DATE: OCTOBER 5, 2007  
TO: COUNCIL  
FROM: SYLVIE VO GilM CHAIR, SMALL AND MEDIUM PRACTICES COMMITTEE  
SUBJECT: REPORT FROM THE SMALL AND MEDIUM PRACTICES COMMITTEE  

Section 1  Report Overview

1.1 This annual report covers the period since the 2006 IFAC Council meeting. The report focuses on the execution of our Strategic and Operational Plan for the Years 2007-2010. This plan adopts a two pronged strategy of inputting to international standard setting, to help ensure the relevance of these standards to small and medium-sized practices (SMPs) and small- and medium-sized entities (SMEs), and providing practical support to help raise the capacity of SMPs to efficiently implement these standards and to remain competitive.

Section 2  Meeting Updates

2.1 The Small and Medium Practices (SPM) Committee has met three times since the last IFAC Council meeting: January 1-11 in Chennai, India; May 3-4 in Tunis; and November 1-2 in Malta. The next meeting is scheduled for January 23-24, 2008 in Sao Paulo, Brazil.

Section 3  Significant Project Status/Updates

Input to IAASB Standard Setting

3.1 The committee believes that “an audit is an audit” and that, therefore, there should be a single set of generally applicable auditing standards drafted using a “think small first” approach. The committee continues to devote a large portion of its resources to providing input to the development of ISAs with the goal of ensuring that SMP and SME issues get accommodated into the standards. Since November 2006 the committee has submitted 33 comment letters to the IAASB, most relating to redrafting of standards under the Clarity project. Input to the Clarity project will be the primary focus in the coming year.

3.2 During 2007 the committee has input to the IAASB Strategic Review as follows: in February we responded in depth to the survey questionnaire; in May we commented on the preliminary findings; and on June 28 a committee member participated in a panel discussion on an alternative assurance service for SMEs at the IAASB Strategy Review Forum in Brussels. The committee, which is pleased to note that the proposals include a greater emphasis on implementation, intends responding to the recently launched Consultation Paper – IAASB Proposed Strategy for 2009-2011.

3.3 As well as inputting via comment letters two committee representatives presently serve on ISA project task forces and the committee is represented at all IAASB CAG meetings.

Input to IASB Standard Setting

3.4 In February 2007 the International Accounting Standards Board (IASB) issued an exposure draft (ED) of the proposed International Financial Reporting Standard for Small- and Medium-sized Entities (IFRS for SMEs). The committee is highly supportive of this project as it promises to ease the compliance burden on SMEs and to meet the...
information needs of users of their financial reports. The SMP Committee is helping the IASB secure an optimal solution.

3.5 The committee has led the drafting of the IFAC response to the ED. All other IFAC activity areas have had an opportunity to input to its development and the letter is now being finalized in time for the submission deadline of November 30. Using its various communications vehicles (IFAC and SMP eNews, SMP newswire, IFAC home page notice, conference presentations, and MemberNet postings) IFAC has been actively encouraging its members, regional organizations and other interested parties to also comment on the ED as well as participate in the IASB’s program of field testing.

3.6 The IASB self-administered field test kit, which was reviewed by a task force of the SMP Committee, was released in late June 2007. In July the IASB recruited a practice fellow to oversee and assist with field testing. While many member bodies have expressed concern over the burden of conducting field tests an increasing number have agreed to orchestrate tests and/or encourage SMEs and SMPs in their jurisdiction to do so. At the time of writing the following organizations confirmed they were conducting field testing:

- Member Bodies represented on the SMP Committee:
  - Hong Kong Institute of Certified Public Accountants (HKICPA)
  - Institut der Wirtschaftspruefer in Deutschland e.V.DW (IDW)
  - Malaysian Institute of Accountants (MIA)
  - Ordre des Experts Comptables de Tunisie (OECT)

- Other IFAC member bodies
  - Accountants Association in Poland (AAP)
  - Compagnie Nationale des Commissaires aux Comptes (CNCC)
  - Institute of Chartered Accountants of Barbados (ICAB)
  - South African Institute of Chartered Accountants (SAICA)

- Regional organizations:
  - Confederation of Asian and Pacific Accountants (CAPA)

In addition, various other organizations are known to be organizing testing including the United Nations Conference on Trade and Development - Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (UNCTAD-ISAR), Financial Executives Institute (FEI), and European Federation of Accountants and Auditors (EFAA), while a number of other member bodies are known to be considering field testing. Others, such as the Institute of Chartered Accountants in England and Wales (ICAEW), Koninklijk Nederlands Instituut van Registeraccountants (Royal NIVRA) and the American Institute of Certified Public Accountants (AICPA) are encouraging their members working in SMEs and SMPs to conduct field testing. Member bodies are also engaged in other research initiatives for example, Certified Public Accountants in Australia (CPA) Australia survey conducted in Australia, Hong Kong, Singapore and Malaysia. Incidentally, South Africa has become the first country in the world to formally adopt the proposed IFRS for SMEs.
Micro-Entity Financial Reporting Research Project

3.7 Owing to concerns that the IASB’s SME project will not cater to micro-entities the SMP Committee embarked on a research project into micro-entity financial reporting. Phase 1 of this project culminated in the release in December 2006 of the Information Paper entitled *Micro-Entity Financial Reporting: Perspectives of Preparers and Users* which summarized the existing literature in this area. The authors concluded that there was a deficiency in research on this topic. Accordingly, a further phase was initiated.

3.8 Using focus group interviews of users and preparers in Kenya, Italy, Poland, Uruguay and the United Kingdom (with help from the Accountants Association in Poland (AAP), the Association of Chartered Certified Accountants (ACCA), Colegio de Contadores Economistas y Administradores del Uruguay (CCEAU), Consiglio Nazionale Dottori Commercialisti (CNDC) and the Institute of Certified Public Accountants of Kenya (ICPAK)), Phase 2 investigates whether the proposed IFRS for SMEs is likely to meet the needs of users and preparers of financial reports of micro-entities. As well as using these findings in the IFAC comment letter on the ED, at its meeting of November 1-2 the SMP Committee intends approving for publication in Q4 2007 an Information Paper summarizing the findings.

Input to IESBA Standard Setting

3.9 In April 2007 the SMP and Developing Nations Committees filed a joint response to the IESBA’s ED on proposed revisions to Section 290 Independence of the *Code of Ethics for Professional Accountants*. The letter expressed some significant concerns regarding certain proposals. The committee continues to monitor this project.

3.10 The SMP Committee has input to the IESBA’s strategic review. In April 2007 it responded to the survey questionnaire that was used as the basis for developing the proposed *IESBA Strategic and Operational Plan 2008-2009*. The committee is pleased to note that the proposals include implementation support in the shape of developing material to facilitate implementation of the Code including Section 290 for SMPs.

ISA Guide

3.11 At its Malta meeting the SMP Committee intends approving for publication its non-authoritative implementation guide entitled *Guide to the Use of International Standards on Auditing on Small- and Medium-sized Entity Audits* (ISA Guide). The ISA Guide is designed to help practitioners around the world understand, implement and comply with ISAs in SME audits. The ISA Guide has been developed by the Canadian Institute of Chartered Accountants (CICA) and has been subject to a rigorous IFAC review process involving a global advisory panel, an SMP Committee task force and IAASB staff. The ISA Guide will be made available in PDF format free of charge to all IFAC member bodies before the end of the year.

Quality Control Guide

3.12 The open request for proposal (RFP) issued in October 2006 for the development of a Quality Control Guide for use by SMPs elicited nine submissions. These submissions were analyzed to determine a shortlist of three suppliers. At its meeting in Malta the SMP Committee will determine the preferred supplier on the basis of presentations from three shortlisted suppliers. Final publication is tentatively scheduled for the second half of 2008.

Practice Management Guide

November 2007
3.13 A RFP for the development of a Practice Management Guide for SMPs was issued on August 31 with a deadline for responding of October 19, 2007. The proposed guide is intended to help improve the management and operational efficiency of practitioners including how to be responsive to the needs of their clients.

Information Sharing

3.14 On March 31, 2007 IFACnet was expanded to cater for SMPs. Of the 29 member body websites included in the search engine, many include significant practice-related content. The committee continues to provide advice on how to develop IFACnet so as to best serve SMPs.

3.15 In June IFAC launched a new International Center for Small and Medium Practices (SMPs) on its website to provide SMPs with access to news, information and resources (including a portal to the IFACnet and key web-links) relevant to them. It also includes information about the work program of IFAC's SMP Committee.

Section 4 Critical Environmental Issues

Competitive Pressures

4.1 SMPs continue to be confronted with acute competition from both non-accountants as well as accountants lacking a professional qualification.

Applicability of International Standards to SMP/SME

4.2 Developments such as IFRS for SMEs, the Clarity project and the revision of the *Code of Ethics for Professional Accountants* will have a major impact on SMP/SME. While the exact direction and scale of this impact is unclear, the committee is concerned about the applicability of international auditing, accounting and ethics standards to SME/SMP, in particular the burden of implementation of these standards.

4.3 If these concerns crystallize then possible outcomes include: the viability of SME audits and, ultimately, that of SMPs that undertake them being undermined; the costs of compiling, auditing and disseminating financial reports exceeding the benefits from using them; national and/or regional jurisdictions seeking unilateral solutions; and increased demand for alternative assurance services.

4.4 The committee’s strategy and work plan seeks to address these issues head on and stresses the need for a collaborative effort involving the committee, members, regional organizations, and others. Furthermore, the committee is pursuing various ways of obtaining more input to standard setting from SMEs and SMPs for example, through SMP eNews.

Section 5 International Relations & Communications

5.1 Since the last Council meeting IFAC Staff and myself have presented on the work of the SMP Committee as follows:

- On January 12 in Chennai I presented on “The Role of the IFAC SMP Committee in Strengthening SMPs” at the Institute of Chartered Accountants of India (ICAI) International Conference.
• On March 29 in Botswana, Russell Guthrie, Director, Quality Assurance and Member Body Relations presented on “IFAC SMP/SME Strategy,” Botswana Institute of Accountants' (BIA) International Conference.


• On June 14 in Mexico City, Mexico I presented on “Specific Issues in SMPs” at the Latin American and Caribbean Regional Conference “Contabilidad y Responsabilidad para el Crecimiento Económico Regional” (CReCER).

• On June 21 in Kuala Lumpur, Malaysia Paul Thompson, Senior Technical Manager, SMP conducted a CAPA regional workshop entitled “Global Initiatives for Assisting SMPs in the Asia-Pacific.”

• On June 30 in St. Kitts, Russell Guthrie presented on the topic “IFRS for SMEs” at the Annual Conference of the Institute of Chartered Accountants of the Caribbean (ICAC).

• On September 6 in The Hague, the Netherlands I presented on “IFAC SMP Committee Strategic and Operational Plan 2007-2010” to the European Federation of Accountants (FEE) SME/SMP Working Party.

• On September 7 in The Hague, the Netherlands, I presented on “IFRS for SMEs: Views of IFAC” at the FEE Third Annual SME/SMP Congress.

• On October 3 in Osaka, Japan I presented on “IFRS for SMEs: Views of IFAC” at the 17th Conference of CAPA.

5.2 On October 30 in Malta the committee will hold its one-day IFAC SMP Forum 2007. Some 130 delegates from over 30 countries are expected.

Section 6  Operations & Other Matters

6.1 The work plan is ambitious but there is a compelling case for its timely execution.