

**SMALL AND MEDIUM PRACTICES COMMITTEE
STRATEGIC AND OPERATIONAL PLAN 2007-2010**

CONTENTS

	Page
1 Introduction.....	2
2 Background.....	2
2.1 International Federation of Accountants (IFAC).....	2
2.2 Small and Medium Practices (SMP) Committee.....	2
3 Objectives	3
4 Strategy.....	3
4.1 SME/SMP Issues	3
4.2 SMP Committee Strategic Objectives.....	3
4.3 Project Output	4
4.4 Alignment of SMP Committee and IFAC Strategy	4
5 Development and Promotion of Project Output	5
6 Reporting and Communication.....	6
7 Completion of Current Work Program	6
7.1 Outreach and Collaboration	6
7.2 Input to Standard Setting	7
7.3 Practical Support.....	8
8 Proposed Future Work Program	9
9 Key Assumptions.....	10
Appendix 1: SMP Committee Draft Work Program, 2007-2010.....	12

1 Introduction

This document provides some background to, and an explanation of, the SMP Committee Strategic and Operational Plan for the years 2007-2010¹. The SMP Committee's current strategy and work plan, drafted in 2006, sets the direction and priorities for the activities of the SMP Committee for 2007 though a number of activities are ongoing and some projects run far into 2008. The expiry of the current plan, together with recent developments in the SME and SMP sector and the accounting world at large have made it necessary to develop a new Strategic and Operational Plan.

This paper outlines the SMP Committee's future strategic direction and intended projects and activities for the period 2007-2010. The purpose of this plan is to set the direction and priorities for activities of the Small and Medium Practices (SMP) Committee² for the four year period from January 2007 to December 2010. The plan will also be used as basis for developing the annual budgets for the years 2008, 2009 and 2010.

It should be noted that much of the work program for 2007 and 2008, as well as some of 2009 and 2010, is already fixed due to ongoing core activities as well as longer-term projects that the SMP Committee is already embarking upon. It is expected that this plan will be presented at conferences and IFAC SMP Forums with a view to eliciting comments from stakeholders which can be factored into future iterations. In accordance with the SMP Committee approved due process and working procedures the plan will be reviewed and updated each year.

2 Background

2.1 International Federation of Accountants (IFAC)

IFAC³ is the worldwide organization for the accountancy profession. IFAC's mission, as set out in its constitution, is "to serve the public interest, strengthen the accountancy profession worldwide and contribute to the development of international economies by establishing and promoting adherence to high quality professional standards, furthering international convergence of such standards, and speaking out on public interest issues where the profession's expertise is most relevant."

2.2 Small and Medium Practices (SMP) Committee

In the pursuit of its mission and desired outcomes, the IFAC Board has established the SMP Committee to identify and represent the needs of the constituents and, where applicable, to give consideration to relevant issues pertaining to SMEs/SMPs.

The constituents of the SMP Committee are SMPs who provide accounting and assurance services principally but not exclusively to clients who are small and medium enterprises (SMEs). In so far as they provide services to SMEs other professional accountants are included as constituents.

¹ See http://web.ifac.org/download/IFAC_Strategic_Plan_2007-2010.pdf.

² More information on the SMP Committee is available at www.ifac.org/smp

³ More information on IFAC is available at www.ifac.org

The annual IFAC SMP Forum and other outreach and collaboration activities provides input to and assists the SMP Committee in the achievement of its objectives by providing advice on the SMP Committee's agenda, priorities and projects.

3 Objectives

The SMP Committee has established its Terms of Reference approved by the IFAC Board. These set out the following objectives for the SMP Committee:

- a. Directly work with IFAC standard-setting committees and boards, and other standard-setting bodies to ensure that they are aware of and give due consideration to issues relevant to SMEs/SMPs;
- b. Monitor the work of other IFAC committees and provide input and support where appropriate;
- c. Advocate issues, from an SMP and SME⁴ perspective, to appropriate parties;
- d. Facilitate the communication and sharing of information between member bodies, IFAC committees and task forces and other external groups where necessary;
- e. Use the work and output of member bodies and others to support those providing accounting and assurance services to SMEs;
- f. Identify other issues relevant to those providing accounting and assurance services to SMEs and to seek to co-ordinate member body individual or combined support to develop guidance on these issues; and
- g. Prepare an annual work program, budget and annual report for consideration by *the Board*.

The committee believes that the public interest will be best served by ensuring the relevance and cost-benefit of international standards of auditing/assurance, accounting, ethics and accounting education to SME/SMP. The committee believes such standards should be principles-based and that the requirements therein be what are considered essential and universally applicable. Developing such standards will demand increased representation of SMP and SME on the relevant international standard-setting boards.

4 Strategic Objectives and Output

4.1 SME/SMP Issues

The committee sees the main issues faced by SME/SMP to be three-fold:

- *Relevance* and cost-benefit of international standards of auditing/assurance, accounting, ethics and accounting education to SME/SMP;
- *Capacity* of SMP/SME to efficiently comply with these standards; and
- *Ability* to remain competitive, client focused, and operationally proficient.

4.2 SMP Committee Strategic Objectives

⁴ SME has been added to this bullet; the present terms of reference only refer to SMP.

The SMP Committee's strategy for the period 2007-2010 comprises two complimentary strategic objectives which amount to a two-pronged approach to helping SMEs and SMPs tackle the aforementioned issues. These objectives are:

- *Helping to shape the form and content of those standards*, largely through direct input to the standard-setting process, so as to enhance their relevance and ensure an appropriate balance of cost and benefit to SME/SMP (see 7.2 for current work program in support of this objective); and
- *Providing practical support to SMPs*, for example through the development of explanatory guidance material and the provision of web-based information resources, so as to raise their capacity to efficiently implement them while being competitive, client-focused and profitable (see 7.3 for current work program in support of this objective).

4.3 Project Output

In fulfilling its objectives, the SMP Committee issues the following types of output⁵:

- *Good Practice Guidance*, which assists in the implementation of generally accepted “good practice” in areas of significance to small and medium sized practices by providing advice or guidance on how to achieve “good practice;”
- *Information Papers*, which provide a detailed investigation into a particular subject of relevance to SMPs; and
- *Consultation Papers*, which promote discussion or debate on issues affecting the SMP profession and seek comments from interested parties on the issues described in the paper.

In addition, the SMP Committee liaises internally and externally with standard setters, largely in the form of comment letters, and seeks IT solutions.

4.4 Alignment of SMP Committee and IFAC Strategy

The IFAC Strategic Plan for the years 2007-2010 identifies five strategic themes which are central to achieving its mission. Of these, the following three, together with the appropriate strategic objective, are most relevant to the SMP Committee:

Strategic Theme 1 - Be recognized as the international standard setter in the areas of auditing and assurance, education, ethics and governmental financial reporting.

6. Contribute to improving the applicability of standards to the SME/SMP marketplace.

Strategic Theme 2 – Sustainability of the profession.

2. Contribute to improving the quality and consistency of audit and financial management practices.

⁵ As per the standard IFAC document types.

Strategic Theme 4 - Achieve greater value for the public through enhancing collaborative efforts.

1. Align efforts and investments to achieve synergy and efficiency, with and among member bodies in areas of common interest.

Table 1 shows how the SMP Committee’s strategic objectives align and impact the achievement of IFAC strategic themes and objectives.

Table 1: Alignment of SMP Committee and IFAC Strategy

	IFAC Strategic Themes		
SMP Committee Strategic Objective	<u>Strategic Theme 1</u> - Be recognized as the international standard setter in the areas of auditing and assurance, education, ethics and governmental financial reporting.	<u>Strategic Theme 2</u> – Sustainability of the profession	<u>Strategic Theme 4</u> - Achieve greater value for the public through enhancing collaborative efforts.
Input to standard setting	Direct impact	Influence	Influence
Provision of practical support	Direct impact	Direct impact	Direct impact

The IFAC Strategic Plan for the years 2007-2010 also identifies five service areas which are central to achieving its mission. Of these service areas the following three are most relevant to the SMP Committee:

- 1) *Standards and Guidance* – Develop high quality professional standards and guidance, and encourage convergence;
- 2) *Promoting Quality* – Promote the provision of high quality services by all members of the accountancy profession worldwide; and
- 3) *International Collaboration Activities* - Work with various organizations in an effort to achieve greater acceptance of standards and best practices.

5 Development and Promotion of Project Output

In developing its publications and other project output, the SMP Committee consults at an early stage with IFAC member bodies, regional accountancy organizations and others, primarily via delegates at its annual SMP Forum. At each forum delegates will be surveyed for their general views. Draft guidance, including the explanatory guides, is subject to review by a global advisory panel. SMP Committee project output is primarily developed the use/benefit of SMPs, either directly in the case of practical support or indirectly in the case of input to standard setting. However, the SMP Committee relies heavily on IFAC member bodies and regional accountancy organizations to communicate the availability of this output and to adapt it to suit local needs.

6 Reporting and Communication

In addition to reporting periodically to the IFAC Board the SMP Committee will report publicly on its work program, activities and progress made in achieving its objectives each year to delegates - member bodies, regional accountancy organizations and other stakeholders - at its SMP Forum. This reporting back may be made available on the IFAC website, and is normally included as part of the IFAC annual report.

The annual SMP Forum also enables the SMP Committee to identify significant issues, gain input to strategy formulation, and discuss priorities and individual projects. Delegates will be systematically surveyed on these matters.

As well as the annual forum the SMP Committee plans the following communication activities to help it achieve its strategic objectives in the period 2007-2010:

- Developing a communications plan and appropriate materials for every SMP Committee project;
- Holding SMP Committee meetings, where possible, in conjunction with regional accounting conferences and similar events;
- Leveraging off IFAC communications vehicles as well as its own such as SMP eNews;
- Launch the “International Center for SMPs” website with pages for the IFACnet, news, committee, key contacts, resources and community (the latter to determine demand for an online networking / discussion board facility); and
- Making available, through IFACnet⁶ search engine, materials from member bodies and others to help SMPs in their work.

7 Completion of Current Work Program

In meeting its strategy, the SMP Committee intends, in addition to ongoing input to the standard-setting activities of the IAASB, IASB, IESBA and IAESB, to complete five projects that it already has in progress as well as hold an annual SMP Forum. These projects and activities are explained below under 7.1-7.3. The Quality Control Guide and Practice Management Guide projects depend on finding a suitable solution using an open tender process while the micro-entirety research project and IFACnet relates only to work that has already started.

As can be seen from the draft Work Program contained in Appendix 1 these projects are scheduled to be completed at various dates from 2007 through to 2010. It should also be noted that if all of these projects get progressed as planned then there will be little scope within existing resource constraints to start new projects until late-2008. Indeed, the existing budget for 2007 and the provisional one for 2008 is not likely to be able to fully fund all of these projects. A shortfall of some US\$30-50k is expected in each of the two years.

7.1 Outreach and Collaboration (20%)⁷

⁶ See www.ifacnet.com

⁷ X% = estimated percentage of resource

- i) *Hosting an annual forum to understand issues, to obtain input to strategy and work program formulation, and to provide feedback to constituents on progress (IFAC SMP Forum).*

The committee intends hosting an annual IFAC SMP Forum preferably in conjunction with a member body. The forum will be aimed at representatives from member bodies, regional accountancy bodies and other relevant international organizations. The committee chair and staff will also present at international events in order to promote the work of the committee and enhance liaison with stakeholders. In addition, committee staff and/or volunteers will maintain ongoing dialogue with the likes of various international organizations including FEE, CAPA, UNCTAD/ISAR, IASB, and the World Bank.

7.2 Input to Standard Setting (40%)

- ii) *Input to IAASB standard setting*

The main focus will be inputting to the IAASB's standard setting. Virtually all projects will continue to be tracked with special emphasis on Clarity. Input will continue to be made through comment letters as well as IAASB CAG and task force representation. The nature of the input will be guided by a *Position Paper on Auditing Standards*. This paper supports the notion of "an audit is an audit" and having one set of auditing standards based on a "think small/simple/essential first" approach. The paper also stresses the need for standards which are principles-based and which ensure a favorable cost-benefit outcome for SME/SMP.

Recognizing the fact that there is a global trend towards exempting SMEs from an audit requirement the committee is assisting the IAASB investigate the role and nature of alternative assurance services. This may culminate in revisions to the existing review and/or compilation engagement standards.

- iii) *Input to IASB standard setting*

The committee will continue to track and support the IASB's Accounting Standards for SMEs project and will take a lead role in developing an IFAC response to the IFRS for SMEs ED⁸. The SMP Committee is also encouraging IFAC member bodies, regional accountancy organizations, SMEs, SMPs, and all those with an interest to review and provide comments on the ED to the IASB⁹. The committee is also assisting the IASB in its field testing of the ED. Ultimately the committee is seeking a stand-alone principles-based SME standard which will ensure a favorable cost-benefit outcome for SME/SMP

- iv) *Global research into users and preparers of micro-entity financial reports (Micro-Entity Financial Reporting Research Project – Phase 2)*

Concern over whether the eventual IFRS for SMEs will suit users and preparers of micro-entity financial reports has prompted a research project to help inform IFAC policy in this area. A background review of existing research literature¹⁰ has prompted a second phase of focus group interviews and questionnaire surveys of users and preparers across a number of

⁸ See <http://www.iasb.org/Open+to+Comment/Open+to+Comment.htm>

⁹ See http://www.ifac.org/SMP/NewsItem_Proposed_IFRs_for_SMEs.php

¹⁰ See <http://www.ifac.org/Store/Details.tmpl?SID=11659486321362116>

countries. The research is intended to help IFAC, its member bodies and the IASB better understand what micro-entities and their stakeholders are looking for from the IFRS for SMEs and identify what, if any, changes may be necessary if the standard is to be suitable for them. Findings will help inform the IFAC response to the ED on IFRS for SMEs and may form the basis for an Information Paper.

v) *Input to and collaboration with other IFAC activity areas*

The committee will continue to track and support relevant initiatives by other IFAC committees/boards as well as work collaboratively where appropriate. Close collaboration can be expected with the Developing Nations Committee when inputting to standard setting and developing practical support.

In the area of ethics the committee will closely track and input to the proposed revisions to the *Code of Ethics for Professional Accountants*, in particular Section 290 Independence. In its response to the IESBA Strategic Review survey questionnaire the committee expressed a preference for: a moratorium on changes to the Code; increased focus on implementation; and a cost-benefit analysis of all proposed future changes to the Code. The committee is also raising awareness of the problems of implementing the new network definition.

vi) *Promoting SME/SMP input by others*

The SMP Committee recognizes that SMPs and SMEs, for various reasons, often do not participate in the international standard-setting process. Hence, as well as providing input itself as described above the SMP Committee also encourages and helps orchestrate input from an SME/SMP perspective by regional accountancy organizations, member bodies, SMPs and SMEs, and others. This is done in a variety of ways including encouraging input via IFAC wide and SMP Committee communications vehicles as well as the annual SMP Forum. Future development of the IFACnet may include a discussion board which could be used to obtain comments from SMP/SME on proposed standards for accounting, assurance/auditing, ethics and education as well as experience in applying existing standards.

7.3 Practical Support (40%)

vi) *Development of a guide to assist practitioners in the implementation of ISAs on SME audits (ISA Guide)*

The first edition of the explanatory guide to the use of ISAs on SME audits is scheduled for launch in the second half of 2007. The first update will be published when 'clarified' ISAs take effect in 2009. The Guide will be non-authoritative implementation guidance. IFAC will assume full copyright and an electronic version will be distributed to all IFAC member bodies free of charge for them to use as is, for adaptations and to develop derivative products.¹¹ IFAC is undertaking a quality review aimed at ensuring the Guide's technical accuracy and usefulness. This review is being overseen by a task force¹² with input from a

¹¹ Audit software, checklists, questionnaires, forms, practice aids, training materials etc

¹² ISAGTF comprises 6 members from the SMP Committee (2 from developing nations) and a DNC representative. The members are IDW (Chair - Germany), ICPAK (Kenya), MIA (Malta), CGA (Canada), ICAI (India), ICAP (Pakistan) and AICPA (USA). There is also an IAASB observer.

global advisory panel and IAASB Staff¹³. The SMP Committee is seeking ways of encouraging the development and wide dissemination of derivatives and translations.

vii) *Development of a guide to assist SMPs in the implementation of ISQC 1 (Quality Control Guide)*

An open request for proposal (RFP) for the development of a Quality Control Guide to assist SMPs in the implementation of ISQC1 has elicited nine submissions. Subject to finding a suitable solution it is hoped to publish the Guide in mid-2008.

viii) *Development of a guide to assist SMPs in practice management (Practice Management Guide)*

The committee expects to issue a RFP for the development of a Practice Management Guide in Q3 2007 aimed at helping SMPs operate efficiently and profitably in an increasingly competitive and complex environment. The Guide may link with practice management resources on *IFACnet* (see iv) below). Subject to finding a suitable solution the Guide, at least the framework and first part, is expected to be issued in early 2009.

iv) *Expansion of IFACnet to cater for SMPs (IFACnet – SMP Integration)*

The committee is assisting with expansion of IFACnet to cater for SMPs as follows: include other IFAC member body websites, especially those hosting significant practice-related content; include relevant non-member body websites; incorporate news feed and hot topics features; and develop a key word menu translated into multiple languages.

8 Proposed Future Work Program

Based on its own deliberations, feedback from delegates at the IFAC SME/SMP and Developing Nations Consultative Conference in Prague in March 2005 and at the IFAC SMP Forum in Hong Kong in July 2006, and conclusions from SME/SMP Strategy Session at the February 2007 IFAC Board and Chief Executives meetings, it is suggested that the SMP Committee continues to pursue the strategic objectives (see Section 3) by building on the current work program as follows:

- a. *Ongoing input to the standard-setting activities of the IAASB, IASB, IESBA, and IAESB (in approximately that order of priority) (Input to Standard Setting)* – as well as continuing to input as outlined above the committee will seek to increase SMP representation on the IFAC standard-setting boards, their CAGS and project task forces;
- b. *Development and maintenance of ethics guidance for SMPs (Ethics Guide)* - it is expected that IESBA will take the lead role in the development of a guide, written in plain English and including illustrative scenarios, designed to assist with consistent implementation of the Code, possibly with special regard paid to independence and SMP networks;
- c. *Development and maintenance of IFRS for SMEs guidance (IFRS for SMEs Guide)* – it is expected that the IASB will develop, with input from the SMP Committee, implementation

¹³ The ISA Guide Advisory Panel comprises 6 members: CICPA (China), Colegio de Contadores, Economistas y Administradores del Uruguay, CNDC (Italy), ICAI (Ireland), NZICA (New Zealand), and Royal NIVRA (The Netherlands).

guidance sufficient to support the consistent application of its proposed new SME standard. The SMP Committee will advocate for such projects as well as support its development;

- d. *Facilitate translation of guides into other languages and the development and wide dissemination of derivatives (Translations and Derivatives)*¹⁴ – the committee expects to help identify suitable sponsors, promote and monitor their development, and ‘signpost’ the existence of suitable products, possibly in an online catalogue.
- e. *Build an online networking centre into the IFACnet*¹⁵ (IFACnet – SMP Online Networking Centre) – the committee is considering the development of a networking/communication centre built onto the IFACnet IT platform which may include a directory of SMPs and a discussion board/forum which could be used both for networking and sharing ideas as well as obtaining comments from SMP/SME on proposed international standards and experiences in applying existing standards.
- f. *Host an annual forum to understand issues, to obtain input to strategy and work program formulation, and provide feedback to constituents on progress (IFAC SMP Forum)* – as above.

The Draft Work Program in Appendix 1 provides indicative timing of both current and proposed new projects over the period 2007-2010. The execution, direction, and exact nature of these projects depend upon securing significant new resources and the outcome of existing projects. Some of these projects are unlikely to be concluded before the end of 2010.

9 Key Assumptions

A number of key assumptions have been made in developing the outline SMP Committee Work Program for the period 2007-2010

- The SMP Committee meets for 2 days, 3 times per year (i.e., for a total of 6 days per year);
- At each SMP Committee meeting, approximately 10 hours are usually available for business relating to current projects, with the remainder of the meeting time devoted to input to standard setting, forum organization and routine SMP Committee matters;
- Consideration of business relating to each guidance project usually requires 2-5 hours of meeting time (see Table 2) and so the SMP Committee is usually able to deal with a maximum of 3 items relating to current projects at any meeting;
- Total time required to complete a typical guidance project is about 30 months (see Table 2);
- Work on projects is undertaken primarily by volunteer Task Forces drawn from the SMP Committee’s membership; and
- Additional time is required for Task Force input to projects between committee meetings;
- Review period for draft guides by global advisory panel is a minimum of 60 days;

¹⁴ Much of this will be done centrally at IFAC and so is not specifically referred to in the Draft Work Program

¹⁵ General enhancements, such as expansion to other websites, news, hot topics and language capability will likely be done, if at all, centrally at IFAC and so is not specifically referred to in the Draft Work Program.

- Significant new resources, either from IFAC or donors or others, is forthcoming, to support a budget in 2007, 2008, 2009 and 2010 of approximately US\$375k (verses an approved 2007 budget of US\$335k), US\$425k, US\$475k and US\$525k;
- Some collaboration and sharing of costs with other committees on certain projects such as the Micro-Entity Financial Reporting Research Project and Quality Control Guide; and
- Most costs associated with expanding IFACnet to be borne by central IFAC funds.

Table 2: Indicative Timeline for Typical Guidance Project

Year	Meeting	Stage	Approximate Meeting Time Required
ONE	1	Discuss potential solutions	2 hours
	2	Discuss and agree project plan	2 hours
	3	Discuss and agree RFP	3 hours
TWO	4	RFP out for submissions	N/A
	5	Agree supplier	3-5 hours
	6	Development by supplier	N/A
THREE	7	Review by global advisory panel	N/A
	8	Approve final document for publication	3-5 hours

Appendix 1: Draft Work Program 2007-2010

ACTIVITIES AND PROJECTS	STATUS	JAN 2007	MAY 2007	OCT 2007	JAN 2008	MAY 2008	OCT 2008	JAN 2009	MAY 2009	OCT 2009	JAN 2010	MAY 2010	OCT 2010
Strategic and Operational Plan 2007-2010	Current	X	X										
Input to IAASB Standard Setting	Ongoing	X	X	X	X	X	X	X	X	X	X	X	X
Input to IASB Standard Setting	Ongoing	X	X	X	X	X	X						
Micro-Entity Financial Reporting Research Project	Current; committed	X	X	X	X	X	X						
Other Input and Promoting Input	Ongoing	X	X	X	X	X	X	X	X	X	X	X	X
ISA Guide	Current; committed	X	X				X		X	X		X	
Quality Control Guide	Current; uncommitted			X	X	X			X				
Practice Management Guide	Current; uncommitted			X	X	X	X	X			X		X

ACTIVITIES AND PROJECTS	STATUS	JAN	MAY	OCT	JAN	MAY	OCT	JAN	MAY	OCT	JAN	MAY	OCT
		2007	2007	2007	2008	2008	2008	2009	2009	2009	2010	2010	2010
IFACnet – SMP Integration	Current: committed	X	X										
SMP Forum	Ongoing		X	X		X	X		X	X		X	X
Ethics Guide	Future						X	X	X	X	X	X	X
IFRS for SMEs Guide	Future									X	X	X	X
Translations and derivatives	Future				X	X	X	X	X	X	X	X	X
IFACnet – SMP Online Networking Centre	Future			X	X	X	X						