

February 3, 2017

## **IFAC Small and Medium Practices Committee Response to the IAASB's Discussion Paper, *Supporting Credibility and Trust in Emerging Forms of External Reporting: Ten Key Challenges for Assurance Engagements***

### **INTRODUCTION**

The SMP Committee (SMPC) is pleased to respond to the IAASB Integrated Reporting Working Group (IRWG) on the Discussion Paper (DP) *Supporting Credibility and Trust in Emerging Forms of External Reporting: Ten Key Challenges for Assurance Engagements*. The SMPC 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 SMPC 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 and Technical Advisers serving the SMPC are drawn from IFAC member bodies representing 22 countries from all regions of the world.

The SMPC commends the IRWG on the work undertaken to develop the DP, which is an excellent and well-written document. We agree that emerging forms of external reporting (EER) are still evolving and support the initiative to better understand the developments and the challenges being encountered by professional service providers.

Given the stage of the project, we have limited our response to only high-level comments and look forward to providing more in-depth input as the work of the IRWG progresses.

### **OVERALL COMMENTS**

The IAASB's International Standards, and the DP, take a framework-neutral approach. IFAC's focus is primarily on integrated reporting and it recently updated the Public Policy Position 8 (PPP8) Paper: [\*Enhancing Organization Reporting: Integrated Reporting Key\*](#). The paper outlines IFAC's position that integrated reporting is the way to achieve a more coherent corporate reporting system, fulfilling the need for a single report that provides a fuller picture of organization's ability to create value over time.

The IFAC public policy position paper PPP8 acknowledges the importance of proportionality in the development, adoption and implementation of enhanced organization reporting frameworks. It also highlights the consideration that needs to be given to the impact of such reporting, especially if it is mandated within a jurisdiction, on organizations of different sizes.



Research estimates indicate that more than 95% of enterprises across the world are SMEs, accounting for approximately 60% of private sector employment and contributing significantly to countries' gross domestic product (GDP)<sup>1</sup>. SMEs are crucial to the health, stability, and sustainable economic growth of both developed and developing economies. It is well recognized that SMPs are often the preferred source of advice for SMEs, typically forming long-term relationships founded on trust. SMPs can provide a range of high-quality professional services to their SME clients, including audit and assurance and expert business advisory services.

We note that the DP states that further work will be done by the IRWG in respect of SMP perspectives. For SMEs, the cost-benefit considerations of implementing new and additional organizational reporting requirements and, as applicable, assurance or other related professional services are particularly important.

Small businesses are embedded in local communities and evidence demonstrates that they typically have corresponding moral values and are interested in maintaining a good community image, which also includes safeguarding the future of their business in terms of human, material and other natural resources. Increasing pressure (e.g. from regulations, customers and supply chain pressures) to have more sustainable practices also influence SME activities, mainly because being socially responsible is associated with having a better image within the community. Small businesses also have environmental and social responsibilities. For example, SMEs' share of global pollution (e.g. waste) is estimated at about 60-70% of total pollution<sup>2</sup>.

The SMPC believes that there is value for many SMEs in developing integrated thinking, as well as a significant opportunity for some SMPs to provide business advisory services in the area of EER and further support the viability and long-term sustainability of SMEs. The *2016 Global SMP Survey* (which received 5,060 responses from 164 countries) found that 14% of SMPs provided enhanced corporate reporting (integrated reporting, sustainability reporting, corporate social responsibility reporting) as an advisory and consulting service<sup>3</sup>. The European Federation of Accountants and Auditors for SMEs (EFAA) previously outlined why a pragmatic approach to integrated reporting should be considered in an SME context and highlighted some of the benefits, including transfer of businesses/ succession planning, access to finance and satisfying external stakeholder needs<sup>4</sup>.

IFAC will shortly launch a publication *Creating Value for Your SME through Integrated Thinking: the Benefits of Integrated Reporting <IR>*, which is primarily an awareness raising document targeted towards SMEs. An article will be produced alongside the publication highlighting the role of SMPs, as trusted advisers, as being well-equipped to support integrated thinking and ultimately integrated reporting, as they have a deep understanding and knowledge of their clients' businesses. It will also help practitioners identify the type of clients which might benefit. For example, those that have a wide network of stakeholders.

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<sup>1</sup> For example, Edinburgh Group Research [Growing the global economy through SMEs](#)

<sup>2</sup> IFAC Research Paper [The Role of SMPs in Providing Business Support to SMEs](#)

<sup>3</sup> It was also 14% in the [2015 Global SMP Survey Report](#)

<sup>4</sup> [Integrated Reporting or Integrated Thinking. Whatever we call it the question remains: is it just for big companies?](#)



We anticipate that as EER by SMEs matures, as will the variety of support services provided by SMPs. This may range from general business advisory services, to agreed-upon procedures engagements and assurance. Initially the demand from SMEs may be more likely to be in the nature of support services. For example, providing advice on whether the EER is suitable to be published or assistance in establishing systems to capture the necessary information, as well as inspiring business leaders on the advantages of integrated thinking. As demand develops, the nature of services SMPs will be asked to provide is likely to move towards assurance, which, as noted in the DP, will be possible only when the EER is sufficiently evidence based.

The SMPC believes that the accountancy profession (including IFAC member organizations) has a role to play in actively promoting its competencies in this area, as well as ensuring that those who are already interested in EER know they can turn to a professional accountant, as their trusted business adviser, to provide and tailor EER related services.

Important issues are the impact of the slow deterioration of the quality of information on the public record in jurisdictions with high levels of audit exemption and the development of different local standards, in order to address a perceived gap between for example, limited and reasonable assurance in the current suite of international standards. It is in public interest to have good financial information as an essential element to maintain trust on business transactions and for economic development. There is a need for the accountancy profession to be proactive in stopping the decline by proving relevant services, as well as developing alternative forms of tailored assurance.

Nevertheless, many SMEs may only be at the beginning of the EER journey and their level of engagement will vary and depend on different factors, such as industry sector, size, location and even the owner-manager characteristics. At this stage we do not consider there is a need for the IAASB's international standards to cover a broader range of engagements than what are currently addressed. We also agree that it is too early to develop a subject-matter specific assurance engagement standard on EER.

The addition of new standards may not assist SMPs to engage SMEs on EER and may even discourage some small businesses. However, there could be additional guidance developed for the use of existing standards on EER engagements. We would also support greater promotion of the scope, benefits and limitations of the IAASB international Standards other than ISAs (covering a wide range of stakeholders including policy makers, users, practitioners etc.), and monitoring of their adoption and use. In general, we strongly encourage the IRWG to be cognizant of the potential impact on any future developments on SMEs and to ensure its proposals are proportional.



**CONCLUDING COMMENTS**

We hope that the IAASB finds this letter useful. We are committed to helping the IRWG in whatever way we can to build upon the results of the DP and in particular, further examine SMP and SME perspectives.

Please do not hesitate to contact me should you wish to discuss matters raised in this submission.

Sincerely,

*Monica Foerster*

Monica Foerster  
Chair, SMP Committee