

IFAC

EXTRACTS OF **DRAFT**

Statements of Membership Obligations

Accompanying Memorandum

SMO 5 on IPSASs; and

SMO 7 on IFRSs

Issued by the
International
Federation of
Accountants



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ACCOMPANYING MEMORANDUM TO STATEMENTS OF MEMBERSHIP OBLIGATIONS

Introduction

Statements of Membership Obligations (SMOs or Statements) are issued by the IFAC Board and provide clear benchmarks to current and potential IFAC member organizations to assist them in ensuring high quality performance by accountants. The Statements cover a member body's obligations to support the work of IFAC and its pronouncements, the work of the International Accounting Standards Board, and obligations regarding quality assurance and investigation and discipline.

The SMOs will form the basis of the IFAC Member Body Compliance Program. Member bodies will be required to perform self-assessments of their compliance with each of the SMOs including an assessment of actual standards in place in comparison to the relevant IFAC standards.

Applicability

The obligations, together with the related guidance, contained in the SMOs apply to full and associate members of IFAC. Unless the context otherwise requires, associate members are included within the term "member body". In applying these statements to associate members, IFAC will recognize (a) the different level of obligations that apply to associate members under the IFAC Constitution, and (b) the stage of development, development of resource, and scope of activities of each associate member and its members.

These Statements do not apply to affiliate members. Consistent with the obligations relating to affiliate members in the IFAC Constitution, however, affiliate members are expected to support the development and implementation of these Statements.

Best Endeavors

These Statements require member bodies to use their best endeavors to meet the obligations. A member body will have been considered to have used "best endeavors" if it could not reasonably do more than it has done and is doing to meet the particular membership obligation.

Despite the general application of SMOs to full and associate members, IFAC will take into account the relevance and application of SMO obligations to each member body in assessing the level of compliance. This recognizes the fact that some member bodies and their members operate in different sectors of the profession. In evaluating a member body's compliance with the SMOs as part of the IFAC Member Body Compliance Program, a member body's stage of development will also be considered.

In exceptional circumstances, a member body may depart from the obligations contained in these Statements, if doing so will fulfill its public interest duties more effectively. The member body should be prepared to justify the departure. A member body that fails to follow the obligations of these Statements, or justify satisfactorily why it has departed from them, may be suspended or removed from membership.

It is important to understand that it is possible for member bodies to comply with the obligations of an SMO, even if government, regulators or other appointed authorities carry out some or all of the

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functions specified in that SMO. In such circumstances, the obligation of IFAC member bodies is to use their best endeavors to encourage those entrusted with those functions to implement them in accordance with the provisions of these Statements and to assist them in implementing those functions when appropriate.

Black and Grey Lettering

The SMOs have been written using the International Auditing and Assurance Standards Board's (IAASB) drafting conventions, including the use of black and grey lettering. The IAASB is currently reviewing its use of black and grey lettering. The IFAC Board may re-evaluate the use of black and grey lettering in the SMOs depending on the outcome of the IAASB's review.

SMO Contents

SMO 1 – QUALITY ASSURANCE

Subject Matter

SMO 1 is to be applied by member bodies of IFAC to quality assurance review programs for their members performing certain audit engagements of financial statements. It applies whether the member bodies carry out such programs on their own behalf, on behalf of the profession, or on behalf of governments, regulators or other agencies.

Quality Control Standards

SMO 1 requires member bodies to establish and publish quality control standards and guidance requiring firms to implement a system of quality control in accordance with the International Standard on Quality Control (ISQC) 1.

ISQC 1 is under consideration by the International Auditing and Assurance Standards Board (IAASB) for final issuance in February 2004.

Related Documents

International Professional Practice Statement (IPPS) 1, "Assuring the Quality of Professional Services" was issued by the IFAC Council in August 1999. IPPS 1 will be superseded by SMO 1 once effective (e.g., January 1, 2005).

SMO 2 – INTERNATIONAL EDUCATION STANDARDS FOR PROFESSIONAL ACCOUNTANTS AND OTHER EDCOM GUIDANCE

Subject Matter

SMO 2 sets out the obligations of member bodies of IFAC in relation to International Education Standards for Professional Accountants (IESs), International Education Guidelines for Professional Accountants (IEGs) and International Education Papers for Professional Accountants (IEPs) issued by the Education Committee of IFAC (EDCOM). It applies whether the member bodies issue such standards, or whether the standards are issued by another body.

International Education Standards for Professional Accountants

The Education Committee released the first six IESs in October 2003 with an effective date of January 1, 2005.

SMO 3 – INTERNATIONAL STANDARDS, RELATED PRACTICE STATEMENTS AND OTHER PAPERS ISSUED BY THE IAASB*Subject Matter*

SMO 3 sets out the obligations of member bodies of IFAC in relation to quality control, auditing and assurance standards for its members. It applies whether the member bodies issue such standards, or whether the standards are issued by another body.

SMO 4 – IFAC CODE OF ETHICS FOR PROFESSIONAL ACCOUNTANTS*Subject Matter*

SMO 4 sets out the obligations of member bodies of IFAC in relation to the IFAC Code of Ethics for Professional Accountants (the IFAC Code) and other pronouncements issued by the IFAC Ethics Committee.

IFAC Code of Ethics for Professional Accountants

SMO 4 has been prepared under the existing IFAC Code which serves as a model on which to base national ethical guidance. In July 2003, the IFAC Board approved a proposed revised IFAC Code for exposure. The revisions to the IFAC Code require member bodies and firms to comply with the IFAC Code unless they are prohibited from complying by law or regulation. As noted in the Statement, conforming changes to the SMO will be necessary for consistency with the revised IFAC Code (amended as necessary following comments received on exposure).

Related Documents

Statements of Policy of Council, “Preface to Ethical Requirements of (Name of Member Body)” and “Implementation and Enforcement of Ethical Requirements” were issued by the IFAC Council in November 1990 and January 1998, respectively. These documents will be superseded by SMO 4 once effective (e.g., March 31, 2004).

SMO 5 – INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS AND OTHER PSC GUIDANCE

Subject Matter

SMO 5 sets out the obligations of member bodies of IFAC in relation to International Public Sector Accounting Standards (IPSASs) and other guidance issued by the Public Sector Committee (PSC) of IFAC.

SMO 6 – INVESTIGATION AND DISCIPLINE

Subject Matter

SMO 6 is to be applied by member bodies of IFAC in the investigation and discipline of misconduct, including, but not limited to, breaches of professional standards and rules by their individual members (and, if local laws and practices permit, by their member firms). SMO 6 specifically acknowledges that legal systems are very different from country to country. It also states reduced requirements that enable member bodies to comply with SMO 6 in countries where the investigative and disciplinary process is wholly or largely the responsibility of government or other outside agency.

SMO 7 – INTERNATIONAL FINANCIAL REPORTING STANDARDS

Subject Matter

SMO 7 sets out the obligations of member bodies of IFAC in relation to International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB).

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INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS
AND PSC GUIDANCE
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This Statement of Membership Obligations (SMO) is issued by the IFAC Board. It is to be applied by member bodies of IFAC to public sector accounting standards. It applies whether the member bodies issue such standards, or whether the standards are issued by another body.

Where government, regulators or other appointed authorities fulfill any of the obligations of this SMO, member bodies should (a) use their best endeavors to encourage those responsible for those functions to follow this SMO in implementing them, and (b) assist them in that implementation where appropriate.

This SMO sets out the obligations of member bodies in relation to International Public Sector Accounting Standards (IPSASs), and other pronouncements issued by the Public Sector Committee of IFAC (the PSC). To understand and apply the obligations (identified in bold type), it is necessary to consider the whole text of the SMO, including the explanatory and other material contained in the SMO.

This SMO applies to full and associate members of IFAC. Unless the context otherwise requires, associate members are included within the term “member body”. In applying this SMO to associate members, IFAC will recognize (a) the different level of obligations that applies to associate members under the IFAC Constitution and (b) the stage of development, availability of resource, and scope of activity of each associate member and its members.

This statement does not apply to affiliate members. Consistent with the obligations relating to affiliate members in the IFAC Constitution, however, affiliate members are expected to support the development and implementation of the Standards and other pronouncements of the PSC.

Despite the general application of SMOs to full and associate members, IFAC will take into account the relevance and application of the obligations to each member body in assessing the level of compliance. This recognizes the fact that some member bodies and their members operate in different sectors of the profession than others.

In exceptional circumstances, a member body may judge it necessary to depart from the obligations of this SMO. The member body should be prepared to justify the departure. A member body that fails to follow the obligations of this SMO or justify satisfactorily why it has departed from them, may be suspended or removed from membership.

Obligations

1. **Member bodies should notify their members of all IPSASs, guidelines, studies and occasional papers developed by the PSC.**
2. **Member bodies should use their best endeavors:**
 - (a) **to persuade governments, standard-setting bodies, and other relevant organizations and bodies that general purpose financial statements of public sector entities other than government business enterprises (GBEs) should comply with IPSASs, and to disclose the fact of such compliance;**
 - (b) **to incorporate the requirements of IPSASs in their national public sector accounting requirements, or where responsibility for the development of national public sector accounting standards for financial reporting by governments and others in public sector organizations lies with third parties, to persuade those responsible for developing those requirements that general purpose financial statements of public sector entities other than GBEs should comply with IPSASs, and disclose the fact of such compliance; and**
 - (c) **to foster international acceptance of IPSASs.**

Interpretation

3. A member body has used “best endeavors” if it could not reasonably do more than it has done and is doing to meet the particular membership obligation.

Effective Date

4. This SMO is effective as of March 31, 2004. Earlier application is encouraged.

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INTERNATIONAL FINANCIAL REPORTING STANDARDS
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This Statement of Membership Obligations (SMO) is issued by the IFAC Board. It is to be applied by member bodies of IFAC to financial reporting standards for professional accountants. It applies whether the member bodies issue such standards, or whether the standards are issued by another body.

Where government, regulators or other appointed authorities fulfill any of the obligations of this SMO, member bodies should (a) use their best endeavors to encourage those responsible for those functions to follow this SMO in implementing them, and (b) assist them in that implementation where appropriate.

This SMO sets out the obligations of member bodies in relation to International Financial Reporting Standards (IFRSs), issued by the International Accounting Standards Board (IASB). To understand and apply the obligations (identified in bold type), it is necessary to consider the whole text of the SMO, including the explanatory and other material contained in the SMO.

This SMO applies to full and associate members of IFAC. Unless the context otherwise requires, associate members are included within the term “member body”. In applying this SMO to associate members, IFAC will recognize (a) the different level of obligations that applies to associate members under the IFAC Constitution and (b) the stage of development, availability of resource, and scope of activities of each associate member and its members.

This statement does not apply to affiliate members. Consistent with the obligations relating to affiliate members in the IFAC Constitution, however, affiliate members are expected to support the development and implementation of the Standards issued by the IASB.

Despite the general application of SMOs to full and associate members, IFAC will take into account the relevance and application of the obligations to each member body in assessing the level of compliance. This recognizes the fact that some member bodies and their members operate in different sectors of the profession.

In exceptional circumstances, a member body may depart from the obligations of this SMO, if doing so will fulfill its public interest duties more effectively. The member body should be prepared to justify the departure. A member body that fails to follow the obligations of this SMO or justify satisfactorily why it has departed from them may be suspended or removed from membership.

Obligations

1. **Member bodies of IFAC should support the work of the IASB by notifying their members of every IFRS.**
2. **Member bodies should use their best endeavors:**
 - (a) **to persuade governments, standard-setting bodies, controlling securities markets and the industrial and business community that general purpose financial statements should comply with IFRSs and local accounting standards that are converged with IFRS, and to disclose the fact of such compliance;**
 - (b) **to incorporate the requirements of IFRSs in their national accounting requirements, or where the responsibility for the development of national accounting standards lies with third parties, to persuade those responsible for developing those requirements that general purpose financial statements should comply with IFRSs, and disclose the fact of such compliance; and**
 - (c) **to foster international acceptance of IFRSs.**

Interpretation

3. A member body has used “best endeavors” if it could not reasonably do more than it has done and is doing to meet the particular membership obligation.

Effective Date

4. This SMO is effective as of March 31, 2004. Earlier application is encouraged.