

Exposure Draft
April 2025
Comments due: Friday, August 8, 2025

Statements of Membership
Obligations (SMOs) 1-7
(Revised 202X)

This Exposure Draft, *Proposed Statements of Membership Obligations (SMOs) 1-7 (Revised 202X)*, was approved by the Board of the International Federation of Accountants® (IFAC®).

IFAC, by connecting and uniting its members, makes the accountancy profession truly global.

IFAC member organizations are champions of integrity and professional quality, and proudly carry their membership as a badge of international recognition.

IFAC and its members work together to shape the future of the profession through learning, innovation, a collective voice, and commitment to the public interest.

The proposals in this Exposure Draft may be modified in light of comments received before being issued in final form. **Comments are requested by Friday, August 8, 2025.**

Respondents are asked to use the provided Response Template to submit their comments electronically through “Submit Comment” button on the IFAC website. Please submit comments in both a PDF and Word file. Also, please note that first-time users must register to use this feature. All comments will be considered a matter of public record and will ultimately be posted on the website.

This publication may be downloaded from the IFAC website: www.ifac.org. The approved text is published in the English language.

STATEMENTS OF MEMBERSHIP OBLIGATIONS 1-7 (REVISED 2025)

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PREFACE TO THE STATEMENTS OF MEMBERSHIP OBLIGATIONS

Fundamental Objective of the SMOs

1. The Statements of Membership Obligations (SMOs) provide clear benchmarks to current and potential IFAC [member organizations](#). The SMOs represent not only the obligations of IFAC member organizations to drive changes and actions that will progress the adoption of international standards and best practices but are also the core competencies of capable and successful professional accountancy organizations (PAOs) ¹ that most appropriately serves and functions in the public interest.
2. The SMOs cover IFAC member organizations' obligations to support the (a) adoption and implementation of international standards and other pronouncements issued by the International Auditing and Assurance Standards Board (IAASB), International Ethics Standards Board for Accountants (IESBA), International Public Sector Accounting Standards Board (IPSASB), International Financial Reporting Standards Foundation (IFRSF), and by IFAC with respect to the International Education Standards as well as (b) the establishment of quality assurance and investigation and disciplinary systems.
3. IFAC establishes the SMOs and has the authority to determine, where appropriate, amendments, additions, or repeals to the SMOs with the approval of the IFAC Board.

SMO Fulfillment and Use of Best Endeavors

4. In accordance with the IFAC Bylaws, paragraph 1.1.c, IFAC member organizations are required to fulfill the requirements specified in the SMOs.
5. IFAC member organizations have an obligation to identify and undertake actions to fulfill the requirements set out within the SMOs. The use of the word "shall" in specific provisions of the SMOs imposes a requirement on the member organization to comply with those provisions in accordance with the applicability framework. Other sections using present tense serve as explanatory or application material to support the related requirement(s).
6. IFAC recognizes that its member organizations operate under different national legal and regulatory frameworks and are comprised of professionals working in different sectors of the accountancy profession. Accordingly, IFAC member organizations in different jurisdictions may have different degrees of responsibility for meeting the requirements in each SMO.
7. A member organization's specific actions are to be considered in the context of the degree of their responsibility for each SMO area, as explained in the applicability framework.
8. In accordance with the applicability framework, member organizations may be required, under certain circumstances, to use their *best endeavors* to comply with specific requirements of an SMO where

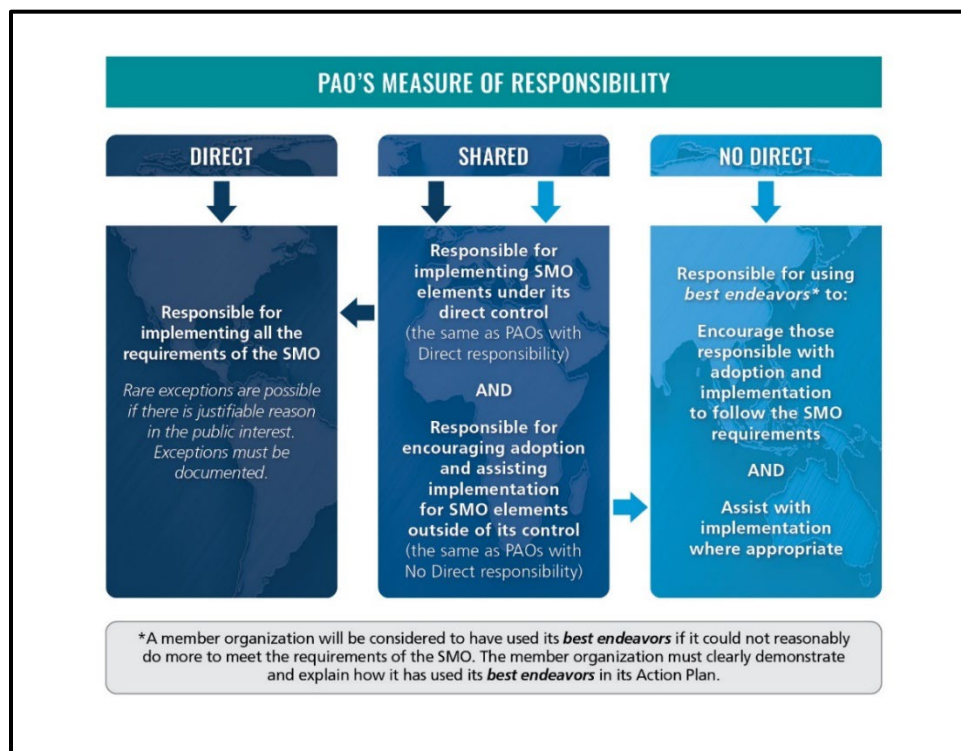
¹ IFAC defines a PAO in its [Membership Admission Criteria and Process](#) as: an organization, with a core focus on the accountancy profession such that its members who hold a certification, license, or authorization to practice are subject to:

- (a) Education requirements, including examination of professional competence, practical experience requirements, and continuing education;
- (b) Ethics; and
- (c) Enforcement (investigation and discipline (I&D) system).

they have no responsibility or have shared responsibility. A member organization will be considered to have used its *best endeavors* if it could not reasonably do more to meet the requirements of the SMO. It is the responsibility of the member organization to clearly demonstrate and explain how it has used its *best endeavors*.

Applicability Framework

9. Without prejudice to the existence of national frameworks, IFAC member organizations may have:
- (a) direct responsibility for the area covered by the SMO. The mandate, explicitly given to the IFAC member organization by legislation or otherwise implied through general consensus,² specifies that it is directly responsible for the SMO area;
 - (b) no responsibility for the area covered by the SMO. The IFAC member organization has no mandate, explicitly given by legislation or otherwise implied through general consensus, for any responsibility for the SMO area and other appointed authorities have direct responsibility for the area covered by this SMO; or
 - (c) shared responsibility with government, regulators, or other appointed authorities. The mandate, explicitly given to the IFAC member organization by legislation or otherwise implied through general consensus, specifies that it has some responsibility for the area relating to the SMO.



² In accordance with the IFAC Bylaws, paragraph 1.1 (a), in the case of general consensus, evidence must exist that the IFAC member has the support of the public and other key stakeholders.

Direct Responsibility

10. Where IFAC member organizations have a direct responsibility, they shall implement all the requirements of the SMO— i.e., adopt and support the implementation of international standards and best practices.
11. In exceptional circumstances, an IFAC member organization may depart from a requirement of the SMO if doing so is determined by the member organization to be in the public interest. If this is the case, the IFAC member organization shall explain why. Any IFAC member that (a) fails to follow the requirements of the SMO and (b) does not document satisfactorily why it has departed from it, may be considered for suspension or removal from IFAC membership.

No Responsibility

12. Where IFAC member organizations have no responsibility, they must use their best endeavors to:
 - (a) encourage those responsible for the requirements to follow the relevant SMO—i.e., adopt and implement the international standards and best practices; and
 - (b) assist in the implementation where appropriate.
13. An IFAC member organization is considered to have used its best endeavors if it could not reasonably do more to meet the requirements of the SMO.

Shared Responsibility

14. Where IFAC members organizations have shared responsibility, they must:
 - (a) implement those requirements for which they have direct responsibility in accordance with paragraphs 10 and 11; and
 - (b) take actions specified in paragraphs 12 and 13 for those requirements for which they have no direct responsibility.

SMO Subject Areas

SMO 1 - Quality Assurance

15. The requirements of an IFAC member organization with respect to quality assurance review systems for its members, who perform audits, review, other assurance, and related services engagements.

SMO 2 - International Education Standards for Professional Accountants and Aspiring Professional Accountants

16. The requirements of an IFAC member organization with respect to International Education Standards and other pronouncements.

SMO 3 - International Standards and Other Pronouncements Issued by the IAASB

17. The requirements of an IFAC member organization with respect to international standards and other pronouncements issued by the International Auditing and Assurance Standards Board (IAASB), an independent standard-setting body.

SMO 4 - International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the IESBA

18. The requirements of an IFAC member organization with respect to the *International Code of Ethics for Professional Accountants (including International Independence Standards)* issued by the International Ethics Standards Board for Accountants (IESBA), an independent standard-setting body. Due to the nature of ethical requirements, the SMO requires adoption and implementation of standards no less stringent than the IESBA Code.

SMO 5 - International Public Sector Accounting Standards and Other Pronouncements Issued by the IPSASB

19. The requirements of an IFAC member organization with respect to International Public Sector Accounting Standards (IPSAS) and other pronouncements issued by the International Public Sector Accounting Standards Board (IPSASB), an independent standard-setting body.

SMO 6 - Investigation and Discipline

20. The requirements of an IFAC member organization with respect to mechanisms that provide for the investigation and discipline of those professionals who fail to exercise and maintain the professional standards and related obligations of an IFAC member.

SMO 7 - IFRS Standards Issued by the International Accounting Standards Board and the International Sustainability Standards Board

21. The requirements of an IFAC member organization with respect to the international standards and other pronouncements as issued by the IASB and ISSB, independent standard-setting bodies.

IFAC Member Compliance Program

22. The SMOs form the basis of the IFAC Member Compliance Program. All IFAC member organizations are required to perform ongoing self-assessments and report on their compliance with each of the SMOs' requirements. This includes completing a written self-assessment of their actions and compliance with each of the SMO requirements on an ongoing basis and an assessment of standards in place compared to the relevant international standards. Based on the self-assessments, and particularly where gaps are identified, IFAC member organizations are required to develop, meaningfully execute, and update action plans to demonstrate how they intend to strengthen their fulfillment of the SMOs' requirements.
23. After several iterations of the action plan and demonstrating a sustained high fulfillment level³ of the SMOs, it is the responsibility of the member organization to confirm that their actions are progressing on an ongoing basis.
24. Any applicant for IFAC Full Member or Associate status must also complete self-assessments to demonstrate their understanding of and ability to address the SMOs' requirements and thereby that they are well-positioned to function in the public interest. Potential applicants for IFAC membership

³ As part of the IFAC Member Compliance Program, IFAC Full Members and Associates complete and submit an SMO Action Plan on a cyclical basis. This plan provides the opportunity to report progress, challenges, and insights in support of SMO fulfillment. It is also used by IFAC staff to, along with third-party sources, assess the [status adoption of international standards in each member jurisdiction](#) and the [status of SMO fulfillment](#) for each member organization.

are expected to submit action plans that outline their plans to meet IFAC's membership requirements prior to applying for membership.

IFAC Assessment

25. In assessing fulfillment within each SMO, IFAC will give due consideration to the relevance of individual SMO requirements to each IFAC member organization in accordance with the applicability framework and the *best endeavors* concept, as well as other factors such as sectors of the profession the PAO represents. IFAC also recognizes that adoption and implementation of international standards requires significant multi-stakeholder involvement as well as consideration for the local market. In addressing the requirements of each SMO, IFAC member organizations need to consider priorities, processes, and challenges specific to their jurisdiction and constituency. Consequently, they must develop an action plan, obtain internal agreement on a timetable for addressing any gaps, and demonstrate progress against the plan. If not, they must satisfactorily outline why they have not done so by indicating challenges and/or limitations, or they may be considered for suspension or removal from IFAC membership for non-compliance.

SMO Subject Areas: Actions related to International Standards (SMOs 2, 3, 4, 5, and 7)

26. IFAC member organizations shall identify and undertake actions to have international standards adopted and implemented in their jurisdictions in accordance with the applicability framework.
27. In the SMOs on: *International Education Standards for Professional Accountants and Aspiring Professional Accountants*; *International Standards and Other Pronouncements Issued by the IAASB*; *International Code of Ethics for Professional Accountants (including International Independence Standards)* issued by the IESBA; *International Public Sector Accounting Standards and Other Pronouncements Issued by the IPSASB*, and *International Financial Reporting Standards (IFRS) and Other Pronouncements Issued by the IFRS Foundation* adoption and implementation are considered as follows:
 - (a) *Adoption* is the decision that international standards are appropriate for use in specific national financial reporting environments and with the actions necessary to realize those decisions, including incorporation into national requirements or requiring the use of international standards through law. Adoption and adoption actions may include a process to review draft international standards, translation, public exposure of proposed standards, approval, incorporation into national requirements as necessary, and promulgation of final standards, and, where applicable, a convergence process to eliminate or minimize differences between international and national standards.
 - (b) *Implementation* includes two streams for consideration: (i) when the standards are initially adopted and (ii) ongoing adoption of new or amended standards. Implementation actions may include building awareness of the adopted standards, providing relevant education and training, developing, or disseminating implementation guidance, and any other activities that promote proper understanding and use of the standards in practice.
28. Adoption and implementation actions also include, but are not limited to:
 - (a) In jurisdictions where English is not an official or widely used language, and where international standards have not been translated, IFAC member organizations shall assess their priorities and challenges and consider whether there is a need for translation of these standards (and

other relevant materials) to ensure their proper adoption and implementation. Where such a need exists, IFAC member organizations shall use their *best endeavors* to have a process established, or otherwise support a process to provide for the timely, accurate, and complete translation of international standards.⁴

- (b) IFAC member organizations shall notify their members and key stakeholders of all new, proposed, and revised international standards and other pronouncements.
- (c) IFAC member organizations are encouraged to comment on consultations and exposure drafts related to the international standards.

SMO Subject Areas: Actions for Quality Assurance and Enforcement Systems (SMOs 1 and 6)

1. IFAC member organizations shall identify and undertake actions to have a quality assurance (QA) review system and investigation and disciplinary (I&D) system established and operational in their jurisdictions in accordance with the applicability framework, scopes, and components set forth in the respective SMOs.

⁴ [Translations and reproductions](#), if any, must be made in accordance with the IFAC Policy Statements available on the IFAC website.

SMO 1 - QUALITY ASSURANCE

Applicability Framework

1. This SMO sets out the requirements of an IFAC member organization with respect to quality assurance review systems for firms⁵ performing certain audit, review, other assurance, and related services engagements. To understand and address the requirements, it is necessary to consider the entire text of the SMO.
2. IFAC recognizes that its member organizations operate under different national legal and regulatory frameworks and are comprised of professionals working in different sectors of the accountancy profession. Accordingly, IFAC member organizations in different jurisdictions may have different degrees of responsibility for meeting the requirements in this SMO and should refer to the applicability framework on pages 5-6.
3. In accordance with the applicability framework, IFAC member organizations have responsibility for quality assurance review systems in respect of firms, but only to the extent that they are performing engagements in the jurisdiction or jurisdictions of the IFAC member organization's domicile.

Definitions

4. In this SMO, the following terms have the definitions attributed below.
 - (a) Firm— a sole practitioner, partnership or corporation or other entity of professional accountants, or public sector equivalent as defined by the IAASB.
 - (b) Partner—any individual with authority to bind the firm with respect to the performance of a professional services engagement, as defined by the IAASB.
 - (c) Public Interest Entities—as defined in the *International Code of Ethics for Professional Accountants (including International Independence Standards)*.
 - (d) Professional standards—For the purpose of this SMO, IAASB pronouncements, as defined in the IAASB's *Preface to the International Standards on Quality Management, Auditing, Review, Other Assurance, and Related Services*, and relevant ethical requirements, which ordinarily comprise the *International Code of Ethics for Professional Accountants (including International Independence Standards)* and relevant national ethical requirements.
 - (e) Quality assurance review—a review to determine whether the firm has, (i) a satisfactory system of quality management, (ii) is in compliance with such system, and (iii) has adhered to professional standards and regulatory and legal requirements in performing engagements.
 - (f) Quality assurance review team—individual(s), including the quality assurance review team leader, employed, or engaged to perform a quality assurance review.
 - (g) Quality assurance review team leader—an experienced professional accountant employed or engaged to lead a quality assurance review.
 - (h) System of quality management— a system designed, implemented, and operated by a firm to provide the firm with reasonable assurance that: (i) the firm and its personnel fulfill their responsibilities in accordance with professional standards and applicable legal and regulatory

⁵ Firm is defined on page 10.

requirements, and conduct engagements in accordance with such standards and requirements; and (ii) engagement reports issued by the firm or engagement partners are appropriate in the circumstances.

Considerations of Public Oversight

5. In some jurisdictions, an external body, such as an audit oversight board, may be responsible for quality assurance review systems for firms performing all audits or may be responsible for a subset of firms performing audits of listed or other public interest entities while systems for firms performing non-public interest entity audits are operated by IFAC member organizations. In such cases, and for efficiency reasons, IFAC member organizations shall give due consideration to quality assurance reviews operated by the other appointed body to ensure there is no undue overlap between the systems.
6. In such cases of multiple bodies having responsibility for quality assurance review systems, the bodies should consider closely cooperating and sharing information about the functioning and results of the quality assurance review systems, as needed.

Applicable Standards

7. The International Auditing and Assurance Standards Board (IAASB) establishes standards and provides guidance on quality management policies and procedures for:
 - (a) specific types of engagements (for example, International Standard on Auditing (ISA) 220 (Revised), *Quality Management for an Audit of Financial Statements*), and
 - (b) a firm's responsibilities to design, implement and operate a system of quality management⁶ for audits and reviews of financial statements, and other assurance and related services engagements (International Standard on Quality Management (ISQM) 1, *Quality Management for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*), and
 - (c) the appointment and eligibility of the engagement quality reviewer and the engagement quality reviewer's responsibilities relating to the performance and documentation of an engagement quality review (International Standard on Quality Management 2, *Engagement Quality Reviews*).
8. Quality management is addressed at the engagement level and the firm level through the firm's system of quality management.
9. Quality assurance is addressed by the IFAC member organization and/or the external body responsible for the quality assurance review system(s).

Requirements

10. In accordance with the applicability framework, IFAC member organizations shall identify and undertake actions to: (a) have ISQM 1 and other relevant standards adopted and implemented as required by [SMO 3—International Standards on Auditing and Other IAASB Pronouncements](#); and (b) establish requirements for firms to design, implement, and operate a system of quality management.
11. IFAC member organizations shall assist firms in:

⁶ *System of quality management* is defined on page 10.

- (a) understanding the objectives of quality management; and
 - (b) implementing and maintaining a satisfactory system of quality management.
12. Assistance may take various forms, depending upon the needs within a jurisdiction, including:
- raising firms' awareness of the objective of quality management and the related quality management standards by developing, resources, seminars and publishing specific explanatory documents;
 - developing guidelines for comprehensive Continuing Professional Development (CPD) programs. These could include (a) guidance on planning or evaluating the adequacy of in-house training; (b) CPD programs mandated by the IFAC member organization or local licensing authority; (c) providing CPD programs to firms without their own programs, including programs that are specifically directed toward implementing quality management policies and procedures; and (d) CPD programs that are responsive to common/transversal findings from reviews/inspections conducted.
 - providing guidelines for establishing a monitoring and remediation process;
 - implementing voluntary programs that enable firms to obtain an independent, confidential assessment of their quality management policies and procedures, apart from any formal quality assurance review system. Potential sources to perform the assessment include a firm, IFAC member organization's employees, or individuals recommended by the IFAC member organization.

Scope of Quality Assurance Review System

13. In accordance with the applicability framework, a mandatory quality assurance review system shall be in place for firms performing audits of financial statements. In jurisdictions where coverage of all audits of financial statements creates an undue burden, priority shall be given to statutory audits and audits of financial statements of public interest entities. Nevertheless, all firms performing audits of financial statements shall be subject to the possibility of selection for quality assurance review.⁷
14. It is desirable for the largest range of professional services performed by professional accountants to be subject to quality assurance review systems that are commensurate with the nature of the services. Therefore, parties responsible for the quality assurance review system are encouraged to extend their scope to cover as many professional services as possible.
15. When evaluating all other engagements, criteria, or risk factors, shall be established and published for evaluating all other engagements to determine whether they shall be included in the scope of the system. Any engagements meeting these criteria shall be included in the scope of the quality assurance review.
16. Criteria for extending the scope of engagements that will be subject to a quality assurance review include:
- (a) the number and range of stakeholders who may make decisions based on the engagement result;
 - (b) the extent to which the subject matter and the engagement results are of public interest, or may affect the public's confidence in public institutions or administration;

⁷ *Quality Assurance Review* is defined on page 11.

- (c) the identification of unusual circumstances or risks in an engagement or class of engagement; and
- (d) laws and regulations requiring inclusion of specific engagements in the scope of the quality assurance review system.

The Design of the Quality Assurance Review System

17. A quality assurance review system monitors compliance with policies or procedures related to a system of quality management. For the purposes of ISQM 1, a system of quality management addresses eight components: the firm's risk assessment process; governance and leadership; relevant ethical requirements; acceptance and continuance of client relationships and specific engagements; engagement performance; resources; information and communication; and the monitoring and remediation process.
18. Accordingly, the quality assurance review system will need to consider the degree to which the firm's system of quality management has been designed, implemented, and operated to effectively apply a risk-based approach and proactively manage the quality of engagements performed. This may necessitate additional training of quality assurance review teams and additional steps in the quality assurance review process to speak with the engagement partner and the individual(s) assigned ultimate responsibility and accountability for the firm's system of quality management.

Subject of the Quality Assurance Review System

19. The subject of the quality assurance review system shall be the firm as determined at the national level by the responsible body.⁸
20. The quality assurance review system shall be designed to obtain reasonable assurance that:
 - (a) the firm has designed, implemented, and operated a system of quality management for audits of financial statements (and other engagements that the body responsible for the quality assurance review system includes as part of its scope) that provides the firm with reasonable assurance that:
 - (i) the firm and its personnel fulfill their responsibilities in accordance with professional standards⁹ and applicable legal and regulatory requirements and conduct engagements in accordance with such standards and requirements, and
 - (ii) auditor reports (or other engagement reports) issued by the firm are appropriate in the circumstances.
 - (b) the partner has managed quality at the engagement level to obtain reasonable assurance that quality has been achieved such that the engagement team has fulfilled their responsibilities and the auditor's report (or other engagement report) is appropriate in the circumstances, as contemplated by (a)(i) and (ii) above, applied at the engagement level.

⁸ IFAC recognizes that some of its members do not have firms within its membership and therefore, only individual practitioners are subject to quality assurance reviews. As appropriate, the requirements and principles outlined in SMO 1 on Quality Assurance apply to QA reviews of individual practitioners as well. IFAC members may consider assessing all members within the one firm at the same time so that the PAO can effectively and efficiently assess their firm obligations.

⁹ *Professional standards* are defined on page 10.

21. When evaluating the firm's system of quality management, the elements of the system of quality management are considered as firm wide, not necessarily engagement specific. However, the firm may establish additional policies and require additional procedures for audits of financial statements.

Basis for Reaching an Overall Conclusion on a Quality Assurance Review

22. Suitable criteria for determining whether the overall outcome of a quality assurance review can be considered to be satisfactory shall be developed and published. In developing these criteria, this SMO may be referenced to obtain further guidance on this topic.

Description of the Scope and Design of the Quality Assurance Review System

23. A description of the scope and design of the quality assurance review system and related procedures to be followed by quality assurance review teams shall be published.¹⁰
24. Examples of procedures that may be considered in the quality assurance review system guidelines include:
- (a) requiring and determining whether quality assurance review teams receive training in the conduct of quality assurance reviews;
 - (b) evaluating the independence of the members of the quality assurance review teams;
 - (c) evaluating whether quality assurance review teams have the technical skill and knowledge, the specialized experience, and the authority to perform quality assurance reviews with professional competence;
 - (d) evaluating corrective actions taken by the firm with regard to the results of previous quality assurance reviews, including that the firm has established a monitoring and remediation process to provide relevant, reliable and timely information about the design, implementation and operation of the system of quality management and takes appropriate actions to respond to identified deficiencies such that deficiencies are remediated on a timely basis;
 - (e) documenting the performance of quality assurance review procedures in a manner that permits the IFAC member organization or an oversight body to objectively determine whether quality assurance reviews were performed with due care and in compliance with the relevant standards;
 - (f) reporting the conclusions of quality assurance reviews to appropriate individuals in a manner that assists the subjects of reviews to (i) identify and implement any necessary corrective actions, and (ii) make other desirable improvements in quality control policies and procedures;
 - (g) imposing, where applicable, added corrective, educational, or monitoring procedures that provide for fair and consistent treatment of each firm; and
 - (h) maintaining the confidentiality of client information.

Review Cycle

25. A cycle-based, risk-based, or mixed approach for selecting firms for quality assurance review shall be used. All firms performing audits of financial statements shall be considered in the selection process.

¹⁰ Quality assurance review team is defined on page 10.

Cycle Approach

26. Jurisdictions that select a cycle approach shall:
- (a) adopt a cycle of a maximum of three years when a firm performs audits of financial statements of public interest entities;
 - (b) adopt a cycle of a maximum of six years when a firm performs audits of financial statements of non-public interest entities; and
 - (c) take into consideration the design, implementation, and operational quality and effectiveness of the firm's system of quality management.
27. It may be appropriate to review some firms more frequently. For example, the quality assurance review cycle may be shortened if the results of the previous quality assurance review were less than satisfactory. Additional appropriate reasons for conducting quality assurance reviews more frequently may be identified.

Risk-Based Approach

28. Jurisdictions that select a risk-based approach shall consider various risk factors when determining the firms to be reviewed in priority. Firms shall be reviewed with reasonable frequency even if not selected in priority for quality assurance review based on risk factors.
29. Examples of risk factors include:
- the number of entities considered to be of public interest;
 - past investigations and disciplinary procedures against the firm;
 - past complaints or allegations of failure(s) to perform work;
 - the number of years of experience of the partners or the number of years of existence of the firm; and
 - past results of quality assurance reviews, including:
 - external inspection findings from another authority;
 - a failure to meet CPD requirements;
 - independence violations; or
 - deficiencies in the design, implementation, and operation of the firm's system of quality management.

Mixed Approach

30. For efficiency and effectiveness, a mixed approach that includes cycle- and risk-based elements for selecting firms for quality assurance review may be developed.
31. In defining the exact mixed approach for the quality assurance review, additional factors may also be considered, including:
- (a) specific risk elements in defining the length of the quality assurance review cycle; and
 - (b) past results of quality assurance reviews and awareness of non-compliance with quality management standards or other professional standards.

32. The assessment of risk factors may result in quality assurance reviews taking place earlier than otherwise planned for firms performing audits of financial statements.

Other Considerations

33. Audits of financial statements subject to selection for quality assurance review are ordinarily completed and issued audits of financial statements with fiscal-year periods ending during the quality assurance review period. If a more recent auditor's report has been issued during the quality assurance review, consideration is given to reviewing that audit.
34. If, during or after a quality assurance review period, a firm under review has (a) made a significant acquisition of all or a portion of another firm's practice, or (b) divested itself of a significant portion of its practice, before commencing the quality assurance review the quality assurance review team shall consult with the body responsible for the quality assurance review system on the scope of the quality assurance review or other actions that may be taken.

Quality Assurance Review Team Procedures

35. Quality assurance review teams shall be required to follow procedures that are based on published guidelines. These procedures shall include:
- (a) How the firm has addressed the eight components in ISQM 1 mentioned in paragraph 17;
 - (b) Reviews of audit working papers; and
 - (c) Discussions with appropriate personnel.
36. The procedures performed during the quality assurance review shall include:
- (a) an assessment of the system of quality management relating to audits of financial statements by reviewing the quality management policies or procedures and supporting documentation to evaluate:
 - (i) the functioning of the system of quality management and the designing and performing of monitoring activities to provide a basis for the identification of evaluating findings, identifying and evaluating deficiencies and responding; and
 - (ii) the compliance with professional standards and regulatory and legal requirements; and
 - (b) an assessment of compliance with relevant international standards to the extent that such standards are used in the engagements included in the scope of the review.
37. The review of audit working papers shall include evaluating:
- (a) the sufficiency and appropriateness of evidence documented in the working papers;
 - (b) based on the above, whether the engagement reports are appropriate in the circumstances; and
 - (c) the nature, cause, pattern, pervasiveness, and significance of any deficiencies in the performance of an engagement.
38. Procedures the quality assurance review team may consider when performing the quality assurance review include:
- obtaining a sufficient understanding of:

- the nature and extent of the firm's audit practice and the methodologies used;
- the firm's risk assessment process to establish quality objectives, identify and assess quality risks and design and implement responses to address the quality risks;
- the firm's ethical and independence policies and procedures; and
- the firm's training policies and procedures;
- the firm's governance and leadership, commitment to quality through its culture, assignment of roles and responsibilities and resource planning and allocation, and
- how the firm communicates about the firm's system of quality management.
- determining whether the quality assurance reviewer can rely on the effectiveness of the firm's monitoring and remediation process in place for the period under review by testing whether the firm:
 - evaluates findings to determine whether deficiencies exist;
 - evaluates the severity and persuasiveness of identified deficiencies by investigating the root cause(s);
 - takes appropriate actions to respond to identified deficiencies such that deficiencies are remediated on a timely basis;
- reviewing the "at least" annual evaluation of the system of quality management by the individual assigned ultimate responsibility and accountability;
- reassessing the adequacy of the scope of the quality assurance review by evaluating the results to determine whether additional procedures are necessary to support or reach a conclusion;
- holding a closing meeting with the firm to discuss the quality assurance review team's results, conclusions, recommendations, and the type of report to be issued; and
- providing the firm with conclusions and recommendations for corrective actions.

Documentation

39. The quality assurance review team shall document matters that:
 - (a) provide evidence supporting the quality assurance review report; and
 - (b) establish that the quality assurance review was carried out in accordance with the guidelines established by the body responsible for the quality assurance review system.
40. The quality assurance review team shall maintain documentation that supports the work performed, including findings, recommendations, and conclusions. The quality assurance review team leader instructs the quality assurance review team on how to prepare, store, and retain documentation (programs, checklists, etc.).¹¹
41. During the quality assurance review, the quality assurance review team documents the planning of the quality assurance review, the scope of work performed, the conclusions reached and a summary of conclusions, and comments made to the firm.

¹¹ *Quality assurance review team leader* is on page 10.

42. The length of the period for retaining documentation after completion of the quality assurance review shall be determined. The timeframe shall be long enough, and in accordance with relevant legislative requirements, to allow the IFAC member organization and/or an external or oversight body, if any, to maintain appropriate oversight of the quality assurance review process.

The Quality Assurance Review Team

Resources

43. The body responsible for the quality assurance review system shall ensure the availability of appropriate expertise and adequate financial and other resources to enable timely and effective quality assurance reviews. A suitably qualified, senior member of staff shall be given the responsibility for managing quality assurance reviews, to ensure that all quality assurance reviews are consistent with applicable laws and regulations.

Skills and Competence

44. Members of the quality assurance review team shall have the necessary competencies to perform the work expected of them. These competencies include:
- (a) appropriate professional education;
 - (b) relevant professional experience; and
 - (c) specific training on performing quality assurance reviews.
45. In selecting and approving the quality assurance review team, consideration shall be given to the following competencies and areas of expertise:
- (a) understanding professional standards and regulatory and legal requirements;
 - (b) understanding the guidelines established for performing quality assurance reviews;
 - (c) understanding and practical experience of audit engagements and quality assurance reviews through appropriate training and participation;
 - (d) appropriate technical knowledge, including knowledge of relevant information technology;
 - (e) knowledge of specific industries; and
 - (f) ability to apply professional judgment.
46. The quality assurance review team shall consist of an appropriate number of reviewers to accomplish the review within a reasonable time.
47. Individuals selected as the quality assurance review team are members in good standing in the profession. Individuals may not serve as quality assurance team leaders if their ability to practice public accountancy has been limited in any way by a regulatory or profession-wide monitoring organization or an enforcement body. The body responsible for the quality assurance program shall have a process for determining the impact of the individual's ability to qualify as a quality assurance review team member if their ability to practice public accountancy has been limited.

The Quality Assurance Review Team Leader

48. A quality assurance review team leader shall be assigned for each quality assurance review assignment. The quality assurance review team leader shall:

- (a) supervise the conduct of the quality assurance review;
 - (b) communicate the quality assurance review team's conclusions to the firm; and
 - (c) be responsible for preparing the main quality assurance review report and gathering applicable review-related documents.
49. The quality assurance team leader shall possess certification or credentials required by the responsible body for the quality assurance review system.
50. The quality assurance review team leader has significant involvement in the planning of the quality assurance review, and at the firm's closing meeting. The quality assurance review team leader is involved in discussing significant conclusions with the firm and the quality assurance review team and interacts with the firm and the quality assurance review team during the quality assurance review.
51. The quality assurance review team leader attends quality assurance review training courses approved by the responsible body for the quality assurance review system to obtain current knowledge of the quality assurance review process, and otherwise maintains competencies in conducting such reviews.

Ethical Requirements

52. In conducting a quality assurance review, the quality assurance review team shall comply with all fundamental principles as outlined in the *International Code of Ethics for Professional Accountants (including International Independence Standards)* or applicable national ethical requirements.¹²
53. When selecting a quality assurance review team for an individual quality assurance review assignment, those responsible for selection and approval shall consider whether the objectivity of the quality assurance review team leader and each member of the quality assurance review team has been assessed and confirmed. Quality assurance review team members are expected to be independent of the firm and the firm's clients selected for review.
54. Integrity, objectivity, professional competence and due care, confidentiality, and professional behavior are the fundamental principles in the *International Code of Ethics for Professional Accountants (including International Independence Standards)*. The responsible body for the quality assurance review system and the quality assurance review team should refer to the *International Code of Ethics for Professional Accountants (including International Independence Standards)* requirements for specific guidance on these topics. Even though the report issued by the quality assurance review team does not need to be an assurance report, this SMO requires objectivity of quality assurance review team members with respect to the professional services they deliver.
55. Firms and their peers shall not perform reciprocal quality assurance reviews where peer reviews are authorized by law.
56. Performance of other reciprocal professional services by the quality assurance review team and the firm does not, however, impair independence, if (a) the fees charged are not material to either party, and (b) the services are not an integral part of the firm's system of quality management.

¹² National ethical requirements shall be adopted in accordance with the requirements of [SMO 4—International Code of Ethics for Professional Accountants \(including International Independence Standards\)](#).

57. If concerns regarding threats to the independence of the quality assurance review team cannot be eliminated or reduced to an acceptable level by appropriate safeguards to the satisfaction of all parties, a different quality assurance review team shall be appointed.

Confidentiality

58. As stated in the *International Code of Ethics for Professional Accountants (including International Independence Standards)* or relevant national ethical requirements, and where not forbidden by law, individuals or firms under review shall be exempted from professional client confidentiality requirements concerning audit engagement working papers for the purpose of quality assurance reviews.
59. The quality assurance review team shall follow confidentiality requirements similar to those established for professional accountants performing audits of financial statements.
60. In accordance with the legislative framework, consent of the client may be required to exempt individuals or firms under review from professional client confidentiality requirements concerning audit engagement working papers for the purpose of quality assurance reviews.
61. The obligation of professional confidentiality binds (a) all persons who work or have worked for the IFAC member, regulator, public oversight body, or other competent authority responsible for administering and overseeing the quality assurance review system and (b) all persons involved with the applicable oversight system.

Reporting

62. The quality assurance review team leader shall be responsible for issuing a written quality assurance review report to the reviewed firm upon completion of each quality assurance review assignment. The report shall include the following elements:
- (a) A conclusion on:
 - (i) whether the firm's system of quality management has been designed to meet the requirements of the quality management standards described in paragraph 7; and
 - (ii) whether the firm has complied with its system of quality management during the quality assurance review period.
 - (b) Reasons for negative conclusions on the above.
 - (c) Recommendations for improvement at both the firm-wide and engagement level.
63. The body responsible for the quality assurance review system determines the form of the quality assurance review report and the nature of the conclusion to be reached (e.g., opinion and limited assurance).
64. The reviewed firm shall provide a timely written response to the recommendations and conclusions of the quality assurance review report, including planned actions and expected timeframe for completion or implementation. The response shall be addressed to the quality assurance review team or the body responsible for the quality assurance review system. The expected timeframe for completion shall be reasonable and agreed to by the firm, the quality assurance review team, and the body responsible for the quality assurance review system.

65. Subject to local laws and regulations, an annual report shall be prepared and made available to the public, summarizing the results of the quality assurance review system. Copies of the report shall be sent to regulatory and public oversight authorities upon request. The body may also consider developing a learning-based outcome report for the benefit of practitioners in the jurisdiction.
66. For confidentiality purposes, the annual report may not include detail regarding specific partners, firms, or clients.

Corrective and Disciplinary Actions

67. The conclusions of each quality assurance review report shall be considered by the responsible body for the quality assurance review system. When a quality assurance review report includes an unsatisfactory conclusion, the firm to which that conclusion applies shall be required to take appropriate corrective action.
68. Corrective action may be necessary to address (a) lack of cooperation, (b) failings in development or application of a system of quality management, or (c) failure to comply, maintain, or apply professional standards. The body responsible for the quality assurance review system may consider various forms of corrective action to be taken with respect to firms, taking into consideration the educative purpose of the quality assurance review system, and the level of seriousness of the failure of the firm or partner. Corrective actions may include:
- requiring revisions or additions to quality management policies and procedures or audit methodology;
 - requiring additional CPD;
 - requiring additional quality assurance reviews;
 - restrictions on the type of work a firm can perform or for taking on new assignments;
 - admonishments, censures, and reprimands;
 - fines/payments of costs; and
 - suspension of membership or expulsion.
69. If the responsible body for the quality assurance review system licenses firms to perform audits, it may exercise sanctions through the licensing system by suspending or prohibiting firms from performing audits of financial statements.
70. Where (a) the responsible body for the quality assurance review system (or its committee with appropriately delegated powers) considers that an unsatisfactory conclusion of quality assurance reviews represents serious failings by the firm, and (b) there is no mechanism in place to take corrective action under the quality assurance review system to address this unsatisfactory conclusion, a link shall be established between unsatisfactory conclusion of quality assurance reviews and the initiation of disciplinary proceedings.
71. Actions taken because of unsatisfactory results of quality assurance reviews that constitute disciplinary action shall be carried out under a disciplinary system that is established in accordance with the provisions of [SMO 6—Investigation and Discipline](#).

Implementation and Effectiveness Review

72. Regular reviews of the proper implementation and effectiveness of the quality assurance review system shall be performed to ensure that it functions as intended and in accordance with relevant changes in professional standards, applicable legal and regulatory requirements, location and sector specific issues, and the requirements in this SMO.
73. When reviews reveal issues in the proper functioning of the system, action shall be taken to ensure these specific issues are addressed as soon as practicable. Performing the review is recommended every two years to ensure the system functions as intended and in accordance with this SMO. However, the cycle of the review may need to be shortened for recently established quality assurance review systems.

Effective Date

74. This SMO is effective as of MONTH 202X and was last amended MONTH 202X.

SMO 2 — INTERNATIONAL EDUCATION STANDARDS FOR ASPIRING PROFESSIONAL ACCOUNTANTS AND PROFESSIONAL ACCOUNTANTS

Scope

1. This SMO sets out requirements for IFAC member organizations with respect to International Education Standards for Aspiring Professional Accountants and Professional Accountants. To understand and address the requirements, it is necessary to consider the entire text of the SMO.
2. The International Education Standards (IES) are authoritative for IFAC member organizations and serve a global baseline for professional accountancy education by prescribing requirements for:
 - (a) Entry to professional accounting education programs;
 - (b) Initial Professional Development (“IPD”) of aspiring professional accountants; and
 - (c) Continuing Professional Development (“CPD”) of professional accountants
3. The IES are principle-based standards that provide IFAC member organizations flexibility in determining the entry points and pathways to develop the required level of technical competence, professional skills, and professional values, ethics, and attitudes. The implementation of the IES includes significant consideration of the local context, flexible entry points and professional development pathways, and a focus on developing a consistent baseline for professional accountants. This serves the public interest by providing IFAC member organizations options in developing professional accountants to meet market demand, while maintaining a consistent global baseline of professional competence.
4. A description of, and the authority attached to, the IES are contained in the [Framework for International Education Standards for Professional Accountants and Aspiring Professional Accountants](#).

Applicability Framework

5. IFAC recognizes that its member organizations operate under different national legal and regulatory frameworks and are comprised of professionals working in different sectors of the accountancy profession. Accordingly, IFAC member organizations in different jurisdictions may have different degrees of responsibility for meeting the requirements in this SMO and should refer to the applicability framework on pages 5-6.

Requirements

6. In accordance with the applicability framework, IFAC member organizations shall identify and undertake actions to have the International Education Standards adopted and implemented, as defined on pages 8-9, in their jurisdictions. This includes evaluating flexible entry requirements and pathways to provide broad access to professional accounting education programs.

Effective Date

7. This SMO is effective as of MONTH 202X and was last amended MONTH 202X.

SMO 3 — INTERNATIONAL STANDARDS AND OTHER PRONOUNCEMENTS ISSUED BY THE INTERNATIONAL AUDITING AND ASSURANCE STANDARDS BOARD (IAASB)

Scope

1. This SMO is issued by IFAC and sets out requirements for IFAC member organizations with respect to international standards and other pronouncements issued by the [International Auditing and Assurance Standards Board](#) (IAASB), an independent standard-setting body. To understand and address the requirements, it is necessary to consider the entire text of the SMOs.
2. The Preface to the *International Quality Management, Auditing, Review, Other Assurance, and Related Services Pronouncements* facilitates understanding of the scope and authority of the pronouncements the IAASB issues, as set forth in the IAASB's Terms of Reference.
3. In accordance with the Preface, non-authoritative material, like Practice Notes and Staff Alerts issued by the IAASB, and staff publications, are not part of the IAASB's International Standards.

Applicability Framework

4. IFAC recognizes that its member organizations operate under different national, legal, and regulatory frameworks and are comprised of professionals working in different sectors of the accountancy profession. Accordingly, IFAC member organizations in different jurisdictions may have different degrees of responsibility for meeting the requirements in this SMO and should refer to the applicability framework on pages 5-6.

Requirements

5. In accordance with the applicability framework, IFAC member organizations shall identify and undertake actions to have the IAASB standards and pronouncements adopted and implemented, as defined on pages 8-9, in their jurisdictions.
6. Responsible parties are encouraged to evaluate the use of the *International Standard on Auditing for Audits of Financial Statements of Less Complex Entities (ISA for LCE)* in the jurisdiction.

Effective Date

7. This SMO is effective as of MONTH 202X and was last amended MONTH 202X.

SMO 4 — INTERNATIONAL CODE OF ETHICS FOR PROFESSIONAL ACCOUNTANTS (INCLUDING INTERNATIONAL INDEPENDENCE STANDARDS) (THE CODE) AND OTHER PRONOUNCEMENTS ISSUED BY THE INTERNATIONAL ETHICS STANDARDS BOARD FOR ACCOUNTANTS (IESBA)

Scope

1. This SMO is issued by IFAC and sets out requirements for IFAC member organizations with respect to the *International Code of Ethics for Professional Accountants (including International Independence Standards)* (the Code) and other pronouncements issued by the [International Ethics Standards Board for Accountants](#) (IESBA), an independent standard-setting body. To understand and address the requirements, it is necessary to consider the entire text of the SMO.
2. The *International Code of Ethics for Professional Accountants (including International Independence Standards)* establishes the fundamental principles of professional ethics for professional accountants and provides a conceptual framework and guidance for applying those principles.

Applicability Framework

3. IFAC recognizes that its member organizations operate under different national legal and regulatory frameworks and are comprised of professionals working in different sectors of the accountancy profession. Accordingly, IFAC member organizations in different jurisdictions may have different degrees of responsibility for meeting the requirements in this SMO and should refer to the applicability framework on pages 5-6.

Requirements

4. In accordance with the applicability framework, IFAC member organizations shall identify and undertake actions to have the *International Code of Ethics for Professional Accountants (including International Independence Standards)* adopted and implemented, as defined on pages 8-9, in their jurisdictions. Given the importance of consistent, high-quality ethical standards, IFAC members should not apply standards that are any less stringent than those stated in the Code.

Effective Date

5. This SMO is effective as of MONTH 202X and was last amended MONTH 202X.

SMO 5 — INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS (IPSAS STANDARDS), AND OTHER PRONOUNCEMENTS ISSUED BY THE INTERNATIONAL PUBLIC SECTOR ACCOUNTING STANDARDS BOARD (IPSASB)

Scope

1. This SMO is issued by IFAC and sets out requirements of an IFAC member organization with respect to International Public Sector Accounting Standards (IPSAS Standards), and other pronouncements issued by the [International Public Sector Accounting Standards Board](#) (IPSASB), an independent standard-setting body supported by IFAC. To understand and address the requirements, it is necessary to consider the entire text of the SMO.
2. The [Preface](#) to the IPSAS Standards sets out the objectives of the IPSASB and explains the scope and authority of the IPSAS Standards. The Preface should be used as a reference for interpreting exposure drafts, consultation papers, and other discussion documents; recommended practice guidelines; and standards developed and issued by the IPSASB.

Applicability Framework

3. IFAC recognizes that its member organizations operate under different national legal and regulatory frameworks and are comprised of professionals working in different sectors of the accountancy profession. Accordingly, IFAC member organizations in different jurisdictions may have different degrees of responsibility for meeting the requirements in this SMO and should refer to the applicability framework on pages 5-6.
4. IFAC also acknowledges that adoption of the IPSAS Standards is often under the authority of the government. However, IFAC members are often well-experienced and well-positioned to support, serve, and strengthen the public sector through education, training, and advocacy.

Requirements

5. In accordance with the applicability framework, IFAC member organizations shall identify and undertake actions to have the IPSAS Standards issued by the IPSASB adopted and implemented, as defined on page 8-9, in their jurisdictions.

Effective Date

6. This SMO is effective as of MONTH 202X and was last amended MONTH 202X.

SMO 6 — INVESTIGATION AND DISCIPLINE

Applicability Framework

1. This SMO is issued by IFAC and sets out the requirements of an IFAC member organization with respect to investigation and disciplinary systems, which provide for the investigation and discipline of those who fail to exercise and maintain professional standards.¹³ To understand and address the requirements, it is necessary to consider the entire text of the SMO.
2. IFAC recognizes that its member organizations operate under different national legal and regulatory frameworks and are comprised of professionals working in different sectors of the accountancy profession. Accordingly, IFAC member organizations in different jurisdictions may have different degrees of responsibility for meeting the requirements in this SMO and should refer to the applicability framework on pages 5-6.

Definitions

3. In this SMO, the term *Professional standards* shall have the definition attributed below:
 - (a) *Professional standards*—For the purpose of this SMO, a range of applicable international standards, or the equivalent jurisdictional standards if international standards are not yet adopted, in which the IFAC members carry out practices in the field of accounting and auditing are generally recognized. The non-exhaustive international standards list includes (a) International Auditing and Assurance Standards Board (IAASB) pronouncements; (b) ethical requirements, which ordinarily comprise the *International Code of Ethics for Professional Accountants (including International Independence Standards)* issued by the International Ethics Standards Board for Accountants; (c) International Educational Standards (IESs); (d) IFRS Standards issued by the International Accounting Standards Board (IASB) and the International Sustainability Standards Board (ISSB); and (d) International Public Sector Accounting Standards issued by the International Public Sector Accounting Standards Board. Each IFAC member organization is free to incorporate additional relevant standards into the above list.

Requirements

Scope of the Investigative and Disciplinary System

4. Investigative and disciplinary procedures help maintain the integrity of, and public trust and confidence in the profession and professional services. In accordance with the applicability framework, IFAC member organizations shall set up and maintain an effective investigative and disciplinary system in place for their members.
5. Each individual member shall be made aware of:
 - (a) all provisions of the code of ethics and other applicable professional standards, rules, and requirements (and any amendments), whether issued by the independent international standard-setting boards or by the responsible entity at the national level; and
 - (b) the consequences of non-compliance with these codes, standards, rules, and requirements.

¹³ *Professional standards* are defined on page 27.

6. IFAC member organizations responsible for the investigation and disciplinary system shall, in their constitution and rules, provide for the investigation and discipline of misconduct, including breaches of professional standards by individual members and, if local laws and practices permit, by firms.
7. Misconduct may include the following, with the understanding that each jurisdiction can decide if “misconduct” also applies to other instances:
 - criminal activity;
 - acts or omissions likely to bring the accountancy profession into disrepute;
 - breaches of professional standards, including breaches of ethical requirements;
 - gross professional negligence;
 - several less serious instances of professional negligence that, cumulatively, may indicate unfitness to exercise practicing rights; and
 - unsatisfactory work.
8. Where local laws and public interest considerations permit, a proportional response shall be elaborated in relation to the individual member’s responsibility versus an issue with the firm. Possible elements to take into consideration include evaluating if:
 - the failures were systemic;
 - the firm leadership was complicit in the misconduct;
 - it forms part of a pattern of failures that have not been corrected in due time; and
 - it represents a sufficient public concern.
9. In some jurisdictions, certain instances of misconduct that normally require a reference to a disciplinary tribunal or similar body are distinguished from regulatory breaches, which can be effectively dealt with under the regulatory rules of the body responsible for the investigation and disciplinary system without reference to a tribunal. Where separate departments of the responsible body deal with each category, the two departments shall liaise with (including giving reports to) each other, to ensure an effective link between regulatory action and investigation and discipline.
10. Where the law or practice in the jurisdiction does not consider regulatory breaches as “misconduct,” the responsible body shall ensure that the sanctions include restriction or removal of practicing rights.

Investigative and Disciplinary Powers

11. The rules of the body responsible for the investigation and disciplinary system shall, to the extent that local laws permit, include all powers necessary to enable authorized personnel to carry out an effective investigation. Such rules shall also (a) require individual members and member firms to cooperate in the investigation of complaints, and to respond promptly to all communications on the subject, and (b) provide for sanctions in the event of failure to comply. Collaborative professional relationships with public authorities shall also be fostered, to enable authorities to effectively administer the investigative and disciplinary processes.
12. The body responsible for the investigation and disciplinary system shall ensure the availability of appropriate expertise and adequate financial and other resources to enable timely investigative and disciplinary action. A suitably qualified, senior member of staff be given the responsibility for

managing investigative and disciplinary processes to ensure that all investigative and disciplinary processes are consistent with the rules of natural justice and other applicable laws.

Composition of Investigative and Disciplinary Teams and Committees

13. Subject to the preceding paragraph, the composition of the investigative and prosecutorial teams and committees shall be governed by the decision of each body responsible for the investigation and disciplinary system. Some bodies deploy mixed teams of volunteer members and staff of appropriate skill and experience. In many cases, an investigation committee is appointed and composed of individuals from different professional backgrounds, including non-accountants and “public interest” representation. Any individual(s) serving on the investigation committee may be asked to assist in the detailed investigation of a particular case.

Initiation of Proceedings

14. The body responsible for the investigation and disciplinary system shall adopt both a “complaint-based” and an “information-based” approach to investigation and discipline.

Complaint-Based Approach

15. Complaints against an individual member or firm may come from several stakeholders, including but not limited to a client or regulatory agency. The body responsible for investigation and discipline must act when it receives a complaint against an individual member or firm.

Information-Based Approach

16. The information-based approach is not a substitute for the complaints-based approach, but an additional process that offers the public further protection. It does so by permitting the investigative and disciplinary arm of the responsible body to commence an investigation (even when there has been no complaint) when information is received from reliable sources that indicates the possibility of misconduct. The information-based approach has the following benefits:
 - it enables the system to be proactive in the public interest;
 - it may allow for the identification of conduct of potential concern at an early stage; and
 - it can provide additional assurance to outside stakeholders that the profession is actively concerned with protecting the public interest and maintaining the highest possible standards within the profession.
17. As required in [SMO 1](#)—Quality Assurance, where (a) the body responsible for the quality assurance review system (or its committee with appropriate delegated powers) considers that an unsatisfactory conclusion of quality assurance reviews represents serious failings by the firm or partner, and (b) there is no mechanism in place to take corrective action under the quality assurance review system to address this unsatisfactory conclusion, a link shall be established between an unsatisfactory conclusion of quality assurance reviews and the initiation of disciplinary proceedings.

The Investigative Process

18. At the outset of an investigation process, it shall be confirmed that any individual chosen from the committee to assist in an investigation is independent of (a) the subject of the investigation, and (b) anyone connected with or interested in the matter under investigation. If a conflict of interest exists

at the outset, or arises during the investigation, the nominee shall immediately withdraw from the case. Similar considerations apply equally to anyone connected with the investigation and hearing of cases.

19. On completion of the investigation process, the investigation committee shall review the evidence and decide whether there is a case to pursue. If the investigation committee is satisfied that there is a case to pursue, the matter shall be referred to a disciplinary tribunal or similar grouping, and professional charges shall be brought to the extent local laws permit. The investigative process may be placed on hold if the matter being investigated comes, or is currently, before a court or regulatory authority.
20. Many cases can be handled by the investigation committee without the need for a full tribunal hearing if the parties agree on an alternative dispute resolution, or if the defendant admits the charge or charges.

The Disciplinary Process

21. A tribunal or other body with responsibility for disciplinary matters shall be established to hear cases where the investigation committee has decided to bring professional charges. To avoid delay, a panel or similar grouping shall be established as soon as possible from which individuals can be drawn to sit as judges at hearings. Tribunals shall comprise a balance of professional expertise and outside judgment. For this reason, they shall be composed of accountants and non-accountants to strengthen objectivity. No person shall be a member of both the investigation committee and the disciplinary tribunal at the same time, nor can a member of the investigation committee for a specific case be subsequently appointed to the disciplinary tribunal to hear the same case.
22. One of the established tests for invoking disciplinary processes is that the member's (or member firm's) conduct has fallen significantly short of what might reasonably have been expected in the circumstances, but it is for each body to establish an appropriate test(s).
23. It is appropriate to have a senior lawyer act as independent adviser to members of the tribunal on evidential, procedural, and other matters, such as the burden and standard of proof necessary to support the conclusions of the investigation committee. The tribunals shall also include legally qualified personnel or have continuous access to legal advisors during the disciplinary proceeding. In some jurisdictions, a senior lawyer is retained to chair the tribunal. A small panel of senior lawyers might be established, from which an individual could be drawn to act as adviser or to chair hearings as they arise. The senior staff member assigned to investigation and prosecution, an outside lawyer, or another suitably qualified individual, may conduct prosecutions. In some jurisdictions, provision is made for the chair alone to deal with preliminary issues, to reduce the time spent by other members of the tribunal. If this practice is adopted, it is appropriate that the chair be legally qualified, or that an independent legal adviser also be present.
24. The tribunal shall exhibit independence. Both fact and perceptions of independence are important to public confidence in the disciplinary process. How independence is established and ensured may vary from jurisdiction to jurisdiction, but institutional rules shall exist that prevent the body responsible for the investigation and disciplinary system from influencing the disciplinary tribunal's operational work, decision making, or imposition of sanctions. Further, only the appeal tribunal referred to in Paragraph 28 may amend or reverse a decision of the tribunal.

Sanctions

25. The system shall allow a range of sanctions, including, if local laws permit:
- Reprimands/warnings;
 - fine/payment of costs;
 - loss or restriction of practice rights;
 - loss of professional title (designation);
 - suspension from membership; and
 - expulsion from membership.
26. It is particularly important that, if local laws permit, the sanctions include (a) loss of professional designation, (b) restriction and removal of practicing rights, and (c) expulsion from membership. Such a system protects clients and other stakeholders, demonstrating to the public that the profession is dedicated to maintaining and enhancing professional standards and, ultimately, removing from the profession those who do not deserve to belong in it.

Proportionality of Sanctions

27. In deciding what sanction is appropriate, the tribunal or other body with responsibility for disciplinary matters shall weigh the interests of the member and the public. This includes protecting the public, maintaining public confidence in the profession, and maintaining proper standards of professional conduct.
28. To ensure (a) consistency in the sanctioning process, and (b) that any sanction imposed is both proportionate to the level of seriousness of the misconduct and the minimum necessary to achieve the purpose, the tribunal shall develop and use a set of guiding principles when imposing sanctions. The tribunal shall also take into account all the circumstances of the case, including:
- any aggravating or mitigating factors relevant to the conduct in question;
 - the personal circumstances of the individual, and any other mitigation advanced by the individual or firm, e.g., circumstances that pertain at the date of the tribunal's decision; and
 - any character and/or other references provided in support of the individual or firm.

Rights of Representation and Appeal

29. The rules of the body responsible for the investigation and disciplinary system shall permit a qualified lawyer or other person chosen by the defendant to accompany and represent the defendant at all disciplinary hearings, and to advise the defendant throughout the investigative and disciplinary process. These rules shall also permit the defendant to appeal the findings and any imposed sanction. Where local laws and public interest considerations permit, any order made against the defendant shall be suspended by the tribunal that found against the defendant pending the hearing of that appeal. The appeal tribunal shall not include a prosecutor or a member of the first tribunal, or any other individual who was involved in the original findings. The appeal process shall include the same procedures as apply to hearings before the disciplinary tribunal.

30. In some jurisdictions, the investigation committee may file an appeal if the committee considers that the sanction imposed by the disciplinary tribunal is too lenient. However, no appeal is permitted by the member's governing body.

Administrative Processes

31. The body responsible for the investigation and disciplinary system shall establish timeframe targets for disposal of all cases and shall aim to meet them whenever possible. Normally, any timeframe set for disposal shall begin on the date sufficient information to justify an investigation was received.
32. Tracking mechanisms shall be maintained and operated to ensure that all investigations and prosecutions are promptly handled, and that all necessary action is taken at the appropriate stage. These mechanisms shall include a form of exception reporting. This requires the person responsible for the investigative and disciplinary process to report any material delay in investigation or prosecution to a designated person, such as the chief executive officer of the responsible body, the investigation committee chair, or an equivalent person.
33. Unnecessary delay threatens effective investigation and prosecution of cases. It is potentially unfair to complainants and defendants alike and can be detrimental to an otherwise substantiated case. Accordingly, it is recommended that investigations and disciplinary hearings take place as expeditiously as possible. Where it is not necessary to have a formal disciplinary hearing, an appropriate timeframe target might be to complete the process as quickly as practicable. The commencement of criminal or civil proceedings or investigations by outside agencies may understandably delay investigations and prosecutions by the body responsible for the investigation and disciplinary system. Judgments and information from such other proceedings and investigations may, however, assist the body responsible for the investigation and disciplinary system in its subsequent investigation and prosecution of cases.
34. Tracking mechanisms are designed to monitor progress in investigations and prosecutions, and to prompt timely action to minimize delay.
35. In many jurisdictions, confidentiality of proceedings contributes to the good standing of the investigative and disciplinary process. However, due consideration shall be given to local laws and public interest concerns in relation to a defendant's rights. The body responsible for the investigation and disciplinary system develops its own policies on what publicity will be given to the disposal of cases. While transparency is of the utmost importance, caution and consideration shall be taken in releasing only that information that the law permits to be made public, or that is authorized for release by those responsible for such decisions.
36. All persons employed or otherwise participating in the investigative and disciplinary processes (or having access to information concerning such processes) shall be notified of the importance of maintaining confidentiality. A binding agreement to maintain that confidentiality shall be signed by all relevant parties.
37. Secure and confidential facilities, be they physical or electronic/cloud-based, shall be maintained for the storage of case papers and other evidence. Secure and confidential handling and storage of papers and other evidence protects the interests of all parties to the investigative and disciplinary processes, particularly the complainant and the body responsible for disciplinary matters. It reduces the potential loss of evidence and prevents tampering with or removal of that evidence.

38. Complete records of all investigations and disciplinary processes, both during the proceedings and the retention period, shall be established and maintained for these purposes.
39. Effective record keeping is important to track and maintain records of all investigations and disciplinary processes. In this way, persistent offenders can be identified, and reliable statistics produced. This demonstrates that there is an active and effective investigative and disciplinary process in place. Accurate and complete records are also helpful in answering complaints about the handling of a case, particularly since these may arise years after a case has been dealt with. Each body responsible for the investigation and disciplinary system shall develop its own document retention policies. It is recommended that records are retained long enough to ensure that relevant information is available to protect the public interest and individual members. Such records may be maintained in electronic or paper format. It is advised that each body responsible for the investigation and disciplinary system refer to legislation in their jurisdictions that relates to the handling, storage, and use of data and confidential information.
40. Reports of disciplinary and similar proceedings can be a valuable educational tool in that they (a) relate to actual events; (b) demonstrate the practical application of standards, rules, and the code of ethics; and (c) identify pitfalls to be avoided. Therefore, publishing case reports and encouraging students and qualified members to study them can provide a valuable learning opportunity. Case reports are useful whether they identify the names of individuals and third parties involved or not. In all circumstances, the timing of publication or content of such reports shall not adversely affect the rights of those involved in related civil or criminal cases. Where circumstances permit, third parties intending to produce such reports shall issue them after consulting with those responsible for the investigative and prosecutorial process.

Public Interest Considerations

41. IFAC member organizations shall ensure that the public is aware that an investigative and disciplinary system exists in its jurisdiction, so that issues it wishes to raise may be forwarded to the relevant committee of the responsible body. To the extent local laws permit, the public shall be made aware of disciplinary action against members.
42. The body responsible for the investigation and disciplinary system shall establish and maintain a process for independent review of complaints by clients and others in cases where it has been decided, following investigation, that the matter will not be referred to a disciplinary hearing.
43. The objective of this review process is to study available information and decide whether the investigation committee reached a reasonable decision based on complete information. The details of the process are a matter for the body responsible for the investigation and disciplinary system to determine. However, the existence of an effective independent review process is essential to demonstrate that the investigative processes recognize human rights and natural justice and effectively serve the public interest. This is important not only to the defendant, the complainant, and others involved in the investigative and disciplinary process, but also to the reputation of the responsible body and the profession at the national and international level.
44. Transparent enforcement systems contribute to public trust in the accountancy profession. An annual report shall be prepared and made available to the public summarizing the results of investigative and disciplinary proceedings. Copies of the report shall also be made available, upon request, to the appropriate public authority.

45. The disclosure of specific information in such annual reports pertaining to the individual's or firms' identity(ies), and their clients, is governed by the existing local regulations on confidentiality.

Liaison with Outside Bodies

46. To the extent that local laws permit, the body responsible for the investigation and disciplinary system shall ensure that it:
- (a) reports possible involvement in serious crimes and offences by members to the appropriate public authority; and
 - (b) discloses related information to that authority.
47. To the extent that local laws permit and that IFAC members are aware that their members belong to other professional accountancy organizations, other professional organizations, and/or are registered with a regulatory authority, IFAC members shall consider informing such organizations regarding the outcome of disciplinary proceedings so the entities may act accordingly.

Review of Implementation and Effectiveness

48. Regular reviews, approximately every two years, of the proper implementation and effectiveness of the investigation and disciplinary system shall be performed to ensure that it functions as intended and in accordance with the requirements of this SMO. When reviews of the implementation and effectiveness of the investigation and disciplinary system reveal issues in the proper functioning of the system, action shall be taken to ensure that these specific issues are addressed as soon as practicable.

Effective Date

49. This SMO is effective as of MONTH 202X and was last amended MONTH 202X.

SMO 7 — IFRS STANDARDS AS ISSUED BY THE INTERNATIONAL ACCOUNTING STANDARDS BOARD (IASB) AND INTERNATIONAL SUSTAINABILITY STANDARDS BOARD (ISSB)

Scope

1. This SMO is issued by IFAC and sets out requirements for IFAC member organizations with respect to IFRS Standards. To understand and address the requirements, it is necessary to consider the entire text of the SMO.
2. The International Accounting Standards Board (IASB) is an independent standard-setting body of the IFRS Foundation. The IASB is responsible for developing IFRS Accounting Standards and the IFRS for SMEs Accounting Standard, and for approving IFRIC Interpretations developed by the IFRS Interpretations Committee.
3. The International Sustainability Standards Board (ISSB) is an independent standard-setting body of the IFRS Foundation. The ISSB is responsible for developing IFRS Sustainability Disclosure Standards (also known as ISSB Standards).
4. IFRS Standards refer collectively to the standards issued by the IASB and the ISSB.

Applicability Framework

5. IFAC recognizes that its member organizations operate under different national legal and regulatory frameworks and are comprised of professionals working in different sectors of the accountancy profession. Accordingly, IFAC member organizations in different jurisdictions may have different degrees of responsibility for meeting the requirements in this SMO and should refer to the applicability framework on pages 5-6.

Requirements

6. In accordance with the applicability framework, IFAC member organizations shall identify and undertake actions to have the IFRS Standards adopted and implemented, as defined on pages 8-9, for at least publicly accountable entities¹⁴ in their jurisdictions.
7. Responsible parties are encouraged to evaluate the use of the *IFRS for SMEs* Accounting Standard for non-publicly accountable entities.

Effective Date

8. This SMO is effective as of MONTH 202X and was last amended MONTH 202X.

¹⁴ *Publicly accountable entities* as defined by the IFRS Foundation include: entities whose debt or equity instruments are traded in a public market or it is in the process of issuing such instruments for trading in a public market (sometimes called listed companies or public companies) and entities that hold assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses (e.g., banks, insurance companies, credit unions, and similar).

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