

February 28, 2014

Ken Siong
Technical Director
International Ethics Standards board for Accountants
529 Fifth Avenue, 6th Floor
New York, NY Zip 10017

Dear Ken,

Re: Small and Medium Practices (SMP) Committee Response to the International Ethics Standards Board for Accountants Consultation Paper: *Proposed Strategy and Work Plan, 2014-2018*

Introduction

The SMP Committee is pleased to respond to the International Ethics Standards Board for Accountants (IESBA) Consultation Paper: *Proposed Strategy and Work Plan 2014-2018*.

The SMP Committee is charged with identifying and representing the needs of its constituents and, where applicable, to give consideration to relevant issues pertaining to small- and medium-sized entities (SMEs). The constituents of the SMP Committee are small and medium-sized practices (SMPs) who provide accounting, assurance and business advisory services principally, but not exclusively, to clients who are SMEs. Members of the SMP Committee have substantial experience within the accounting profession, especially in dealing with issues pertaining to SMEs, and are drawn from IFAC member bodies from 18 countries from all regions of the world.

The SMP Committee recognizes the importance of inputting to the IESBA's standard setting process and established a dedicated Ethics Task Force to give due consideration to issues relevant to SMEs and SMPs. This activity remains central to the IFAC strategic objective of contributing to the development of high-quality global standards. The SMP Committee provides regular input to the IESBA. This is primarily through submitting comment letters at all key stages of the standard development process and in response to its agenda papers.

A set of liaison principles governing interactions between the IESBA and the SMP Committee was approved in October 2013 – *IESBA-SMPC Statement of Liaison Principles*. We look forward to working with the IESBA (the Board) throughout its next work plan and building on our regular dialogue under these principles.



General Comments

We welcome the proposed consultation paper and believe that the strategic themes identified for the period 2014-2018, the actions identified with respect to each strategic theme and their relative prioritizations are appropriate.

In regards to other actions that the Board should consider for the 2014-2018, when responding to the IESBA Strategy Survey in March 2013, and in our previous comment letter on the IESBA *Proposed Strategy and Work Plan 2015-2018*, we encouraged the IESBA to prioritize a project on guidance on the meaning of public interest in the context of the *Code of Ethics for Professional Accountants* (the Code). We note that the Board has previously discussed this matter and determined this does not warrant prioritization. Indeed, it confirmed in its December 2013 meeting that this matter was not open to be reconsidered. However, we maintain our view that this project is very important and the Board should give further consideration to addressing the notion of "public interest" more explicitly in the Code as part of its next work plan.

We have the following additional comments:

Priority to the "Structure of the Code" project

It is stated that one of the key assumptions in developing the strategy and work plan is that the Board will determine to proceed with the Structure of the Code initiative as a formal project on a high priority basis (paragraph 29). We believe that this initiative is extremely important as it will help to enhance the usability and hence relevance of the Code. The decision to make this project a priority is welcomed. We note that the Board has stated that it will not underestimate the amount of work in this project and the way forward is subject to the final working group report and not yet formally confirmed (paragraph 41). We urge the Board to ensure that this project remains high on its priority list, the expected start date (Q2 2014) is maintained and resources are sufficiently allocated to keep the project on schedule.

A restructured Code will be useful to legislators seeking to compare legal provisions and professional codes with the IESBA Code. For example, it may facilitate legislators in the identification of those parts already covered and those parts they may choose to adopt/ transpose into national requirements and, in doing so, foster the harmonization of high quality ethical practices. The present structure of the IESBA Code renders such a comparison difficult.

It will be particularly important when undertaking this project to ensure that those provisions that apply to professional accountants in business are easily identifiable and separate from those that apply to SMPs. Our understanding is that professional accountants in business employed within SMEs have limited access and/or resources to invest in the development of an understanding of the Code provisions. Thus, the easier it is to identify these requirements the greater the odds of increasing adoption within this constituency.

There are also a range of matters where differentiation from those not subject to the Code can be clearer and more visible in a restructured Code, This would also serve to help clients see what to expect from their SMP practitioners and build their confidence and trust in professional accountants that conform with the Code, particularly given the fact that in many jurisdictions SMPs may be competing with non-professionals or others who are not subject to similarly stringent ethical values..



Engagement with key stakeholders

The fourth strategic theme for 2014-2018 identified by IESBA is "Increasing engagement and cooperation with key stakeholders". As stated in paragraph 55, in order to serve that purpose the IESBA will strengthen its working relationship with IOSCO, IFIAR, NSS liaison Group, IAASB, IAESB, Forum of Firms, SMP Committee, PAIB Committee and other committees.

In addition to the above mentioned groups, it is also important for the IESBA to outreach to the general public and legislators to promote their awareness and knowledge on the IESBA Code. This helps to enhance public confidence and hence relevance to IESBA and its Code. We believe that the IESBA should consider setting aside adequate time and resource for doing so, when developing its work plan.

Evolving the Code for Continued Relevance in a Changing Global Environment

We agree with the principle that it is important for the Code to remain relevant as the global environment evolves and changes. We recognize the importance of regulatory developments impacting this strategic area, but believe it is also essential that these issues should not dominate any future development and that the wider engagement with key stakeholders identified as part of the third strategic theme is imperative to ensure there is a balanced approach going forward. Thus, the Board should recognize that there are more than the two respects of the changing global environment highlighted (paragraph 15) which should be considered as directly impacting the Code. The Board's credibility rests on its independence, both in fact and appearance. The increased engagement and cooperation with stakeholders should assist in guarding against any potential bias towards the developments and/or demands of a minority of its constituents.

Fee dependency

We note that the Board plans to initiate a new work stream on fee dependency in the next strategy period. This project will be of particular interest to the SMP Committee predominately given concerns raised that 'scope creep' may enter into the non-public interest audit realm when the nature of any new provisions should be focused on publicly listed entities.

SMP/SME consideration

We welcome paragraph 10 that highlights that the Board believes it is important to consider the perspectives of the SMP/SME constituency when it sets standards and that it plans to liaise closely with the SMP Committee. Under the *IESBA-SMPC Statement of Liaison Principles*, we look forward to working with IESBA to ensure the concerns from SMP/SMEs are considered at an early stage in the standard setting process.

In addition, we note that the Board intends to undertake a comprehensive review of the safeguards in the Code (paragraph 35). We welcome this initiative as the SMP sector has previously expressed difficulties in employing safeguards which involve segregation of duties, mainly due to the limited number of staff. We look forward to working with the Board on this new work stream, which is anticipated to begin in 2015.



Balancing the burden of change to the Code

We note and welcome the comment that the IESBA will be sensitive to balancing the burden of change to the Code and the likely benefit to the public interest of pursuing such change (paragraph 11). Keeping up with new regulations and standards has been consistently ranked as one of the top challenges facing SMPs in the Quick Poll surveys conducted by IFAC¹. This finding supports the view that both the costs and benefits of changes to the Code should be robustly assessed and where possible, the Code should not continually be changed, but rather there is a stable platform for adoption and implementation for a period of time.

Long Association

We have closely followed recent developments around the world on external auditor rotation and recognize the different views and approaches taken to this issue. For example, we acknowledge that the European Parliament and EU Member States reached a preliminary agreement on a revised Directive and a new Regulation for the statutory audit of public-interest entities (PIEs) in December 2013, which will introduce mandatory rotation of audit firms. In contrast, developments and discussions in the U.S. indicate less appetite for such solution, given concerns about audit quality. These and other recent developments mean that this issue may not be such a key subject to debate as would have been the case a short time ago. We would encourage the Board to recognize the developments and give due consideration to the amount of resources it allocates to pursuing this project and the level of priority it is now given.

As IESBA progresses this project, we would urge the Board to consider the SMP Committee's views, in particular on matters of rotation and the "cooling off" period. Developments on this project could have significant impact on SMPs with a small number of partners and those SMPs that audit listed entities and charities.

Concluding Comments

We hope the IESBA finds this letter helpful in developing its next strategy and work plan. In turn, we are committed to helping the IESBA in whatever way we can and look forward to working with the Board by continuing to provide input into its projects and strengthening the dialogue between us. Please do not hesitate to contact me should you wish to discuss matters raised in this submission.

Sincerely,

A handwritten signature in black ink, appearing to read "Giancarlo Attolini". Above the signature is a horizontal line.

Giancarlo Attolini
Chair, SMP Committee

¹ IFAC SMP Quick Poll: Year-end Round-up 2013 (see <http://www.ifac.org/publications-resources/ifac-smp-quick-poll-2013-year-end-round>)