

SMPC's Response to IESBA's Strategy and Work Plan 2019-2023

Q1 – Do you agree with the proposed criteria for the IESBA to determine its actions and priorities over the strategy period?

The SMP Committee (SMPC) is in agreement with the proposed criteria for the IESBA (the Board) to determine its actions and priorities over the next five years. We recognize the Board is committed to developing high-quality principles-based standards (para. 34 of the Consultation Paper) and strongly believe this is of critical importance when revising the Code going forward. We acknowledge the range of stakeholders seeking to influence the direction of the Board and support its view that principles-based ethics standards will be sustainable over time. The principles-based approach and exercise of professional judgment is supported by the level of global adoption and implementation of the Code thus far.

The SMPC notes that the Board has acknowledged the need for coordination with other standard-setting boards, in particular the IAASB and IAESB as factors affecting the timelines within the work plan. We have historically supported and encouraged appropriate coordination between the standard-setting boards. For example, detailed coordination will be required to efficiently address issues such as professional skepticism and auditor's independence although we should not allow the process to impede the agility of the Code in responding to the changing market conditions.

We acknowledge the IESBA's intention to continue close liaison with the SMPC (para.28) and look forward to providing input and feedback on the Board's future initiatives and projects. We would also be open to opportunities for members to provide direct input through membership of IESBA working groups or task forces, thereby providing the SMP perspective at an earlier stage. In addition, we consider that the Board needs to give more consideration to using less conventional ways of eliciting feedback and comments on its proposals, in order to obtain input from the largest possible number of SMPs. For example, using the Global Knowledge Gateway to run a simple poll or survey may be an innovative way forward to reach out to practitioners. Due to their often limited resources, SMPs are not able to easily respond and engage with the standard setting consultation process. This demands actively seeking out their views, rather than waiting for them to respond to often complex and long exposure drafts and consultation papers.

The IESBA recognizes the importance of evidence-based standard setting and basing its activities on appropriate research and evidence of issues to be addressed, which we fully support. In our opinion, this could feature in the criteria for the Board to determine its future actions and priorities. We consider that the IESBA could give greater consideration to assessing the impact of future changes to the standards through a thorough cost/ benefit analysis, in particular the impact on both small- and medium sized practices (SMPs) and small- and medium sized entities (SMEs). We acknowledge that project proposals include sections on impact analysis considerations, but believe more in-depth work should be undertaken in making assessments, rather than stating (for example) that the impact on cost may vary depending on the size and complexity of the entity without any effort to back up such statement with anecdotal or statistical evidence. Consideration could be given to policies similar to the European Commission's '[SME Test](#)', which analyses the possible effects of EU legislative proposals on SMEs. Post-implementation reviews are another avenue that can be an attestation to the "fit for purpose" of the Code, although the Board will need to be sensitive to the timing of such exercise. Too early and there will be very little feedback and thus, a potentially false sense of security.

It is also important that changes in the future should only be made where a key issue has arisen (and, possibly well researched) – otherwise, an exercise to respond to findings from post implementation reviews should be the next reason for any changes to the restructured Code.

Q2 – Do you support the actions that have been identified with respect to each strategic theme? If not, please explain why?

The three strategic themes that have been identified in the CP (Advancing the Code's Relevance and Impact, Deepening and Expanding the Code's Influence and Expanding the IESBA's Perspectives and Inputs) are appropriate, in our opinion.

Trends and developments in technology and innovation is a key area which the Board will need to actively monitor. The [2016 IFAC Global SMP Survey](#) found that the anticipated impact of technological developments over the next five years had increased substantially from 2015. The likely impact of digital disruption on the work performed by professional accountants is a significant issue and the rapid and differential pace of change makes assessing the full impact at any one point in time very difficult. Hence, only a principles-based approach provides the necessary flexibility in a rapidly changing environment. Similarly, as new models of service delivery become more prevalent because of the increasingly international (and complex) business landscape (coupled with a significant deployment of computer technologies), such evolution may also have an ethical impact on the behavior of professional accountants. Hence, we are encouraged by the Board's decision to make these two areas a priority in the next Strategy and Work Plan.

Given the IESBA's earlier commitment to limit changes to the Code in the near future, it makes sense for the IESBA to start with various fact-finding projects to monitor developments in order that the Board can fully consider the potential impact(s) in terms of ethical issues arising from all these new trends.

Under the second strategic theme of "Advancing the Code's Relevance and Impact – Further Raising the Bar", the SMPC recommends the Board consider the addition of another project "The definitions and descriptions of terms", which is elaborated in our response to the next question (see below). With this addition, there will be six significant projects and hence, the Board will need to prioritize the use of the Board's time and resources.

Q3 – Recognizing that this proposed SWP is ambitious, do you believe the IESBA should accelerate or defer any particular work stream(s)? If so, please explain why?

In the [response](#) to the IESBA's Strategy Survey last year, the SMPC identified the importance of the project on "Definitions and descriptions of terms", which we ranked as the number two priority out of a list of six. From the perspective of the SMPC, this exercise should be undertaken before new initiatives or subject specific work is to be considered in the future. This is because certain changes in the restructured Code revealed that the IESBA's decisions have an increasing impact on the work of other standard setters, especially the IAASB. Hence, it is important for the two SSBs to align their respective terminology where appropriate to avoid a situation of confusion. The IESBA, in the Strategy Survey paper has already identified a number of terms and definitions that may not be in alignment and such situation should be addressed to foster consistent application.

We do not consider the project dealing with "Communication with TCWG" as a major priority in the next five years. Adequate guidance is already available under the IAASB for most practitioners.

Under the third strategic theme, the IESBA's vision is to have a globally recognized and accepted Code that best serves the interest of the public. And yet, the lack of a clear definition and common understanding of public interest remains an issue as the interpretation of acting in the public interest can be highly subjective.

In addition, the degree of public interest in the work performed by the profession is not uniform. While there is a widespread recognition of the collective contribution of SMEs to the global economy, and hence, the sector's high level of public interest, the public interest inherent in any small practitioner's client base will typically be much less than that of a large listed company – in theory. The disparity will be even more pronounced when comparing from jurisdiction to another jurisdiction. Hence, when responding to the IESBA's previous strategy work plan in 2013, the Committee had urged the IESBA to prioritize a project that can provide guidance on the meaning of public interest in the context of a global Code. It is timely for the Board to acknowledge such a difference and be prepared to deal with this within the Code, going forward. The Board should note that the audits of SMEs and owner managed entities are very different to those of larger organizations. In addition, there are many SMPs that provide services that are not necessarily audit and assurance-centric. The Board should acknowledge that the regulators focus is often not on this aspect of the profession's work and there may be need for a specific project to inform these differences and the connotations for the Code in the future.

Following this line of thought, the Board may want to consider bringing forward the project of defining "public interest" in a global context, while recognizing that the post implementation review of the restructured Code is equally paramount. Such a review, at the very least, would be able to inform the IESBA about any practical difficulties experienced in applying the provisions under the restructured Code, whether unintended consequences have resulted from any specific provisions and also, if specific aspects of the Code are as effective as IESBA had intended.

Q4 – Do you have any comments on any other matters addressed in this consultation paper or any significant matters not covered in this consultative paper that you believe the IESBA should address?

One of the major projects under 'Deepening and Expanding the Code's Influence' is to further clarify the concept of "public interest entity" with that of "listed entity". Setting a minimum global definition or describing characteristics of particular public interest other than listed entities may not be an easy task. The definition of a PIE varies from country to country - an entity may be a PIE because of the nature of its operations, its size, or the number of its employees and the range of sectors captured in different definitions can also be very wide. Hence, the circumstances and treatment of many entities labelled as PIEs may differ considerably from one region to another. Here is a great example where we believe there will be tremendous value in having IESBA working together with IAASB to explore if the definitions of the two terms should be revised and understanding the potential implications, including any unintended consequences prior to arriving at whether a single global solution is likely to be more appropriate.

We recognize the importance of the topic on aggressive tax planning and other related services in light of the recent public attention and that these have become a significant focus of governments around the world. As tax compliance and planning continues to be a substantial service line for many SMPs, we believe that the scope and approach of any initiative in this area would need careful consideration. Given the different stances from country to country concerning the role of tax legislation vs. moral position, tax legislation needs to address the issue holistically, as ultimate responsibility lies with the relevant jurisdictional court. The Board should be reminded that subjectivity such as "moral behavior" may not have a place in an international Code. We believe that cooperation with the IAASB should take place when exploring the issue

of materiality. There should be a thorough consideration of what materiality as well as significance mean, so that a principles-based rather than a context-driven solution can be developed for the IESBA Code. Such a cooperative project could also address the issue of matters falling below materiality thresholds, so as to distinguish clearly trivial/ inconsequential matters from others in terms of the significance of any impact on an individual professional accountant's ethical behavior. On another spectrum, the issue of materiality should also be considered in that, whilst matters may be immaterial when seen individually, they are potentially relevant when viewed cumulatively when a certain threshold may be breached. So far the IESBA has not appeared to have explore this aspect in a more holistic manner.

With regards to the NAS project, the impact of specific measures designed to be applicable to PIEs needs to be carefully considered due to the potential trickle-down effect on the SMPs and SMEs. Often the larger non-PIEs may perceive such measures as best practice and voluntarily seek to adopt them in dealing with their auditors. But, over time this trickle-down effect may reach increasingly smaller SMEs. In some cases, legislators may start taking up these ideas too. There are, thus, significant risks attached to precluding non-audit services in the SME audit market specifically, as well as the wider audit market generally. This issue is also related to the debate in some jurisdictions concerning audit-only firms. The Board needs to recognize that most SMPs are, by design, multidisciplinary practices. In most of these debates, the issue is perception of independence in mind and the whole notion of whose interests are supposed to be protected. A detailed consideration based on evidence will be necessary when debating on the issue of public interest and the differences in the operational landscape of the various market segments and types of services.

We recognize it is important for IESBA to continually seek to improve the Code and take into consideration the many changes in the global marketplace. However, we also believe that the Board needs to be sensitive to balancing the burden arising from the changes to the Code and the likely benefits to the public interest. The SMPC strongly supported the intended pause for a minimum of two years in any new changes to the restructured Code once this comes into effect in 2019. This was mentioned in the Strategy Survey conducted in 2017. However, the current CP does not seem to include this commitment. While it is understandable, given the scale and speed of change, an assurance from the Board of such period of stability will be tremendously helpful to the SMP community, especially for those non-English speaking jurisdictions. Without such commitment, there may be PAOs that may not be incentivized to proceed with the necessary translation in a timely manner; thus, delaying the impact that the new Code is supposed to bring to the overall accountancy profession.

Keeping up with new regulations and standards has been consistently ranked as one of the top challenges facing SMPs in the Global SMP Surveys conducted by IFAC in the past few years. In some jurisdictions the Code will need to be translated (possibly anew), other factors such as updating teaching and CPD material, adapting firm methodologies etc. all demand sufficient time if the Code is to be applied in the manner that IESBA had intended.

In an ever changing environment like today, having a work program that covers a five year period may be considered ambitious. Being agile is the key mantra in most progressive organization nowadays. With a full program (that includes pre-commitments and intended projects as priorities), it may leave the Board with limited capacity to take on new projects. We recognize that the IESBA intends the SWP to be dynamic. However, the Board needs to ensure that there are sufficient resources and capacity allocated to both monitoring emerging developments and being able to react to potential issues in a timely manner in the public interest.