
Introduction


The SMP Committee is charged with identifying and representing the needs of its constituents and, where applicable, to give consideration to relevant issues pertaining to small- and medium-sized entities (SMEs). The constituents of the SMP Committee are small and medium-sized practices (SMPs) who provide accounting, assurance and business advisory services principally, but not exclusively, to clients who are SMEs. Members of the SMP Committee have substantial experience within the accounting profession, especially in dealing with issues pertaining to SMEs, and are drawn from IFAC member bodies from 18 countries from all regions of the world.

The SMP Committee recognizes the importance of inputting to the IAASB’s standard setting process and has a dedicated IAASB Rapid Response Task Force (IRRTF) to give due consideration to issues relevant to SMEs and SMPs. This activity remains central to the IFAC strategic objective of contributing to the development of high-quality global standards. The SMP Committee provides regular input to the IAASB. This is primarily through submitting comment letters at all key stages of the standard development process and in response to its agenda papers.

General Comments

We have previously provided comments on the draft consultation paper and welcome the opportunity to provide further views on the IAASB’s strategic direction and work program. Overall, we generally support the three strategic objectives for the period 2015-2019, which have been identified by the IAASB (the Board). We also particularly welcome the recognition made throughout the Consultation Paper of the importance of both SMEs and SMPs in shaping the IAASB’s Strategy and Work Program.

However, we are of the view that the Board should place greater emphasis on the SME sector. This sector is the backbone of most developed and developing economies and typically accounts for the majority of private sector GDP, employment and growth. Moreover, there appears to be significant changes in the regulation, challenges and opportunities of SMEs which seem to be impacting their demand for professional services.

The proportion of SMPs undertaking audits of SMEs in many jurisdictions has reduced in recent years, partly as a result of the introduction of, or increase to, audit thresholds. Indeed, the European Union’s (EU) Accounting Directive passed earlier this year by the European Parliament proposes to further raise the threshold within the EU by a significant amount and potentially exempt even more business from the statutory audit regime. It is essential that the Board recognizes the changing global landscape and its implications for practitioners (particularly SMPs) and has an appropriate strategy in place to address this. The new environment directly impacts the provision of traditional audit services by SMPs and will likely
result in a rise in demand for non-audit assurance services. One likely implication could be a greater demand for review, other assurance and related services engagements and, in turn, for standards governing their execution.

Therefore, we believe the revision of ISRS 44001 should be a high priority for the Board. We would strongly encourage the IAASB to address this matter earlier than the indicated timeframe of 2017. The work program states that there has been an “increased use of agreed-upon procedures” (page 40). We feel this use could accelerate, especially in the SME sector, were it to be supported by a more up to date international standard, reinforced by examples.

We also believe it is essential that the IAASB maintains its ongoing monitoring of the implementation of the ISAs, including consideration of their ability to be applied in a manner proportionate with the nature and size of a firm. This is especially important as the clarified ISAs have only recently been adopted in many jurisdictions.

We have the following specific comments on the questions for respondents (in italics) on page 4 of the Consultation Paper:

**Proposed Strategy for 2015–2019**

1. *Whether the strategic objectives identified are considered appropriate for the period 2015–2019. If not, please explain.*

Whilst we generally consider that the strategic objectives are appropriate for the period 2015-2019, we note that in paragraph 11 of the Consultation Paper, the IAASB states “The most significant strategic issue facing the IAASB is how to ensure continued credibility and confidence in its work as a global standard setter...” In our view, this ought to be reflected in the proposed strategy.

We welcome the recognition of the importance of promotion and adoption of the IAASB’s new and revised standards and their effective implementation (paragraph 24). We also believe that there is an opportunity for the IAASB to provide further guidance in relation to the clarified ISAs to facilitate effective global adoption and implementation. For example, further education on audit documentation (for instance, ISA 5002) may be beneficial to SMPs in certain jurisdictions, particularly in developing countries. We note and welcome that the Consultation Paper states that there may be a need for the IAASB to consider what actions may be appropriate to respond to concerns from auditors about the amount of time incurred relating to audit documentation (paragraph 28).

The inclusion of continued monitoring of the implementation of clarified ISAs as an ongoing activity during the strategy period (paragraph 26) is important. We also appreciate the recognition of understanding any particular implementation issues facing SMPs in relation to the revised review and compilation standards (paragraph 27). Our IAASB Task Force maintains a watching brief on the implementation of the clarified ISAs and will be happy to provide feedback, as appropriate. In due course, the SMP Committee would

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1. International Standard on Related Services (ISRS) 4400, *Engagements to Perform Agreed-Upon Procedures Regarding Financial Information*
2. ISA 500, *Audit Evidence*
also be pleased to offer input on issues facing SMPs in relation to ISRE 2400 (Revised)\textsuperscript{3} and ISRS 4410 (Revised)\textsuperscript{4}, which we believe should be included in the 2015-2016 work program.

We welcome the reference to discussion with SMPs to understand the practical implications of the IAASB’s proposals at an earlier stage of their development as well as implementation challenges that the Board may need to address (paragraph 30). We would encourage the IAASB to actively consider how it can enhance the engagement with this important constituency. It is essential that their views are considered as important in the standard setting process as those of other key stakeholders.

2. \textit{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.}

The factors included in Appendix 2 do appear to represent a reasonable basis for the IAASB to use in developing its Work Programs beyond the Work Program for 2015-2016.

Two of the factors note the “need for change” with one also mentioning potential “change to the standards”. Going forward, the IAASB must be sensitive to balancing the burden arising from changes to standards and the likely benefits to the public interest. Keeping up with new regulations and standards has been consistently ranked as one of the top challenges facing SMPs in the Quick Poll surveys conducted by IFAC\textsuperscript{5}. The costs and burden of the adoption of revised standards is felt more acutely by SMPs, who may not have the necessary in-house resources to easily implement revisions. We strongly believe that piecemeal changes to the requirements in isolated standards should be avoided wherever possible and that there is a robust and rigorous cost/benefit analysis of the potential impact on both SMPs and SMEs in the Board’s consideration of future changes.

\textbf{Proposed Work Program for 2015–2016}

1. \textit{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.}

As stated in our response to the draft consultation paper, we generally agree with the approach taken to revising the work program for 2015-2016. We support the idea behind progressing fewer projects in short time, provided sufficient time is allowed for adequate consultation and reflection by the IAASB and its constituents, such that the final outcome is not perceived as a quick fix solution that might involve standards of lesser quality. This approach seems to have worked well in respect of the auditor reporting project, but may not necessarily lend itself to all projects.

We strongly support the approach to not amend standards through “narrow scope” amendments (paragraph 8) and a timeline which would involve changing to a standard over two (or more) phases. As noted above, we believe there is a need for a period of stability in development of standards in order to

\begin{itemize}
\item \textsuperscript{3} ISRE 2400 (Revised), \textit{Engagements to review historical financial statements}
\item \textsuperscript{4} ISRS 4410 (Revised), \textit{Compilation Engagements}
\item \textsuperscript{5} IFAC SMP Quick Poll: Year-end Round-up 2013 (see http://www.ifac.org/publications-resources/ifac-smp-quick-poll-2013-year-end-round)
\end{itemize}
allow for effective adoption and implementation. Opening up individual standards twice in a relatively short period of time is more difficult for practitioners to monitor and implement, particularly SMPs.

However, we do recognize that the IAASB must ensure that sufficient time is allocated to the maintenance of the ISAs, not least because its credibility and reputation rests on quality of the ISAs. There is a risk that audit quality may deteriorate if the ISAs are not continuously reviewed and refined. It is essential therefore that the time to undertake these reviews and maintenance of the foundation of the current suite of ISAs is adequately reflected in the future strategy and work plan.

2. 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.

We have a number of comments on topics proposed to be prioritized in 2015-2016, which will be addressed in turn:

Quality Control

Overall, we recognize the importance of quality control and support this as a priority to commence in 2015-2016. We welcome the consideration of the need for further guidance on ISQC 1 and note that the IAASB has indicated no intention to revise either ISQC 1 or ISA 220 beyond the areas addressing Engagement Quality Control Reviews (EQCRs) and using the work of a specialist and an auditor’s expert. We have received feedback on the implementation challenges of ISQC 1 by some SMPs, so additional guidance, such as Staff publications could be beneficial to address these issues; however to the extent that problems exist from the underlying standard itself, guidance alone will not be a suitable solution. At this stage, we have mixed views as to whether further amendments to these standards are needed or if additional guidance is sufficient. We believe more research is required to provide compelling evidence of the need for change, so the narrow scope of this project many not be optimal, and could result in piecemeal amendments (we refer to our comments above). In particular, this project should consider how effectively the standards are capable of being applied in a manner proportionate to the size and complexity of a practice. For example, some SMPs have commented that ISQC 1 can be difficult to apply as it was not written with a risk-based or ‘think small first’ approach in mind. In particular, concerns have been raised on its applicability to limited assurance and related services (e.g. review and compilation) engagements.

We are also concerned that as the IAASB itself highlights, the issues on Engagement Quality Control Reviews (EQCRs) and using the work of a specialist and an auditor’s expert are regulators’ concerns. Firstly, selecting only this narrow scope implies that the IAASB may be placing more weight on regulator concerns than on those of other stakeholders, and secondly the IAASB excludes looking at the controls over the conditions under which engagements are carried out (recruitment and training of engagement team members, engagement acceptance, competence issues, assignment of team members, adequacy of resources, etc.) In our view, it would be appropriate to ensure these areas are appropriately dealt with

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6 ISQC 1, Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements.

7 ISA 220, Quality Control for an Audit of Financial Statements
to ensure audit quality than to concentrate only on the “after-check” afforded by an engagement quality control review. It is important for the Board to carry out thorough research on what is considered the root cause of the problem and whether the standard are actually achieving what the requirements intended.

Professional Skepticism

Whilst we recognize that consideration of professional skepticism is fundamental in conducting an audit and support this area being proposed as priority, we are concerned that the amount of resources which could be allocated to this project, in the scope planned, may outweigh the potential benefits and any resulting change in auditor behavior. In particular, we understand that the option of developing an International Auditing Practices Note (IAPN) requires significant time and resources, as would any plans to sponsor academic research on this area (paragraph 25). We also consider that the “tone from the top” is essential and perhaps a bigger issue than professional skepticism itself.

The SMPC does not believe it is appropriate for projects on fundamental issues to be undertaken piecemeal, because of the interaction such issues have with one another (professional skepticism, assurance, risk, evidence, professional judgment etc.). In our view, the IAASB’s conceptual framework ought to be looked at in a long-term project, as an internally consistent foundation for the concepts underlying assurance engagements is needed.

Furthermore, we would not necessarily support amendments to ISA 2008 or additional requirements to the standards listed in Table A (paragraph 26), as some behavioral aspects of auditing cannot be addressed through standards. We believe that the Staff Questions & Answers – Professional Skepticism in an Audit of Financial Statements9 published in February 2012 is already a useful tool in providing guidance. The Board would be better served by promoting this existing guidance, so as to increase the chance that those that need to read it will do so.

If, however, additional guidance is developed in the short-term, we would recommend that there is a focus on factors affecting professional skepticism at an individual level and not just at an institutional level. Application guidance to elevate unconscious judgments to a conscious level could provide assistance to smaller audit teams. The Board should also take into consideration the work undertaken in this area by other professions outside audit, such as the International Ethics Standards Board for Accountants (IESBA). We also understand that the judicial, medical and education professions are actively looking at the negative impact of unconscious bias on professional judgments.

Special Audit Considerations Relevant to Financial Institutions

We appreciate the fact that the audit of financial institutions is a key issue given the public debate on the financial crisis and that there is pressure from some quarters for the IAASB to be more pro-active in this area. However, from an SMP perspective we have concerns about including a single industry specific

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8 ISA 200, Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing
9 http://www.ifac.org/publications-resources/staff-questions-answers-professional-skepticism-audit-financial-statements
item as the third topic of high priority, since the majority of such institutions are not SMEs and/or are not audited by the majority of SMPs. We believe that the IAASB should give due weight in its deliberations to all its stakeholders and not be disproportionately influenced by particular bodies.

The proposed development of an ISA for special considerations relating to banking/financial institutions (page 27) would represent a move away from the IAASB’s approach that the suite of ISAs would be applicable in virtually all audits. Rather, we believe it would be more appropriate, and more consistent with the Board’s objectives, to consider whether the standards most relevant to the audit considerations involved in an audit of the financial statements of a financial institution need to be re-evaluated.

As a minimum, the IAASB needs to be more transparent on its motives and intentions on this topic. For instance, it is currently unclear if the Board intends to cover other industry specifics in the long term and what the strategy is and if there is to be an emphasis on the wider public interest i.e. audits of what are commonly defined as public interest entities (banks, public listed companies etc.). It is important to reflect and determine what the problem was on these engagements, rather than considering that an enhancement of the ISAs or a specific ISA is a solution to past problems.

If the IAASB decides that action should be taken in this area, we would support the development of an International Auditing Practices Note (IAPN), opposed to a new specific ISA. We would also highlight that the Board must be cognizant of the potential impact on any future developments on smaller financial institutions, which often engage SMPs as auditors, and ensure its proposals are proportional.

The audit of certain financial institutions is inherently complex. We are especially concerned about the amount of resources that the IAASB will have to dedicate to this topic to fully understand and address all the issues. For example, in addressing auditing issues of particular significance in these entities use of fair value accounting and related estimates (page 27). The International Financial Reporting Standards (IFRS) on these areas are not necessarily straightforward and it may take significant time and focus by IAASB Members and Staff to consider these issues.

3. **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.**

We strongly believe that the revision of ISRS 4400 should be included earlier as a matter of priority. There has been a growing trend toward audit exemptions for many SMEs worldwide. It should therefore be considered in the public interest to ensure that other assurance and related services are promoted and that ISRS 4400 is revised to adequately address this potential increased market need.

As highlighted earlier, we note the inclusion of the development of a process for post-implementation reviews of the IAASB’s other assurance and related services standards as part of the IAASB’s proposed work program for 2015-2016. The process is due to be implemented in 2017 and beyond. We believe that the post implementation reviews of both ISRE 2400 (Revised) and ISRS 4410 (Revised) should be addressed as part of the 2015-2016 Work Program.
We recommend the acceleration of these projects, possibly at the expense of some of the resources allocated to Special Audit Considerations Relevant to Financial Institutions or the Information-gathering activities related to projects commencing in 2017. In particular, input into proposals for the project relating to ISA 600\textsuperscript{10}, as this is not considered a significant issue for many SMPs.

4. **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.**

There are no alternative approaches that we would propose for the IAASB to consider.

**Concluding Comments**

We welcome the IAASB acknowledgment of its continued active liaison with the SMP Committee to identify opportunities on the development of guidance or training (paragraph 49).

We hope the IAASB finds this letter helpful in developing its next strategy and work plan. In turn, we are committed to helping the IAASB in whatever way we can and look forward to working with the Board by continuing to provide input into its projects and strengthening the dialogue between us.

Please do not hesitate to contact me should you wish to discuss matters raised in this submission.

Sincerely,

Giancarlo Attolini

Chair, SMP Committee

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\textsuperscript{10} ISA 600, *Special Considerations-Audits of Group Financial Statements (Including the Work of Component Auditors)*