IFAC Issues Proposed International Guidance to Help Accountants Improve Internal Control

The Professional Accountants in Business (PAIB) Committee of the International Federation of Accountants (IFAC) has issued proposed International Good Practice Guidance, *Evaluating and Improving Internal Control in Organisations* for public comment. The aim of this guidance is to establish a benchmark for good practice in maintaining effective internal control in response to risk, and help professional accountants in business and their organisations create a cycle of continuous improvement for their internal control systems. With this proposed publication, the PAIB Committee aims to provide principles-based guidance that focuses on the role of professional accountants in business and how they can support their organisations in evaluating and improving internal control as an integrated part of the organisation's governance, risk management, and internal control systems. This proposed guidance can be implemented regardless of the existing internal control frameworks or standards used, as it deals with those internal control issues that are often unsuccessful because of poor implementation and design. Professional accountants, their organisations, and other interested parties are encouraged to respond to the proposed guidance to help improve its applicability to professional accountants in organisations of all sizes. The PAIB Committee invites all stakeholders to comment by 29th February, 2012. To access the exposure draft and submit a comment, visit www.ifac.org/paib.

(***Source:*** *http://www.ifac.org/)*

Third SMP Quick Poll of IFAC Reveals Increasing Optimism Among Small Practices

The third SMP Quick Poll conducted by IFAC elicited 798 responses from practitioners who operate in small to mid-sized practices (SMPs) from all regions of the world over a month-long period (8th August, 2011 to 9th September, 2011). Results showed an increase in optimism among SMPs since the last poll was conducted; nearly 40% of practitioners expect business to be better this year than it was last year, compared to just 23% in April. The poll also showed that burden of regulation continues to be the largest challenge faced by practitioners' small- and medium-sized entity (SME) clients. Similarly, when asked about the most important issue facing their practices right now, the largest group of respondents once again indicated keeping up with regulations and standards (35%), followed by attracting and retaining clients (26%). The third edition of the poll included questions on the trend toward SMPs providing business advisory services. Results showed that even though more SMPs are now offering business advisory services, traditional accountancy-based services continue to generate the largest portion of SMPs' fee revenue. The IFAC SMP Quick Poll aims to take a snapshot of the key issues confronted by SMPs and their SME clients.

(***Source:*** *www.ifac.org/SMP)*

IFAC Proposes Revised Statements of Membership Obligations

The Board of the International Federation of Accountants recently approved proposed revisions to the Statements of Membership Obligations (SMOs) to be released for public comment. The SMOs form the basis of the IFAC Member Body Compliance Program. They serve as a framework for credible and high-quality professional accountancy organisations focused on serving the public interest by adopting, or otherwise incorporating, and supporting implementation of international standards and maintaining adequate enforcement mechanisms to ensure the professional behavior of their individual members. The SMOs are issued under the IFAC Board's authority, and the Compliance Advisory Panel (CAP), together with IFAC Compliance staff, is responsible for reviewing their continuing relevance and sufficiency. Since the SMOs were established seven years ago, the regulatory and standard-setting environments in which IFAC members and associates operate have further evolved. As a result, revisiting the SMOs was necessary to reflect those developments and their impact on the global profession.The SMOs have been redrafted to clarify what is expected of IFAC members when they have varying degrees of responsibility for an SMO area. Also the SMOs have been brought in line with IFAC's current strategic focus on adoption and implementation of international standards. In the revision project, years of experience with the Compliance Program became the guidance. It was looked at how the SMOs have been interpreted and how the compliance assessment is performed by IFAC staff. As a result, the proposed revised SMOs are easier to understand and apply. The SMOs and the Compliance Program are designed to assist IFAC in its mission of strengthening the global accountancy profession. The revised SMOs better articulate the obligations of IFAC membership, and the Compliance Program encourages IFAC members and associates in their ongoing efforts to achieve a higher quality of service.

(***Source:*** *www.ifac.org/)*

SME Implementation Group Publishes Two Final Q&As

IIFRS Foundation and IASB's SME Implementation Group (SMEIG) recently published two question and answer documents (Q&As) on the IFRS for SMEs: *Q&A 2011/02 Entities that typically have public accountability and Q&A 2011/03 Interpretation of 'traded in a public market' in applying the IFRS for SMEs.* These two Q&As contain guidance to help entities assess whether they have public accountability and, therefore, whether they meet the scope requirements in Section 1 of the IFRS for SMEs. The final Q&As reflect the input that the SMEIG received

on the publication of three draft Q&As in April 2011 on these topics. Q&As published by the SME Implementation Group are non-mandatory guidance that will help those who use the IFRS for SMEs to think about specific accounting questions. They are not intended to modify in any way the application of full IFRSs.When the IASB issued the IFRS for SMEs in 2009, it made a commitment to undertake a post-implementation review of the standard. It expects to initiate the comprehensive review in 2012. The review is expected to include a request for public comments on amendments that should be considered for the IFRS for SMEs. As part of the review, the IASB will also consider incorporating Q&As into the revised IFRS for SMEs. For that reason, the SMEIG does not expect that it will issue many, if any, additional draft Q&As before the start of the comprehensive review.Following the review, the IASB plans to consider amendments to the IFRS for SMEs approximately once every three years.

(***Source***: *http://www.ifrs.org)*

PCAOB Warns of Audit Concerns in Volatile Economy

The Public Company Accounting Oversight Board has published a staff alert cautioning auditors to beware of the risks of material misstatements in the financial statements they audit in current volatile economic environment. Staff Audit Practice Alert No. 9: Assessing and Responding to Risk in the Current Economic Environment, updates an earlier alert that was issued in December 2008, at the height of the financial crisis. The new alert notes the risks of sovereign debt default or currency volatility, and they could add a higher level of complexity in determining the ultimate collectability of sales or the appropriateness of other significant assumptions used in certain fair value determinations or estimates, including the fair value of certain financial instruments. Many of the matters discussed in the earlier Practice Alert No. 3, Audit Considerations in the Current Economic Environment — including fair value measurements, accounting estimates, going concern, and financial statement disclosures — continue to be critical in audits of 2011 financial statements, the PCAOB noted. Certain PCAOB standards referenced in that alert regarding the assessment of, and response to, risk, however, were superseded in 2010 with the board's adoption of eight new risk assessment standards in Auditing Standard Nos. 8-15. This practice alert discusses issues posed by the current economic situation and highlights certain requirements in the new risk assessment standards. The alert contains four sections: 1) considering the impact of economic conditions on the audit; 2) auditing fair value measurements and estimates; 3) the auditor's consideration of a company's ability to continue as a going concern; and, 4) auditing financial statement disclosures.

(***Source:****http://www.accountingtoday.com/)*

Europe Proposes Splitting Audit Firms

The European Commission has proposed a draft law that could split up the largest auditing firms and force them to use a separate entity and name for their advisory and non-audit practices. The draft law was introduced in the European Union's Brussels headquarters by Internal Markets and Services Commissioner. The proposals adopted by the European Commission aim to clarify the role of auditors in response to problems found during the financial crisis and during inspections of auditing firms by national regulators. The proposals would introduce more stringent rules for the audit sector to strengthen the independence of auditors and introduce greater diversity into the highly concentrated audit market, which is dominated by the Big Four. There is need to restore confidence in the financial statements of companies. Auditing firms would be prohibited from providing non-audit services to their audit clients under the European proposals. In addition, large auditing firms would be obliged to separate audit activities from non-audit activities in order to avoid all risks of conflict of interest. The European Commission is also proposing to create a single market for statutory audit services by allowing auditors to exercise their profession freely across Europe, once they are licensed in one member state. All the measures are supposed to enhance the quality of statutory audits in the EU and restore confidence in audited financial statements, particularly those of banks, insurers and large publicly listed companies. The key measures include mandatory rotation of audit firms. Under the proposals, public companies would be required to rotate their auditing firms after a maximum engagement period of six years, with some exceptions. A cooling-off period of four years would be required before the audit firm could be engaged again by the same client. The period before which rotation is obligatory would be extended to nine years if joint audits were performed, specifically if the entity being audited appointed more than one audit firm to carry out its audit, thus potentially improving the quality of the audit performed. Joint audits would not be made obligatory but would be encouraged. Under the proposals, public-interest entities would be obliged to have an open and transparent tender procedure when selecting a new auditor. The audit committee of the audited entity would need to be closely involved in the selection procedure. In addition, given the global context of the audit profession, the European Commission has proposed that the coordination of auditor supervision activities be placed within the framework of the European Markets and Securities Authority. The commission has proposed the creation of a single market for statutory audits by introducing a "European passport" for the audit profession. To this end, the commission proposals would allow audit firms to provide services across the EU and to require all statutory auditors and audit firms to comply with international auditing standards when carrying out statutory audits.

(***Source:*** *http://www.accountingtoday.com/)*