

# Envisioning the Future—Survey on the IAASB’s Future Strategy

Response ID:643 Data

## 7. SECTION III: ABOUT THE RESPONDENT

### 1. From which perspective are you providing this feedback:

The view of an organization.

**Please Indicate:**

### 2. Please complete

Name of Organization: : European Federation of Accountants and Auditors for SMEs (EFAA)

Name or Person submitting Survey on behalf of the organization: : Paul Thompson, Paul Thompson,  
Director and Chair of EFAA Assurance Expert Group

### 3. Select from the following options that describe your organization:

IFAC Member Body or Other Professional Organization

**Is this a/an:**

**Is this response on behalf of the global network?**

**Is this response on behalf of a regional or national firm?**

**Other Firm?**

### 4. IFAC Member Body or Other Professional Organization

IFAC Member Body, Affiliate or Regional Organization

**National auditing standards same as, or based on, the IAASB’s current International Standards on Auditing**

**Please specify which standards are used:**

**Other national standards same as, or based on, IAASB’s other standards (i.e., assurance, related services and reviews)**

**Please specify which standards are used:**

**Are you a listed or non-listed entity?**

**Small or Medium-Sized The concept of ‘smaller or less complex entities’ varies country by country, but ordinarily exhibits one or more of the following characteristics:Concentration of ownership and management in a small number of individuals.One or more of the following:Straightforward or uncomplicated transactions.Simple record keeping;Few lines of business and few products within business lines;Few formal internal controls; Few levels of management with responsibility for a broad range of controls; orFew personnel, many having a wide range of duties.**

**.Entity?**

**Please Indicate:**

**Do you apply International Standards of Supreme Audit Institutions (ISSAIs) for financial audits**

**Those Charged with Governance**

**Private Sector**

**Please specify in the box below.**

Are you any of the following?

5. Please select the geographical region where you are based:

Europe

## 8. SECTION IV - QUESTIONS FOR RESPONDENTS ABOUT THE IAASB'S STRATEGY FOR 2020-2023

**6. 1. In your view, will the strategic environment affecting the needs of the IAASB's stakeholders look like in 2020 onward and what will be the impact on the IAASB's International Standards (for example, will the audit market change significantly; will other services dominate stakeholders needs – including what the needs may be for different types of evolving services; how evolving technologies, such as cryptocurrency, artificial intelligence or blockchain , will impact the environment in which the IAASB's stakeholders operate, etc.).**

There is uncertainty as to the strategic environment from 2020 not least since business, technology and society is undergoing rapid change, change which is often hard to predict. This uncertainty warrants the IAASB positioning itself such that it is alert the early warning signs of change and able to respond quickly as necessary. As we represent SMPs and SMEs we will share some thoughts most pertinent to these sectors.

1. Technology – rapid and unpredictable changes seem likely. The main concern we have is that in the medium to long term only the larger accounting firms will be able to fully leverage and adapt to these technologies resulting in a playing field tilted in favor of large over small. SMPs typically place high reliance on software to interpret ISAs and many SMPs seek some assurance / comfort that software does what it promises. This begs the question whether oversight / inspection bodies should in some way check such software to ensure they do what they promise. Although the concepts of an audit might not change, technological developments will have an impact on the execution of an audit. Data analytics and machine learning are tools that can improve the audit and the audit quality, but they might also raise some issues. For example, how does data analytics provide audit evidence and how to take responsibility for the tools used? The ISAs do not hinder the use of data analytics, but do not encourage them either. We cannot foresee the true impact on the ISAs but recommend providing guidance to help the implementation of technology in practice.

2. Trust – high profile audit failures, largely involving large companies / entities and large accounting firms, may undermine the public's confidence in and trust of the competence and integrity of professional accountants and accounting firms no matter their ilk or size. This may trigger an overreaction by the regulators, an overreaction that may result in excessive regulation that may adversely impact SMPs.

3. Scalability – the desire to accommodate the most sophisticated of audit client, including large MNCs and financial institutions, has resulted in highly complex ISAs. While we agree with the principle of a single set of high quality audit-related standards applicable to all entities no matter their size or complexity we have some doubts as to whether existing standards are sufficiently suitable for SME audits due to their inherent complexity. Scalability is a critical prerequisite for standards to be suitable for SMEs and for the principle of cost effectiveness to be realised on smaller engagements. The audit is of much value to any SMEs and their stakeholders and so we must ensure it is not made unaffordable. Scalability should be seen and used as a bottom-up concept, starting with requirements designed for small and simple entities and then adding requirements for larger, more complex entities including public interest entities (PIEs). In the absence of scalability there may be no option other than to pursue differential standards. Appropriate emphasis needs to be placed on the needs of SMEs and the SME and SMP constituencies will need to be adequately involved in both the governance and oversight as well as the development of standards.

4. Market concentration – the forces described above are collectively could force many SMPs to exit the market for regulated services like audit or else prompt them to merge. This may erode competition.

5. Succession planning – the profession in many advanced Western economies, including Europe, is aging and this is resulting in many SMPs struggling to plan for succession.

**1. In your view, will the strategic environment affecting the needs of the IAASB's stakeholders look like in**

2020 onward and what will be the impact on the IAASB's International Standards (for example, will the audit market change significantly; will other services dominate stakeholders needs – including what the needs may be for different types of evolving services; how evolving technologies, such as cryptocurrency, artificial intelligence or blockchain, will impact the environment in which the IAASB's stakeholders operate, etc.). - Text Analysis

**7. 2. Section II. Describes the additional challenges and opportunities that the IAASB has identified relating to its people, processes and technology, including possible changes that may arise from the MG consultation. In your view, as the IAASB develops its Strategy for 2020–2023, what are the:**

- (a) Key challenges and other factors that may impact the IAASB's activities and focus; and(b)
- (b) Main opportunities for changing the way it undertakes its activities.

*Your response may include views about the matters identified by the IAASB as set out in Section III, but any views about matters that have not been mentioned are particularly welcome.*

Please see our MG consultation response at

[http://www.efaa.com/cms/upload/efaa\\_files/pdf/Publications/Comment\\_letters/2018/20180207\\_EFAA\\_Response\\_MG-FINAL.pdf](http://www.efaa.com/cms/upload/efaa_files/pdf/Publications/Comment_letters/2018/20180207_EFAA_Response_MG-FINAL.pdf). Our primary concern, as described above in our response to Q1, is the need to make the ISAs scalable. As far as process improvements are concerned we offer the following tentative suggestions for the IAASB to consider (though caution against consultation, key to the pursuit of the public interest, being compromised in the interests of efficiency and timeliness):

- Scrap conventional task force / Board meeting minutes – these take up a significant amount of time yet technology renders them obsolete, replaced by recordings. If some text record is needed then this might be bullet point meeting highlights with action points.
- Extend the practice of end of meeting recap presentation – this is an effective way of summing up and confirming action points. Indeed this might serve as the basis for the summary text minutes.
- Foster innovation through experimentation and trial and error activity by outsourcing the early stages of development of some projects (e.g., scalability, SME audit standard). The IAASB / WBCSD collaboration on assurance over emerging forms of external reporting is welcome but we wonder whether one could facilitate more of the same by officially inviting and / or encouraging PAOs and others to incubate an idea / project, progress it to the point of project proposal or even some form of consultation and then have the SSB modify as necessary, endorse or otherwise, and progress / publish / abort project.
- Implement different levels of due processes depending on the level of public interest of the activity.
- Enhance efficiency, mitigate constant change (typically the main challenge facing SMPs and SMEs) and improve project alignment by transiting to a system where all projects run coterminous on a plan-do-check-act (PDCA) cycle – set strategy / plan, develop new or revised standards, translate / adopt / implement, post implementation review and then start cycle over again.

**8. 3. Are there specific initiatives within the stakeholder group to which you belong, or of which you are aware, that you believe the IAASB should actively monitor in light of their potential to inform the IAASB's future agenda? If so, what are they, and why do you think they are relevant to the IAASB?**

Perhaps the most relevant and significant is the initiative spear-headed by Accountancy Europe on simplifying auditing standards for small or non-complex entities. We support the recent call to action.

## **9. THE FOCUS OF THE IAASB'S ACTIVITIES IN 2020–2023**

**9. 4. Section II illustrates that the IAASB has, and will continue to, focus a significant part of its efforts in 2015–2019 on revising and developing standards addressing the audit of historical financial information and quality control. With respect to new standard-setting projects for the period 2020–2023, in light of where you believe IAASB actions are needed and to continue to serve the public interest, in your view what proportion of effort should the IAASB allocate to each of the following? (Allocation should total 100%)**

Quality control : 0%

Audits and reviews of historical financial information : 20%

Other assurance- EER Emerging Forms of External Reporting (EER) refers to emerging forms of external reporting by entities that increasingly provide non-financial information that goes beyond the traditional (financial statement) focus on the entity's financial position, financial; performance and impact on its financial resources. engagements : 10%

Other assurance (and related services Related services pronouncements include: ISRS 4400, Engagements to Perform Agreed-Upon Procedures Regarding Financial Information (currently being revised); ISRS 4410 (Revised), Compilation Engagements.) - other than EER engagements : 10%

Professional skepticism : 10%

Matters relating to audits of smaller and less complex entities : 50%

Total : 100%

**Comments:** 1. Matters relating to the audit of smaller and less complex entities / audits and reviews - as we state above the desire to accommodate the most sophisticated of audit client, including large MNCs and financial institutions, has resulted in highly complex ISAs. While we agree with the principle of a single set of high quality audit-related standards applicable to all entities no matter their size or complexity we have some doubts as to whether existing standards are sufficiently suitable for SME audits due to their inherent complexity. Scalability is a critical prerequisite for standards to be suitable for SMEs and for the principle of cost effectiveness to be realised on smaller engagements. The audit is of much value to any SMEs and their stakeholders and so we must ensure it is not made unaffordable. Scalability should be seen and used as a bottom-up concept, starting with requirements designed for small and simple entities and then adding requirements for larger, more complex entities including public interest entities (PIEs). In the absence of scalability there may be no option other than to pursue differential standards. The IAASB might need to think in terms of "think simple first". 2. Other – the need for assurance on non-financial information is growing and any solutions need to be scalable in case one day SMEs need to get assurance on their NFI; ISRS 4400, often misunderstood, should be revised to provide more clarity; professional skepticism needs to be considered in the light of the IESBA project; and once the standards relating to quality control are completed in 2019 there is no need for further work for a while.

**10. Please provide relative %; for each option by category to total 100%**

	(i) Developing new or revised standards	(ii) Undertaking implementation activities	(iii) Apply efforts to both
Quality control	50%	50%	
Audits and reviews of historical financial information	80%	20%	
Other assurance – EER engagements	90%	10%	
Other assurance (other than EER engagements) and related services Related services pronouncements include: ISRS 4400, Engagements to Perform Agreed-Upon Procedures Regarding Financial Information (currently being revised); ISRS 4410 (Revised), Compilation Engagements.	80%	20%	

**Comments:** We believe that the primary focus should be on developing new or revising existing standards (scalability of ISAs, EER, ISRS 4400). We also encourage the undertaking of post-implementation review with an emphasis on the impact on SME engagements and SMPs (quality control), the findings of which may inform improvement of the standards.

**11. 6. In relation to the development of new, or the revision of extant, standards as noted in Question 5, and in keeping an open mind as to the impact of the evolving environment and the challenges and opportunities for the IAASB in 2020–2023, should the IAASB, in your view:**

- (a) Focus first on a strategic review of extant standards (for example, consider how the standards could be better structured or presented in light of evolving technologies) before prioritizing projects on new topics. Please provide an explanation for your view.
- (b) Prioritize projects on new topics (as determined by the consultation on the IAASB's future strategy and priorities). Please provide an explanation for your view.
- (c) During implementation of the current standards under revision (i.e., those standards that currently have a committed project plan in place), consider a moratorium on developing new or other revised standards? If so, how long should such a moratorium last? Please provide an explanation for your view.
- (d) Undertake other actions related to the development of new, or revision of extant, standards, and/or implementation support. Please describe what these actions should be and provide an explanation for your view.

We encourage the IAASB to focus first on a strategic review of extant standards, to make them scalable and based on think simple first basis as well as better structured or presented in the light of evolving technologies, before prioritizing projects on new topics. This should include consideration as to how audit can be made more relevant to SMEs.

**12. 7. If there was a specific topic(s) that, in your view, should be the IAASB's priority(ies) when developing new, or revising existing, standards or related guidance for the period 2020—2023, what would it be, and why?**

**Where applicable, kindly indicate whether in your view the topic(s) (you have indicated) has particular relevance mainly for engagements for listed entities, small- and medium-sized entities (SMEs), or for entities of all sizes. Views in relation to matters of relevance to developing nations and the public sector are also encouraged.**

As mentioned above we encourage the IAASB to focus on making the ISAs scalable and based on think simple first basis.

**13. 8. Are there any other topics of interest or matters of relevance that you feel the IAASB should consider when conducting its strategic review, including those related to its the way that the IAASB undertakes its activities (e.g., changes to address matters highlighted in the MG review)?**

Please see our MG consultation response at [http://www.efaa.com/cms/upload/efaa\\_files/pdf/Publications/Comment\\_letters/2018/20180207\\_EFAA\\_Response\\_MG-FINAL.pdf](http://www.efaa.com/cms/upload/efaa_files/pdf/Publications/Comment_letters/2018/20180207_EFAA_Response_MG-FINAL.pdf) and suggestions as to process improvements in response to Q2 above.