



European Federation of Accountants and Auditors for SMEs

International Auditing and Assurance Standards Board (“IAASB”)
529 5th Avenue, 6th Floor
New York, New York 10017
United States of America
Attn. IAASB Technical Director
Brussels, 4 April 2014

Dear Sir

Comment on IAASB Consultation Paper - The IAASB’s Proposed Strategy for 2015–2019 and The IAASB's Proposed Work Program for 2015–2016

The European Federation of Accountants and Auditors for SMEs (“EFAA”) represents accountants and auditors providing professional services primarily to small and medium-sized entities (“SMEs”) both within the European Union and Europe as a whole. Constituents are mainly small practitioners (“SMPs”), including a significant number of sole practitioners. EFAA’s members, therefore, are SMEs themselves, and provide a range of professional services (e.g. audit, accounting, bookkeeping, tax and business advice) to SMEs.

EFAA appreciates the opportunity to comment on the International Auditing and Assurance Standards Board (“IAASB”) Consultation Paper - The IAASB’s Proposed Strategy for 2015–2019 and The IAASB's Proposed Work Program for 2015–2016.

General Remarks

We appreciate the three strategic objectives that the IAASB has identified and share the IAASB’s desire to maintain and develop high-quality ISAs and to have a suite of standards that is relevant to today’s world. We also recognise that the IAASB must play its part in the Financial Reporting Supply Chain.

However, we would assert that these three strategic objectives should also reflect the long term strategic objectives of the IAASB. We feel that this is an important point because should the IAASB decide that the ISAs should be reworked to increase proportionality and efficiency of use then this may require a much longer time investment than the five-year period that the IAASB’s strategy covers.

Therefore, whilst we welcome the IAASB’s Proposed Strategy and Work Program we would encourage the IAASB to be more ambitious. There is a clear need, to our mind, to develop a long term vision and strategy on the role of standards and the relative worth of the IAASB’s mission compared to say global monitoring or education.

Lastly, whilst SMEs are not wholly subject to audit it is clear that the vast majority of audits performed are performed on non-listed companies / non-Public Interest Entities (“PIEs”). The protection of the capital markets and the effects of the crisis are not to be underestimated and we do not seek to do that. We merely aim for recognition of the value of SMEs in today’s economies. We believe that there is a need to recognise the value of audit as a tool to build public confidence and the value of other assurance products and that there is a role for the IAASB to play in such a strategy. The profession serves a vibrant and dynamic global market and it is clear that the demand for assurance products will require the profession to be innovative in all of its service delivery whether audit, assurance or non-assurance. More work should be done to try and ascertain what assurance products could be provided that will add value to SMEs, for instance, and more consideration of the likely effects of developments in technology and the manner in which these may or may not affect the service of assurance products.



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Request for Specific Comments

Our responses to the specific questions raised are set out below.

PROPOSED STRATEGY FOR 2015 - 2019

(a) Whether the strategic objectives identified are considered appropriate for the period 2015–2019. If not, please explain.

In general we agree with the strategic objectives outlined in the Consultation Paper. The IAASB has quite rightly noted that adjustments to the ISAs may become necessary as a result of an ever changing environment. That said, in the absence of those factors that necessitate change, some of our members would advocate a stable platform. Additionally, they would caution the IAASB on an excess of regulation in the field of statutory audit versus a principles based approach as seems to be the direction that the revision of ISA 720 is currently taking.

In terms of a longer term strategy then it is possible that the IAASB should consider that other actions will be required and perhaps be more ambitious in its objectives. Some such objectives could include for instance:

- Action to help restore the confidence in audits by showing the value of an audit.
- Action to monitor the implementation of standards which would then inform changes to existing standards and highlight requirements for new standards.
- Consideration of how audits can be performed effectively and efficiently when taking IT developments into account (the rapidly changing IT environment will have an impact on the audit process (including the use of audit software) and developments such as cloud computing, big data, and social media may require continuous monitoring).
- Continuation of efforts to address the expectation gap and to assess whether the scope of an audit should be explained more clearly or perhaps broadened to accommodate demand from users.
- Increasing the focus on non-audit services to accommodate an ever changing demand for assurance services.

(b) Whether the factors included in Appendix 2 on page 19 represent a reasonable basis for the IAASB to use in developing its Work Programs beyond the Work Program for 2015–2016.

In general we agree with the factors but we note that Appendix 2 does not indicate how the factors have been weighted. Without this context it is difficult to conclude that they represent a reasonable basis. More information would have been of value to determine, for example, how stakeholders' needs are considered, how they are balanced and how they are prioritised. This is of particular importance when conflicts between stakeholders' needs arise. For example, it might seem appropriate that the demands of the capital markets be weighted equally against the demands of those not in this sector when the IAASB considers its proposed actions.



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PROPOSED WORK PROGRAM FOR 2015 - 2016

(a) The approach taken to the development of the Work Program for 2015–2016, in particular the IAASB’s decision to focus on fewer key projects towards the goal of their completion by 2017.

This seems a sensible approach. We are supportive of the work that the IAASB performs particularly in light of its limited resources but we feel that the needs of all stakeholders should be addressed and that more focus should be given to the needs of SMPs and SMEs particularly in non-audit areas which would cover for example:

- Addressing the continual concerns of SMPs in the area of proportionality of ISAs and other IAASB pronouncements including ISQC1 (as outlined in our response to (b) below).
- Speedier revision of ISRS 4400, International Standard on Related Services Engagements to Perform Agreed-Upon Procedures Regarding Financial Information (as outlined in our response to (b) below).
- Being alert to the growing demand for the provision of a “positive” opinion on review reports to match user expectations.

We also note that whilst we would not expect the IAASB to change its objectives there could perhaps be more work done in the following areas:

- Addressing the long term future of audit and assurance and engaging with stakeholders to gauge their views on what is and will be required in 10 - 15 years. We believe that this is important because there is a fundamental need to be alert to long term issues and the short term changes currently being dealt with by the IAASB need to be congruent with the long term objectives. Fixing immediate gaps in standards may not be sufficient.
- Engaging to a higher degree with stakeholders about what is required and demanded in the audit and assurance sphere.

That said, we would support fewer projects as the IAASB proposes but with greater stakeholder engagement. We believe that this combination may increase overall quality of the IAASB pronouncements and result in better application and implementation.

(b) The appropriateness of the topics chosen as the focus for the Work Program for 2015–2016 (see paragraph 4 of the Work Program and Table A on pages 26–29) in light of the strategic objectives set out in the IAASB’s Strategy for 2015–2019.

Our comments are made on the individual topics below.

Quality Control

We are supportive of the work that the IAASB intends to perform in connection with ISQC1. We agree that this project should be prioritised and that there is a need to re-consider ISQC1 and quality control in general. That said, we believe that any review should seek to take into account the proportional application of the standard and that ISQC1 should be reconsidered in line with “think small first” principles. This would enable ISQC1 to be appropriately and effectively applied in both the smallest (SMP) and the largest of firms. We note that the IAASB is aware that some NSSs have already begun to explore how this may be done and we would encourage the IAASB to engage fully with all stakeholders and all NSSs in this regard.

The “Think Small First” principle implies that policy makers give full consideration to SMEs at the early policy development stage. Ideally rules impacting on business should be created from the SMEs point of view or in other words, SMEs should be considered by public authorities as being their “prime customers” as far as business regulation is concerned. The principle relies on the fact that “one size does not fit all” but a lighter touch



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approach can also be beneficial to larger businesses. Conversely, rules and procedures designed for large companies create disproportionate, if not unbearable burdens for SMEs as they lack the economies of scale. More recently the IAASB has introduced a Building Block approach to standard setting during its "Auditor Reporting" project that enabled the needs of users and stakeholders to be recognised when differences were apparent. We very much welcomed and supported this approach and would call on the IAASB to maintain and increase such strategies where appropriate.

Professional skepticism

We agree with the level of significance that the IAASB places on professional skepticism. However, we are concerned that commentators believe that professional skepticism can be enhanced by an increase in written standards. It is likely that any increase in professional skepticism will naturally flow from better education and training and from a more open and pro-active dialogue between professional bodies, regulators and other stakeholders. Therefore, whilst we support the IAASB's intention we feel that this entire issue requires a more holistic approach than that currently prescribed, i.e. further changes to ISA 200 and additional guidance will not suffice.

Facilitation and implementation of New and Revised Auditor Reporting Standards

It would be of value for implementation guidance to be issued in respect of those companies that wish to voluntarily report Key Audit Matters ("KAM"). Responders clearly noted, in the EFAA Survey on IAASB Auditor Reporting Standards Proposals¹ that there was a demand for KAM to be voluntarily reported outside the listed entity sphere. This demand together with current concerns about the value of audit would appear to suggest that further work be done by the IAASB to support the voluntary reporting of KAM.

Development of a process for post-implementation reviews of the IAASB's other assurance and related services standards.

EFAA has for some time called on the IAASB and other standard setters and legislators to undertake post implementation reviews and to that end we are very much supportive of the IAASB's intentions in this regard. It will be important to research why standards are not being used in the way that the IAASB originally intended and that research, we believe, will then highlight key messages from stakeholder groups, particularly SMEs and SMPs as to whether their needs and demands were or are being met.

In respect of specific issues then we would firstly note that the post implementation reviews for assurance and other related services standards are to commence in 2017 and we think it is important that this be done earlier.

Secondly we believe that it might be of interest for the IAASB to consider the audit quality framework as a topic for post implementation review as it is important to assess the ultimate impact and cost / benefit of this project and to have some insight as to whether the framework has directly or indirectly resulted in improvements in audit quality.

¹ EFAA Survey on IAASB Auditor Reporting Standards Proposals

http://www.efaa.com/files/pdf/Publications/Consultations/EFAA%20AUD_REP%20SURVEY%20published%204%20March%202014.pdf



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(c) Whether there is an action(s) or project(s) that has not been included in the Work Program for 2015–2016 that you believe the IAASB should address during that period. For example, should any of the topics in Appendix 1 (on pages 39–41) be prioritized sooner? If so, which initiative(s) identified in Table A (on pages 26–29) do you believe should be replaced by this action(s) or project(s). Please provide an explanation of your views.

As a general comment we believe that the IAASB's focus should be on projects that would impact the vast majority of auditors and stakeholders. To that end, in light of finite IAASB resources we believe that the ISAs and their development together with non-audit services suitable for SMEs and SMPs would meet the demand of the vast majority of practitioners that ultimately apply them. Such focus would necessarily limit further work on Integrated Reporting that is at a very early stage and is unlikely to be applied to many entities globally.

ISA 600, Special Considerations-Audits of Group Financial Statements

There appears to be a clear expression of interest in the revision of ISA 600 from EFAA members and that this revision is prioritised. That said, we would support the IAASB in its performance of an intensive information gathering exercise in this regard. The aforementioned EFAA survey on auditor reporting clearly highlighted the benefit of engaging with stakeholders in languages other than English and in a less formal manner than Consultation Papers, Invitations to Comment and Exposure Drafts demand. The EFAA survey illustrated that responders can be given sufficient information to raise awareness and to enable their comments and views to be collected through less formal means. This is a valuable tool and as such it should be carefully considered.

ISRS 4400, International Standard on Related Services Engagements to Perform Agreed-Upon Procedures Regarding Financial Information

We are concerned to see that the revision of ISRS 4400 has been delayed further. We believe that this project should be a priority as it is of great value to those stakeholders that are outside the sphere of a statutory audit. The use of standards in tandem to provide a “hybrid assurance engagement” is commonplace within the SME environment and that alone should support prioritisation of ISRS 4400.

The above comment is very much in line with our previous comments made in response to the 2011-2014 IAASB Strategy and Work Plan where we stated that “the Public Interest may also be served when the accountant is able to add value to the business community. This may in part be assisted with the revision of project B.2, ISRS 4400, Engagements to Perform Agreed-upon Procedures Regarding Financial Information, particularly in the context of SMPs and SMEs. In this regards we would urge the IAASB to issue this standard at the same time as that planned for ISRE 2400, Engagements to Review Historical Financial Statements, and ISRS 4410, Compilation Engagements. We believe that a suite of products applicable for use by SMEs and SMPs would be of greater benefit to the SME market and the business community as a whole.”



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Activities to support the use of the IAASB's Framework for Audit Quality by audit firms and other stakeholders

Having issued the Framework the IAASB has now to be seen to take action with it and encourage stakeholders to use it. Whilst we appreciate that the framework for Audit Quality is not a standard a significant amount of IAASB's resources were used in its development and it is important that its issuance is seen to have effect. We believe that it might be of interest for the IAASB to consider this framework as a topic for post implementation as we have mentioned above.

INFO Working Group

In general we support the remit of the INFO Working Group. Clearly some projects such as Integrated Reporting need to be followed but we would caution against the IAASB taking immediate action in this regard as we believe that such a project would consume significant IAASB resources that would then necessarily be diverted from other areas.

Disclosures

We also have some concerns over the current project "Disclosures". We feel that further consideration of what this project is trying to achieve is warranted by the IAASB. We are not convinced that a full Cost / Benefit analysis of the project has been undertaken and whilst we are supportive of the overall project's objective we have concerns that this project will ultimately result in many changes being made to the ISAs. Those changes will then ultimately require further translation and implementation and we question the impact and value of this.

(d) Whether there are alternative approaches for the IAASB to consider in order to enhance the IAASB's ability to address calls from stakeholders for IAASB efforts on a variety of important topics, in light of the constraints of available resources and the need for due process to be applied in the development or revision of standards.

The EFAA survey clearly demonstrated that SMPs, SMEs and their stakeholders are keenly interested in audit and assurance services. The EFAA survey received 428 responders from 52 countries and this is testimony to the fact that stakeholder engagement, when appropriately pitched, can encourage feedback which is of great value and can ultimately play a major role in informing the development of standards. This feedback does not have to be sought through formal channels. The use of more informal multi-lingual surveys or questions in cooperation with bodies like EFAA and its members, together with other institutions can help raise awareness of the important work that the IAASB does and to gather feedback for their projects. The views of the SMPs and SMEs, the silent majority, can be sought in such a way and this is to be encouraged.

Other approaches should also be considered such as Urgent Issues Task Forces or the issuance of Statements of Recommend Practice ("SORPs") that may be able to be produced quicker and thus have a more immediate impact.



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Other Comments

Translation which invariably assists the global use of the ISAs and other IAASB pronouncements should be seen as a significant issue for the IAASB as well as other standard setters. In order to increase adoption and implementation in the manner desired we believe that the IAASB standards should be reconsidered when being drafted for those users that are non-English native speakers. The use of “plain” English, the provision of translations and the avoidance of boilerplate wordings and unnecessarily long reports (for example, the 60 page document that is the Audit Quality Framework) when core statements might have had the same effect should be discussed and considered.

I trust that the above is comprehensive but should you have any questions on our comments, please do not hesitate to contact me.

Yours faithfully,

Geoffrey Britton
President