

## Update on October 2011 IESBA SME/SMP Working Group Report—July 2013

### 1. Knowledge and Understanding of the Code

#### Recommendations

- a) Develop guidance for users to facilitate general learning and the application of the Code to specific circumstances. It is suggested that this guidance be comprised of *IESBA Staff Questions and Answers*, supplemented as appropriate by case studies. Topics for consideration include:
- Addressing threats to the fundamental principles that may be elevated for a professional accountant in an SME with a dominant owner-manager and without a robust control environment
  - Responding to suspected illegal acts – accompanying changes to the Code arising from the current project
  - Preparing accounting records and financial statements – addressing matters such as the application of the “routine or mechanical” guidance, the importance of an informed management<sup>1</sup> and the impact of complex accounting issues
  - Valuation services
  - Tax services

#### **Comments**

The IESBA Review of Part C of the Code Task Force is addressing threats to the fundamental principles that may be experienced by a professional accountant in business.

IESBA staff drafted a Q&A on preparing accounting records and financial statements, but concluded that it warranted further attention. The topic is now being addressed by the IESBA Non-Assurance Services Task Force. This Task Force is also reviewing the guidance provided on valuation and tax services.

The IESBA Structure of the Code Working Group is addressing the usability of the Code and developing recommendations on enhancements that will facilitate general learning and the application of the Code to specific circumstances. This Working Group will consider both the structure of the Code and external guidance that will enhance its usability.

- b) Prepare and publish a synopsis of the Code. It must be clear that the synopsis is not meant to be a complete representation of the Code; it should be brief and condensed in such a manner as to enable an overview of the Code to be described appropriately, potentially very few pages in length. The synopsis could be presented in various formats, including hard copy or electronic form with hyperlinks to the appropriate section of the Code. These various methods of delivery are meant to provide SMPs and SMEs quick and easy access to the relevant information contained in the Code.

<sup>1</sup> An informed management encompasses characteristics such as understanding of relevant requirements, facts and assumptions, and responsibility for the results.

### Comments

The IESBA Structure of the Code Working Group is considering a synopsis of the Code that would provide professional accountants in SMPs and SMEs quick and easy access to the relevant information contained in the Code.

- c) Publish the Code in a format that facilitates ready access to the sections of the Code relevant to the particular user – for example, the electronic version of the Code might be made available in one folder with separable files so that a professional accountant in an SME or SMP who does not need access to independence matters could ignore Sections 290 and 291. Alternatively, the electronic version might be interactive, with responses to initial questions resulting in a tailored extract of the Code that includes only those components relevant to the particular user.

### Comments

The IESBA Structure of the Code Working Group is considering the format of the Code, taking into account what can be achieved with an electronic version.

- d) Liaise with member bodies to identify how this guidance and other tools that the Board may develop can be aligned with training programs to facilitate learning about the Code. Possibilities include short videos introducing the main sections of the Code; while these would not be a substitute for reference to the detailed guidance, they could raise the Code's profile and provide an initial orientation.

### Comments

Once the IESBA has a better sense of how the structure of the Code should evolve, it will be in a better position to align the material being developed with training programs to facilitate learning about the Code. The IESBA Structure of the Code Working Group is keeping this in mind.

## 2. Safeguards

### Recommendations

- a) More clearly include an informed management as an appropriate safeguard when addressing self-review and self-interest threats

### Comments

Informed management is one of the safeguards being addressed by the IESBA Non-Assurance Services Task Force.

- b) Revise the examples of safeguards so they are consistent, where appropriate, from section to section to enable a more intuitive approach to applying safeguards.

Typical safeguards include:

- Ensuring that the client has an informed management

- Arranging for services to be performed by an individual who is not a member of the audit team; or

If such services are performed by a member of the audit team, using a partner or senior staff member with appropriate expertise who is not a member of the audit team to review the work performed

- Obtaining advice from an external professional
- Regular independent internal or external quality reviews of the engagement

**Comments**

IESBA staff will be developing a paper on threats and safeguards in due course.

The IESBA Structure of the Code Working Group is considering enhancements that will facilitate a more intuitive approach to applying safeguards.

- c) Consider whether any action is warranted to clarify that professional judgment is required when applying the Code's guidance on threats and safeguards because, though it is quite comprehensive, the Code may not have identified every threat or every safeguard available in a particular circumstance

**Comments**

The IESBA staff and Structure of the Code Working Group initiatives referred to above will provide an opportunity to consider clarifying the need for professional judgment.

- d) Consider whether there are appropriate safeguards that may reduce to an acceptable level the self review threat associated with a professional accountant performing a material valuation involving a significant degree of subjectivity for an SME audit client. There are differing views as to whether the self-review threat is manageable. Although valuation services are currently prohibited by the Code in these circumstances, some member bodies' standards contemplate the availability of sufficient safeguards. These safeguards generally include involvement of others such as a valuation specialist not on the audit team. A valuation by a valuator who is not a member of the audit firm and does not have existing knowledge of the SME may result in a higher cost to the SME. Resistance to the additional cost may cause some SMEs to avoid engaging a valuator in some situations where the involvement of a professional with valuation expertise is appropriate.

**Comments**

The IESBA Non-Assurance Services Task Force is reviewing the guidance provided on valuation services.

- e) Consider whether there are appropriate safeguards that may reduce to an acceptable level the advocacy threat associated with a professional accountant acting as an advocate for an SME audit client in the resolution of a material tax matter before a public tribunal or court. Matters that are referred to a public tribunal or court vary by jurisdictions – some jurisdictions include matters that in other jurisdictions are resolved without having to resort to a public

tribunal or court. As a result, the Code considers some matters subject to an unmanageable advocacy threat when referred to a public tribunal or court that in other jurisdictions are considered manageable as they are resolved without going to a public tribunal or court.

#### **Comments**

The IESBA Non-Assurance Services Task Force is reviewing the guidance provided on tax services.

### **3. Appropriate Safeguards Available to Sole Practitioners and Smaller SMPs**

#### Recommendation

Develop guidance for sole practitioners and SMPs with only one audit/review partner to facilitate the identification of appropriate safeguards. This guidance may initially be provided in *IESBA Staff Questions and Answers* and later incorporated in the Code. Topics for consideration include:

- Long association of senior personnel with an audit client (paragraph 290.150)
- Preparing accounting records and financial statements (paragraph 290.171)
- Valuation services (paragraph 290.176)
- Tax calculations for the purpose of preparing accounting entries (paragraph 290.184)
- Tax planning and other tax advisory services (paragraph 290.189)
- Assistance in the resolution of tax disputes (paragraph 290.192)
- Fees – relative size (paragraph 290.220 - .221)

Sole practitioners and SMPs with only one audit/review partner, and the member bodies to which they belong, may expand the available safeguards by establishing relationships with other professional accountants. For circumstances when the examples provided remain unavailable, the Board should consider the acceptability of other safeguards. One possibility for the Board's consideration is an informed management combined with exposure to recurring internal or external inspection - this safeguard may, for example, be limited to lower risk engagements of sole practitioners and SMPs with only one audit/review partner, and may require communication to the client and the individuals responsible for the internal or external monitoring.

#### **Comments**

It is not always easy to identify appropriate safeguards available to a sole practitioner. The IESBA Non-Assurance Services Task Force is addressing safeguards and is aware of the challenges that may be faced by sole practitioners.

In addition, the IESBA Long Association of Senior Personnel with an Audit Client Task Force, which is also aware of the challenges that may be faced by sole practitioners, is addressing long association.

Discussions have been held at staff level on how the IFAC SMP Committee (SMP Committee) can input to the Long Association Task Force.

Also, the SMP Committee has submitted a response to the Long Association Task Force survey of firms on behalf of SMPs.

A Long Association Task Force member, who is an SMP, has participated in an SMP Committee

conference call on long association and the limited resource exemption.

#### **4. Network Firm**

##### Recommendation

Develop guidance for users on the Code's definition of a network firm particularly as it relates to formal or informal associations developed by and between SMPs. It is suggested that this guidance be included in *IESBA Staff Questions and Answers*.

##### **Comments**

IESBA staff published three Q&As addressing network firms.

#### **5. Future Expansion of the Code**

##### Recommendation

When developing future work plans, while being mindful of the overall length of the Code, consider dealing more specifically with non-assurance services, particularly tax services. For example, guidance on tax services might include matters such as association with tax positions that have low probability of surviving challenge.

##### **Comments**

Expansion of the Code to address non-assurance services such as tax services is a topic for consideration as part of the review of the IESBA's future strategy and work plan.

#### **6. Ongoing Consideration of SMEs and SMPs in the Standard-Setting Process**

##### Recommendations

- a) Establish processes to ensure that the particular circumstances of SMEs and SMPs are considered in all projects and deliberations

##### **Comments**

An SMP Committee representative has a standing invitation to attend IESBA board meetings, and the IESBA Chair is mindful of SMEs and SMPs when task force members are appointed and matters are deliberated.

- b) Each year, seek qualified IESBA nominations that will enable the Board to maintain sufficient SME/SMP experience to facilitate appropriate consideration of their circumstances in the standard-setting process

##### **Comments**

Various IESBA nominees have SMP and/or SME experience, and the Board has some members with SMP and/or SME experience.

- c) Continue to maintain close cooperation with IFAC's SMP Committee and extend cooperation to the PAIB Committee in relation to professional accountants in business working in SMEs

**Comments**

The IESBA Chair and certain members of the Board maintain a liaison with the SMP Committee and the PAIB Committee. A protocol with the SMP Committee is currently being finalized and there is a desire for continued close cooperation.

- d) Consider maintaining an SME/SMP working group to obtain ongoing advice

**Comments**

Experienced IESBA members and the SMP Committee, together with its staff and Ethics Task Force, are available to provide advice.

- e) Consider discussing with CAG the importance of continued appropriate SME/SMP representation

**Comments**

The IESBA CAG continues to have members with SMP and/or SME experience.