

INTERNATIONAL STANDARDS: 2017 GLOBAL STATUS REPORT



International
Federation
of Accountants®

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EXECUTIVE SUMMARY

- i. **This report provides an analysis of the status of adoption of international standards and best practices, the role of IFAC Members and Associates (member organizations) in the adoption process, and their fulfillment of the Statements of Membership Obligations (SMOs).** It is the second annual report based on information collected through the Dashboard Report (DBR) initiative of the IFAC Member Compliance Program (the Program), undertaken in line with the *2016–2018 IFAC Member Compliance Program Strategy*, and demonstrates the value of information produced through the Program.¹
- ii. **The report represents a data set covering 104 member organizations and the 80 jurisdictions in which they operate, and includes new callout boxes highlighting available resources, guidance, and examples of best practices.** The data set is an increase from the 2016 report, which covered 65 member organizations and 50 jurisdictions. The data is based on the DBRs published on the IFAC website as of July 1, 2017, while the information in the callout boxes represents anecdotal evidence and observations that staff has collated thus far through the DBR initiative. The regional distribution of the 80 jurisdictions is overall in line with the regional distribution of the IFAC membership, with 61 percent of jurisdictions and 59 percent of member organizations now included.
- iii. **As a representative sample of IFAC's membership, the expanded data set in this report confirms the findings of the 2016 report.** The report reinforces previous key insights and conclusions that the adoption and implementation process of the International Education Standards™ (IES™), quality assurance (QA), and investigative and disciplinary (I&D) systems are complex, multi-stakeholder efforts and require more support from national, regional, and global organizations. Often there is low awareness and/or capacity among relevant stakeholders to effectively implement these best practices. The profession is well-positioned to advocate on the importance of these issues, especially accountancy educational programming and I&D.
- iv. **Member organizations are required to use their best endeavors to progress adoption and support implementation of international standards, as well as the establishment of related QA review systems and enforcement mechanisms.** Understanding the role of member organizations in the adoption process is essential in determining their relative responsibilities as member organizations under the applicability framework of the SMOs. Even where member organizations do not have direct responsibility for adoption, under the SMOs they are obligated to use their best endeavors to promote and support adoption and implementation.
- v. **Member organizations play an important role in the adoption of international standards and best practices in the increasingly complex standard-setting and regulatory environment.** The available data continues to indicate that member organizations share responsibility for adoption with multiple stakeholders, such as the government, audit oversight authorities, financial market regulators, other professional accountancy organizations (PAOs), and/or regional economic communities. Nevertheless, member organizations are a driving force behind the adoption and implementation of international standards and best practices in their jurisdictions.
- vi. **Significant progress has been made with adoption of international standards and best practices, reflecting strong support for and commitment to high-quality financial reporting and auditing; greater transparency and accountability; and support for the ethical standards for the accountancy profession.** Across the 80 jurisdictions in which 104 member organizations operate:

¹ The Program serves the public interest by promoting the adoption and supporting the implementation of international standards on private and public sector accounting, auditing, ethics, and education, as well as the establishment of related QA and enforcement mechanisms. It does this through the SMOs, which provide a framework for credible and high-quality PAOs. The Program operates in accordance with agreed-upon due process and working procedures, and is supervised by the *Compliance Advisory Panel*, which—as one of IFAC's public interest activities—is overseen by the *Public Interest Oversight Board*.

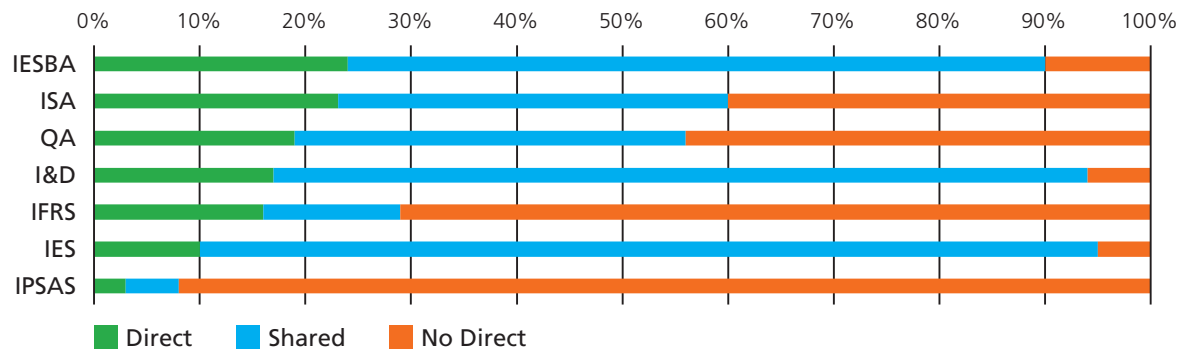
- 84 percent of jurisdictions (67) have established QA review systems, with 46 percent (37) adopting all SMO 1 requirements for QA reviews of all mandatory audits.
 - 100 percent of jurisdictions (80) have incorporated some requirements of the 2010 IES, with 20 percent (16) fully adopting all IES for all professional accountants.
 - 79 percent of jurisdictions (63) have adopted International Standards on Auditing® (ISA®) for all mandatory audits with 70 percent (56) having adopted at least the 2009 Clarified ISA and 9 percent (7) having adopted the new 2016 ISA.²
 - 61 percent of jurisdictions (49) have fully adopted the Code of Ethics for Professional Accountants™ (the Code™), which refers to the adoption of at least the 2009 Code.³
 - 55 percent of jurisdictions (44) have made strides in the adoption of International Public Sector Accounting Standards® (IPSAS®), with 9 percent (7) fully adopting all IPSAS for all public sector entities.
 - 98 percent of jurisdictions (79) have established I&D systems, with 15 percent (12) adopting all SMO 6 requirements for all professional accountants.
 - 91 percent of jurisdictions (72) have adopted International Financial Reporting Standards (IFRS) for all or most public interest entities.
- vii. **Member organizations are committed to successfully fulfilling their membership requirements as outlined in the SMOs.** SMO progress rarely is made quickly or follows a set path due to differing national contexts; stages of development of both jurisdictions and PAOs; and roles of member organizations and other authorities. Some areas definitively require further improvement, such as IES (SMO 2) and I&D (SMO 6). However, in each SMO area, clear opportunities exist to provide additional guidance and support to member organizations.
- viii. **Lack of suitable and effective governance structures, operational capacity, and financial sustainability can be barriers to successful SMO fulfillment.** PAOs often report challenges related to legislative delays; lack of stakeholder buy-in or collaboration among regulators; and lack of technical and/or other human and financial resources, with the latter being the most prevalent. These challenges are often associated with underlying issues in other membership criteria—governance, operational capacity, and financial viability—and have a significant impact on a member organization's ability to adopt and support implementation of international standards and, consequently, its fulfilment of the SMOs.
- ix. **Capacity-building initiatives could help enhance the adoption and implementation of international standards by addressing the underlying barriers to successful SMO fulfilment.** Experience and anecdotal evidence from PAOs suggest that working with international development institutions, and establishing partnerships and twinning arrangements with other PAOs and regional organizations to share best practices and knowledge, can provide effective solutions to assist member organizations with SMO fulfilment. IFAC staff is well-positioned to identify issues and regional challenges; provide clear direction to development initiatives; and facilitate collaboration between member organizations and development partners.
- x. **The annual status report is the first component of an initiative to work toward a complete picture and year-to-year trend analysis.** As member organizations continue to update their SMO Action Plans, and IFAC staff prepares and publishes DBRs, future reports will provide a more complete picture for the entire IFAC membership and the jurisdictions in which they operate; and—when historical data becomes available—an analysis of year-to-year trends will be added.

² The IFAC Compliance Program introduced an updated definition of adoption for ISA in 2017 as the *2016–2017 Handbook of International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements* became effective on December 15, 2016. Within the report, 13 jurisdictions were assessed against the updated definition. Out of the 13 jurisdictions, 7 were assessed as Adopted while 6 were assessed *Partially Adopted*.

³ The 2016 Code became effective on July 15, 2017, following the cut-off date for the report of July 1, 2017. Therefore, the Compliance Program's new methodology for assessing status of adoption of the Code does not have implications for the analysis presented in the report.

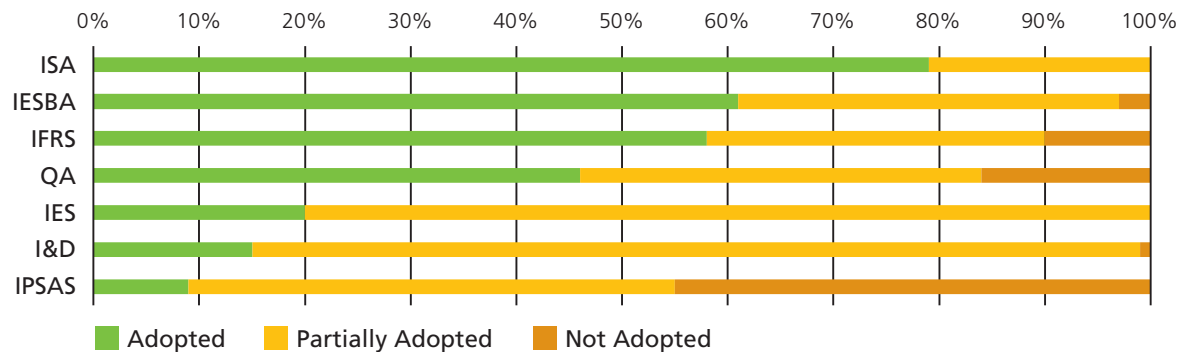
PAO RESPONSIBILITY

(Most to Least Direct Responsibility)



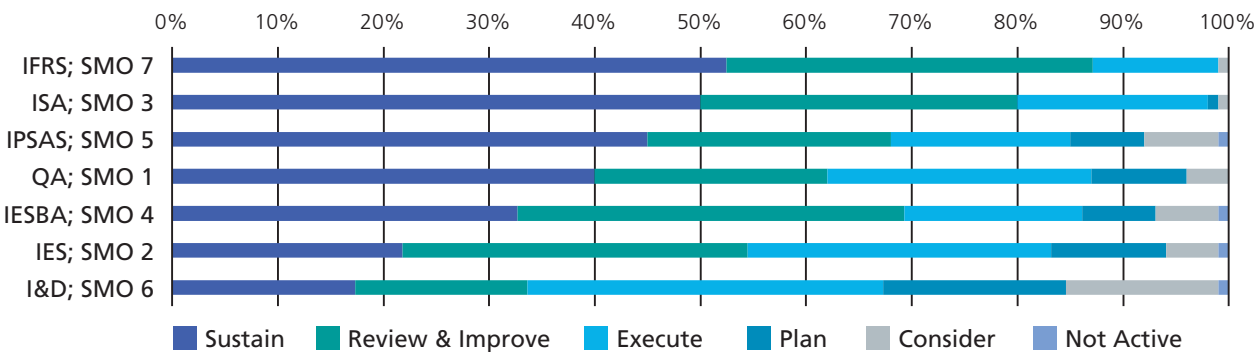
STATUS OF ADOPTION IN JURISDICTIONS

(Most to Least Full Adoption)



SMO FULFILLMENT BY PAOs

(Most to Least SMO Fulfillment)



INTRODUCTION

Objectives

1. In line with the strategic objectives outlined in the *2016–2018 IFAC Member Compliance Program Strategy* and as part of the Program developed to implement the objectives, this report has been prepared by the IFAC Quality & Development (Q&D) staff—with the advice and oversight of the Compliance Advisory Panel (CAP)—to:
 - (a) present the adoption analysis of international standards and best practices addressed by the SMOs;
 - (b) describe member organizations' role in adoption of international standards in their jurisdictions; and
 - (c) illustrate SMO fulfillment by member organizations and highlight challenges and possible solutions.

Methodology

Coverage and Sources of Information

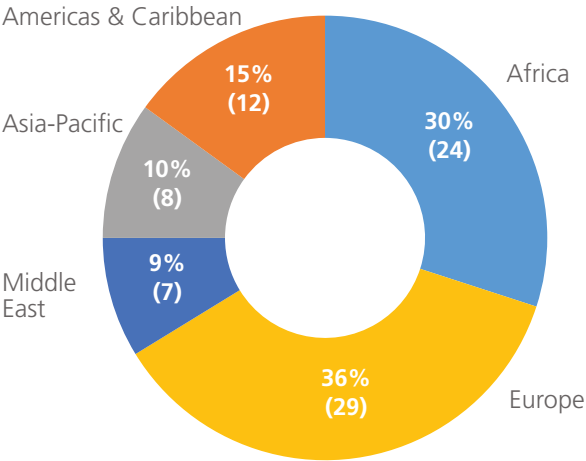
2. The source data for the report includes jurisdictions and member organizations that have their profiles published on the *IFAC website* as of July 1, 2017.⁴ A full list is available in *Appendix I* for reference. The 80 jurisdictional profiles and profiles of the 104 member organizations operating in those jurisdictions were prepared as part of the Program's DBR initiative, and are based on DBRs produced since February 2015.
3. The DBRs were prepared for those member organizations that were scheduled for a regular update of their SMO Action Plans. The content of the DBRs is based on the information within the SMO Action Plans submitted by member organizations. Development of the SMO Action Plans and regular updates are required as part of the Program to (a) demonstrate how member organizations fulfill the requirements of the SMOs and (b) present plans toward the fulfillment of requirements that are not yet addressed. Other publicly available sources of information, such as World Bank Reports on the Observance of Standards and Codes, jurisdictional profiles published by the IFRS Foundation, and regional and national standard-setting authorities, among other sources, also inform the DBRs.
4. IFAC staff uses six categories to assess a PAO's SMO fulfillment: *Sustain*, *Review & Improve*, *Execute*, *Plan*, *Consider*, and *Not Active*. According to the applicability framework (available as part of *Appendix III*) of the SMOs, member organizations are required to adopt and support the implementation of international standards and best practices where they have *Direct* responsibility, and promote and support adoption to the responsible organizations and assist their members with standard implementation where they have *No Direct* responsibility. Member organizations prepare, execute, and update their SMO Action Plans to demonstrate how they fulfill or plan to fulfill the SMO requirements.



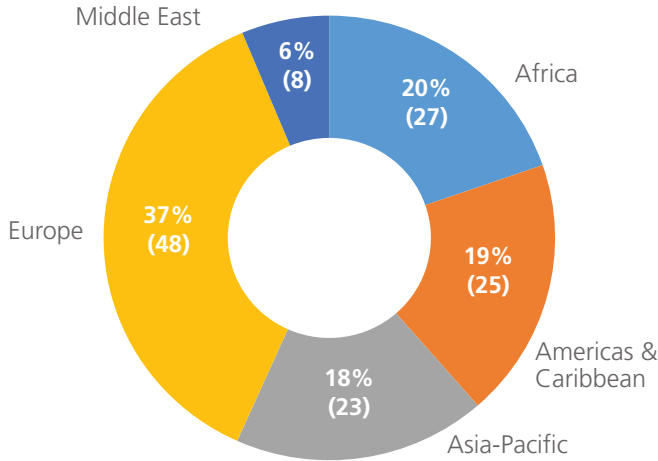
⁴ On average, 50–60 profiles are updated or newly published each year.

5. In the rare cases of *Not Active*—within this report there is only (1) member organization that is assessed as *Not Active* in multiple SMO areas—the lack of SMO fulfillment and continuity to an SMO Action Plan are generally the result of issues with other membership elements such as governance, operational capacity, and financial viability.

A. DISTRIBUTION OF JURISDICTIONS IN THE SAMPLE (80)



B. DISTRIBUTION OF TOTAL MEMBERSHIP ORGANIZATIONS (131)



Scope of Analysis

6. This report covers all subject areas underlying the SMOs, including standards issued by the independent standard-setting boards⁵ as well as the establishment of related QA review systems and I&D mechanisms. The scope of mandatory application of the international standards is as prescribed in the text of the international pronouncements. The only exception is extending the scope of mandatory application of the Code, which is issued by the International Ethics Standards Board for Accountants® (IESBA®) and defines professional accountant as a member of a member organization, to include all professional accountants in line with the International Accounting Education Standards Board™ (IAESB™)'s definition of a professional accountant.

7. In addition, the IAESB's definition of professional accountant is applied to assess the adoption of I&D systems. Under the definition, professional accountants outside of the membership of member organizations fall within the scope of the assessment if they are certified and/or licensed and are required to follow a code of ethics. For more information on the methodology for assessing the status of adoption and SMO fulfillment, please refer to [Appendix II](#) and [Appendix III](#) of the report, respectively.

8. The analysis also covers the update in the methodology for assessing the status of adoption of the ISA, which is issued by the International Auditing and Assurance Standards Board® (IAASB®). The new and revised [Auditor Reporting](#) standards became effective for audits of financial statements for periods ending on or after December 15, 2016. IFAC staff updated the definition of adoption to reflect the new standards. The new methodology was applied to all assessments of SMO Action Plans and preparation of DBRs beginning April 2017 and within the report, 13 jurisdictions were assessed against the updated definition. The full set of new definitions are presented in [Appendix V](#) for reference.

Key Findings

9. Information in the sections below is presented following the numbering of the SMOs (1–7). Each subsection summarizes the following: (a) the roles member organizations play in the adoption process; (b) the status of adoption of international standards underlying the SMO area; and (c) the extent of SMO fulfillment of member organizations.

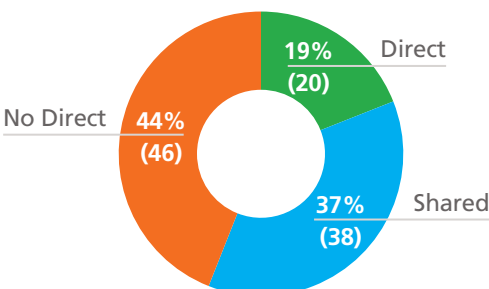
⁴ On average, 50–60 profiles are updated or newly published each year.

QUALITY ASSURANCE REVIEW SYSTEMS

10. The current regulatory environment emphasizes the need to ensure and attest to the quality of services provided by statutory auditors. The establishment and effective functioning of QA review systems has been the focus of audit regulatory activity in many jurisdictions. QA review systems are an important element of a sustainable global financial infrastructure. However, the establishment and implementation is not an easy and straightforward endeavor, and regulators and PAOs face numerous challenges in the establishment of QA review systems.
11. Common challenges include the establishment of cohesive legal frameworks and regulation; improved technical and financial resources; and collaboration among different stakeholders (for example, PAOs, regulators, and firms) to advance QA review system establishment.
12. Over the last decade, significant progress has been made in establishing QA review systems, with the accountancy profession being a driving force behind the progress. PAOs in particular play a pivotal role in driving change and introducing processes to tackle these issues.
13. SMO 1 establishes the requirements for an effective QA review system for firms performing audit, review, other assurance, and related services engagements. To assist member organizations with assessing the extent of alignment of the QA review systems with SMO 1, IFAC staff developed a tool (available in [Appendix IV](#)) that is shared with member organizations as part of the SMO Action Plan update process. The tool features a checklist that enables self-assessment against the core requirements of SMO 1.

Role of Member Organizations in the Adoption Process

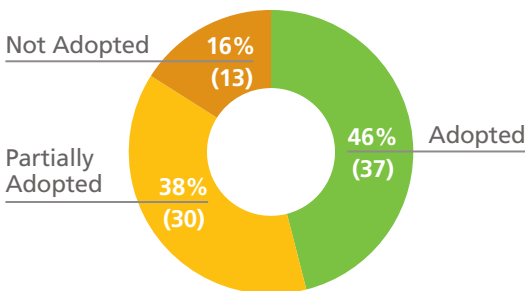
QA: PAO RESPONSIBILITY



14. Member organizations play an important role in the adoption of QA review systems as 19 percent of members (20) have *Direct* responsibility to establish a QA review mechanism.
15. 37 percent of PAOs (38) share the responsibility with other stakeholders, such as the government, an audit oversight authority, a financial market regulator, or another PAO. In most of these cases, the regulator in the jurisdiction has the legal mandate to establish the QA review system and has delegated certain responsibilities for the implementation of the system to the PAO. A typical scenario would be that the regulator is responsible for the QA reviews for audits of public interest entities (PIEs) while the PAO is responsible for the QA reviews for audits of non-PIEs. PAOs may also review audits of some PIEs (typically smaller PIEs) with oversight from the regulator.
16. 44 percent of the member organizations (46) have *No Direct* responsibility for establishing QA review systems. Among these, 40 of the member organizations are in jurisdictions where the mandate rests with a regulator, while 6 are in countries where the responsibility for the adoption of QA review systems is delegated to another PAO.

Status of Adoption in Jurisdictions

ADOPTION OF QA



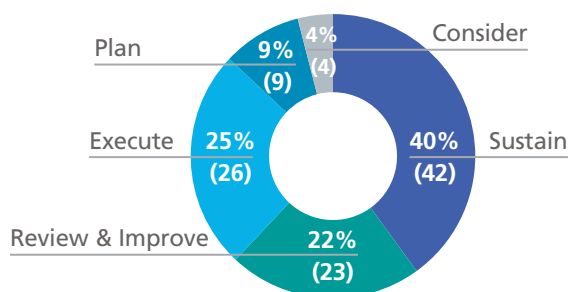
17. For purposes of the Program, an *Adopted* status implies the existence of an established and operational QA review system for all mandatory audits in the jurisdiction in line with the requirements of SMO 1.
18. Analysis of the available data reveals that 46 percent of jurisdictions (37) have successfully been assessed

as *Adopted* and have QA review systems in line with SMO 1. 34 jurisdictions have adopted QA review systems directly by law. Legislation set at a regional level, such as the [Audit Reform](#) in the European Union (EU) (effective June 2016), helps to bolster the establishment of QA review systems. In Africa, the Organization for the Harmonization of African Business Law (OHADA) issued resolutions in June 2017 that call for the establishment of a QA review system and quality control (QC) standards across its member states.

19. Member organizations in the other 3 jurisdictions assessed as *Adopted* have established QA reviews as self-regulatory requirements. In these cases, the member organizations have established partnerships with international PAOs to perform the QA reviews on their behalf.
20. 38 percent of jurisdictions (30) have been assessed as having *Partially Adopted* QA review systems and generally fall under three categories:
 - 9 jurisdictions have established QA review systems but they are not operational. Almost all are in the process of implementing their QA review systems with support from partner PAOs through twinning arrangements and/or international development institutions such as the World Bank. 3 countries are members of OHADA and are awaiting implementation guidance at the regional level.
 - 10 jurisdictions have operational QA review systems; however, not all SMO 1 requirements have been incorporated. 6 report to have initiated procedures to align their systems with all SMO 1 requirements. In another 2 cases, data indicates a need to ensure that the QA review system is linked with the I&D system.
 - 11 jurisdictions have adopted QA review systems; however, the extent of alignment with SMO 1 requirements need further verification. These are cases where staff has recommended that the member organizations perform a self-assessment of the SMO 1 requirements against their jurisdictions' requirements and to report the findings in their next SMO Action Plan update.
21. QA review systems are *Not Adopted* in 16 percent of jurisdictions (13); however, 10 of these jurisdictions have pending legislation to facilitate adoption, while 3 jurisdictions report that plans to establish such systems are underway. In addition, 5 jurisdictions have capacity-building programs with partner PAOs to support them in establishment and implementation.

SMO Fulfillment by Member Organizations

SMO 1 FULFILLMENT



22. The establishment and implementation of QA review systems are resource-intensive and require expertise, know-how, and training. Both processes take a significant amount of time and resources, and often begin with efforts to reform laws and regulations. SMO 1 continues to be an area in which member organizations face challenges, such as regulatory obstacles, lack of stakeholder buy-in, and limited capacity and resources. Across the 80 jurisdictions, 23 percent (18) report to be receiving capacity support in the implementation of their QA review system from international PAOs or development institutions.
23. Working with development institutions, such as the World Bank, or in partnerships with other PAOs and/or regional organizations to share experiences and best practices, as well as proactively working to ensure stakeholder buy-in, can be particularly effective in progressing the adoption and implementation of a QA review system (**see Regional Collaboration box**). In addition, publicly available guidance and tools are also essential to assisting PAOs along their journey (**see Toolbox**).
24. Although member organizations are not always in a position to introduce the desired changes, 62 percent of organizations (65) are rated at *Sustain or Review & Improve*, demonstrating a high degree of fulfillment of their respective obligations. Depending on the level of their responsibilities, member organizations in this category have either:
 - established an operational QA review system in line with the requirements of SMO 1;
 - established ongoing processes to promote and support the establishment of QA review systems in their jurisdictions; or
 - in the absence of a legally mandated system, established a QA review system for their members as a self-regulatory requirement.

25. 25 percent of member organizations (26) are *Execut(ing)* plans to adopt and/or to support the adoption and implementation of QA review systems. The remaining 13 percent of member organizations (13) have been assessed as *Plan* or *Consider* as they determine the best course of action to fulfill their obligations, whether by developing their own system or supporting the establishment of a QA review system by another organization.

REGIONAL COLLABORATION TO SUPPORT QA ADOPTION & IMPLEMENTATION

IFAC & the Interamerican Accounting Association (IAA): Emphasis on QA review systems in Latin America and the Caribbean (LAC)

In 2016, IFAC facilitated a workshop for member organizations in Latin America, focusing on progress with SMO fulfillment and providing an opportunity for PAOs and the regional organization to share successes and challenges, and explore opportunities for regional collaboration. QA review systems were identified as a key issue during this workshop. As a follow-up, the IAA hosted a *regional Train the Trainer workshop* on QC standards and QA review systems, and QA review systems were also a *focus topic* during the 2017 CReCER conference.

World Bank Centre for Financial Reporting Reform (CFRR): Strengthening Auditing and Reporting in the Countries of the Eastern Partnership

The World Bank CFRR organized a workshop to share knowledge, experiences, and ideas on audit oversight and QA review systems to support the accounting and auditing communities of practitioners from Armenia, Azerbaijan, Belarus, Georgia, Moldova, and Ukraine.

TOOLBOX

Tools to assist PAOs in the establishment and the implementation of QA review systems in line with SMO 1 requirements:

Confederation of Asia and Pacific Accountants (CAPA)

- Forthcoming publication in the Maturity Model in Action Series

IFAC

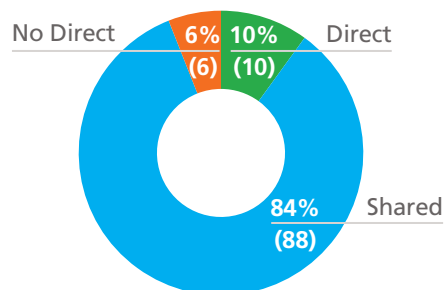
- *Companion Manual to the QC and ISA Guides*
A manual to help PAOs make the best use of the QC Guide
- *Guide to Quality Control for Small- and Medium-Sized Practices (QC Guide)*
A guide on applying International Standards on Quality Control™ 1 (ISQC 1) for firms that perform audits and reviews of financial statements, and other assurance and related services
- *Making Regulation Work: Principles and Models for the Accountancy Profession*
Issued by IFAC's PAO Development Committee, this guidance helps PAOs navigate their regulatory environment to establish necessary procedures, such as QA review systems, critical to ensuring high-quality information. The guide also provides case studies and examples.
- *QC Guide—Orientation*
An introduction to the structure, features, and topics in the QC Guide

INTERNATIONAL EDUCATION STANDARDS

26. SMO 2 establishes the requirement for member organizations to identify and undertake actions to have the international standards issued by the IAESB adopted and implemented in their jurisdictions. The suite of IES sets out initial professional development (IPD) and continuing professional development (CPD) requirements for professional accountants.
27. Establishing and implementing IPD and CPD requirements involve a wide range of activities, from syllabus development to the production of learning materials to tuition arrangements; examination delivery; and practical experience requirements. While PAOs play a central role in supporting accountancy education and promoting the adoption of IES, they generally do not have the legal authority for every single aspect.
28. Additionally, the IES were significantly revised in 2015 (**see *The Revised IES & Way Forward* box**) and will require PAOs, universities, and other training providers to adjust their educational programs.
29. Since 2015, IFAC staff has been advising member organizations about the revised IES and encouraging them to develop plans to incorporate the new requirements. With a new methodology to assess the status of IES adoption becoming effective in 2018, staff will continue to draw attention to guidance materials issued by the IAESB and collaborate with the IAESB to further develop tools to aid PAOs with the development of such plans.

Role of Member Organizations in the Adoption Process

IES: PAO RESPONSIBILITY



THE REVISED IES & THE WAY FORWARD

The IES were significantly revised in 2015, making them less prescriptive and more principles-based, with a focus on learning outcomes that support professional competence.

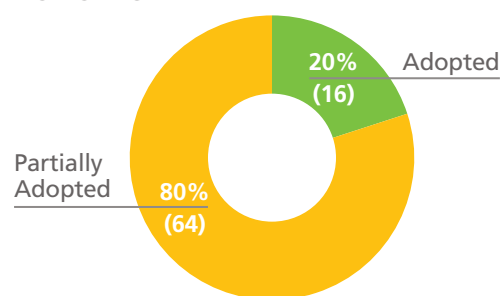
IFAC staff, the CAP, and the IAESB have acknowledged the importance of allowing sufficient time for member organizations to develop plans to address important changes. As the revised IES have been effective since 2015, IFAC staff and the IAESB are now amending the methodology used to assess IES adoption to, among other reasons, identify jurisdictions and PAOs that require support with the adoption of the revised standards.

The new methodology and definition will become effective January 1, 2018, and IFAC staff will work with the IAESB to develop a tool that enables PAOs and other stakeholders to self-assess national educational requirements against those of the revised IES.

30. The majority of the member organizations (84 percent or 88) have *Shared* responsibility for the adoption of IES—either with the government, an oversight authority, other PAOs, universities, or a combination of these organizations. In several jurisdictions, the responsibility is shared with another PAO. In all cases of *Shared* responsibility, even where it is also shared with another PAO, other institutions—such as governments, universities, or regulators—are involved in the adoption of some of the IES.
31. Only 10 member organizations have *Direct* responsibility for the adoption of all IES for all professional accountants in their jurisdictions. In all the cases, this authority originates from national legislation. 6 are in Africa and 3 in the Caribbean—both are regions with a higher reliance on foreign qualifications. The remaining member organization is in Asia.

Status of Adoption in Jurisdictions

ADOPTION OF IES



32. For the purposes of the Program and this analysis, IES adoption is defined as the full adoption or incorporation of the requirements of the IES in the 2010 edition of the *Handbook of International Education Pronouncements* for all professional accountants in the jurisdiction.
33. IES adoption is achieved almost exclusively through a process of incorporating IES requirements into national requirements. A review of the jurisdictions that have incorporated some or all of the IES into their national requirements revealed the following:
 - 20 percent of the jurisdictions (16) have fully *Adopted* IES for all professional accountants—of these jurisdictions, 37 percent (6) have IPD and/or CPD requirements stipulated in national legislation that align with IES requirements.
 - 41 percent of the jurisdictions (33) have adopted many IES requirements for all professional accountants; however, the full extent of alignment needs to be clarified.
 - 8 percent of the jurisdictions (7) have fully adopted IES for a segment of the profession, such as certified auditors, but not for other parts of the profession, such as certified accountants.
 - 30 percent of the jurisdictions (24) have adopted some IES requirements; however, not all are fully aligned with IES or there are some elements missing.
34. Further analysis of these last 24 jurisdictions reveals that the overall scale of the missing elements is limited:
 - All member organizations in these jurisdictions offer CPD training and, where legally possible, the PAOs obligate their members to fulfill CPD requirements.
 - In 13 of the jurisdictions, the adopted requirements include a university degree, practical experience, and CPD obligations.
35. Legal impediments and the need to work with other stakeholders are frequently cited as reasons causing delays in the adoption of IES, particularly for elements that were not historically and culturally part of the licensure and/or certification process (**see Driving Adoption box**).

DRIVING ADOPTION OF IES

The majority of member organizations either share the responsibility to adopt educational requirements or have no legal authority over this area within their jurisdiction. How have PAOs been able to effectively advocate and drive best practices in these cases?

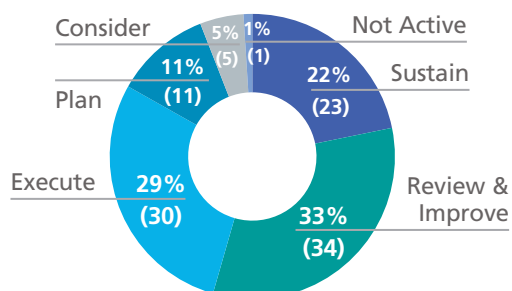
In one jurisdiction where the member organization has no legal mandate in regard to accountancy education, the PAO advocated for and has signed a cooperative agreement with the education regulator to create among universities a standardized professional accountancy curriculum that incorporates IES requirements. Universities are then voluntarily certified as having a curriculum that aligns with IES. Individuals aspiring to obtain membership in the PAO are able to determine which universities have an accountancy education that is line with international standards and meets the membership requirements for the PAO, and thus receive the necessary and adequate IPD skills and training to begin their accountancy career.

PAOs that seek guidance on how to effectively establish or advance their public policy efforts in order to spur adoption of best practices will find the IFAC PAO Development Committee's *Finding Your Voice: PAOs, Advocacy, and Public Policy* publication useful.

36. However, within the 80 percent of jurisdictions (64) that have been assessed as *Partially Adopted*, there are initiatives underway in 20 percent of the jurisdictions (13) to review and analyze current educational requirements in order to make improvements to align with IES. In 6 of those countries, the education standard-setters report that they are reviewing the 2015 IES requirements. While in the other 7, regulators are still working to align educational requirements with 2010 IES requirements.
37. Additionally, several member organizations operate in jurisdictions with a federation model whereby there is a national-level PAO (usually headquartered in the capital city and acting as the umbrella organization) and many state or provincial associations operating throughout the jurisdiction. The state/provincial associations are responsible for the adoption and implementation of some educational requirements, such as final examinations or CPD. To facilitate mobility of professional accountants within the jurisdiction and spur the adoption of IES requirements nationwide, the national-level PAO in one of these countries offers a voluntary national certification aligned with IES, and individuals who pass the final national examination are eligible to offer accountancy services throughout the jurisdiction. This has aided in the push to adopt IES requirements as not all the state/provincial-level certifications are aligned with the IES.

SMO Fulfillment by Member Organizations

SMO 2 FULFILLMENT



38. 55 percent of the member organizations (57) are using their best endeavors to adopt or promote and support the adoption of IES for professional accountants in their jurisdictions, and are rated at *Sustain* or *Review & Improve*. 29 percent of the member organizations (30) are rated as *Execut(ing)* their relative obligations.
39. Many member organizations assessed as *Review & Improve*—for recently adopting the pre-2015 IES requirements— or as *Execute*—being in the process

of adopting—need to adjust and reconsider their plans in order to incorporate the revised standards. Due to the significance of the revisions, which are more principles-based and competencies-focused in nature, along with the high degree of Shared responsibility, this process will require additional time and resources (**see *Adapting to Competency-Based Assessments* box**).

ADAPTING TO COMPETENCY-BASED ASSESSMENTS

The examination process is one area where PAOs are beginning to incorporate the revised 2015 IES requirements.

For example, one member organization is shifting its training and examination away from subject-based to scenario-based case studies. Instead of written responses, candidates are placed in a business scenario with a mock client that requires them to answer questions, provide advice, and apply their learned technical knowledge.

This initiative took more than a year to implement and demonstrably required considerable human resources and the technical know-how to develop and implement.

40. Similarly, member organizations rated at *Plan* or *Consider* are primarily operating in countries that are member states of regional unions, such as the OHADA and the West African Economic and Monetary Union (WAEMU). Delays in policymaking at the regional level can trickle down and result in delays at the national level. Therefore, PAOs in these countries need to strategize as to how they can best collaborate with regional regulators to adopt the IES.
41. One member organization is assessed as *Not Active* in the SMO 2 area (as well as SMOs 4, 5, and 6). As outlined in the *Methodology* section, the *Not Active* rating is the result of issues with governance, operational capacity, and financial resources.
42. Adoption of the IES is a resource-intensive endeavor and requires prior knowledge in addition to adequate infrastructure. Member organizations are often faced with the challenge of promoting the incorporation of IES requirements into university curricula over which they do not have direct authority and, therefore, have to work with the government and universities (**see *Driving Adoption* box**).

43. Anecdotal evidence and data indicate that member organizations often benefit from working in partnership with other PAOs, development institutions, and stakeholders involved in strengthening and developing the profession.
44. 29 percent of the 87 member organizations (26) rated as *Execute* and above have established formal engagements and cooperative agreements with local stakeholders or regional and global organizations to implement and maintain actions related to educational requirements—reinforcing the importance of strong, collaborative relationships with relevant stakeholders.
45. Half (13) of these member organizations are working with the World Bank and have received valuable resources (including guidance and tools to help assess gaps), knowledge about how to work with stakeholders, and assistance in developing experiential and CPD frameworks.

PROMOTING EFFICIENT AND QUALITY STANDARDS OF THE ACCOUNTANCY PROFESSION AMONG THE ASSOCIATION OF SOUTHEAST ASIAN NATIONS (ASEAN)

In 2014, the ASEAN member states—Brunei Darussalam, Cambodia, Indonesia, the Lao People’s Democratic Republic, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Vietnam—came together to sign the *Mutual Recognition Arrangement on Accountancy Services (MRAA)* with the ultimate objective of liberalizing the movement of goods and services throughout the region.

The MRAA is a regional, collaborative initiative designed to facilitate the mobility of accountancy professions; enhance the quality of accountancy services provided in member states; and increase cooperation among member states through the exchange of information in order to promote the adoption of best practices and standards in the development of accountancy qualifications.

The MRAA outlines the general criteria that professional accountants must possess to apply to be an ASEAN CPA and states that the member states should consider the IES when establishing the professional competencies and qualifications threshold to offer accountancy services within each jurisdiction. In turn, this should help to boost the consistency and quality of accountancy education region-wide. Once approved, ASEAN CPAs are then legally allowed to provide accountancy services (with the exception of signing off on the independent auditor’s report and providing accountancy services that require domestic licensing) in ASEAN markets without having to undergo extensive retraining or requalification.

TOOLBOX

Tools to assist PAOs in the adoption and implementation of IES requirements:

CAPA

- *CPD Systems Toolkit Training Video*

A step-by-step guide on how to use the CPD Systems Toolkit, an online application.

- *The Maturity Model in Action: Continuing Professional Development (CPD)*

A companion guide to the online CPD Systems Toolkit designed for any organization looking to implement a robust system for CPD that demonstrates the attributes of good practice and provides the “why,” “what,” and “how” of CPD.

CFRR

- *Accountancy Education Benchmarking Study*

This publication records findings from CFRR’s Accountancy Education Benchmarking Study, which was undertaken as part of the EU-REPARIS Program and its Education Community of Practice (EduCop).

- *Accountancy Education: A Collection of Good Practices*

This publication is a supplement to the CFRR’s Accountancy Education Benchmarking Study. It represents a Collection of Good Practices in Accountancy Education shared by members of the EduCop of the EU-REPARIS.

- *Commitment to Lifelong Learning: Guide for Implementing Output-Based CPD*

This publication provides guidance intended for PAOs and stakeholders seeking to implement output-based CPD systems as a more genuine measure of learning and professional improvement.

- *Maintaining Professional Competence: A Practical Guide for PAOs Providing CPD*

This guidance provides 10 best practices for PAOs implementing CPD activities.

IAESB

- *2017 Handbook of International Education Pronouncements*

The 2017 Education Handbook contains the IAESB’s suite of revised and redrafted IES 1–8.

- *Guidance to Support the Implementation of a Learning Outcomes Approach*

This guide supports the implementation of a learning outcomes approach by those responsible for IPD and CPD programs, and the development of professional competence through practical experience. It also provides several sources of support ranging from guiding principles to detailed examples.

- *Implementation Support for IES 8*

A collection of support materials for PAOs, public accounting firms, and engagement partners to help address concerns arising from implementation of IES 8

INTERNATIONAL STANDARDS ON AUDITING

THE NEW AUDITOR'S REPORT AND ASSESSMENT OF STATUS OF ADOPTION

The new and revised *Auditor Reporting* standards issued by the IAASB and published in the *2016–2017 Handbook of International Quality Control, Auditing, Review, Other Assurance, and Related Services Pronouncements* (referred to as "2016 ISA" for compliance purposes) became effective on December 15, 2016.

These standards represent a significant change in auditor reporting practice. Consequently, the methodology for assessing adoption of ISA in a jurisdiction has been revised. From April 2017 (referred to as "new definition" for purposes of this report):

- A jurisdiction is assessed as having *Adopted* ISA if the complete set of ISA in effect at the time of the assessment (a) has been adopted and (b) is effective for all mandatory audits.
- A jurisdiction is assessed as having *Partially Adopted* ISA if an earlier version of ISA (2009 or later) has been adopted; not all ISA have been adopted; or ISA are required for application in selected types of audit.

For ease of reference, prior to April 2017 (referred to as "old definition" for purposes of this report):

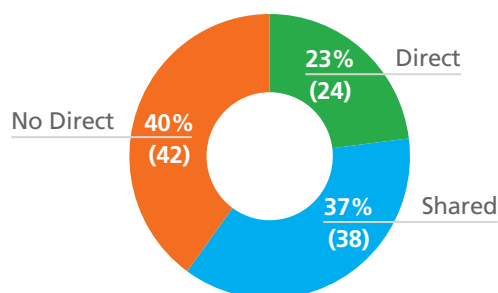
- A jurisdiction was assessed as having *Adopted* ISA if the complete set of 2009 ISA or a later version of ISA (a) has been adopted and (b) was effective for all mandatory audits.
- A jurisdiction was assessed as having *Partially Adopted* ISA if not all 2009 ISA have been adopted; or 2009 ISA were required for application in selected types of audit.

The **Toolbox** at the end of the section contains guidance materials on how member organizations can adopt and implement the new and revised Auditor Reporting standards.

46. ISA are critical for financial audits and high-quality financial reporting. PAOs have been on the front line supporting ISA adoption and implementation as they are well positioned to foster relationships with relevant key stakeholders in the private and public sectors.
47. The Program drives awareness and provides guidance to member organizations to develop and execute plans to adopt and/or support the adoption of ISA in their jurisdictions. Every jurisdiction included in the analysis is using ISA, and the vast majority have adopted 2009 ISA (also referred to as "Clarified ISA").
48. The new and revised *Auditor Reporting* standards became effective on December 15, 2016. IFAC has increased efforts to raise awareness of these standards among member organizations and, from a compliance perspective, revised the definition of ISA adoption to reflect these standards (**see Assessment of Status of Adoption box**). The full set of new (and old) definitions is presented in *Appendix V* for reference.

Role of IFAC Member Organizations in the Adoption Process

ISA: PAO RESPONSIBILITY

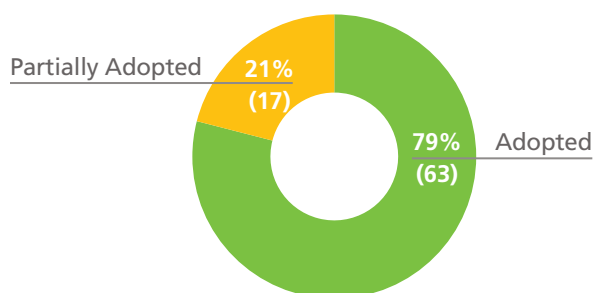


49. Although the responsibility for ISA adoption is a multi-stakeholder effort, member organizations have been using their best endeavors to promote and support adoption.

50. 23 percent of the member organizations (24) are responsible for adopting auditing standards in their jurisdictions. 37 percent (38) share the obligation either with government, an oversight authority, or another PAO. For the remaining 40 percent of members (42) with *No Direct* responsibility for adoption, 36 are in jurisdictions where government or the oversight authority is the standard-setter, while 6 are in jurisdictions where another PAO is prescribed the standard-setting function.

Status of Adoption in Jurisdictions

ADOPTION OF ISA



51. As previously discussed, the effective date of the 2016 ISA resulted in a change in the ISA adoption methodology. The old definition was applied to 67 jurisdictions in the analysis. The new definition was applied to 13 jurisdictions in the analysis. Out of the 13 jurisdictions, 7 were assessed as *Adopted* and 6 as *Partially Adopted*. The new definition was not applied to all jurisdictions as the assessments were performed prior to the effective date, and given the timing, a fair and accurate assessment could not be applied retroactively.
52. Thus, out of the total 80 jurisdictions, the 79 percent of the jurisdictions (63) that have *Adopted* the complete set of ISA is categorized as follows:
- 70 percent of jurisdictions (56) have adopted at least the 2009 Clarified ISA, and
 - 9 percent (7) have adopted the latest 2016 ISA.
53. Further analysis of the 63 jurisdictions that have *Adopted* the ISA per the relevant definition for all mandatory audits revealed that:
- The most common mode of adoption is by direct reference in law or other legal instrument as seen in 64 percent of the jurisdictions (51).
 - In 11 percent of the jurisdictions (9), adoption was done by incorporating ISA requirements into the national requirements (for example, through convergence).

- Finally, member organizations in 4 percent of the jurisdictions (3) have adopted ISA as a requirement for their members.

54. The following trends have been observed among the 21 percent of jurisdictions (17) assessed as *Partially Adopted* (per the relevant definition):
- 8 percent of the jurisdictions (6) have adopted an older version of ISA—4 of which were assessed under the new definition, meaning they have adopted at least the 2009 ISA.
 - 6 percent of the jurisdictions (5) have adopted ISA; however, the full extent needs to be clarified.
 - 4 percent of the jurisdictions (3) have adopted some of the ISA requirements.
 - 4 percent of the jurisdictions (3) are in the process of convergence and are working to eliminate differences between their standards and ISA.

WHY CHANGE THE AUDITOR'S REPORT?

The auditor's report is the key deliverable communicating the results of the audit process. Investors and other financial statement users have asked for a more informative auditor's report—in particular for auditors to provide more relevant information to users.

Research, public consultations, and stakeholder outreach, including global roundtables, indicate that enhanced auditor reporting is critical to influencing the perceived value of the financial statement audit.

Some of the intended benefits include:

- enhanced communication between auditors and investors, as well as those charged with corporate governance;
- increased user confidence in audit reports and financial statements; and
- increased transparency, audit quality, and enhanced information value.

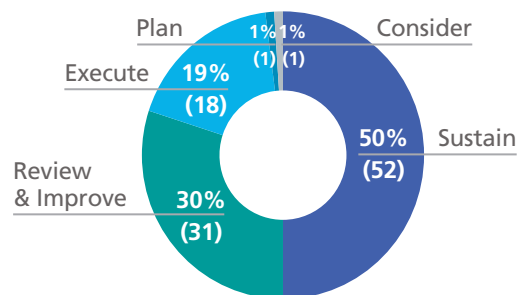
55. The *EU Audit Reform*, effective June 2016, has renewed the mandate of the European Commission to adopt ISA at the EU level. While member organizations and regulators in EU Member States have been adopting ISA at a national level, the prospect of EU-wide adoption of ISA will further promote consistency and reduce the patchwork of rules within the region.

56. In June 2017, OHADA adopted ISA for application in all member states beginning in January 2018. There are member organizations operating in 6 OHADA member states. These jurisdictions will be assessed as Adopted in the next annual report.

SMO Fulfillment by Member Organizations

57. 80 percent of member organizations (83) are at *Sustain* and *Review & Improve* for SMO 3, demonstrating member organizations are generally fulfilling their obligations in this area by either adopting auditing standards or supporting adoption and implementation.
58. 18 percent of the member organizations (19) are at the *Execute* level, and currently fulfilling obligations in this area—specifically in supporting implementation activities such as ISA translation, information dissemination, and training on ISA updates. Many of the member organizations in developing countries are receiving technical assistance from development institutions (for example, the World Bank) and partnership arrangements with other PAOs to develop and implement audit guidelines in line with ISA. The technical assistance is part of larger projects to strengthen national financial reporting, including auditing and financial infrastructures.
59. The one member organization rated at *Plan* is in a jurisdiction where mandatory application of ISA will become effective by the end of 2017. It has *No Direct* responsibility for the adoption of ISA; however, it has defined a strategy and outlined activities as to how it will support implementation when the standards become effective.

SMO 3 FULFILLMENT



60. Member organizations also contribute to international standard-setting by participating in public discussions and providing comments on public consultations. For example, member organizations in the 6 OHADA member states played a key role in supporting adoption of ISA at the regional level as part of their SMO fulfillment obligations.

61. Finally, the member organization rated at *Consider* has *No Direct* responsibility for the adoption of ISA, and is considering its role within the adoption and implementation processes of the international standards.

TOOLBOX

The following guidance tools and materials are available to support member organizations in the adoption and implementation of the new Auditor Reporting standards:

CFRR

- Audit Training of Trainers' Virtual Seminar: New and Revised Auditor Reporting Standards

The virtual workshop addresses the main changes introduced by the IAASB to enhance auditor reporting, in particular, ISA 701, Communicating Key Audit Matters in the Independent Auditor's Report.

IAASB AUDITOR REPORTING TOOLKIT

The Implementation Working Group has prepared the following material to assist users in the effective implementation of the Auditor Reporting standards:

- Auditor Reporting Fact Sheet
- Auditor Reporting—Key Audit Matters
- Auditor Reporting Ongoing Concern
- The New Auditor's Report: Questions and Answers
- Overview of the New and Revised Auditor Reporting Standards (Slideshow)

IFAC

- Guide to Using the ISA in the Audits of SMEs, Fourth Edition (*Forthcoming*, end of 2017)

The revised edition incorporates the new Auditor Reporting standards.

WORLD BANK/PRICEWATERHOUSECOOPERS

- The New Auditor's Report: Practical Examples

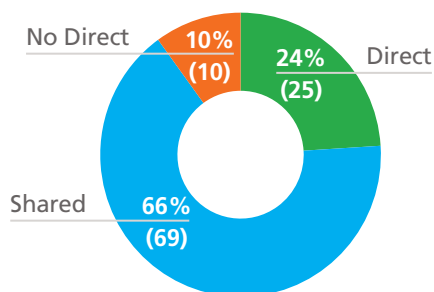
The publication presents some early reporting examples from a practitioner's perspective.

CODE OF ETHICS FOR PROFESSIONAL ACCOUNTANTS

62. Ethical leadership, attitude, and behaviors have become widely recognized as essential components of good corporate governance. This is especially important for PAOs whose members serve the public interest by fostering transparency. Therefore, a single set of robust ethical standards with a global reach helps enhance the consistently high quality of services provided by professional accountants around the world.
63. During the past ten years, the Program has worked to promote the Code as an internationally recognized benchmark for ethical requirements for professional accountants. Historically, national codes were based on or converged with the Code, often with modifications. Recent years have seen national standard-setters increasingly directly adopting the Code in its entirety.
64. Adoption of ethical standards is a multi-stakeholder effort, and a culturally and politically sensitive endeavor. Adoption is further complicated when ethical requirements are established by multiple laws and regulations in a single jurisdiction.

Role of Member Organizations in the Adoption Process

THE CODE: PAO RESPONSIBILITY



65. Only 24 percent of member organizations (25) have *Direct* involvement in the adoption of ethical standards.
66. More generally, the establishment of ethical standards is a shared undertaking, with 66 percent of member organizations (69) *Shar(ing)* the responsibility with various stakeholders. The ethical standards of 8 of these member organizations complement requirements already stipulated in their national legislation.

THE FUTURE IESBA CODE OF ETHICS ADOPTION METHODOLOGY

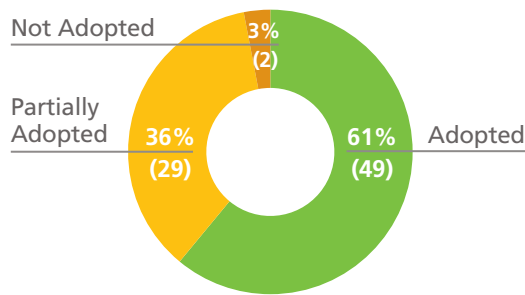
The new *Responding to Non-Compliance with Laws and Regulations (NOCLAR)* standard issued by the IESBA and published as part of the 2016 IESBA Code of Ethics became effective July 15, 2017. The NOCLAR standard will likely require significant changes to national codes and legislation. Given its broad reach, the Program's methodology for assessing a jurisdiction's status of adoption—previously defined as the full adoption of 2009 IESBA Code of Ethics—has been revised to reflect the new standard and is available in *Appendix VI* for reference. The new definition has been applied from July 15, 2017. Given that the data cut-off date for the report was July 1, 2017, the new adoption definition does not have implications for this analysis.

Member organizations are encouraged to ensure their members adhere to the latest version of the Code. Therefore, IFAC has increased its communication efforts to raise awareness of the new standard to drive member organizations' development of adoption and implementation plans. As part of these efforts, IFAC has facilitated member organizations to *share their journey* in the NOCLAR adoption process publicly.

67. Most commonly, responsibility is *Shared* with either government, an audit oversight authority, or a regional economic community:
 - This is the case for 32 member organizations, and in half of these instances (16), the responsibility is shared with both another PAO and one of these institutions.
 - In 29 cases, the responsibility is shared only with another PAO.
 - The analysis also revealed 10 cases where the legal authority to set ethical standards for professional accountants rests with an audit oversight authority or other regulator, such as the Ministry of Finance.

Status of Jurisdiction Adoption

ADOPTION OF THE CODE



68. Member organizations strive to be vanguards of ethical leadership. This is supported by the fact that most of the jurisdictions are using the Code, with 61 percent (49) having *Adopted* the complete Code for application by all professional accountants. Again, *Adopted* in this report is defined as the full adoption of 2009 IESBA Code of Ethics as the effective date of the 2016 Code was July 15, 2017, following the data cut-off date for the report's analysis.

- The most common mode of adoption is by direct reference to the Code in law (16 percent or 13 countries) or other legal instruments (42 percent or 34 countries). Other legal instruments primarily include a member organization or regulator adopting the Code through a legal mandate or bylaws.
- Only 3 percent of the jurisdictions (2) follow a process of convergence of national codes with the Code. The analysis reaffirms the movement away from convergence toward a direct adoption of the Code.

69. Among the 49 jurisdictions assessed as *Adopted*, 5 percent (4) indicate their ethical requirements are more stringent than those in the Code. More stringent requirements are commonly a result of legislation stipulating additional ethical requirements, and member organizations modifying their codes to account for these additions. In these jurisdictions, the Code has been adopted as the benchmark and any additions are intended to ensure practitioners abide by ethical requirements stipulated in legislation and/or to provide national context.

70. Other trends among adoption of ethical standards that were identified through the available data include:

- In 17 percent of the jurisdictions (14), the member organization or regulator has *Adopted* the Code, and established a process to ensure professional

accountants adhere to the latest version of the Code.

- 25 percent of the jurisdictions (20) have member organizations that have aligned, or adopted, their national codes with the 2009 or later version of the Code. However, a process to ensure professional accountants adhere to the latest version of the Code does not yet seem to have been established.
- Member organizations sometimes set a time frame to revise their code in line with amendments to the Code; for example, every three to five years. In 9 percent of the jurisdictions (7), legislation stipulates that ethical requirements be consistent with the latest version of the Code which encourages implementation of these types of process.

71. An analysis of the reasons for a *Partially Adopted* assessment in 36 percent of the jurisdictions (29) revealed the following:

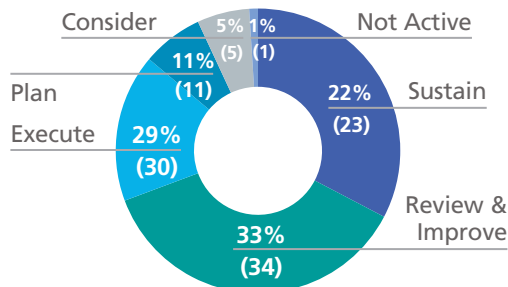
- In 9 percent of the jurisdictions (7), the member organization has adopted the Code as a requirement for its respective members; however, another PAO or regulator with responsibility for setting ethical requirements for the jurisdiction has not adopted the Code.
- Similarly, in 5 percent of the jurisdictions (4), member organizations have adopted the Code for its members; however, it is unclear whether other professional accountants, who are not members of member organizations (see paragraph 6 of this report), are legally required to adhere to established ethical requirements.
- 9 percent of the jurisdictions (7) adopted versions older than the 2009 IESBA Code of Ethics (for example, the 2006 version).
- 9 percent of the jurisdictions (7) have adopted the Code; however, based on available information, their codes are not fully aligned with the Code and omit some requirements.
- In 5 percent of the jurisdictions (4), it was not possible to assess which version of the Code was adopted due to lack of clear information.

72. In the 2 jurisdictions assessed as *Not Adopted*, member organizations are taking steps to adopt the Code. Member organizations have indicated that the adoption of ethical requirements requires an arduous process, including consultations with all members of the profession, and significant government support. This is compounded in the case of a federation model where provincial PAOs hold the authority to adopt

standards and take pride in the existing national code. Nonetheless, member organizations in these jurisdictions are motivated to adopt the Code as the jurisdictional standard.

SMO Fulfillment by Member Organizations

SMO 4 FULFILLMENT



73. Although this is an area often involving many stakeholders, especially with respect to ethical requirements for auditors, member organizations are generally fulfilling their obligations in the SMO area. This is illustrated by the fact that 70 percent of the member organizations (72) are rated at *Sustain* and *Review & Improve*, while 17 percent (18) are *Executing* their plans. Member organizations have largely been successful in (a) setting and supporting implementation of ethical standards in line with the Code by their members; (b) promoting ethical requirements to regulators; (c) collaborating with regulators and/or other PAOs in the jurisdiction to set and subsequently translate ethical standards as necessary; and (d) participating in the international standard-setting process by submitting comments to public consultations issued by the IESBA.
74. For example, as part of the regional regulation issued by OHADA in June 2017, national standard-setters in member states have to adopt national codes based on the Code that is applicable to auditors and accountants in public practice. Member organizations in these member states were part of task forces and committees that helped drive the inclusion of this requirement.
75. Moreover, several member organizations report that they have established an Ethics Committee—highlighted as a best practice for companies within both the *G20/OECD Principles of Corporate Governance* and the *South Africa's 2016 King IV Report on Corporate Governance*—responsible for either adopting, implementing, and/or enforcing compliance with ethical standards. In addition, members of these committees are also involved in

other national initiatives to prevent money laundering, fraud, and corruption, and to boost ethical practices, reduce risk, and ultimately strengthen national financial infrastructure.

76. To achieve the abovementioned activities, the data indicates that several PAOs—27 percent (29)—are collaborating with national, regional, and/or global organizations, highlighting the value of partnerships in strengthening the profession.
77. Looking ahead, the NOCLAR standard will likely require changes in legislation and regulation. Member organizations will therefore have to collaborate and communicate with responsible parties, such as oversight authorities or other regulators, to facilitate the passing of new legislation.

ETHICAL DILEMMA? CALL TOLL-FREE

The G20/OECD Principles of Corporate Governance emphasizes the importance of providing individuals access to persons independent of a company's board when they are concerned about illegal and unethical behavior. This could be in the form of an ombudsman, or confidential phone and email facilities.

In efforts to assist members in a very complex area and provide guidance on real-time ethical questions, some member organizations have established these types of phone hotlines and online help desks. These services allow members to ask questions anonymously and receive free, high-quality technical assistance concerning ethical dilemmas and issues, enabling members to make decisions on actions they need to take.

Based on the questions received, PAOs have subsequently been able to compile FAQs and examples of how to handle ethical dilemmas that are published on their respective websites and accessible to all members.

78. For example, two member organizations operating in the same country are *navigating* the NOCLAR adoption process in which there are several legal obstacles. Legislation makes violating confidentiality a criminal offense while, at the same time, the capital markets regulator requires all auditors to follow the member organizations' rules and regulations or incur fines, suspension, and/or the inability to work in the market. Despite these challenges, all stakeholders in the jurisdiction remain committed to NOCLAR adoption and application. As a first step of the

adoption process, stakeholders plan to conduct an in-depth study and propose legislative changes.

79. Given the complexities involved in adopting and implementing the new standard in many jurisdictions and the Program's change in its adoption methodology, there may be an overall downgrade in member organizations' SMO fulfillment in the next iteration of the report in the event that staff does not see member organizations utilizing their best endeavors to draft and execute strategies of adoption and implementation. For instance, one action item the staff is expecting to see in many SMO Action Plans is a comparison of member organizations' codes of ethics with the latest version of the Code to identify any areas of divergence.

TOOLBOX

Tools that are available to assist PAOs in the adoption and support of implementation of ethical requirements aligned with the Code:

CFRR

- *The Ethical Dilemmas Board Game*

This exercise enables participants to approach professional ethics training and education in a practical way, by analyzing threats that arise and selecting an appropriate course of action in line with the fundamental principles of the Code.

IESBA

- *At a Glance: Responding to Non-Compliance with Laws and Regulations*

This document provides an overview of the final NOCLAR pronouncement.

- *Final Pronouncement: Responding to Non-Compliance with Laws and Regulations*

The Final Pronouncement sets out a framework to guide auditors and other professional accountants in what actions to take in the public interest when they become aware of a potentially illegal act.

- *IESBA Q&A Video Series: Responding to Non-Compliance with Laws & Regulations*

Representatives of the IESBA Consultative Advisory Group, along with the IESBA Chair and members, discuss key aspects of NOCLAR and its relevance to regulators, investors, and professional accountants.

- *Responding to Non-Compliance with Laws and Regulations Fact Sheet*

Learn all about the NOCLAR standard, including key outcomes the standard seeks to achieve, who will be affected by the standard, and what national PAOs and others can do to support the standard.

GOOD GOVERNANCE FOR PAO SUCCESS

Good governance is essential to the success of all organizations, and PAOs are no exception. Governance is one of the key criteria assessed for IFAC membership admissions, and therefore impacts the Program's enhanced enforcement framework. For the past ten years, it has been our experience in working with a vast and diverse membership that having effective PAO governance is a "make or break" criteria for success in adoption and implementation of the international standards and practices underlying the SMOs.

Additionally, and no less important to the success of the PAO, governance practices significantly and directly impact the organization's relevance and reputation with stakeholders, and its capacity to effectively manage and grow its human and financial resources. Poor PAO governance processes are often linked to the organization struggling to maintain continuity and to commit to an SMO Action Plan. On the other hand, several examples of good governance practices have led to measurable and sustained success.

For example, it is evident that adoption of international standards should not be a one-off decision. Meaningful adoption, and more so implementation, requires the development of strong ongoing processes to ensure the most recent version of standards are monitored, disseminated (and perhaps translated), as well as incorporated into education and training of professional accountants (and regulators). Furthermore, PAOs must have effective mechanisms in place to ensure timely comments and feedback are sent to international standard-setters to improve the standards as they are developed.

While IFAC recognizes the diversity of PAO governance models and practices, certain fundamental principles enable PAOs to add value to their members and constituents, and to serve the public interest. IFAC plans to bring attention to this key driver of progress in the adoption and implementation agenda, and provide member organizations and other PAOs with support and guidance on improving their governance practices, and thereby their ability to address international standards and best practices.

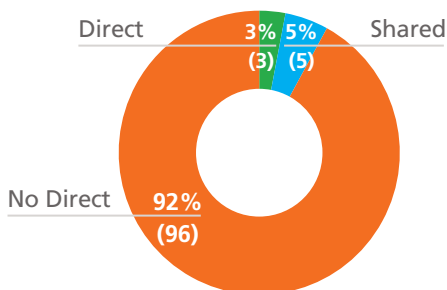
Currently available guidance from IFAC includes: *Evaluating and Improving Governance in Organizations* from the Public Accountants in Business Committee and the PAO Development Committee's *Establishing Governance: A Guide for Professional Accountancy Organizations*.

INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS

80. Governments around the world are entrusted by citizens to manage public resources in an effective and efficient way. They collect revenues, largely through taxation, and in return are expected to deliver a wide range of quality public services. High-quality public financial reporting that promotes transparency and accountability is critical to governments fulfilling this stewardship role, and to citizens holding governments accountable.
81. IFAC believes the journey toward high-quality public financial information begins with governments committing to the implementation of internationally recognized financial reporting standards that comprehensively capture their financial performance and position. IPSAS, a set of high-quality standards for use by public sector entities, already serve as a reference point for many governments. A crucial element of these standards is the accrual basis of accounting, which helps to show a precise, current picture of financial position. IFAC's goal is to encourage more governments to adopt these standards, and promote greater transparency in public sector finances.
82. Based on national priorities, resources, and relevance, member organizations have to determine the appropriate level and type of actions they should take to promote and support the adoption of IPSAS. IFAC is assisting member organizations by providing guidance in developing roadmaps to promote and support adoption.

Role of Member Organizations in the Adoption Process

IPSAS: PAO RESPONSIBILITY



ACCOUNTABILITY. NOW.

Accountability. Now. is a global multi-stakeholder initiative to promote high-quality financial accounting and reporting by governments to improve transparency and help strengthen public sector financial management and accountability.

INTERNATIONAL PUBLIC SECTOR FINANCIAL ACCOUNTABILITY INDEX

A *joint project* of IFAC and the Chartered Institute of Public Finance and Accountancy, the *Index* will provide information on the adoption of accrual accounting and IPSAS. It will also provide an understanding of accounting and budgeting reform plans, and provide evidence-based recommendations to help stimulate public financial management (PFM) reforms.

The country-by-country public database will initially focus on central government and expand to include state and local levels.

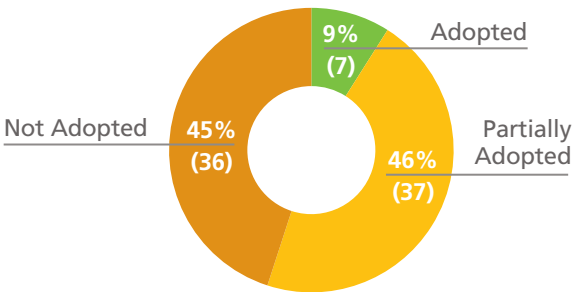
The first set of data will be made available in **November 2017**.

83. In most member jurisdictions, the government has the authority to set public sector accounting standards, usually at a ministerial level within the Ministry of Finance or the Treasury. This is evidenced by the high number of member organizations (92 percent or 96) in the analysis with *No Direct* responsibility in the adoption process.
84. 5 percent of member organizations (5) have *Shared* responsibility with the government to establish public sector accounting standards and are also given an advisory role on matters of public financial management (PFM). Only 3 percent of member organizations (3) have *Direct* responsibility for IPSAS adoption, and have *Partially Adopted* IPSAS. These member organizations have reported plans for a phased approach to full adoption of accrual-based IPSAS.

85. In the presence of economic communities, such as the EU, the East African Community, and WAEMU, that set regulations and standards at a regional level, adoption of IPSAS is contingent on decisions made by these unions. 6 jurisdictions report that they are awaiting decision at a regional level and are working to advance the decision-making process.

Status of Adoption in Jurisdictions

ADOPTION OF IPSAS



86. An assessment of the 80 jurisdictions indicates that 9 percent (7) have *Adopted* accrual-based IPSAS as the applicable accounting standard for all public sector entities. 5 jurisdictions have adopted IPSAS through direct reference in law, and 2 jurisdictions through convergence or by incorporating the standards into their national requirements.

87. An analysis of the 46 percent of jurisdictions (37) that have *Partially Adopted* IPSAS revealed the following:
- 18 percent of the jurisdictions (14) have adopted cash-based or a modified form of cash-based IPSAS, with 12 of these jurisdictions reporting plans to transition to accrual-based IPSAS.
 - 14 percent of the jurisdictions (12) have adopted IPSAS with some modification but more information is necessary to determine if they intend to fully adopt IPSAS.
 - 10 percent of the jurisdictions (8) have generally aligned their public sector accounting standards with IPSAS, and are undergoing a convergence process towards full adoption.
 - 4 percent of the jurisdictions (3) have adopted IPSAS by law, and established implementation plans.

88. Of the 45 percent of jurisdictions (36) that have *Not Adopted* IPSAS:
- 25 percent of the jurisdictions (20) have established plans to adopt accrual-based IPSAS, and 5 of these jurisdictions are receiving technical assistance from development institutions and/or are in partnership with PAOs to support adoption

PARTNERSHIPS FOR PFM SUCCESS

While many member organizations have *No Direct* responsibility for IPSAS adoption, a number of them are collaborating with their government ministries, and participating in consultation activities, public sector committees, and task forces focused on IPSAS adoption and implementation.

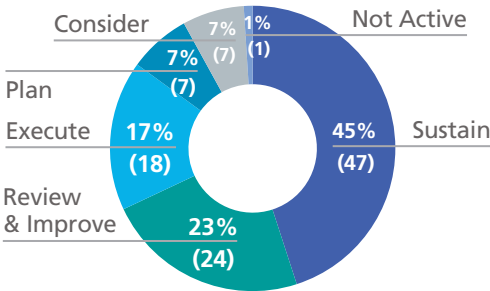
One member organization has a formal agreement with the government agency responsible for IPSAS adoption to provide training and technical support. The agency also reviews and endorses the member organization's plans and actions developed in this area for purposes of the SMO Action Plan process.

and implementation.

- 21 percent of the jurisdictions (16) have not communicated plans for IPSAS adoption.

SMO Fulfillment by Member Organizations

SMO 5 FULFILLMENT



89. 92 percent of the member organizations (96) have *No Direct* responsibility for the adoption of IPSAS. Nevertheless, 68 percent (71) are rated at *Sustain* and *Review & Improve*, which indicates they use their best endeavors to promote the adoption of IPSAS and subsequently support their implementation. One-third participates in and provides technical support to public sector accounting standard-setting committees of their ministries.
90. Most member organizations are promoting IPSAS adoption and developing plans on how to approach their governments in relation to IPSAS adoption. Generally, their plans would benefit from greater strategic focus and concrete actions and timelines. Accordingly, these organizations might advance more in this area with increased support and assistance in developing their plans.

TOOLBOX

The following tools and materials are available to assist PAOs and governments in the adoption and implementation of IPSAS:

INSTITUTE OF CHARTERED ACCOUNTANTS IN ENGLAND AND WALES

- *Building Blocks to Better PFM: A Cash to Accruals Accounting Toolkit*

A guide which includes a framework to support the transition from cash to accrual-based accounting

INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS BOARD (IPSASB)

- *The Applicability of IPSAS & Preface to International Public Sector Accounting Standards*

This document provides the characteristics of public sector entities for which IPSAS are designed, including the definition of a Government Business Enterprise.

- *IPSASB Fact Sheet*

Publication featuring IPSAS standard-setting objectives

- *Public Standard-Setters Forum*

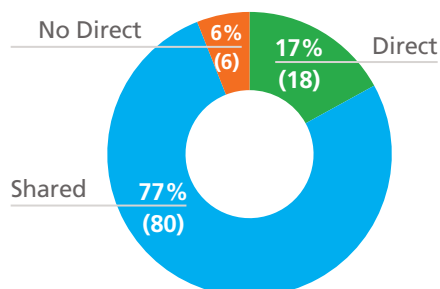
Global forum for national public sector standard-setters to develop and maintain dialogue, exchange ideas, and discuss critical standard-setting issues

INVESTIGATIVE AND DISCIPLINARY SYSTEMS

91. Alongside ethical requirements, I&D systems form the cornerstones of the accountancy profession. From a public interest and good governance perspective, clear procedures to investigate all reports and take appropriate action are essential to a PAO's relevance and credibility. The public should be well aware of avenues to submit complaints or inquiries and be able to access information, when legally possible, related to outcomes of cases.
92. Moreover, the establishment and operation of such mechanisms are critical to enforcing professional accountants' compliance with ethical and professional standards as well as continuing professional development obligations.
93. Revised in 2012, SMO 6 is recognized as the international best practice for I&D systems for the profession. SMO 6 sets out detailed requirements and additional guidance with respect to three key aspects of an I&D process: investigation, discipline, and appeal.
94. To assist member organizations to develop and implement I&D procedures to handle complaints appropriately, IFAC has developed a self-assessment tool that identifies the key components of SMO 6 and enables member organizations to identify areas that require improvements (available in [Appendix VII](#) for reference). This tool is shared with member organizations as part of the SMO Action Plan update process, and IFAC is working to facilitate guidance and technical support to member organizations as they address the SMO 6 requirements.
95. The establishment and operation of I&D systems for all professional accountants in a jurisdiction involves a variety of stakeholders. In fact, in this area, 77 percent of the member organizations (80) have a *Shared* responsibility with either government, an audit oversight authority, another PAO, a regional grouping, or a combination. Highlighting the complexity of this SMO area, in 65 percent of the cases (52), the member organization shares responsibility with a combination of one or more of these stakeholders. In some jurisdictions, there could be as many as five stakeholders involved in the investigation and discipline of professional accountants.
96. For the remaining 28 cases, the data revealed that:
 - 12 percent of member organizations (10) have a *Shared* responsibility with other PAOs in the jurisdiction;
 - 8 percent (7) with an oversight body;
 - 6 percent (5) with government;
 - 5 percent (4) with another regulatory body;
 - in one case, some I&D procedures, such as applicable sanctions, are outlined in the national legislation, and finally,
 - in the last remaining case, the member organization shares I&D responsibility with only a regional grouping.
97. 6 percent of the member organizations (6) are not responsible for the investigation and discipline of their members as it is the responsibility of a regulator or another PAO. Nonetheless, these member organizations are actively monitoring the functioning of the I&D systems, promoting SMO 6 requirements to government and regulators, conducting assessments of the jurisdictional system against the SMO 6 requirements, and disseminating information on the functioning of the system.

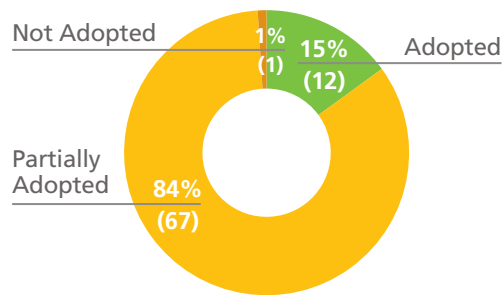
Role of Member Organizations in the Adoption Process

I&D: PAO RESPONSIBILITY



Status of Adoption in Jurisdictions

ADOPTION OF I&D



98. All jurisdictions, except one, have I&D systems in place for professional accountants that meet at least some of the requirements of SMO 6.
99. The level of adoption of the requirements varies, and analysis of available information shows:
- 15 percent of the jurisdictions (12) have established I&D systems for all professional accountants that are fully in line with all SMO 6 requirements.
 - In 8 percent of the jurisdictions (6), member organizations have *Adopted* I&D systems that fulfill the main requirements of SMO 6; however, the extent to which systems operated by regulators and/or other PAOs meet SMO 6 requirements needs to be clarified.
 - Similarly, in 3 percent of the jurisdictions (2), member organizations have established I&D systems that fulfill the main requirements of SMO 6, but it is unclear whether all other professional accountants, who do not belong to the member organizations, are subject to the I&D procedures.
 - In 26 percent of the jurisdictions (21), member organizations need to update their assessments of national I&D systems against the SMO 6 requirements to clarify the extent of alignment—a process that requires collaboration with other stakeholders.
 - In 15 percent of the jurisdictions (12), member organizations are in the process of enhancing their I&D systems to incorporate all SMO 6 requirements.
 - In 19 percent of the jurisdictions (15), member organizations have assessed their national I&D systems against SMO 6 requirements and identified areas for improvement. For example, incorporating an information-based system where a QA review system is being operationalized, separating investigation committees and disciplinary committees, and incorporating non-professional

accountants into these committees to strengthen independence (see **Safeguarding Independence box**). Of the 15 cases, 5 are awaiting the operationalization of QA review systems.

100. Establishing and operating an I&D system is an intricate and nuanced endeavor. Among the 84 percent of jurisdictions (67) assessed as *Partially Adopted*, 15 percent (10) provided multiple explanations—for example, a regulator or another PAO may not have an I&D system, there is no QA review system yet, and an appeals mechanism does not exist—for their partial adoption status. This is largely attributed to the fact that the different stakeholders involved in I&D procedures are at different levels of maturity and capacity and therefore, progress in operationalizing I&D systems is stalled on multiple levels.

SAFEGUARDING INDEPENDENCE

It is essential that individuals that sit on I&D committees are impartial and independent of external pressures—as well as free from relationships with those appearing before them—so that both individuals involved in proceedings and the wider public are confident that the decisions are fair and in accordance with the law and regulations.

In larger jurisdictions, this is relatively straightforward to accomplish. However, in jurisdictions with small populations, it can be more challenging to find independent and qualified individuals to sit on the investigation and disciplinary committees.

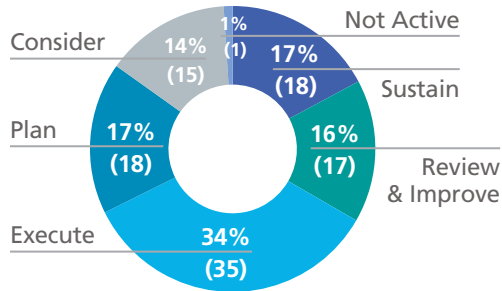
To address this problem, one member organization has taken clear steps to include both accountants and non-accountants on its committees while also removing the possibility of having any Council member sit on the committees. Member organizations have also explored the idea of including retired professionals on their committees, as well as collaborative regional solutions.

101. Finally, a federation model can add another level of complexity to the adoption and implementation process. In these models, the national PAO is usually responsible for drafting rules and regulations and ensuring they are adopted and implemented by each provincial association across the jurisdiction. One member, as the national PAO reinforcing the procedures of provincial associations, has created an

appeals mechanism to support the provincial-level I&D systems. If a member has gone through the provincial association's I&D procedures and wishes to appeal the decision, the association passes the case to the national PAO.

SMO Fulfillment by Member Organizations

SMO 6 FULFILLMENT



102. Most member organizations are using their best endeavors to ensure their I&D systems are in line with SMO 6 requirements with 67 percent (70) falling in the *Sustain*, *Review & Improve*, and *Execute* categories. Many of them are promoting the adoption of SMO 6 requirements to regulators to ensure all professional accountants in their jurisdiction are subject to adequate I&D procedures.
103. Nonetheless, a number of member organizations are assessed as *Plan* (17 percent or 18) and *Consider* (14 percent or 15). Member organizations assessed as *Plan* have generally conducted a self-assessment against the SMO 6 requirements, identified distinct areas that require improvement, and indicated planned actions to address these gaps within the next SMO Action Plan update cycle.
104. Member organizations assessed as *Consider* have not completed self-assessments. These member organizations are advised to strategically consider how to bring their I&D systems in line with SMO 6 requirements. Member organizations assessed as *Plan* and *Consider* are carefully monitored⁶ to ensure that they can continue to fulfil their requirements under the Program and progress with SMO fulfillment by establishing and/or executing clear plans.

105. The primary reasons stated by the member organizations for the delayed creation and implementation of I&D systems include lack of funding, resource constraints, and the drafting and subsequent approval of regulations and bylaws to address the SMO 6 requirements. For example, 23 percent of the 68 member organizations (16) assessed as *Execute*, *Plan*, or *Consider* are reviewing, revising, and/or awaiting approval of new regulations and bylaws that would permit the incorporation of necessary SMO 6 components into their existing I&D systems. 5 of these member organizations have recently achieved the objective of approving and implementing new bylaws, and are assessed as *Review & Improve* (see **Best Practice box**).

DO YOU REVIEW?

SMO 6 BEST PRACTICE

Regular reviews, ranging from every year to every five years, of the organization's governing procedures, such as I&D instruments, help ensure that the mechanisms remain up-to-date and function as needed. Reviews also help determine whether changes need to be made to the mechanisms in order to better serve its members and the public.

For example, one member organization noticed a change in the number and type of complaints it was receiving and realized that continuing with the same I&D approach was counterproductive. It then worked to establish an *Alternative Dispute Resolution* to swiftly resolve minor breaches. This has allowed the organization to close cases more efficiently and redirect resources and time to more serious offenses such as cases of ethical misconduct.

106. SMO 6 is an area where working with development institutions, developing partnerships with other PAOs, and sharing best practices and case studies would be beneficial to the adoption and implementation process. PAOs that are searching for practical insights on how to identify and manage partnerships

⁶ To guide the application of compliance procedures, the following four key pillars—Communication, Assistance, Review, and Enforcement—form mainstays integral to all processes and actions carried out by the staff when working with the member organizations in the Program. **Communication** between the staff and the member organizations is essential to ensuring that member organizations understand the expectations of the Program, their obligations, and the potential consequences of failure to demonstrate use of their best endeavors to address the SMO requirements. **Assistance** to member organizations is a key factor in staff's approach to working with organizations struggling to progress on the SMOs. **Review** of member organizations' ongoing progress in achieving fulfillment with SMO requirements is an essential element of the framework, whereby staff monitors progress and provides timely feedback to encourage progress and improvement. **Enforcement** actions are to be taken in cases where member organizations fail to participate in the Program or demonstrate progress after incremental and consistent application of the previous three pillars.

between PAOs will find the *Counting on Each Other: Establishing & Maintaining Effective PAO Partnerships* guidance produced by the IFAC PAO Development Committee especially applicable.

107. 10 percent of the member organizations (10) have identified local and global stakeholders they are working with to achieve full adoption and implementation of SMO 6 requirements in their jurisdictions. Capacity-building projects targeted at improving QA review systems, CPD programs, and adoption of ethical standards might benefit from including a component to strengthen the I&D system, as this could enhance the success of the projects by enforcing members' compliance with professional standards.
108. Staff recognizes that many member organizations have to collaborate with and influence regulators and/or other PAOs in the jurisdiction throughout the establishment and implementation process, which can consequently delay progress with SMO 6 fulfillment. SMO 6 has therefore been identified as a priority for further study regarding the challenges faced by and the needs of the member organizations.

TOOLBOX

Tools to assist PAOs with the establishment and implementation of I&D systems aligned with SMO 6 requirements:

CAPA

- Forthcoming publication in the Maturity Model in Action Series

IFAC

- *Establishing and Developing a Professional Accountancy Body*

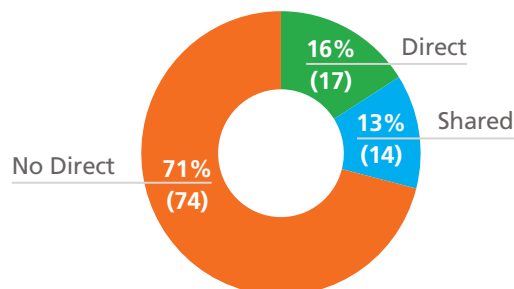
This guidance covers the roles and responsibilities of a PAO and capacity development. Its accompanying toolkit includes case studies, practical illustrations, and supplementary guidance.

INTERNATIONAL FINANCIAL REPORTING STANDARDS

109. The preparation of financial statements is a fundamental element of the financial reporting supply chain, which involves preparation, approval, audit, analysis, and use of financial reports. Application of a common set of high-quality accounting standards enhances transparency, accountability, comparability, and efficiency of financial markets, and increases the quality of financial information available to the public, thereby serving the public interest and fostering trust and financial stability in the global economy.
110. According to the *IFRS Foundation*, the documented benefits of adopting IFRS include a lower cost of capital for some organizations and increased investment in the jurisdiction. Some organizations also report benefits from being able to use IFRS in their internal reporting, improving their ability to compare operating units in different jurisdictions, reducing the number of different reporting systems, and having the flexibility to move staff with IFRS experience around their organization.
111. Progress has been made during the past decade in the adoption of IFRS issued by the International Accounting Standards Board® (IASB®) as more jurisdictions either adopt, require, or permit the application of IFRS.

Role of Member Organizations in the Adoption Process

IFRS: PAO RESPONSIBILITY



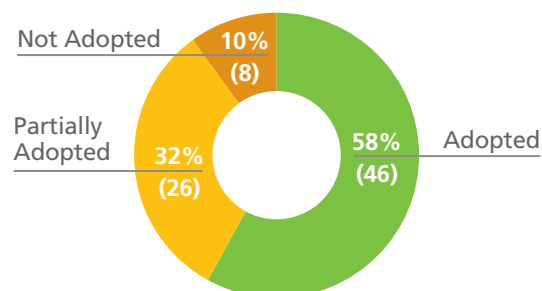
112. Member organizations in only 16 percent of the jurisdictions (17) have the *Direct* legal mandate to establish accounting standards, while in 13 percent of the jurisdictions (14) they have *Shared* responsibility for the standard-setting process. In cases where member

organizations participate in the standard-setting process with other stakeholders, the stakeholders are mostly independent national standard-setting boards, financial sector regulators, or other PAOs.

113. A majority of member organizations, (71 percent or 74) have *No Direct* responsibility; however, 20 percent of them collaborate with their independent national standard-setting board, providing technical guidance.

Status of Adoption in Jurisdictions

ADOPTION OF IFRS

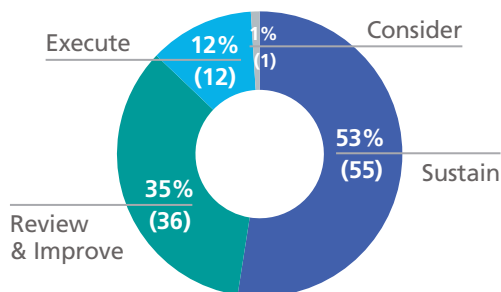


114. Analysis of the data shows that jurisdictions establish different processes to adopt the standards. 58 percent (46) of the jurisdictions have *Adopted* the IFRS which are currently effective for all PIEs.
115. The most common mode of adoption is through an endorsement process that may include translation and republication of IFRS for application in the jurisdiction. This occurred in 33 percent of countries (26). Six of the jurisdictions are EU member states and apply EU-endorsed IFRS.
116. 23 percent of the jurisdictions (18) have *Adopted* through direct reference in law and 3 percent of the jurisdictions (2) have eliminated the differences between its national standards and IFRS through a convergence process.
117. 32 percent of jurisdictions (26) have only *Partially Adopted* IFRS. A common feature in almost all these jurisdictions (25) is that IFRS are required for the preparation of financial statements of some types of PIEs, and national standards—which apply for all other companies—differ from IFRS.

118. Out of the 10 percent of the jurisdictions (8) that have *Not Adopted* IFRS, accounting standards in 5 jurisdictions are established at the regional level by OHADA and WAEMU. In January 2017, OHADA revised the OHADA Uniform Act to require convergence of the OHADA-issued accounting standards with IFRS. Accordingly, the use of IFRS in OHADA member states will enter into force in January 2018, for the financial statements of PIEs, and January 2019, for the consolidated financial statements and the combined financial statements of PIEs, furthering the adoption of IFRS in the region.
119. The remaining 3 jurisdictions require the use of national accounting standards, which are not in line with IFRS.
120. In reference to the adoption of IFRS for Small- and Medium-Sized Entities (SMEs), 34 percent of the jurisdictions (27) have *Adopted* the standard through direct reference in law, while 18 percent of the jurisdictions (14) have adopted it through a convergence process. A high level of adoption is seen in the LAC region as reported by the IASB SME Implementation Group (**see IFRS for SMEs in LAC box**).

SMO Fulfillment by Member Organizations

SMO 7 FULFILLMENT



121. PAOs are essential to supporting the adoption and implementation process of IFRS and have successfully established and are maintaining ongoing processes to provide technical support to the profession and standard-setters. Member organizations have implemented a range of activities in this regard, including: developing implementation guidelines, organizing training and other educational events, and producing and disseminating translations of international standards into local languages.
122. Member organizations are also actively involved in the international standard-setting process by providing

INCORPORATING IFRS INTO UNIVERSITY CURRICULA

Although PAOs have *No Direct* responsibility for IFRS adoption, this does not prevent them from taking on an active role in supporting the implementation process. A number of member organizations report that they have collaborated with universities to introduce the theory and practical application of IFRS in class syllabi.

comments to IASB exposure drafts of the standards, and participating in other public consultations.

123. As a result, over 88 percent of the member organizations (91) are rated at *Sustain* and *Review & Improve* for SMO 7, demonstrating a high degree of fulfillment with the requirements of the SMO.
124. 12 percent of member organizations (12) are at the *Execute* level, indicating that they are in the process of addressing the requirements of SMO 7. The one member organization rated at *Consider* has *No Direct* responsibility for the adoption of IFRS, which are only *Partially Adopted* in the jurisdiction, and it is considering how to effectively promote the full adoption of IFRS and support the implementation of the accounting standards.
125. First-time adoption and subsequent implementation of IFRS poses several challenges to the profession. Common impediments cited by member organizations include: limited knowledge and experience in the application of IFRS at the national level by many stakeholders involved in the process; delays in translating the most recent version of IFRS; scarce financial and technical resources; and lack of quality IPD and CPD programs covering the standards.
126. Many SMEs face similar challenges in the adoption and implementation of IFRS for SMEs. The organizations will generally need to change at least some of their reporting systems and practices which may be challenging for SMEs.

IFRS FOR SMES IN LAC

According to the *IASB's SME Implementation Group*, since the IFRS for SMEs was issued, jurisdictions across LAC have made significant progress in its adoption and implementation.

The adoption process in the region differs among the countries. Some nations, such as Ecuador and Peru, have adopted IFRS for SMEs but added quantitative parameters to determine whether an entity qualifies as an SME. Other jurisdictions, such as Brazil, in addition to adding quantitative parameters, have made changes to the requirements (for example, the use of the equity method in separate financial statements) in order to adopt the standard. And yet other jurisdictions, such as Argentina, have adopted IFRS for SMEs as an option, in addition to allowing GAAP principles, which are commonly used by SMEs.

SMEs have been interested in adopting a financial reporting standard (including IFRS for SMEs) for several reasons including: (a) the perception that the information provided is necessary to gain access to finance on better terms; (b) compliance concerns with tax and regulation; and (c) understanding the link between SME financial reporting and economic development.

TOOLBOX: SME FOCUS

IFRS FOUNDATION

- *2015 Amendments to the IFRS for SMEs*
Amendments based on the results from the first IFRS Comprehensive Review from 2012–2014
- *2015 Comprehensive Review to the IFRS for SMEs*
Supporting material on the IFRS Comprehensive Review project
- *IFRS for SMEs Fact Sheet*
A summary of activities since the IFRS for SMEs was issued
- *IFRS for SMEs Training Modules (available in English, Russian, Spanish and Turkish)*
Stand-alone training modules for each section of the 2009 version

LEARN MORE

The Program's Jurisdiction and Organizational Profiles

During 2016, IFAC launched a new, interactive section of the website with [comprehensive profiles of our member organizations](#) and the jurisdictions in which they operate. These in-depth profiles are designed to:

- support increased transparency in the public interest;
- further encourage the adoption and implementation of international standards; and
- demonstrate the profession's widespread efforts to encourage adoption and advance implementation with international standards and best practices to strengthen the businesses, governments, and communities in their nations.

The [landing page](#) identifies which PAOs are IFAC members, and associates can access member organizations and country profiles.

The country profile includes the following:

- a listing of all member organizations in the jurisdiction;
- a description of the legal and regulatory environment;
- the adoption status of international standards; and
- the sources of information behind the assessments.

Each member organization profile features:

- an assessment of each organization's fulfillment of the SMOs;
- the 2012 Final Pronouncement of the Statements of Membership Obligations (SMOs) 1–7
- the organization's SMO Action Plan;
- a brief description of the organization; and
- the assessment methodology.

In addition to being relevant to regulators, standard-setters, investors, and PAOs, the content of the profiles is useful to practicing accountants as well to:

- check the status of adoption for the Code, IES, IFRS, IPSAS, and ISA for your jurisdiction or one in which you work or plan to work;
- discover more about the current state of financial reporting in the regions and nations where you live, your company is based, or your organization does business;
- enhance your risk management for projects, work, or clients in new jurisdictions by learning more about the legal and regulatory conditions in those jurisdictions; and
- see how your organization is fulfilling the [SMOs](#).

Memorandum of Understanding to Strengthen Accountancy and Improve Collaboration (MOSAIC)

MOSAIC is a historic memorandum of understanding that sets out the basis for improving cooperation and collaboration between IFAC, international donors, and the international development community. With 13 signatories, it provides the foundation for an aligned approach to increase the capacity of PAOs and improves the quality of financial management systems in emerging economies.

The [MOSAIC website](#) serves as a portal to resources and news about the development of the global accountancy profession. It has received funding from the World Bank and serves as a global exchange of knowledge and ideas on capacity-building and PAO development.

IFAC Global Knowledge Gateway™

Readers can learn more about the developments and issues impacting the global accountancy profession discussed in the report along with several more current trends at the [Gateway](#). Established in 2014, the Gateway is an information center for the accounting profession worldwide. The Gateway is organized around 10 topic areas including Audit & Assurance, Business Reporting, Ethics and Practice Management, and more.

To date, the Gateway contains:

- nearly 500 original articles and videos from contributors around the globe and IFAC staff technical experts;
- over 2,850 resources from hundreds of unique sources, including studies, reports, technical guidance, standards and pronouncements, interviews, and articles;
- more than 6,275 news items from hundreds of unique sources including professional accounting organizations, accountancy journals, speeches, news releases, and mainstream media; and
- Gateway's bi-monthly newsletter, [The Latest](#) (with over 27,700 subscribers), which is a compilation of new and recent original articles, videos, and resources.

APPENDIX I

List of Jurisdictions and PAOs Included in the Analysis

COUNTRY	PAO
Albania	Institute of Authorized Chartered Auditors of Albania
	Instituti i Kontabilistëve të Miratuar (Albanian Institute of Certified Accountants)
Argentina	Federación Argentina de Consejos Profesionales de Ciencias Económicas
Armenia	Association of Accountants and Auditors of Armenia
Austria	Institut Österreichischer Wirtschaftsprüfer (Institute of Austrian Certified Public Accountants)
Austria	Kammer der Wirtschaftstreuhänder (Chamber of Public Accountants)
Bahamas	Bahamas Institute of Chartered Accountants
Bangladesh	Institute of Chartered Accountants of Bangladesh
	Institute of Cost and Management Accountants of Bangladesh
Barbados	Institute of Chartered Accountants of Barbados
Belgium	Instituut van de Bedrijfsrevisoren-Institut des Réviseurs d'Entreprises
Benin	Ordre des Experts-Comptables et Comptables Agréés du Bénin
Bosnia and Herzegovina	Association of Accountants and Auditors of Republic of Srpska
	Union of Accountants, Auditors and Financial Workers of Federation of Bosnia and Herzegovina
Botswana	Botswana Institute of Chartered Accountants
Brazil	Conselho Federal de Contabilidade (Federal Council of Accounting)
	Instituto dos Auditores Independentes do Brasil (Brazilian Institute of Independent Auditors)
Burkina Faso	Ordre National des Experts-Comptables et des Comptables Agréés du Burkina Faso
Cameroon	Institute of Chartered Accountants of Cameroon
Cayman Islands	Cayman Islands Institute of Professional Accountants
Chinese Taiwan	Federation of CPA Associations of Chinese Taiwan
Costa Rica	Colegio de Contadores Públicos de Costa Rica
Croatia	Croatian Association of Accountants and Financial Experts
Croatia	Croatian Audit Chamber
Denmark	FSR-danske revisorer (FSR-Danish Auditors)
Egypt	Egyptian Society of Accountants & Auditors
El Salvador	Instituto Salvadoreño de Contadores Públicos (Salvadoran Institute of Chartered Accountants)
Finland	Suomen Tilintarkastajat ry (Finnish Association of Auditors)
Georgia	Georgian Federation of Professional Accountants and Auditors
Ghana	Institute of Chartered Accountants (Ghana)
Greece	Institute of Certified Public Accountants of Greece
Guyana	Institute of Chartered Accountants of Guyana
Hong Kong (Special Administrative Region of China)	Hong Kong Institute of Certified Public Accountants

COUNTRY	PAO
Iceland	Félag Löggiltra Endurskodenda (Institute of State Authorized Public Accountants in Iceland)
Indonesia	Institut Akuntan Publik Indonesia (Indonesian Institute of Certified Public Accountants (IAPI))
	Ikatan Akuntan Indonesia (Institute of Indonesia Chartered Accountants)
Iraq	Iraqi Union of Accountants and Auditors
Ireland	Accounting Technicians Ireland
	Chartered Accountants Ireland
	Institute of Certified Public Accountants in Ireland
Ivory Coast	Ordre des Experts-Comptables de Côte d'Ivoire
Jamaica	Institute of Chartered Accountants of Jamaica
Jordan	International Arab Society of Certified Accountants
	Jordanian Association of Certified Public Accountants
Kazakhstan	Chamber of Auditors of the Republic of Kazakhstan
	Chamber of Professional Accountants of the Republic of Kazakhstan
Kenya	Institute of Certified Public Accountants of Kenya
Kosovo	Society of Certified Accountants and Auditors of Kosovo
Kuwait	Kuwait Association of Accountants and Auditors
Kyrgyzstan	Union of Accountants and Auditors
Lebanon	Lebanese Association of Certified Public Accountants
Lesotho	Lesotho Institute of Accountants
Liberia	Liberian Institute of Certified Public Accountants
Lithuania	Lithuanian Chamber of Auditors
Madagascar	Ordre des Experts Comptables et Financiers de Madagascar
Malawi	Institute of Chartered Accountants in Malawi
Malaysia	Malaysian Institute of Accountants
Mauritius	Mauritius Institute of Professional Accountants
Mexico	Instituto Mexicano de Contadores Públicos, A.C.
Mongolia	Mongolian Institute of Certified Public Accountants
Montenegro	Institute of Accountants and Auditors of Montenegro
	Institute of Certified Accountants of Montenegro
Morocco	Ordre des Experts Comptables du Royaume du Maroc
Namibia	Institute of Chartered Accountants of Namibia
Netherlands	Netherlands Association of Registered Controllers
	Royal Nederlandse Beroepsorganisatie van Accountants
Nigeria	Association of National Accountants of Nigeria
	Institute of Chartered Accountants of Nigeria
Pakistan	Institute of Chartered Accountants of Pakistan
	Institute of Cost and Management Accountants of Pakistan
Palestinian Territory	Palestinian Association of Certified Public Accountants
Papua New Guinea	Certified Practising Accountants Papua New Guinea
Peru	Junta de Decanos de Colegios de Contadores Públicos del Perú
Poland	Accountants Association in Poland

COUNTRY	PAO
Portugal	Ordem dos Contabilistas Certificados
	Ordem dos Revisores Oficiais de Contas
Russian Federation	Self-regulatory Organization of Auditors Association "Sodruzhestvo"
Rwanda	Institute of Certified Public Accountants of Rwanda
Saudi Arabia	Saudi Organization for Certified Public Accountants
Senegal	Ordre National des Experts Comptables et des Comptables Agréés du Sénégal
Serbia (Republic of)	Serbian Association of Accountants and Auditors
Sierra Leone	Institute of Chartered Accountants of Sierra Leone
Slovakia	Slovenska Komora Auditorov (Slovak Chamber of Auditors)
	Slovenian Institute of Auditors
South Africa	South African Institute of Chartered Accountants
	South African Institute of Professional Accountants
Swaziland	Swaziland Institute of Accountants
Switzerland	EXPERTsuisse (Swiss Expert Association for Audit, Tax, and Fiduciary)
Tanzania, United Republic of	National Board of Accountants and Auditors
Trinidad and Tobago	Institute of Chartered Accountants of Trinidad & Tobago
Tunisia	Ordre des Experts Comptables de Tunisie
Turkey	Expert Accountants' Association of Turkey
	Union of Chambers of Certified Public Accountants of Turkey
Uganda	Institute of Certified Public Accountants of Uganda
Ukraine	Ukrainian Federation of Professional Accountants and Auditors
United Kingdom	Association of Accounting Technicians
	Association of Chartered Certified Accountants
	Chartered Institute of Management Accountants
	Chartered Institute of Public Finance and Accountancy
	Institute of Chartered Accountants in England and Wales
	Institute of Chartered Accountants of Scotland
Uzbekistan	Institute of Financial Accountants
	National Association of Accountants and Auditors of Uzbekistan
Zimbabwe	Institute of Chartered Accountants of Zimbabwe

APPENDIX II

Assessing the Status of Adoption of International Standards and Best Practices

1. Since its inception, a primary objective of the Program has been supporting the adoption and implementation of the international standards by driving behaviors of member organizations.
2. The Q&D staff encourages member organizations to achieve the adoption of the international standards and best practices at the jurisdiction level.
3. The staff recognizes that, depending on the jurisdictions' specific circumstances, ways to adopt the international standards and best practices may differ and generally include either direct adoption or a convergence process. Direct adoption may be achieved through reproducing the standards in the national legislation or by direct reference in law, while convergence involves a process to eliminate differences between the national and international requirements.
4. Regardless of the path that a jurisdiction chooses to pursue, the ultimate goal is to adopt the standards in their entirety and with only allowable modifications.
5. When determining the status of the adoption of international standards, the staff relies solely on the authoritative pronouncements of the relevant standard-setters to determine the scope of mandatory application of the standards, which will differ across different areas.

Scope of Mandatory Application as Defined in Related Authoritative Pronouncements

International Standards	Scope	Authoritative Pronouncement
QA	All audits mandatory in the jurisdiction	<i>SMO 1, paragraph 15, p. 10</i>
IES	All professional accountants ⁷	<i>IAESB 2015 Handbook, paragraph 12, p. 8</i>
ISA	All audits mandatory in the jurisdiction	<i>IAASB Handbook IFAC Policy Position 2</i>
The Code	All professional accountants ⁸	<i>IAESB 2015 Handbook, paragraph 12, p. 8</i>
IPSAS	Public sector entities ⁹	<i>IPSASB 2016 Handbook, paragraph 10, p. 14</i>
I&D	All professional accountants ¹⁰	<i>SMO 6, paragraph 10, p. 36 IAESB 2015 Handbook, paragraph 12, p. 8</i>
IFRS	PIEs as defined in the jurisdiction SMEs as defined in the jurisdiction	IFRS Foundation, <i>Strategy Review 2011</i> , 2012, A4; pp. 6, 12–13

⁷ For the purposes of the Program, in line with the definition of professional accountant developed by the IAESB, a professional accountant is an individual:




- who achieves, demonstrates, and further develops professional competence to perform a role in the accountancy profession; and
- who is required to comply with a code of ethics as directed by a PAO or a licensing authority.




⁸ For the purposes of the Program, the IAESB's definition of a professional accountant is used to determine the scope of application of the Code in the jurisdiction.




⁹ Paragraph 1.8 of *The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities* identifies a wide range of public sector entities for which IPSAS are designed. These entities include national, regional, state/provincial, and local governments; government ministries, departments, programs, boards, commissions, and agencies; public sector social security funds, trusts, and statutory authorities; and international governmental organizations.




¹⁰ For the purposes of the Program, the IAESB's definition of a professional accountant is used to determine the scope of application of the I&D system in the jurisdiction.




Definitions of Jurisdiction Status of Adoption




QA Review System	
 Adopted	A QA review system, incorporating the requirements of SMO 1, has been established and is operational for all mandatory audits.
 Partially Adopted	<p>A QA review system, incorporating the requirements of SMO 1, has been established and is operational for some of the mandatory audits (for example, PIEs).</p> <p>or</p> <p>A QA review system for all mandatory audits has been established and is operational, but does not fully incorporate the requirements of SMO 1.</p> <p>or</p> <p>A QA review system, incorporating the requirements of SMO 1, has been established, but is not yet operational.</p>
 Not Adopted	No QA review system has been established.




IES	
 Adopted	The IES have been adopted for entry-level IPD and CPD of professional accountants, as well as engagement partners.
 Partially Adopted	<p>Not all the IES have been adopted.</p> <p>or</p> <p>The IES have been adopted for only some professional accountants.</p>
 Not Adopted	The IES have not been adopted.




ISA Definition as of 2016	
 Adopted	The Clarified ISA or later version of ISA have been adopted and are currently effective for application in all mandatory audits.
 Partially Adopted	<p>Not all Clarified ISA have been adopted.</p> <p>or</p> <p>The Clarified ISA are required for only selected types of audit.</p>
 Not Adopted	The ISA have not been adopted.

ISA Definition as of 2017	
 Adopted	ISA in effect at the time of the assessment have been adopted and are effective for all mandatory audits.
 Partially Adopted	<p>An earlier version of ISA (2009 or later) has been adopted.</p> <p>or</p> <p>Not all ISA have been adopted.</p> <p>or</p> <p>ISA are required for application in selected types of audit.</p>
 Not Adopted	<p>Pre-2009 version of ISA has been adopted.</p> <p>or</p> <p>ISA have not been adopted.</p>

IESBA Code of Ethics	
 Adopted	A 2009 or later version of the Code has been adopted for all professional accountants.
 Partially Adopted	Not all of the requirements of the 2009 or later version of the Code have been adopted. <i>or</i> The Code has been adopted for only some professional accountants.
 Not Adopted	A 2009 or later version of the Code has not been adopted. <i>or</i> A pre-2004 version of the Code has been adopted.

IPSAS	
 Adopted	Accrual-basis IPSAS have been adopted as accounting standards for all public sector entities.
 Partially Adopted	Not all IPSAS have been adopted. <i>or</i> Cash-basis IPSAS have been adopted. <i>or</i> The IPSAS have been adopted for only some public sector entities.
 Not Adopted	The IPSAS have not been adopted.

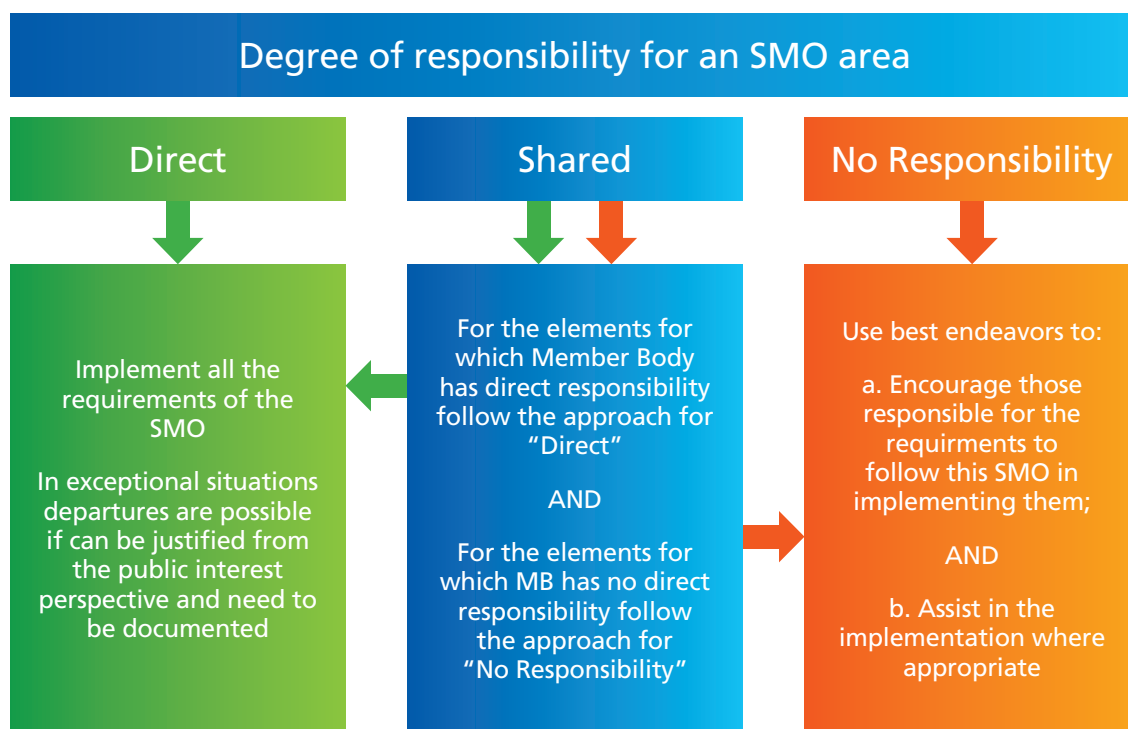
I&D System	
 Adopted	An I&D system, incorporating the requirements of SMO 6, has been established and is operational for all professional accountants.
 Partially Adopted	An I&D system, incorporating the requirements of SMO 6, has been adopted and is operational for some professional accountants. <i>or</i> An I&D system for all professional accountants has been established and is operational, but does not fully incorporate the requirements of SMO 6. <i>or</i> An I&D system, incorporating the requirements of SMO 6, has been established, but is not yet operational.
 Not Adopted	No I&D system has been established.

IFRS	
 Adopted	The IFRS have been adopted and are currently effective for all PIEs.
 Partially Adopted	Not all the IFRS have been adopted. <i>or</i> The IFRS have been adopted for selected types of PIEs.
 Not Adopted	The IFRS have not been adopted.







APPENDIX III

Assessing SMO Fulfillment

1. There is no single “correct” approach to satisfactorily fulfilling SMO requirements. In addition to the analysis of the SMO Action Plans and other sources, assessing SMO fulfillment should involve a dialogue between staff and the PAO during which the PAO explains the details of its environment, legal and regulatory framework, and how, in the context thereof, the PAO believes it addresses the SMO requirements. In this regard, it needs to be clear that the SMO requirements (“shall” statements in the SMOs) are not intended as a checklist, and that both the PAO and staff need to exercise professional judgment when performing the assessment.
2. In assessing the level of fulfilment of the SMO requirements by the PAO, staff should consider:
 - legal, regulatory, and standard-setting framework in the jurisdiction;
 - PAO recognition, role within the jurisdiction framework, the jurisdiction’s approach to organizing the accountancy profession, PAO governance arrangements, capacity level, etc.;
 - jurisdiction status of adoption of international standards and good practice;
 - PAO responsibility framework and—as a result—relative SMO requirements that the PAO has to address;
 - whether all the relative SMO requirements are addressed; and
 - whether the PAO in its SMO Action Plan describes the processes it maintains to address the SMO requirements or its plans to achieve fulfillment of the requirements.
3. The PAO responsibility framework is outlined in the diagram below.



4. Based on all the above considerations, the staff assesses the PAO's status of fulfillment of the SMO requirements in one of the following categories:

SMO Fulfillment Status	Q&D Staff Assessment
 Sustain	PAO maintains well-established ongoing processes to fulfill its relevant obligations. In fulfilling this SMO, PAO considers, plans, executes, and reviews & improves as part of an ongoing commitment to continuous improvement. <i>or</i> Given the nature of its mandate, membership composition, and the legal and regulatory environment, PAO is not involved in activities related to this area.
 Review & Improve	PAO has recently fulfilled its relevant obligation and is reviewing the implemented plan to identify and apply improvements.
 Execute	PAO demonstrates it is executing the plan.
 Plan	PAO has a defined plan to fulfill the requirements of this SMO
 Consider	PAO is considering how to fulfill the requirements of this SMO.
 Not Active	PAO is not active in this SMO area.




APPENDIX IV




Main Requirements of SMO 1

REQUIREMENTS	YES	NO	PARTIALLY	COMMENTS
Scope of the System				
1. At a minimum, mandatory QA reviews are required for all audits of financial statements.				
QC Standards and Other QC Guidance				
2. Firms are required to implement a system of QC in accordance with the QC standards.				
3. Most up-to-date versions of ISQC 1 and other relevant ISA are adopted as the QC standards.				
4. Member Body assists firms in understanding the objectives of QC and in implementing and maintaining appropriate QC systems.				
Review Cycle				
5. A cycle-based, risk-based, or a mixed approach for selecting firms for QA review is used.				
6. For cycle-based approach, QC reviews are required to take place at least every six years (and every three years for audits of public interest entities).				
QA Review Team				
7. Independence of the QA team is assessed and documented.				
8. QA team possesses appropriate levels of expertise.				
Reporting				
9. Documentation of evidence supporting the QC review report is required.				
10. A written report is issued upon conclusion of the QA review and provided to the firm/partner reviewed.				
Corrective and Disciplinary Actions				
11. Reviewed firms/partners are required to make timely adjustments to meet recommendations from the review report.				
12. The QA review system is linked to the I&D system.				
Consideration of Public Oversight				
13. The body responsible for QA reviews cooperates with its oversight body and shares information on the functioning of the QA review system, as needed.				
Regular Review of Implementation and Effectiveness				
14. Regular reviews of implementation and effectiveness of the system are performed.				

APPENDIX V







Methodology to Assess ISA Adoption

Definitions as of 2016	
 Adopted	The Clarified ISA or a later version of ISA have been adopted and are currently effective for application in all mandatory audits.
 Partially Adopted	Not all Clarified ISA have been adopted. <i>or</i> The Clarified ISA are required for only selected types of audit.
 Not Adopted	ISA have not been adopted.

Definitions as of 2017	
 Adopted	ISA in effect at the time of the assessment have been adopted and are effective for all mandatory audits.
 Partially Adopted	An earlier version of ISA (2009 or later) has been adopted. <i>or</i> Not all ISA have been adopted. <i>or</i> ISA are required for application in selected types of audit.
 Not Adopted	Pre-2009 version of ISA has been adopted. <i>or</i> ISA have not been adopted.

APPENDIX VI

Methodology to Assess IESBA Code of Ethics Adoption

Definitions as of 2016	
 Adopted	A 2009 or later version of the Code has been adopted for all professional accountants.
 Partially Adopted	Not all of the requirements of the 2009 or later version of the Code have been adopted. <i>or</i> The Code has been adopted for only some professional accountants.
 Not Adopted	A 2009 or later version of the Code has not been adopted. <i>or</i> A pre-2004 version of the Code has been adopted.
Definitions as of 2017	
 Adopted	At the time of the assessment, the most recent version of the Code with current effective date has been adopted for all professional accountants.
 Partially Adopted	At the time of the assessment, not all of the requirements of the most recent version of the Code with current effective date have been adopted. <i>or</i> An earlier (2009 or later) version of the Code has been adopted for all professional accountants. <i>or</i> The Code has been adopted for only some professional accountants.
 Not Adopted	The Code has not been adopted. <i>or</i> A pre-2009 version of the Code has been adopted.

APPENDIX VII

Main Requirements of SMO 6

REQUIREMENTS	YES	NO	PARTIALLY	COMMENTS
Scope of the System				
1. A system of investigation, discipline, and appeals exists for the accountancy profession. The system is operational.				
2. Information about the types of misconduct that may bring about investigative actions is publicly available.				
Initiation of Proceedings				
3. Both a complaints-based and an information-based approach are adopted.				
4. Link with the results of QA reviews has been established.				
Investigative Process				
5. A committee or similar body exists for performing investigations.				
6. Members of a committee are independent of the subject of the investigation and other related parties.				
Disciplinary Process				
7. A separate disciplinary committee/entity exists to make disciplinary decisions on referrals from the investigation committee.				
8. Members of the committee/entity include professional accountants as well as non-accountants.				
9. The tribunal exhibits independence of the subject of the investigation and other related parties.				
Sanctions				
10. The disciplinary system allows imposing an extensive range of penalties. It is particularly important to include: (a) loss of professional designation; (b) restriction and removal of practicing rights; and (c) exclusion from membership.				
Rights of Representation and Appeal				
11. A third-party appeals body exists which is separate from both the disciplinary committee and investigative committee.				
Administrative Processes				
12. Time frame targets for disposal of all cases are set.				
13. Tracking mechanisms to monitor progress in investigation and discipline, and related procedures, are established.				
14. Records of investigations and disciplinary processes are established.				
Public Interest Considerations				
15. Activities are supported to ensure that the public is aware that an I&D system exists in the jurisdiction.				
16. A process for the independent review of complaints for which there was no follow-up is established.				
17. The results of the I&D proceedings are made available to the public.				
Liaison with Outside Bodies				
18. There is an appropriate process for liaison with outside bodies when there is a possible involvement in serious crimes and offenses.				
Regular Review of Implementation and Effectiveness				
19. Regular review of implementation and effectiveness of the system are performed and corrective actions are implemented.				



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