SMP / SME Audits

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Agenda

• Feedback from SMP/SME Working Conference in Paris
• Scalability / Proportionality
• Breakout Session
SMP/SME Working Conference

• Held in Paris in January 2017

• Over 100 participants from 28 jurisdictions; number of Board member and Staff attended

• IAASB focus on understanding needs for SMPs and challenges in performing audits of SME’s
  – Day 1: Sharing views about what users want or need in different jurisdictions for services other than audits (including whether gaps exist in the International Standards)
    • Panel discussions about needs in different jurisdictions / presentations of standards in different jurisdictions (e.g. Danish extended review) / roundtable discussions and feedback
  – Day 2: Discussions about challenges of the implementation of the ISAs on audits of SMEs
    • Panel discussion about audit in different jurisdictions / presentations on audit tools / software (e.g. Descartes) / roundtable discussions and feedback
Services Other than Audits

• Important to understand needs of stakeholders when developing new standards – important that the IAASB continues to monitor
• Various presentations about national initiatives: preparation, preparation, extended review
• Support for AUP project, if flexible and including further consideration about multi-scope engagements
• Need for more guidance materials about how to use the standards for different kinds of engagements (not necessarily for IAASB)
  – Support for SMP Committee Guides
• More education about existing standards (i.e., what types of engagements are covered by existing standards, and how they may be adapted and applied)
International Standards on Auditing

• Strong interest for better support for small audits

• But mixed views re one single standard for audits of SME’s versus continued support for the ISAs
  – ‘No new standards’ but more guidance needed (i.e., how to implement)
  – In current projects revising ISAs – “think simple first”

• Expectation gap between different stakeholders – more to be done to bridge the gap (e.g., use of professional judgment and expectations about documentation)

• More to be done to promote the value of an audit

• Think more about technology and software to assist (not necessarily IAASB)
IAASB – The Way Forward

• Communications about SMP/SME Working Conference

• IAASB remains open-minded as to how issues and challenges can be best addressed while committed to respond to concerns

• More thought by IAASB (and others such as SMPC and NSS) about how challenges can be addressed
  – Solutions are likely multi-faceted, e.g. re non-audit
  – IAASB to further consider what can be done in current or new ISA projects (think simple first); need for ad-hoc WG?
  – Further research to fully understand issues

• Commitment to a second conference later in 2018 – tangible results needed
Scalability / Proportionality
Proportionality and Scalability

• Intention is to focus on attributes in standard-setting
  – Delineate between concepts
    • Conditional application of requirements
    • Ability to calibrate response

• Important that concepts applied in standard setting
  – Is a framework needed?
  – Should criteria be established for the identification or inclusion of conditionality in the standards?

• Feedback
Nordic Standard for Audits of Smaller Entities

• SASE—High quality, principles based, stand-alone standard tailored specifically for audits of small entities

• Scope – Small entities as defined in the EU Accounting Directive

• Ultimate goal was to develop into an International Standard

• One standard
  – Structured in line with a typical audit process
  – Minimum required audit procedures to issue a positive opinion
  – ISAs were not the starting point
  – Reinforcing auditors professional judgement
  – General documentation requirements
  – Experienced auditor concept
  – Internal controls – limited requirements
Nordic Standard for Audits of Smaller Entities (Cont.)

• Consultation Draft of Standard issued October 2015
  – Large no of responses (globally)

• Responses:
  – Broad support for the project and acknowledgement that something needs to be done
  – The challenge on how to apply the ISAs on SME audit is an international challenge
  – Different opinions on how this challenge should be handled
    • Separate standard vs. guidance on how to apply ISAs
  – Skepticism amongst the international networks on a standard not originating from IAASB

• No further progress – will wait for IAASB
Nordic Standard for Audits of Smaller Entities (Cont.)

- Some supporters for separate standard for smaller audits
  - Costs of ISAs exceed benefits – concern about number of requirements and complexity of the standards
  - Question whether ISAs are really scalable – will take a lot of effort to make the ISAs scalable
- Others did not support a separate standard
  - Concern about experienced auditor concept
  - What is an audit of an SME? Will differ globally
  - No appetite for two sets of auditing standards – bifurcate the profession
  - Market may be confused by two different kinds of audit
Questions for Breakout Groups

1. What more can the IAASB do to promote scalability / proportionality in the projects currently underway?
   - How can proportionality or scalability be demonstrated in current projects?
   - What else in the “toolbox”? 

2. What are IAASB views on separate auditing standard(s) for audits of SME’s?
   - Should the IAASB explore whether to develop standard(s) for audits of smaller entities?
     - Should the Nordic draft standard be used as a base?
     - If not, how could a new standard for audits of small entities be developed?