

DATE: JANUARY 26, 2010
TO: IFAC BOARD
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(QMR)
SUBJECT: CAP REPORT

Section 1 Report Overview

- 1.1 This report outlines the activities of the CAP since November 2009, and provides details of activities planned for 2010.

Section 2 Meeting Updates

- 2.1 The last CAP meeting took place on January 21-22, 2010 in Manila, Philippines. The following meetings and locations are planned for the remainder of 2010:
1. April 15-16, 2010 – Nairobi, Kenya
 2. July 15-16, 2010 – NYC, USA
 3. October 14-15, 2010 – TBD
- 2.2 The CAP also tentatively agreed to hold a conference call in early August 2010 if there are membership applications that could not be fully considered at prior meetings.

Suspension and Expulsion Considerations

- 2.3 The staff is proactively reaching out to a relatively small number of bodies that have not yet established regular communication and may fail to submit their draft Action Plans within the required six-month timeframe. As previously reported to the Board, reasonable extensions may be granted for valid reasons. At the January meeting, the CAP agreed with the staff to make one suspension recommendation (Union of Accountants of the Czech Republic) and one expulsion recommendation (Junta de Decanos de Colegios de Contadores Públicos del Perú). For details please refer the Board Agenda 6.1.

Section 3 Significant Project Status Updates

Action Plan Process

- 3.1 In accordance with its Terms of Reference, the CAP objective is to oversee and advise the staff including the approval of Action Plans. During 2008 and 2009, the CAP reviewed over 70 draft and partial Action Plans, which is nearly half of total IFAC members and associates. In 2009, the CAP has also agreed on a process to monitor the progress of published Action Plans and reviewed 15 Progress Monitoring File Notes prepared by the staff. The reviews were performed to develop a consistent approach to

the process of review and approval of final Action Plans, as well as a progress monitoring process.

- 3.2 Throughout the implementation of the Part 3, Action Plan phase, the CAP and the staff have periodically agreed on principles and the process for review, approval and monitoring of Action Plan progress, as well as relevant enforcement actions. To make these principles and process descriptions available in one consolidated document, the staff prepared a paper which includes:
- Action Plan Review and Finalization Process (as approved by the CAP in October 2008 with subsequent revisions agreed by the CAP)
 - Action Plan Progress Monitoring (as approved by the CAP in January 2009 with subsequent revisions agreed by the CAP)
 - Enforcement Actions (as agreed by the CAP in January 2008 with subsequent revisions agreed by the CAP).
- 3.3 At its January, 2010 meeting the CAP confirmed that the Action Plan process paper is complete at this time and will be subject to regular review. The paper is available upon request from the Compliance staff.

Action Plan Status Update

- 3.4 The Part 3, Action Plan phase of the Member Body Compliance Program continues to progress in a very positive manner. The 76 Action Plans published on the IFAC website now include a mix of plans submitted by both developing and developed bodies. In addition, 39 members and associates submitted their partial or complete drafts for review and staff works with them to finalize and publish the approved plans.

Part 3, Action Plan Status as of January 26, 2010

<u>Action Plans Status:</u>	<u>#</u>
a. Published Action Plans	76
b. Draft Action Plans or Partial Plans Received	39
c. Working on Action Plans (no drafts received)	40
<i>Total Action Plans Received and Work in Progress</i>	<i>155</i>

Other

a. Suspension due to failure to confirm Policy Recommendations (Guatemala, Honduras, Peru)	3
b. Excused (Iraq)	1

Total Members and Associates

159

- 3.5 As previously reported, the Compliance staff continues to find that the vast majority of members and associates are keen on establishing good communications with their assigned staff and are very appreciative of the assistance provided to them.
- 3.6 In 2009, the Compliance staff focused on keeping the momentum in finalizing and publishing Action Plans as well as on establishing and implementing the Action Plan Progress Monitoring Process. For 2010 the staff will endeavor to work with members and associates to obtain and finalize the remaining Action Plans. As we know from experience with Part 1 and Part 2 of the program, and the CAP felt it important to note in October 2009 that the plans published to date were received from the generally more responsive part of the IFAC membership and the staff challenge in 2010 will be to finalize quality action plans from some of the remaining member bodies.

Action Plan Monitoring Process

- 3.7 As reported to the Board in 2009, the CAP and staff have adopted a requirement for annual updates of Action Plans with less formal staff monitoring of progress after six months (soft updates). Soft updates have now been completed on twenty bodies that were among the first to publish their Action Plans in 2008.
- 3.8 Overall, the twenty bodies are generally on track in executing their Action Plans, though some action steps have had to be delayed, due to changes in the regulatory environment or other factors that caused a change in priorities. At the same time, the CAP and the staff noted a number of very positive developments and would like to express its appreciation to the twenty bodies for the special effort made by them to meaningfully execute their Action Plans.
- 3.9 In 2010 the staff will continue to implement the monitoring process and submit file notes summarizing annual as well as soft updates for the CAP's review.

IFAC Membership Applications and Expressions of Interest

- 3.10 Compliance staff continually receives expressions of interest about IFAC membership from various accountancy organizations. May 31 is the deadline for applicants to submit all completed membership application materials. Given the number of expressions of interest received each year, strict adherence to this deadline is critical to allow sufficient time for the staff to complete its due diligence process, review its recommendations with the CAP, and put forth recommendations to the IFAC Board.
- 3.11 The CAP and staff discussed the possible applications that are likely to be part of 2010 membership approval process. The table below includes these expressions of interest where the nature and extent of inquiries suggest there is greater likelihood the organization will apply for membership in 2010:

	Country	Organization Name	IFAC Status
1.	Bosnia and	Association of Accountants and	Associate

	Herzegovina (Federation)	Auditors of Republika Srpska (AAARS)	
2.	Croatia	Croatian Audit Chamber (HRK)	New Applicant
3.	El Salvador	Instituto Salvadoreño de Contadores Públicos (ISCP)	New Applicant
4.	Kazakhstan	Union of Accountants of Kazakhstan (UAK)	New Applicant
5.	Macedonia	Institute of Certified Auditors of the Republic of Macedonia	New Applicant
6.	Russian Federation	Audit Chamber of Russia (ACR)	New Applicant
7.	Sri Lanka	The Society of Certified Management of Accountants of Sri Lanka (CMA Sri Lanka)	New Applicant

- 3.12 In addition to the listing above, the staff actively manages a list of further 17 bodies that have recently expressed their interest in applying for membership. These expressions were received in a more general manner and may progress towards application stage in the coming years.

Regional Organizations and Accountancy Groupings

ROs and AGs Accountability Framework

- 3.13 Starting in 2009, more robust accountability framework was implemented to serve as the basis for regular reporting to the IFAC Board on the fulfillment of the mutual obligations by ROs/AG to IFAC and vice versa.
- 3.1 The reports also served as a basis for discussion at the annual RO/AG meeting in Washington DC, in November 2009. ROs and AGs present at the meeting, found the reports useful, especially for the purpose of sharing the information among them. The November 2009 RO/AG meeting concluded that both the reporting framework and the annual meeting serve as a good platform for facilitating closer co-operation between IFAC and ROs/AGs. Representatives also agreed that in the coming years more focus should be placed on activities supporting adoption and implementation, including regionally co-ordinate training initiatives, support for the IFAC Compliance program, etc.
- 3.14 In 2010, ROs and AGs will continue providing their reports (annually for AGs and quarterly for RGs) in accordance with the framework. These reports are submitted to the IFAC Board and also serve as basis for co-ordination of IFAC – RO/AG efforts.

Application for Acknowledged Accountancy Grouping

- 3.15 The application to become an Acknowledged Accountancy Grouping (AAG) from the European Federation of Accountants and Auditors for SMEs (EFAA) is under consideration by the CAP and staff.

Statements of Membership Obligations (SMOs) Revision Project Update

- 3.16 As previously reported in 2009, the CAP has agreed to include a review and revision of the SMOs in its 2010-2012 work plan. At its January 2010 meeting, the CAP and staff further discussed the scope and possible timeline of the project. The CAP noted that this will be a major endeavor and needs to take into consideration staff workload and resource implications as well as implications for IFAC members and associates in the context of their stage of Action Plan completion, their need to address significant new developments (Clarity ISAs, Revised Code of Ethics, and other standards).
- 3.17 The CAP and staff envision the review will focus on three areas:
- Consistency revisions in the standard-setting SMOs (SMO 2, 3, 4, 5, 7), including the scope of application of International Financial Reporting Standards (IFRSs) including the new IFRS for Small and Medium-sized Entities (SMEs) in SMO 7
 - SMO 1 and SMO 6 review and revisions.
 - Possible new subjects to be covered by membership obligations including: public oversight of auditors performing audits of public interest entities, governance of a professional accountancy body, and corporate governance.
- 3.18 With due process considerations in mind, including necessary consultations, creation of relevant task forces and public exposure, the CAP and staff anticipates that the project started in January 2010 will likely be finalized within two and a half years with the ratification of the new/revised SMOs by the IFAC Council in November 2012.
- 3.19 The CAP and the staff will continue the discussion on the scope and timetable for the project at its April meeting and provide an update to the Board in June.

CAP input to the Monitoring Group (MG) Review Task Force

- 3.20 The CAP is actively following the developments with regard to the MG review of the effectiveness of the implementation of the 2003 IFAC Reforms, and has been providing input to the IFAC Board Working Group on issues related to the Member Body Compliance Program.

Section 4 Critical Environmental Issues

- 4.1 As indicated in previous reports, with the Compliance Program now well into the Part 3 Action Plan phase, the CAP and the staff are increasingly aware that members and associates, especially those operating in developing countries, will not have the financial and technical means to achieve all the actions they know are necessary. As a result, the support of regional organizations and developed bodies acting as mentors and the development of implementation tools will become increasingly important. In addition, encouraging national governments and donor agencies to invest in the accountancy profession will be crucial. The success of developing bodies in the meaningful execution of their Action Plans will, therefore, significantly depend on (1) their ability to clearly communicate their challenges, required actions, and need for resources and (2) the willingness of governments, donor agencies, and developed bodies to provide assistance wherever possible.

Section 5 International Relations and Communications

- 5.1 Since November 2009, the staff and CAP representatives have participated in the following activities:
- Madrid, Spain: The CAP Chair and the Director, Quality and Member Relations (QMR), attended a Public Interest Oversight Board (PIOB) meeting and updated the Board on the current status of Part 3 of the Compliance Program, membership applications, and Regional Organization/Acknowledged Accountancy Grouping developments (December).
 - Panama City, Panama: The CAP Chair and two of the Compliance staff members lead an Action Plan workshop for Latin American countries. For more details please refer to the DNC Report to the Board.
 - Manila, Philippines: The CAP delegation including, the Chair, Deputy Chair, CAP Member for Asia region as well as Director, QMR and Senior Technical Manager, Member Body Development met with the representatives of the Asian Development Bank at its headquarters in Manila to discuss the IFAC Compliance Program and initiatives aimed at building the capacity of the accountancy profession (January)
 - Manila, Philippines: The CAP and staff received a presentation from and had discussions with the IFAC member in the Philippines – The Philippine Institute of CPAs – focused primarily on its draft Action Plan progress and the challenges it faces in further developing the profession in the Philippines (January).
 - Washington D.C, USA: The Director, QMR, participated in the meeting of the Regulatory Working Group (January).

Section 6 Operations and Other Matters

- 6.1 Nothing to report.