

## **IFAC Small and Medium Practices Committee Response to the IAASB's Proposed Strategy for 2020-2023 and Work Plan for 2020-2021**

### **INTRODUCTION**

The SMP Committee (SMPC) is pleased to respond to the IAASB (the Board) Proposed Strategy for 2020-2023 and Work Plan for 2020-2021.

The SMPC 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 SMPC 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 and Technical Advisers serving the SMPC are drawn from IFAC member bodies representing 23 countries from all regions of the world.

### **GENERAL COMMENTS**

Overall, the SMPC generally supports the IAASB's Proposed Strategy for 2020-2023 and Work Plan for 2020-2021.

In our [response](#) to the IAASB Strategy Survey and comment letter ahead of the March 2019 IAASB Board meeting, we stated how important the work planned by the IAASB on audits of less complex entities is and that this should be a high-priority for the Board. As the global standard setter, there is a rising pressure and expectation for the IAASB to be seen to take meaningful action to address the challenges identified and minimize the risk of the development of further disparate local standards.

We consider that sufficient implementation support will continue to be extremely important to enable SMPs to efficiently and effectively apply the ISAs. This will be increasingly critical with the significant projects due to be finalized in the next two years, including ISA 315 (Revised) and Quality Management. In this context, we believe that once the major audit quality enhancements are finalized there needs to be a period of stability where no new or revised auditing standards become effective for a period of time.

In general, we support the proposed framework of activities and new approach to how the Board will revise and develop standards. We would like to encourage the IAASB to consider how it will obtain more feedback/ input from SMPs in the future research phases and believe that the Board would benefit from a more comprehensive impact analysis covering proposed future changes to international standards e.g. covering costs related to translation, staff training, methodology changes etc.

The Board should also be cognizant of the importance of its related services pronouncements, particularly in jurisdictions that have introduced or changed audit thresholds. We recognize the pressure to ensure projects revising the ISAs and Quality Management are given priority, but would encourage the Board to ensure the timetable for the revision of ISRS 4400 (Revised) is not adversely impacted. We also encourage consideration of post-implementation reviews for both compilation and review engagements and a greater understanding of the adoption and use of these standards globally.

### **DETAILED COMMENTS**

We have outlined our responses to the questions (in bold) in the paper below.

- 1) You agree with Our Goal, Keys to Success and Stakeholder Value Proposition, as well as the Environmental Drivers**

In general the SMPC agrees with the goal, keys to success and stakeholder value proposition, as well as the environmental drivers.

We specifically support the inclusion of the environment for small- and medium-sized entities (SMEs). The Board needs to be very cognizant that the use of the ISAs remains predominately in audit engagements of less complex entities and the value of SMEs to economies worldwide.

We acknowledge the necessity for the IAASB to balance the needs of all stakeholders, but there are strong concerns that the IAASB has in recent years had an increasing tendency to move away from developing truly principles-based auditing standards, to longer, more rules-based, complex and detailed standards. We therefore support more attention being directed towards SMEs and SMPs, particularly given the importance of SMEs and that SMPs are major users of the ISAs

We agree with the environmental driver of the advancement in, and use of, technology. The 'traditional' approaches to performing audit procedures are already being impacted with questions raised about 'continuous assurance' on current information (therefore the value of a year-end financial statement audit) and around the use of sampling procedures if all transactions in an entire population can be analyzed through technology, with a greater focus on exceptions.

Nevertheless, the IAASB should be mindful that globally not all sized organizations are moving at the same pace with technological developments. For example, SMPs, by their nature, may have less resources to invest. Changes to international standards should not therefore inadvertently restrict their use or place unreasonable demands or expectations from smaller practitioners. For example, how technology developments are reflected in the standards should not result in a significant gap with what is happening in practice. It may also be that action outside the standards e.g. greater clarity and guidance about automated tools and techniques in a staff publication could be more beneficial.

We agree that in certain jurisdictions it is necessary to increase confidence and trust in audits and there remains an expectation gap between what auditors are required to do and what stakeholders' expectations are (pg. 7). This does not seem to be explicitly picked up in the IAASB work plan for 2020-2021 and we suggest that consideration could be given to whether, and how, the IAASB can take a greater leadership role in this space, perhaps in collaboration with other organizations in activities and messaging around the value of audit under theme E – "Deepen our connectivity and collaboration opportunities". In addition, the changing reporting needs of stakeholders and the enhanced focus on non-financial information may also be an opportunity for auditors to provide assurance and build trust in both the private and public sectors.

## **2) You agree with Our Strategy and Focus and Our Strategic Actions for 2020-2023**

In general, we agree with IAASB's strategy and focus and the strategic actions for 2020-2023. In particular, we strongly welcome Theme C (Develop ways to address complexity, while maintaining scalability and proportionality) and the top priority of completing the information-gathering and research activities related to audits of less complex entities as there is an urgent need for global action to successfully address the identified challenges.

Whilst we support the initiative of enhancing accessibility by digitizing the standards to enhance navigation and search functions this will not, on its own, address the challenges in applying the ISAs, so far more other actions by the Board will be required.

We support the proposed approach for the Board to develop and implement a Framework for Activities so it does "the right work at the right time". In particular, we welcome the feature of ensuring there is robust information-gathering and research activities, which includes fully understanding the issues and

developments and defining the challenge/ problem being addressed through causal analysis. In the assessment of available options, this should include recognition that if the standards are sound, but non-compliance is the issue, there may be no need for action by the IAASB. For instance, where misunderstanding/ misinterpretation of the standards has led to non-compliance, clarification (e.g. implementation support to assist with education) could be warranted.

In addition, while we support the consideration of developing a process for 'limited-scope' revisions to standards as a method of addressing isolated or specific issues and challenges (rather than revising the entire standard), we strongly believe that an excessive number of piecemeal changes to the requirements in isolated standards should be avoided wherever possible. In addition, the IAASB would need to be careful about opening up individual standards more than once in a relatively short period of time.

Amongst IFAC member organizations, concerns are often raised about the volume and number of changes made to the ISAs, particularly as translations are needed in many parts of the world. We are also aware that those responsible for developing and updating firm or network methodologies face similar challenges. The Board needs to continue carefully balancing the pressure to react to changes in the marketplace with both its remit as a global standard setter and the need to be sensitive to the impact of the changes on PAOs, practitioners and other stakeholders. In this context, the Board could explore how it can enhance its work through undertaking a more comprehensive impact analysis of any proposed changes e.g. covering costs related to translation, staff training, methodology changes etc. for all auditors. Such a thorough cost/benefit exercise may help guide the determination on whether, and the extent of, any future revisions may be necessary. In this context, it is important that the Board remain mindful that cost increases must be perceived as adding quality, thus enhancing the value of audit perceived by society as a whole.

We believe that to enable the major audit quality enhancements to 'take root' under theme A, there needs to be a period of stability where no new or revised auditing standards become effective for a period of time. It is in the public interest for firms, PAOs and national standard setters to have adequate time for effective adoption and implementation.

The SMPC welcomes the indication of exploring collaboration in relation to implementation support activities (Theme E) and looks forward to continuing to work closely with the IAASB in this important area. The current projects on both Quality Management and ISA 315 (Revised) will require substantial implementation and guidance support to be developed.

We fully support enhancing coordination with the IESBA. This is very important given the interaction of the Code of Ethics for Professional Accountants with IAASB's standards, both for assurance and non-assurance services. We recognize the increased efforts that have been undertaken, including the establishment of a coordination framework and the organization of annual joint board meetings.

### **3) You agree with the IAASB's proposed Framework for Activities and the possible nature of such activities as set out in Appendix 2**

The SMPC generally agrees with the proposed Framework for Activities and the possible nature of such activities as set out in Appendix 2. It is important that the Board is aware in a timely manner of emerging issues and developments to determine whether there is a need for action. However, it must also be careful to ensure that by looking to respond to the continuously changing environment (Theme B) it does not overstep its mandate as a global standard setter by extending the scope of the audit into areas that would need to be met with appropriate requirements for management and those charged with governance. For example, in regard to going concern, the auditors opinion is expressed on management's assertion or

information in the financial statements prepared by management. Legislation governs the scope and application of audits (statutory audit); thus whilst the IAASB should set standards that drive high quality audits, it is not within the IAASB's mandate to change the scope of the audit beyond auditors responsibilities.

As part of the research but also finalization phases, we think it is critical that the IAASB ensures it hears from SMPs. We recognize the difficulties from obtaining input from this constituency as they do not necessarily have the time or resources to engage with standard setting activities. However, the Board may explore new innovative approaches for how feedback could be obtained, which covers a range of different languages. For example, an open mechanism could be introduced where practitioners (and other stakeholders) can provide comments on challenges with applying particular ISA requirements or more frequent targeted engagement could be organized with both national standard setters and PAOs.

One issue currently is the volume of material published for comment within a very short timescale. If the IAASB is to receive well thought through comments on its consultations and EDs, it needs to be far more sensitive to the capacities of all factions of its stakeholders to digest, confer and respond to its publications.

**4) You support the actions that have been identified in our detailed Work Plan for 2020-2021. If not, what other actions do you believe the IAASB should prioritize?**

We support the actions that have been identified in the Work Plan for 2020-2021.

As indicated above, we strongly believe that actions by the Board following the Audits for Less Complex Entities Discussion Paper should be a high priority. In our [response](#) to the ISA 315 (Revised) ED, we highlighted concerns about the complexity and length of the proposed standards, as well as scalability. We therefore support the IAASB taking the time to explore the different options around what could be undertaken in relation to these concerns. We believe that scalability should be satisfactorily addressed in the standard, rather than trying to be "fixed" in implementation support.

The SMPC has continually encouraged the IAASB to prioritize the revision of ISRS 4400 (Revised), Agreed-Upon Procedures (AUP) Engagements (please see our [response](#) to the Exposure Draft). As noted in the ED, AUP Engagements are widely used in many jurisdictions and the demand continues to grow. It should therefore be considered in the public interest to ensure the standard is revised in a timely manner to adequately address this market need. We note the anticipated finalization of the revised standard is December 2019 and believe it is important that this timetable is maintained, as close as possible.

The SMPC notes that the IAASB has previously included post-implementation reviews of other standards on its work plan, including compilations (ISRS 4410 Revised) and reviews (ISRE 2400 Revised), but work has not commenced due to a focus on other priorities. Notwithstanding the already extensive work plan and not at the expense of the priorities noted above, we believe that this activity should be undertaken. It may also be helpful for the Board to undertake an information-gathering exercise to understand the adoption and use of IAASB standards other than the ISAs, as well as more comprehensively understanding what services are being performed by SMPs in various jurisdictions and whether the IAASB's International Standards are appropriate for these purposes.

**5) There are any other topics that should be considered by the IAASB when determining its 'information gathering and research activities' in accordance with the new Framework for Activities. The IAASB has provided its views on tentative topics to be included in its 'information-gathering and research activities'.**

We have no additional topics to be considered by the IAASB when determining its 'information gathering and research activities' in accordance with the new Framework for Activities.

**CONCLUDING COMMENTS**

We hope that the IAASB finds this letter useful. We are committed to helping the Board in whatever way we can in its strategy for 2020-2023 and Work Plan for 2020-2021.

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

Sincerely,

*Monica Foerster*

Monica Foerster

Chair, SMP Committee