

# IFAC Exposure Draft 'Proposed Statements of Membership Obligations'

08-12-2003

## 1 Introduction

**1.1** CIPFA fully supports the stance taken by IFAC towards restoring the credibility of financial reporting and believes the exposure draft on SMOs to be a positive step in this direction.

**1.2** CIPFA has responded to the need to improve the credibility of the accountancy profession within the United Kingdom (UK) by becoming the first UK member of IFAC to introduce mandatory continuing professional development (CPD) for all its members, regardless of the sector of the economy in which they work. Further details of CIPFA's scheme are available at <http://www.cipfa.org.uk/cpd/>

**1.3** CIPFA has also revised (as from September 2002) and updated its technical Standards of Professional Practice, available at <http://www.cipfa.org.uk/conduct/standards.cfm>, which in addition to professional ethics cover seven areas of professional practice, including financial reporting. These standards are published to all CPFAs and students in a CIPFA Members' and Students' Professional, Technical and Regulatory CD-ROM Handbook, which also includes IFAC pronouncements and standards.

## 2 Comments on the proposed Statements of Membership Obligations (SMOs)

### *Status of SMOs*

**2.1** The exposure draft needs to be clearer whether a proposed SMO will complement or supersede a current IFAC international professional practice statement - for example whether SMO 1 (Quality Assurance) will complement or supersede 'IFAC International Professional Practice Statement 1 - Assuring the Quality of Professional Services' or how it relates to the IAASB's ISQC 1 'Quality Control for Audit, Assurance and Related Services Practices'.

### *How 'influence' will be assessed*

**2.2** Where SMOs are of an 'indirect' nature, requiring a member body to influence, for example, a national standards setter to adopt international standards, it is not clear how the IFAC Compliance Committee will assess whether sufficient attempts at 'influence' have been made. As an example, CIPFA has consistently championed the work of the IFAC Public Sector Committee, particularly the standards project. CIPFA's Policy and Technical Directorate has sought to emphasise its importance to Chartered Public Finance Accountants (CPFAs) and stakeholders through presentations and articles. In this context, we are not clear how IFAC intends to measure the extent to which member bodies have used their best endeavors in working towards the implementation of

International Public Sector Accounting Standards (IPSAS), particularly where responsibility for standard-setting in the public sector rests with a third party.

**2.3** In Europe, standard setting is often controlled by the Ministry of Finance (or equivalent) and embedded in legal codes or in statute. Whilst it is right to expect member bodies to draw attention to IPSAS so that they inform accounting approaches, IFAC needs to be aware that the adoption of IPSAS is not straightforward and member bodies will need to reflect this context in their approaches. Please see related comments on 'best endeavours' in the next section.

#### *Use of 'best endeavours'*

**2.4** Where the term 'best endeavours' is used in relation to influencing activities, this should be replaced by the use of the term 'reasonable endeavours' to standardise with the interpretation included in the exposure draft (see for example SMO 4 paragraph 7 and SMO 5 paragraph 3). Best endeavours implies that action should be taken irrespective of the costs/benefit equation, whereas the use of 'reasonable endeavours' allows for member bodies to take a judgement on cost effectiveness and other relevant grounds.

#### *Ethics*

**2.5** With respect to SMO 4 (Ethics) it should be made clear that 'local circumstances' that may prevent a member body complying with the IFAC Ethics Code should be confined to either legal restrictions or regulations backed by law, to exclude the possibility of the term being used to cover local custom and practice.

#### *Effective dates for SMOs*

**2.6** The logic behind the varying effective dates for the SMOs (ranging from March 2004 to December 2005) is not clear - in particular a compliance date of 31 December 2005 for IFAC member bodies to have professional disciplinary schemes in place appears too long in the context of rebuilding the credibility of financial reporting.

#### *Length and detail of SMOs*

**2.7** The length of the individual SMOs is inconsistent, the largest being 53 paragraphs (SMO 1) and the shortest three paragraphs (SMO 7). The lengthier SMOs (numbers 1 and 6) arguably stray too far into the detailed mechanics as to how the SMOs should be implemented.

#### *'Black and grey lettering'*

**2.8** Should the IAASB alter its protocol on 'black and grey lettering' it may be necessary to reorganise the SMOs such that the high level principles (currently shown in black lettering in the exposure draft) are presented separately from the guidance on implementation (currently shown in the exposure draft in grey lettering).

### **3 Conclusions**

**3.1** CIPFA supports this IFAC initiative and would be pleased to discuss any of the above points in more detail.