13.~~ In jurisdictions where English is not an official or widely used language, and where international standards have not been translated, IFAC member bodies shall assess their priorities and challenges and consider whether there is a need for translation of these standards to ensure their proper adoption and implementation. Where such a need exists, IFAC member bodies shall use their best endeavors to have a process established, or otherwise support a process to provide for the timely, accurate, and complete translation of international standards⁴⁴ and, to the extent practicable, of related exposure drafts.⁴⁰
13. ~~14.~~ IFAC member bodies shall notify their members of all new, proposed, and revised IPSAS and ~~guidelines, as well as studies and occasional papers developed~~ other pronouncements issued by the IPSASB.
14. ~~15.~~ IFAC member bodies are encouraged to comment on IPSASB exposure drafts.

IFAC Compliance Assessment

15. ~~16.~~ In assessing compliance with this SMO, IFAC will give due consideration to the applicability framework and the best endeavors concept, as well as the differing national environments, stages of development, and other relevant environmental factors.
16. ~~17.~~ IFAC will take into account the relevance of individual SMO requirements to each IFAC member body in assessing its level of compliance. This recognizes that some IFAC member bodies and their members operate in different sectors of the profession, and that some SMOs may not apply to them in their entirety.
17. ~~18.~~ In addressing the requirements of this SMO, IFAC member bodies need to consider priorities, processes, and challenges specific to their jurisdiction and constituency. Consequently, they shall develop an action plan, obtain internal agreement on a timetable for achieving compliance, and

⁴⁰ ~~As stated in the IFAC Strategic Plan for 2011-2014. The IFAC Strategic Plan is available on the IFAC website.~~

³⁹ As stated in the IFAC Strategic Plan for 2011-2014, which is available on the IFAC website.

⁴¹ ~~Translations, if any, shall be made in line with the IFAC Policy Statement, Policy for Translating and Reproducing Standards Issued by the International Federation of Accountants. The policy document is available on the IFAC website.~~

⁴⁰ Translations, if any, shall be made in line with the IFAC Policy Statement, Policy for Translating and Reproducing Standards Issued by the International Federation of Accountants, which is available on the IFAC website.

demonstrate progress against the plan. If not, they shall satisfactorily justify why they have not done so or they may be suspended or removed from membership for non-compliance.

Effective Date

18. ~~19.~~ This SMO is effective as of ~~December 31, 2004~~ January 1st, 2013 and was last amended as of MM, DD, YYYY.

STATEMENT OF MEMBERSHIP OBLIGATIONS 6

INVESTIGATION AND DISCIPLINE

Obligation

1. In accordance with the IFAC Constitution, paragraph 2.3.b., IFAC member bodies are required to comply with the Statements of Membership Obligations [\(SMOs\)](#).

Scope

2. This ~~Statement of Membership Obligations (SMO)~~[SMO](#) is issued by the IFAC Board and sets out the requirements of an IFAC member body with respect to investigation and disciplinary systems, which provide for the investigation and discipline of those who fail to exercise and maintain professional standards, ~~and the related obligation of an IFAC member body.~~⁴¹ To understand and address the requirements, it is necessary to consider the entire text of the SMO.

Applicability Framework

3. IFAC recognizes that its member bodies operate under different national legal and regulatory frameworks, and are comprised of professionals working in different sectors of the accountancy profession. Accordingly, IFAC member bodies in different jurisdictions may have different degrees of responsibility for meeting the requirements in this SMO.
4. Without prejudice to the existence of more complex national frameworks, IFAC member bodies ~~can~~[may](#) have:
 - (a) direct responsibility for the area covered by this SMO. The mandate, explicitly given to the IFAC member body or otherwise implied through general consensus,⁴² specifies that it is responsible for setting the rules and operating the investigation and disciplinary system; ~~or~~
 - (b) no responsibility for the area covered by this SMO. The IFAC member body has no mandate, explicitly given or otherwise implied through general consensus, ~~that it has~~⁴³ [for any responsibility for setting the rules and operating the investigation and disciplinary system as government, regulators, or other appointed authorities have direct responsibility for the area covered by this SMO](#); or
 - (c) shared responsibility with government, regulators, or other appointed authorities. The mandate, explicitly given to the IFAC member body or otherwise implied through general consensus,⁴⁴ specifies that it has some responsibility for the area relating to this SMO.

⁴¹ [Professional standards are defined at paragraph 69.](#)

⁴² [In accordance with the IFAC Bylaws, paragraph 2.1, in the case of general consensus, evidence must exist that the IFAC member body has the support of the public and other key stakeholders.](#)

⁴³ [Ibid.](#)

⁴⁴ [Ibid.](#)

Direct Responsibility

5. Where IFAC member bodies have direct responsibility they shall implement all the requirements of this SMO.
6. In exceptional circumstances, an IFAC member body may depart from a requirement of this SMO⁷ if doing so is determined by the member body to be in the public interest. If this is the case, the IFAC member body shall justify and publicly document the departure. Any IFAC member body that (a) fails to follow the requirements of this SMO⁷ and (b) does not document satisfactorily why it has departed from it, may be suspended or removed from membership.

No Responsibility

7. Where IFAC member bodies have no responsibility for this area they shall use their best endeavors to:
 - (a) encourage those responsible for the requirements to follow this SMO in implementing them; and
 - (b) assist in the implementation where appropriate.
8. An IFAC member body will have been considered to have used "its best endeavors" if it could not reasonably do more than it has done and is doing to meet the requirements of this SMO.

Shared Responsibility

9. Where IFAC member bodies have shared responsibility for this area they shall:
 - (a) implement those requirements for which they have direct responsibility in accordance with paragraphs 5 and 6; and
 - (b) take actions specified in paragraphs 7 and 8 for those requirements where they have no responsibility.

Requirements and Application Guidance

Scope of the Investigative and Disciplinary System

10. In accordance with the applicability framework, IFAC member bodies shall identify and undertake actions to have a just and effective investigative and disciplinary system in place for their members.
11. Each member shall be made ~~fully~~ aware of:
 - (a) all provisions of the code of ethics and other applicable professional standards, rules, and requirements (and any amendments), whether issued by ~~IFAC~~the International Ethics Standards Board for Accountants or by the responsible body at the national level; and
 - (b) the consequences of non-compliance with these codes, standards, rules, and requirements.
12. Bodies responsible for the investigation and disciplinary system shall, in their constitution and rules, provide for the investigation and discipline of misconduct, including breaches of professional standards by individual members (and, if local laws and practices permit, by firms).
13. Misconduct includes any and all of the following:
 - ~~Criminal~~criminal activity;
 - ~~Acts~~acts or omissions likely to bring the accountancy profession into disrepute;

- ~~Breaches~~breaches of professional standards, including breaches of ethical requirements;
- ~~Gross~~gross professional negligence;
- ~~A~~a number of less serious instances of professional negligence that, cumulatively, may indicate unfitness to exercise practicing rights; and
- ~~Unsatisfactory~~unsatisfactory work.

Each jurisdiction is free to decide ~~that~~if “misconduct” also includes ~~lesser~~other instances of professional misconduct.

14. Where local laws and public interest considerations permit, a proportional response shall be elaborated in relation to the individual member’s responsibility versus an issue with the firm. Possible elements to take into consideration ~~are to evaluate~~include evaluating if:
 - the failures were systemic;
 - the firm leadership was complicit in the ~~willful misconduct or gross negligence~~;
 - it forms part of a pattern of failures, ~~identified through a rigorous inspection process~~, that have not been corrected in due time; and
 - it represents a sufficient public concern.
15. In some jurisdictions, some instances of misconduct that normally require a reference to a disciplinary tribunal or similar body are distinguished from regulatory breaches, which can be effectively dealt with under the regulatory rules of the body responsible for the investigation and disciplinary system without reference to a tribunal. Where separate departments of the responsible body deal with each category, the two departments shall liaise with (including giving reports to) each other, to ensure an effective link between regulatory action and investigation and discipline.
16. Where the law or practice in the jurisdiction does not consider regulatory breaches as “misconduct,” the responsible body shall ensure that the sanctions include ~~both~~-restriction ~~and~~or removal of practicing rights.

Investigative and Disciplinary Powers

17. The rules of the body responsible for the investigation and disciplinary system shall, to the extent that local laws permit, include all powers necessary to enable authorized personnel to carry out an effective investigation. Such rules shall also (a) require individual members ~~(and member firms)~~ to cooperate in the investigation of complaints, and to respond promptly to all communications on the subject, and (b) provide for sanctions in the event of failure to comply. Good professional relationships with public authorities shall also be fostered, to enable ~~them~~authorities to effectively administer the investigative and disciplinary processes.
18. The body responsible for the investigation and disciplinary system shall ensure the availability of appropriate expertise and adequate financial and other resources to enable timely investigative and disciplinary action. A suitably qualified, senior member of staff shall be given the responsibility for managing ~~these~~investigative and disciplinary processes, to ensure that all investigative and disciplinary processes are consistent with the rules of natural justice and other applicable laws.

Composition of Investigative and Disciplinary Teams and Committees

19. ~~The~~Subject to the preceding paragraph, the composition of the investigative and prosecutorial teams and committees shall be governed by the decision of each body responsible for the investigation and disciplinary system. Some bodies deploy mixed teams of volunteer members and staff of appropriate skill and experience. In many cases, an investigation committee is appointed and composed of individuals from different professional backgrounds, including non-accountants and “public interest” representation. Any individual(s) serving on the investigation committee may be asked to assist in the detailed investigation of a particular case.

Initiation of Proceedings

20. The body responsible for the investigation and disciplinary system shall adopt both a “complaints-based” and an “information-based” approach ~~and a “complaints-based” approach~~ to investigation and discipline.

Complaints-~~based~~Based Approach

21. Action that is complaints- based is triggered by the receipt of a complaint by the body responsible for the investigation and disciplinary system against an individual member or firm. ~~Typically, such~~Such complaints may come from a client or regulatory agency.

Information-~~based~~Based Approach

22. The information-based approach is not a substitute for the complaints-based approach, but an additional process that offers the public further protection. It does so by permitting the investigative and disciplinary arm of the responsible body to commence an investigation (even when there has been no complaint) when information is received from reliable sources that indicates the possibility of misconduct. The information-based approach has the following benefits:

- ~~It~~it enables the system to be proactive in the public interest;
- ~~It~~it may allow for the identification of conduct of potential concern at an early stage; and
- ~~It~~it can ~~also~~ provide additional assurance to outside stakeholders that the profession is actively concerned with protecting the public interest and maintaining the highest possible standards within the profession.

23. As required by SMO ~~4.1~~4.1—Quality Assurance, where (a) the body responsible for the quality assurance review system (or its committee with appropriate delegated powers) considers that an unsatisfactory conclusion of quality assurance reviews represents serious failings by the firm or partner, and (b) there is no mechanism in place to take corrective action under the quality assurance review system to address this unsatisfactory conclusion, a link shall be established between an unsatisfactory conclusion of quality assurance reviews and the initiation of disciplinary proceedings.

The Investigative Process

24. At the outset of an investigation process, it shall be confirmed that any individual chosen from the committee to assist in an investigation is independent of (a) the subject of the investigation, and (b) anyone connected with or interested in the matter under investigation. If a conflict of interest exists at the outset, or arises during the investigation, the nominee shall immediately ~~stand down~~withdraw

from the case. Similar considerations apply equally to anyone connected with the investigation and hearing of cases.

25. On completion of the investigation process, the investigation committee shall review the evidence and decide whether there appears to be a case to ~~answer~~pursue. If the investigation committee is satisfied that there is a case to ~~answer~~pursue, the matter shall be referred to a disciplinary tribunal or similar grouping, and professional charges shall be ~~laid~~brought to the extent local laws permit. The investigative process may be placed on hold if the matter being investigated comes or is currently before a court or regulatory authority.
26. Many cases can be ~~dealt with~~handled by the investigation committee without the need for a full tribunal hearing, if the parties agree on an alternative ~~solution~~dispute resolution, or if the defendant admits the charge or charges.

The Disciplinary Process

27. A tribunal or other body with responsibility for disciplinary matters shall be established to hear cases where the investigation committee has decided to ~~lay~~bring professional charges. To avoid delay, a panel or similar grouping shall be established as soon as possible from which individuals can be drawn to sit as judges at hearings. Tribunals shall comprise a balance of professional expertise and outside judgment. For this reason, they shall be composed of accountants and non-accountants. No person shall be a member of both the investigation committee and the disciplinary tribunal at the same time, nor can a member of the investigation committee in relation to a specific case be subsequently appointed to the disciplinary tribunal to hear the same case.
28. One of the established tests for invoking disciplinary processes is that the member's (or member firm's) conduct has fallen significantly short of what might reasonably have been expected in the circumstances, but it is for each body to establish ~~the~~an appropriate test(s).
29. It is appropriate to have a senior lawyer act as independent adviser to members of the tribunal on evidential, procedural, and other matters, such as the burden and standard of proof necessary to support the conclusions of the investigation committee. The tribunals shall also include legally qualified personnel, or have permanent access to legal advisors during the disciplinary proceeding. In some jurisdictions, a senior lawyer is retained to chair the tribunal. A small panel of senior lawyers might be established, from which an individual could be drawn to act as adviser or to chair hearings as they arise. The senior staff member assigned to investigation and prosecution, an outside lawyer, or another suitably qualified individual, may conduct prosecutions. In some jurisdictions, provision is made for the chair alone to deal with preliminary issues, to reduce the time spent by other members of the tribunal. If this practice is adopted, it is appropriate that the chair be legally qualified, or that an independent legal adviser also be present.
30. The tribunal shall exhibit independence. How this is done may vary from jurisdiction to jurisdiction, but institutional rules shall exist that prevent the body responsible for the investigation and disciplinary system from influencing the disciplinary tribunal's operational work, decision making, or imposition of sanctions. Further, only the appeal tribunal referred to in Paragraph 35 may amend or reverse a decision of the tribunal.

Sanctions

31. The system shall allow those who judge such issues to impose a range of penalties, including, if local laws permit:

- reprimands;
 - fine/payment of costs;
 - loss or restriction of practice rights;
 - loss of professional title (designation);
 - suspension from membership; and
 - exclusion from membership.
32. It is particularly important that, if local laws permit, the penalties include (a) loss of professional designation, (b) restriction and removal of practicing rights, and (c) exclusion from membership. Such a system protects clients and other stakeholders, demonstrating to the public that the profession is dedicated to maintaining and enhancing professional standards and, ultimately, removing from the profession those who do not deserve to belong in it.

Proportionality of Sanctions

33. In deciding what sanction is appropriate, the tribunal or other body with responsibility for disciplinary matters shall weigh the interests of the member and the public interest. This includes the protection of members of the public, maintaining public confidence in the profession, and maintaining proper standards of professional conduct.
34. To ensure (a) consistency in the sanctioning process, and (b) that any sanction imposed is both proportionate to the level of seriousness of the misconduct and the minimum necessary to achieve the purpose, the tribunal shall develop and ~~utilize sanctioning guidelines~~ use a set of guiding principles when imposing sanctions. The tribunal shall also take into account all the circumstances of the case, including:
- any aggravating or mitigating factors relevant to the conduct in question;
 - the personal circumstances of the individual, and any other mitigation advanced by the individual or firm, ~~i.e., the~~ g. circumstances that pertain at the date of the tribunal's decision; and
 - any character and/or other references provided in support of the individual or firm.

Rights of Representation and Appeal

35. The rules of the body responsible for the investigation and disciplinary system shall permit a qualified lawyer or other person chosen by the defendant to accompany and represent the defendant at all disciplinary hearings, and to advise the defendant throughout the investigative and disciplinary process. These rules shall also permit the defendant to appeal the ~~conviction~~ findings and any imposed sanction. Where local laws and public interest considerations permit, any order made against the defendant shall be suspended by the tribunal that ~~convicted~~ found against the defendant pending the hearing of that appeal. The appeal tribunal shall not include a prosecutor or a member of the first tribunal, or any other individual who was involved in the original ~~conviction~~ findings. The appeal process shall include the same procedures as apply to hearings before the disciplinary tribunal.
36. In some jurisdictions, the investigation committee may file an appeal if the committee considers that the sanction imposed by the disciplinary tribunal is too lenient. However, no appeal is permitted by the member's governing body.

Administrative Processes

37. The body responsible for the investigation and disciplinary system shall establish ~~time~~timeframe targets for disposal of all cases, and shall aim to meet them whenever possible. Normally, any ~~time~~timeframe set for disposal shall begin on the date information that was sufficient to justify commencing an investigation was received.
38. Tracking mechanisms shall be maintained and operated, to ensure that all investigations and prosecutions are promptly handled, and that all necessary action is taken at the appropriate stage. These mechanisms shall include a form of exception reporting. ~~#~~They would require the person responsible for the investigative and disciplinary process to report any material delay in investigation or prosecution to a designated person, such as the ~~CEO~~chief executive officer of the responsible body, ~~or~~ the chair of the investigation committee, or an equivalent person.
39. Unnecessary delay threatens effective investigation and prosecution of cases. It is potentially unfair to complainants and defendants alike, and can be detrimental to an otherwise substantiated case. Accordingly, it is recommended that investigations and disciplinary hearings take place as expeditiously as possible. Where it is not necessary to have a formal disciplinary hearing, an appropriate timeframe target might be to complete the process as quickly as practicable. The commencement of criminal or civil proceedings or investigations by outside agencies may delay investigations and prosecutions by the body responsible for the investigation and disciplinary system. Judgments and other information from such other proceedings and investigations may, however, assist the body responsible for the investigation and disciplinary system in its subsequent investigation and prosecution of cases.
40. Tracking mechanisms are designed to monitor progress in investigations and prosecutions, and to prompt those involved to take timely action to minimize delay.
41. In many jurisdictions, confidentiality of proceedings ~~is desirable for~~contributes to the good standing of the investigative and disciplinary process; ~~however.~~ However, due consideration ~~is~~shall be given to local laws and public interest considerations in relation to a defendant's rights. The body responsible for the investigation and disciplinary system develops its own policies on what publicity will be given to the disposal of cases. Caution shall be taken ~~to release~~in releasing to third parties only that information ~~that~~ the law permits to be made public, or that is authorized for release by those responsible for such decisions.
42. All persons employed or otherwise participating in the investigative and disciplinary processes (or having access to information concerning such processes) shall be notified of the importance of maintaining confidentiality. A binding agreement to maintain that confidentiality shall be signed by all relevant parties.
43. Secure and confidential facilities shall be maintained for the storage of case papers and other evidence. Secure and confidential handling and storage of papers and other evidence protects the interests of all parties to the investigative and disciplinary processes, particularly the complainant and the body responsible for disciplinary matters. It reduces the potential loss of evidence, and prevents tampering with or removal of that evidence.
44. Complete records of all investigations and disciplinary processes, both during the proceedings and the retention period, shall be established and maintained for these purposes.
45. Effective record keeping is important to track and maintain records of all investigations and disciplinary processes. In this way, persistent offenders can be identified and reliable statistics

produced. This demonstrates that there is an active and effective investigative and disciplinary process in place. Accurate and complete records are also helpful in answering complaints about the handling of a case, particularly since these may arise ~~even~~ years after the case has been dealt with. Each body responsible for the investigation and disciplinary system develops its own document retention policies. It is recommended that records be retained long enough to ensure that relevant information is available to protect the public interest and the members of the IFAC member body. Such records may be maintained in electronic or paper format. It is advised ~~to~~that each body responsible for the investigation and disciplinary system refer to legislation in their jurisdictions that ~~deal with~~relates to the handling, storage, and use of data and confidential information.

46. Reports of disciplinary and similar proceedings can be a valuable educational tool, in that they (a) relate to actual events;ⁱ (b) demonstrate the practical application of standards, rules, and the code of ethics;ⁱ and (c) identify pitfalls to be avoided. ~~For this reason, it is recommended that~~Therefore, publishing case reports ~~be published,~~ and ~~that~~encouraging students and qualified members ~~be encouraged~~ to study them.~~They can provide a valuable opportunity for education. Case reports~~ are useful whether or not they identify the names of individuals and third parties involved. In all circumstances, ~~it is important to ensure that the rights of all concerned (for example, the rights~~the timing of publication or content of such reports shall not adversely affect the right of those involved in related civil or criminal cases) ~~are not adversely affected by the timing or content of such reports.~~ Where circumstances permit, third parties intending to produce such reports^r shall issue them after consulting those responsible for the investigative and prosecutorial process.

Public Interest Considerations

47. IFAC member bodies shall ensure that the public is aware that an investigative and disciplinary system exists in its jurisdiction, so that issues it wishes to raise may be forwarded to the relevant committee of the responsible body. To the extent local laws permit, the public shall be made aware of disciplinary action against members.
48. ~~A~~The body responsible for the investigation and disciplinary system shall establish and maintain a process for the independent review of complaints by clients and others ~~shall be established and maintained~~ in cases where it has been decided, following investigation, that the matter will not be referred to a disciplinary hearing.
49. The objective of this review process is to study the available information and decide whether the investigation committee reached a reasonable decision on the basis of complete information. The details of the process are a matter for the body responsible for the investigation and disciplinary system. However, the existence of an effective independent review process is essential to demonstrate that the investigative processes recognize human rights^r and natural justice^r and effectively serve the public interest. This is important not only to the defendant, the complainant, and others involved in the investigative and disciplinary process, but also to the reputation of the body responsible for the investigation and disciplinary system and the profession at the national and international level.
50. An annual report shall be prepared and made available to the public summarizing the results of investigative and disciplinary proceedings. Copies of the report shall also be made available, upon request, to the appropriate public authority.
51. The disclosure of specific information in such annual reports pertaining to the individual's or firms' identity(ies), and their clients, is governed by the existing local regulations.

Liaison with Outside Bodies

52. ~~The~~To the extent that local laws permit, the body responsible for the investigation and disciplinary system shall ensure that it ~~complies with all obligations under local laws requiring it to:~~
- (a) ~~report~~reports possible involvement in serious crimes and offences by members to the appropriate public authority; and
 - (b) ~~disclosed~~discloses related information to that authority.

Dual Membership

53. To the extent that local laws permit, ~~in relation to members of member bodies holding two or more memberships, member bodies are encouraged to consider informing relevant qualifying~~and IFAC member bodies are aware that members subject to disciplinary proceedings belong to other professional accountancy ~~organization about the outcome of the investigative proceeding~~organizations or other professional organizations, member bodies shall consider informing such organizations regarding the outcome of disciplinary proceedings.

Review of Implementation and Effectiveness

54. Regular reviews of the proper implementation and effectiveness of the investigation and disciplinary system shall be performed to ensure that it functions as intended and in accordance with the requirements of this SMO. When reviews of the proper implementation and effectiveness of the investigation and disciplinary system reveal issues in the proper functioning of the system, action shall be taken to ensure that these specific issues are addressed as soon as practicable. An IFAC member body responsible for the investigation and disciplinary system is not required to perform any implementation and effectiveness reviews when they are undertaken at least annually by an external organization.

IFAC Compliance Assessment

55. In assessing compliance with this SMO, IFAC will give due consideration to the applicability framework and the best endeavors concept, as well as the differing national environments, stages of development, and other relevant environmental factors.
56. IFAC will take into account the relevance of individual SMO requirements to each IFAC member body in assessing its level of compliance. This recognizes that some IFAC member bodies and their members operate in different sectors of the profession, and that some SMOs may not apply to them in their entirety.
57. In addressing the requirements of this SMO, IFAC member bodies need to consider priorities, processes, and challenges specific to their jurisdiction and constituency. Consequently, they shall develop an action plan, obtain internal agreement on a timetable for achieving compliance, and demonstrate progress against the plan. If not, they shall satisfactorily justify why they have not done so or they may be suspended or removed from membership for non-compliance.

Effective Date

58. This SMO is effective as of ~~December 31, 2004~~January 1st, 2013 and was last amended as of MM, DD, YYYY.

Definitions

59. In this SMO, the following terms have the ~~meanings~~definitions attributed below:

- (a) ~~“Professional standards”~~—For the purpose of this SMO, a range of applicable international standards or the equivalent standards of the ~~country~~jurisdiction in which the IFAC member bodies and associates carry out practice in the field of accounting and auditing, generally recognized as promulgating best global accounting principles. The non-exhaustive international standards list includes (a) pronouncements of the International Auditing and Assurance Standards Board (IAASB), as defined in the IAASB’s ~~“Preface to the International Standards on Quality Control, Auditing, Review, Other Assurance, and Related Services.”~~; (b) ethical requirements, which ordinarily comprise the *Code of Ethics* for Professional Accountants of the International Ethics Standards Board for Accountants ~~(IESBA Code of Ethics)~~; (c) International Educational Standards (IESs), issued by the International Accounting Education Standards Board; ~~(IAESB), and~~ (d) International Financial Reporting Standards ~~(IFRSs)~~ issued by the International Accounting Standards Board; and ~~(IASB)~~d) International Public Sector Accounting Standards issued by the International Public Sector Accounting Standards Board. Each IFAC member body is free to incorporate additional relevant standards into the above list.

STATEMENT OF MEMBERSHIP OBLIGATIONS 7

INTERNATIONAL FINANCIAL REPORTING STANDARDS AND OTHER PRONOUNCEMENTS ISSUED BY THE IASB

Obligation

1. In accordance with the IFAC Constitution, paragraph 2.3.b., IFAC member bodies are required to comply with the Statements of Membership Obligations (SMOs).

Scope

2. This ~~Statement of Membership Obligations (SMO)~~SMO is issued by the IFAC Board and sets out requirements for IFAC member bodies with respect to International Financial Reporting Standards (IFRSs) ~~and other pronouncements~~ issued by the International Accounting Standards Board (IASB). To understand and address the requirements, it is necessary to consider the entire text of the SMO.
3. The IASB is the independent standard-setting body of the IFRS Foundation. ~~Its members are~~IASB is responsible for developing and publishing IFRSs, including *IFRS for SMEs*, and for approving interpretations of IFRSs developed by the IFRS Interpretations Committee.

Applicability Framework

4. IFAC recognizes that its member bodies operate under different national legal and regulatory frameworks, and are comprised of professionals working in different sectors of the accountancy profession. Accordingly, IFAC member bodies in different jurisdictions may have different degrees of responsibility for meeting the requirements in this SMO.
5. Without prejudice to the existence of more complex national frameworks, IFAC member bodies can have:
 - (a) direct responsibility for the area covered by this SMO. The mandate, explicitly given to the IFAC member body or otherwise implied through general consensus,⁴⁵ specifies that it is responsible for adopting and implementing accounting standards; ~~or~~
 - (b) no responsibility for the area covered by this SMO. The IFAC member body has no mandate, explicitly given or otherwise implied through general consensus, ~~that it has~~⁴⁶ for any responsibility for adopting and implementing accounting standards as government, regulators, or other appointed authorities have direct responsibility for the area covered by this SMO; or
 - (c) shared responsibility with government, regulators, or other appointed authorities. The mandate, explicitly given to the IFAC member body or otherwise implied through general consensus,⁴⁷ specifies that it has some responsibility for the area relating to this SMO.

⁴⁵ In accordance with the IFAC Bylaws, paragraph 2.1, in the case of general consensus, evidence must exist that the IFAC member body has the support of the public and other key stakeholders.

⁴⁶ Ibid.

⁴⁷ Ibid.

Direct Responsibility

6. Where IFAC member bodies have direct responsibility they shall implement all the requirements of this SMO.
7. In exceptional circumstances, an IFAC member body may depart from a requirement of this SMO⁷ if doing so is determined by the member body to be in the public interest. If this is the case, the IFAC member body shall justify and publicly document the departure. Any IFAC member body that (a) fails to follow the requirements of this SMO⁷ and (b) does not document satisfactorily why it has departed from it, may be suspended or removed from membership.

No Responsibility

8. Where IFAC member bodies have no responsibility for this area they shall use their best endeavors to:
 - (a) encourage those responsible for the requirements to follow this SMO in implementing them; and
 - (b) assist in the implementation where appropriate.
9. An IFAC member body will have been considered to have used “its best endeavors” if it could not reasonably do more than it has done and is doing to meet the requirements of this SMO in.

Shared Responsibility

10. Where IFAC member bodies have shared responsibility for this area they shall:
 - (a) implement those requirements for which they have direct responsibility in accordance with paragraphs 6 and 7; and
 - (b) take actions specified in paragraphs 8 and 9 for those requirements where they have no responsibility.

Requirements and Application Guidance

11. In accordance with the applicability framework, IFAC member bodies shall identify and undertake actions to have the IFRSs issued by the IASB adopted and implemented for at least public interest entities^{42 48} in their jurisdictions.
 - (a) ~~“Adoption”~~ is concerned with the decision that international standards are appropriate for use in specific national financial reporting environments and with the actions necessary to effect those decisions^{43 49}, including incorporation into national requirements or requiring the use of international standards through law. Adoption ~~typically includes~~ may include a process to review draft international standards, translation, public exposure of proposed standards, approval, incorporation into national requirements as necessary, and promulgation of final

^{42 48} Public interest entities ~~as are~~ defined by the *Code of Ethics of the International Ethics Standards Board for Professional Accountants (IESBA)*. ~~The IESBA Code of Ethics, which~~ is available ~~through~~ on the IFAC website.

⁴³ ~~As stated in the IFAC Strategic Plan for 2011-2014. The IFAC Strategic Plan is available on the IFAC website.~~

⁴⁹ As stated in the IFAC Strategic Plan for 2011-2014, which is available on the IFAC website.

standards, and, where applicable, a convergence process to eliminate or minimize differences between international and national standards.

(b) ~~–“Implementation” typically includes~~ may include a process to build awareness of the adopted standards, provide relevant education and training, develop or disseminate implementation guidance and any other activities that promote proper understanding and use of the standards in practice.

12. Responsible parties are encouraged to consider the use of *IFRS for SMEs* in relation to non-public interest entities.
13. In jurisdictions where English is not an official or widely used language and where international standards have not been translated, IFAC member bodies shall assess their priorities and challenges and consider whether there is a need for translation of these standards to ensure their proper adoption and implementation. Where such a need exists, IFAC member bodies shall use their best endeavors to have a process established, or otherwise support a process to provide for the timely, accurate, and complete translation of international standards and, to the extent practicable, of related exposure drafts. Therefore, IFAC member bodies are encouraged to assist in the translation processes undertaken by the IFRS Foundation or to work with the IFRS Foundation to establish a process for translation into the national language of the IFAC member body^{44 50}.
14. IFAC member bodies are encouraged to comment on IASB exposure drafts.

IFAC Compliance Assessment

15. In assessing compliance with this SMO, IFAC will give due consideration to the applicability framework and the best endeavors concept, as well as the differing national environments, stages of development, and other relevant environmental factors.
16. IFAC will take into account the relevance of individual SMO requirements to each IFAC member body in assessing its level of compliance. This recognizes that some IFAC member bodies and their members operate in different sectors of the profession, and that some SMOs may not apply to them in their entirety.
17. In addressing the requirements of this SMO, IFAC member bodies need to consider priorities, processes, and challenges specific to their jurisdiction and constituency. Consequently, they shall develop an action plan, obtain internal agreement on a timetable for achieving compliance, and demonstrate progress against the plan. If not, they shall satisfactorily justify why they have not done so or they may be suspended or removed from membership for non-compliance.

Effective Date

18. This SMO is effective as of ~~December 31, 2004~~ January 1st, 2013 and was last amended as of MM, DD, YYYY.

⁴⁴ ~~More information about the IFRS official translation process can be found on the IASB website at www.iasb.org.~~

⁵⁰ More information about the IFRS official translation process can be found on the IASB website at www.ifrs.org.

