

**DATE: SEPTEMBER 29, 2006**  
**TO: COUNCIL**  
**FROM: BOB MEDNICK**  
**CHAIR – COMPLIANCE ADVISORY PANEL**  
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**SUBJECT: REPORT FROM THE COMPLIANCE ADVISORY PANEL**

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## **Section 1 Introduction**

- 1.1 This report outlines the activities of the IFAC Compliance Advisory Panel (CAP) and Compliance staff since November 2005.
- 1.2 During 2006, the CAP met 3 times:
  - January 2006 in Dubai, UAE
  - May 2006 in Oslo, Norway
  - September 2006 in Nairobi, Kenya.

The CAP also held a conference call in July 2006.

## **Section 2 Strategy, Objectives, and Accomplishments**

### **Reporting to PIOB**

- 2.1 The CAP, as a Public Interest Activity Committee is subject to oversight by the international Public Interest Oversight Board (PIOB). The CAP has reported to the PIOB on a regular basis on the objectives and progress of the Member Body Compliance Program, proposed amendments to the Statements of Membership Obligations (SMOs), the IFAC membership application process, and the status of membership applicants.
- 2.2 During the past 12 months, Bob Mednick and Russell Guthrie have met with the PIOB at its meetings in Washington, D.C. and Madrid. In addition, since January 2006, the CAP has been submitting its meeting minutes to the PIOB as part of its ongoing reporting to the Board.

### **SMO Conforming Amendments**

- 2.3 In September 2006, the IFAC Board approved amendments to the SMOs, subject to final review by Graham Ward and Bob Mednick. The SMO amendments are primarily editorial in nature and were required to conform to changes made by other IFAC standard-setting boards. Although not required, the Board recommended that the amendments be ratified by the IFAC Council since the Council ratified the SMOs when first issued in 2003.
- 2.4 A summary of the amendments and the amended SMOs themselves are separately included in the Council agenda papers.

**Part 1, Assessment of the Regulatory and Standard-Setting Framework**

2.5 Part 1 of the Compliance Program, initially launched in March 2004, required members and associates to provide information about the regulatory and standard-setting framework in their countries. Because transparency is a key element of the Compliance Program's objectives, all information obtained through the Compliance Program is made available to the public on IFAC's website. As of November 2005, 75 Part 1 responses had been published with the remainder being published by August 2006.

**Part 2, SMO Self-Assessment Questionnaire**

2.6 Part 2 of the Compliance Program was launched in December, 2005 and required members and associates to complete a self-assessment of their compliance with the obligations in the SMOs by the beginning of May 2006. An email and courier package with an introduction to Part 2, including instructions, timetable information and Compliance Staff contact details, was sent to all IFAC members and associates at the time of launch. The questionnaire seeks to understand whether and how members and associates have used their best endeavors to address the requirements set out in the seven SMOs. Where a member or associate is not the responsible standard-setter it is still required to use its best endeavors to promote International Standards as described in the SMOs with the responsible body.

2.7 Members' and associates' support of the Compliance Program's objectives is reflected in the high level of participation in Part 2. As of the date of this report, 125 responses have been received and 35 have already been published on the IFAC website.

2.8 The staff began its review process in early June 2006. The process focuses on ensuring that members and associates have provided enough information in their self-assessments to understand the compliance mechanisms they have put in place and their ongoing efforts to achieve convergence. Responses are generally reviewed in the order received by staff and, to the extent possible, all responses from the same country are reviewed concurrently to ensure consistency. Completing the review of the remaining responses is a high priority of the staff for the remainder of 2006 and first half of 2007.

**Part 2 Non-Respondents**

2.9 During its July conference call and September 2006 meeting, the CAP agreed that all reasonable attempts should be made to reach out to non-respondents as quickly as possible. This has included seeking the assistance of IFAC Board and committee members, Regional Organizations and Acknowledged Regional Groupings, and others with experience or knowledge of the member or associate. Despite the Program's emphasis on encouragement and improvement, however, persistent non-respondents will be subject to suspension and ultimately expulsion for failure to participate in the Compliance Program.

2.10 As of the date of this report, 29 members and associates have not submitted their Part 2 response. Of these 6 have not made contact with Compliance Staff in the last 3 months to confirm their interest in maintaining their membership in or association with IFAC by completing Part 2. In this respect, the CAP has concluded that, where a member or associate fails to agree a timetable for submitting Part 2 by October 31<sup>st</sup>, it

will recommend the Board consider the suspension of the organization at its November 2006 meeting.

2.11 The following is a summary of the status of Part 2:

<i>Response status</i>	<i>#</i>
Part 2 responses published since July 20, 2006	35
Part 2 with members / associates for final review	19
Part 2 completed and under Staff review	71
<b><i>Subtotal Part 2 completed and Chief Executive certification received</i></b>	<b>125</b>
Extensions or other acknowledgement of Part 2 requirements confirmed since August 15	23
Confirmation of progress / commitment not received	6
(Bahrain, Croatia, India – ICWAI, Morocco, Pakistan – PIPFA, Sierra Leone)	
<b><i>Subtotal</i></b>	<b>154</b>
Suspended	5
<b><i>Total Members and Associates</i></b>	<b>159</b>

### **Member Expulsion Considerations**

2.12 A separate agenda paper has been provided to explain the recommendation for the Board to Council to approve the expulsion of the following 5 member bodies for their failure to complete the Part 1 questionnaire or otherwise demonstrate a commitment to the Compliance Program and IFAC membership:

- i. El Salvador – Instituto Salvadoreño de Contadores Publicos;
- ii. Lebanon – Middle East Society of Associated Accountants;
- iii. Libya – Libyan Certified Public Accountants Union;
- iv. Nicaragua – Colegio de Contadores Públicos de Nicaragua;
- v. Syria – Association of Syrian Certified Accountants.

### **Relationship Building**

2.13 Since the November 2005 Council meeting, CAP members and Compliance staff have had the opportunity to promote IFAC and the Member Body Compliance Program in the following forums:

*IFAC Standard-Setting Boards and Committees*

- Russell Guthrie provided an update to the International Ethics Standards Board for Accountants (New York, February 2006).
- Russell Guthrie provided an update to the International Accounting Education Standards Board (New York, March 2006).
- Sylvia Barrett, Senior Technical Manager, provided an update to the Small and Medium Practitioners Committee (New York, March 2006).
- The CAP held a joint session with the Developing Nations Committee in Nairobi, Kenya as part of their joint attendance at the Africa Region Learning Workshop in September 2006 (see Regional Activities below).

*Development Banks / Donor Agencies*

- Russell Guthrie delivered the keynote address and made an additional presentation to the World Bank's Road to Europe Program of Accounting Reform and Institutional Strengthening (REPARIS) workshop in Vienna (April 2006). The workshop included IFAC members and associates, regulators, and other government representatives from over 10 southern and eastern European countries.
- Manuel Sanchez y Madrid (MSyM), CAP Member, made a presentation at the World Bank's accounting and auditing ROSC dissemination workshop in the Dominican Republic (April 2006). MSyM also met with member body representatives from Guatemala, Peru and Paraguay as well as representatives from a non-IFAC member from Paraguay which has expressed an interest in IFAC membership.
- The Compliance Program and Developing Nations Committee (DNC) staffs attended a meeting with staff of the World Bank's ROSC-Accounting and Auditing program<sup>1</sup> in Washington, D.C. to share updates on CAP, DNC and World Bank ROSC activities (May 2006).
- The Compliance Program and DNC staffs met with representatives from the Inter-American Development Bank in Washington D.C. to provide an update on CAP and DNC activities and to obtain an update about accountancy development activities in Central and South America (May 2006).
- Russell Guthrie presented at the World Bank's ROSC dissemination workshops in Jordan (May 2006) and Botswana (June 2006).
- Russell Guthrie and Sylvia Barrett attended a meeting in early October hosted by the Interamerican Development Bank to discuss the challenges facing the profession in Latin America. The meeting was part of the IADB's monitoring of projects funded through a Multi-Lateral Investment Fund to promote convergence and the development of the accounting profession in South America.

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<sup>1</sup> For more information about the World Bank's ROSC – Accounting and Auditing program, see the ROSC website at [http://www.worldbank.org/ifa/rosc\\_aa.html](http://www.worldbank.org/ifa/rosc_aa.html).

*Regional Activities*

- Bob Mednick provided a convergence workshop at the Confederation of Asian and Pacific Accountants' 10<sup>th</sup> Board Meeting (Malaysia, May 2006).
- The CAP received a presentation from Bjorn Markland, Secretary of the Nordic Federation of Accountants, about the Federation, its members, and its current activities at its May 2006 meeting (Norway).
- Graham Ward and Russell Guthrie attended the Institute of Chartered Accountants of the Caribbean's 25<sup>th</sup> Annual Conference (Barbados, June 2006).
- Russell Guthrie made a presentation on the role of IFAC at a two day Africa Region Learning Workshop (ARLW) which was held in late September 2006 (Kenya). The ARLW was sponsored by the African Development Bank and the World Bank with co-sponsorship by IFAC, ECSAFA, FIDEF, and UNCTAD.
- Japheth Katto, CAP member, chaired a plenary session and a breakout session on corruption and ethics at the ARLW.

**Section 3 Work in Progress**

**Membership Applications and Expressions of Interest**

*Certified Practising Accountants Papua New Guinea (CPAPNG)*

- 3.1 CPAPNG has submitted its application for IFAC membership as well as its Part 1 and Part 2 self-assessments. Its application is sponsored by CPA Australia. The CAP reviewed CPAPNG's application form in September 2006 and is recommending to the IFAC Board and Council that CPAPNG be approved as an IFAC associate. The assessment form and the CAP's recommendation are separately included in the Council agenda papers.

*Other Expressions of Interest*

- 3.2 Compliance staff continues to receive expressions of interest in IFAC membership from accountancy organizations. Where an organization has not followed up on its expression of interest with an application form and 6 months have transpired, the staff will close its file to prevent any misunderstanding about the organization's status. A formal and complete application is not considered to be submitted unless the four key application documents are received: General Application Form, completed Questionnaires from Parts 1 and 2 of the Compliance Program, and the supporting body's Attestation of Support and Report.

The following is a summary of open expressions of interest as of October 2006.

	<b>Country</b>	<b>Organization Name</b>	<b>Existing Associate or Affiliate?</b>
1.	Algeria	Ordre National des Experts Comptables, des Commissaires aux Comptes et des Comptables Agréés	N
2.	Canada	The Society of Professional Accountants of Canada	N
3.	Congo	Institut de Reviseurs Comptables	N
4.	Gambia	The Gambia Association of Accountants	N
5.	Honduras	Colegio Hondureño de Profesionales Universitarios en Contaduria Publica	N
6.	India	Institute of Foreign Accounts	N
7.	Ireland	Institute of Incorporated Public Accountants in Ireland	N
8.	Netherlands	NOREA - the professional organisation of IT Auditors	N
9.	Nepal	Institute of Chartered Accounts of Nepal (ICAN)	Y
10.	Nigeria	The Association of National Accountants of Nigeria	N
11.	Papua New Guinea	Certified Practising Accountants Papua New Guinea	N
12.	Paraguay	Consejo de Contadores Públicos del Paraguay	N
13.	Romania	The Chamber of Financial Auditors of Romania	Y
14.	Senegal	Ordre National des Experts Comptables et Comptables Agrées du Sénégal	N
15.	United Kingdom	The Association of International Accountants	N
16.	United States	Institute of Internal Auditors	Y

### **Regional Accountancy Organizations**

- 3.3 In June, the IFAC Board approved the Institute of Chartered Accountants of the Caribbean (ICAC) as an IFAC Acknowledged Regional Grouping. ICAC is a regional organization representing national accountancy bodies in English-speaking Caribbean countries. Five of ICAC's current nine members and its three affiliate members are IFAC members. ICAC has as an objective the promotion of international standards with its individual members who are at different stages of convergence with international standards. For further information about ICAC, please see their website at [www.icac.org.jm](http://www.icac.org.jm).

## **Section 4 Planned Activities for the Rest of the Year**

### **Review of Part 2 Responses**

- 4.1 The principal focus of Compliance staff's activities during the remainder of 2006 will be on the review of Part 2 responses. Responses are generally selected for review based on the order submitted.

### **Part 3, Action Plans**

- 4.2 The staff, with advice and oversight by the CAP, has been developing its approach for reviewing and agreeing action plans as part of the Part 3, Action Plan phase, of the Compliance Program. Recognizing the importance of members and associates devoting sufficient time to consider specific actions and to discuss them broadly within their organizations, the process will be an iterative one with communications back and forth with the member or associate, including CAP input where necessary, so that each fully agrees and commits to a meaningful plan of action that will result in continuous improvement and progress on convergence.
- 4.3 The proposed approach to action plans has also been discussed with the Developing Nations Committee (DNC) which has a significant role to play in assisting members and associates in developing countries both in the development of a meaningful plan and its subsequent implementation.
- 4.4 In order to obtain a better understanding of what it will take to develop a country action plan, the Compliance Staff plan to meet with IFAC's member body in Argentina (FACPCE) later this month to consider the key issues facing the Argentine profession, to discuss FACPCE's Part 2 response, and to explore with the leadership of FACPCE the steps they will need to take in developing and reaching agreement on a meaningful action plan.

### **Strategic Objectives and Related Work Program for 2007-2010**

- 4.5 Since the CAP was established just under 3 years ago, the CAP and Compliance staff have successfully introduced the SMOs, implemented the Member Body Compliance Program, expanded and introduced rigor in the membership application process, and informed IFAC's key stakeholders and the public about its activities and the results of the Compliance Program to date.
- 4.6 With the remainder of 2006 and much of 2007 focused on the review of Part 2 questionnaires and implementation of Part 3 – Action Plans, the CAP will next begin to agree on and flesh out its strategic objectives for the 2007 – 2010 period. This time frame was selected to be consistent with IFAC's strategic plan's time frame.

- 4.7 The CAP began its consideration of strategic objectives during its most recent meeting with a discussion of various issues and subjects identified by the Compliance staff for further review. A number are an extension of ongoing CAP and staff activities which will remain high priorities. These include:
- Assessing membership applicants with regards to agreed membership criteria and, in particular, their ability to meet the requirements of the SMOs.
  - Monitoring progress by members and applicants on their agreed action plans.
  - Developing a process for the ongoing maintenance of information relating to members' and associates' regulatory and standard-setting frameworks (Part 1) and the status of their compliance with SMOs (Part 2).
- 4.8 Further consideration of strategic objectives and related work program activities will take place in more detail during the CAP's January and April 2007 meetings. Some of the steps which will need to be performed in connection with this consideration are:
- Reviewing IFAC's mission and objectives and the current member and associate composition in order to confirm whether the current categories of member, associate and affiliate are appropriate.
  - Reviewing the existing membership criteria in light of IFAC's current member and associate composition in order to determine whether they require revision.
  - Revisiting the SMOs in light of the insights gained from the previous steps.
- 4.9 The CAP also emphasized the need to prioritize ongoing and future work program activities given the Member Body Compliance Program is a staff-driven activity and staff resources are limited. As the CAP and staff focus is on encouraging members and associates to make improvements with regards to the SMOs, much of the existing staff resources will need to concentrate on the Part 3 – Action Plans and related matters.

### **Future Meetings**

- 4.10 The CAP has scheduled four meetings in 2007 as follows:
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|----------------------------|--------------------|
| i. January 22-23, 2007     | Hanoi, Vietnam     |
| ii. April 19-20, 2007      | Bucharest, Romania |
| iii. July 16-17, 2007      | Vancouver, Canada  |
| iv. September 27, 28, 2007 | Santiago, Chile    |

## **Section 5 Conclusion**

- 5.1 The CAP and staff would like to express our appreciation to the IFAC Board, members, associates, regional organizations, and acknowledged regional groupings for their continued support of the Compliance Program. Through their active support and participation during 2006, Part 2 was successfully implemented and the SMO requirements were reinforced.
- 5.2 During 2006, the CAP and staff also strengthened the Compliance Program and its objectives through the following actions:

- Formalizing its linkage with the work of the Developing Nations Committee;
  - Strengthening its relationships with the World Bank, regional development banks, and other donor agencies based on common objectives;
  - Expanding its communication of the CAP and Compliance Program's objectives and results to IFAC members and associates, other key stakeholders, and the public in general.
  - Operating with transparency by publishing Part 1 and 2 responses on the IFAC website.
- 5.3 The CAP looks forward to continuing to work closely with members, associates, the IFAC Board, regional accounting bodies and other interested parties on improving the quality of the profession throughout the world.