

**Meeting:** IAASB Consultative Advisory Group (CAG)

**Meeting Location:** New York

**Meeting Date:** September 12–13, 2016

## Agenda Item

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### Issues Relevant to Small and Medium Practices (SMPs) in Connection With Both Audits and Other Services Provided to Small and Medium-Sized Entities (SMEs)

#### Objectives of Agenda Item

1. The objectives of the agenda item are to:
  - (a) Receive a presentation from the International Federation of Accountants' SMP Committee about tools it develops and other efforts it undertakes relevant to SMPs.
  - (b) Discuss, via breakout groups, issues, within the scope of the work and resources of the IAASB, relevant to SMPs and SMEs and share views on what the IAASB and others could do to address these issues.
2. From a standard-setting perspective, there are two angles from which the issues can be considered:
  - (i) The challenges faced by SMPs with scalability. (SMPs and the audit of SMEs); and
  - (ii) The challenges faced by auditors (i.e., firms of all sizes) with the scalability of the standards in the context of the audit of an SME (Auditors and the audit of SMEs).

Decoupling these issues may be necessary in considering what the most appropriate response(s) may be to the various concerns and who may be best placed to respond.

#### Background

3. As highlighted in the IAASB's *Strategy for 2015–2019*, understanding whether the IAASB's standards are operating as intended, and whether they are being consistently understood and applied, is essential for continuous improvement. As a result, the IAASB believes post-implementation reviews should be a continuing focus in its forward strategy. Findings from these reviews may assist the IAASB in facilitating further global adoption and obtaining a fuller understanding of how the standards are meeting the needs of users, including SMPs. The IAASB recognizes that, in order to achieve effective implementation globally, its standards need to be, and be seen to be, scalable in application in an audit based on the size and complexity of the entity.
4. A specific question was included in the December 2015 Invitation to Comment about what more the IAASB could do to enhance audit quality. Some respondents highlighted the need for further investment in matters relevant to SMPs, including a specific focus on information gathering to more fully understand SMP issues. Outreach, including discussions with the CAG, suggest that emerging trends should continue to be monitored, such as the needs of SMPs, in light of the Nordic Federation of Public Accountants consultation of its Standard for Audits of Smaller Entities.<sup>1</sup>

<sup>1</sup> The IAASB's response to the Nordic Federation's consultation can be found at <http://www.ifac.org/publications-resources/iaasb-comments-nordic-federation-public-accountants-proposed-standards-audits>. The response raised concerns about the potential

*June 2016 National Auditing Standard Setters (NSS) Liaison Working Group Meeting*

5. A targeted session on SMPs, in the context of both audit and other services performed, was held during the NSS meeting, with representatives noting the issues were quite relevant in their jurisdictions. In particular, representatives noted that audit, in the context of SMEs, is still a valued service in many jurisdictions, but the complexity of the standards and the absence of appropriate tools or guidance to assist with the implementation of the standards is an ongoing challenge that would benefit from additional focus.
6. Representatives agreed that further thought about what could be done to address the issues experienced by SMPs in the context of both audit and other services performed. It was noted that there are a number of initiatives currently underway to serve the SMP community in their jurisdictions.

*Current Projects*

7. There are a number of projects and initiatives on the IAASB's agenda of relevance to SMPs and audits of SMEs, that will be discussed during the CAG meeting, including:
  - Quality control at both the firm and engagement level— see **Agenda Item G**.
  - Risk assessment (ISA 315 (Revised)<sup>2</sup>) – see **Agenda Item D**.
  - Auditing accounting estimates (ISA 540)<sup>3</sup> – see **Agenda Item E**.

In addition, at its upcoming meeting, the IAASB will discuss a draft discussion paper, *Exploring the Growing Demand for Agreed-Upon Procedures Engagements and Other Services and Implications for the IAASB's Standards*. At the March 2016 CAG meeting, Representatives explored issues relevant to this project.

8. Representatives from the SMP community, including from the IFAC SMP Committee as well as NSS, participate on the Task Forces and Working Groups supporting these initiatives. The IFAC SMP Committee also provides input on the IAASB's agenda materials in advance of its meetings, highlighting matters of particular importance to SMPs. Finally, the IAASB has enhanced its interaction with the IFAC SMP Committee, as IAASB Representatives routinely attend their meetings to discuss specific issues relevant to the IAASB's projects.
9. The IAASB also signaled in its *Work Plan for 2015–2016* the intent to develop a process for post-implementation reviews of the IAASB's other assurance and related services standards (e.g., its review and compilation standards). Work on this initiative has been deferred in light of the need to prioritize Board and Staff resources on projects related to enhancing audit quality. However, preliminary information gathering about the use of these standards has been undertaken with NSS.

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risks to audit quality as a result of the manner in which the ISA requirements had been summarized (and relevant application material omitted), as well as the possibility that the proposed standard might be applied by inexperienced practitioners who might overlook audit complexities or fail to obtain sufficient appropriate audit evidence.

<sup>2</sup> ISA 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*

<sup>3</sup> ISA 540, *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*

### *Survey on the Work Plan for 2017–2018*

10. The survey to inform the development of the *Work Plan for 2017–2018* noted the Board intends to enhance its focus on consideration of matters related to SMPs in the context of both audits of SMEs and other services performed. As part of each project and initiative, the IAASB will continue to focus on understanding the issues and implementation needs of SMPs, including consideration of the ability of the ISAs and the IAASB's standard addressing quality control at the firm level to be scalable in application in accordance with the nature and size of the firm or engagement. At the same time, the IAASB will also continue to consider its International Standards that address services for entities that do not require an audit of financial statements. The survey is out for comment through September 30, 2016, and the IAASB intends to finalize the work plan in December 2016.

### *New Working Group to Address SMP and SME-Related Matters*

11. The IAASB intends to establish a Working Group, including NSS representatives, to assist it in exploring the relevant issues. An event will be held in January 2017 to gather stakeholders to share the practical implications of applying the IAASB's International Standards and explore how the IAASB and others might respond to the challenges and opportunities relating to this stakeholder group. Topics the Working Group or event participants might consider include:
- The scalability of the ISAs and whether this scalability is enhanced through building blocks approach adopted with standards such as ISA 700 (Revised)<sup>4</sup> and ISA 701<sup>5</sup> and the proposals for ISQC 1,<sup>6</sup> 2 and 3 (see further discussion in **Agenda Item G.1**).
  - What other services are being performed by SMPs in the various jurisdictions, and whether the IAASB's International Standards are appropriate for these purposes.
  - Whether the tools and guidance currently available in the various jurisdictions could be applied, promulgated or further enhanced at an international level and, if so, by whom.
  - How best to engage with SMPs during the standard-setting process, including what outreach activities by the IAASB or others would be most appropriate.

### **Format of the Session and Papers to Be Referred to During the Discussion**

12. A preliminary discussion with the CAG on issues related to SMPs in the context of both audit and other services performed is an important means of information gathering for the IAASB's Working Group that will explore these issues. The session will be conducted as a breakout session to provide the Representatives and Observers with an opportunity to discuss the matters explored in this paper and raise other issues or concerns relevant to SMPs in the context of both audit and other services performed. The topics to be discussed are described in the section below headed Matters for CAG Consideration. The CAG Representatives and Observers will be divided into three groups for the breakout session. Each group's discussion will be facilitated by IAASB Staff and an IAASB Member or CAG Representative. A report back on the sessions is planned for the following day.

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<sup>4</sup> ISA 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*

<sup>5</sup> ISA 701, *Communicating Key Audit Matters in the Independent Auditor's Report*

<sup>6</sup> ISQC 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*

## Matters for CAG Consideration

13. Representatives and Observers are free to raise any matters they feel are relevant, with a focus on those outlined in **paragraph 11** of this paper. The following questions may also stimulate discussion in the breakout sessions:
- (i) What are you hearing in your jurisdiction or from your constituencies in terms of challenges facing SMPs in audits of SMEs or in serving the needs of SMEs, and about the relevance of the ISAs and other International Standards to SMEs/SMPs?
  - (ii) Which areas within the ISAs or ISQC 1 do Representatives hear from SMPs as being particularly hard to scale and implement?
  - (iii) What measures or policies are you aware of that have been taken in response to concerns about the ISAs or ISQC 1 from SMPs that have been seen to be effective? What are your thoughts on how to bridge the gap between increasing complexity auditing standards and the capacities of SMPs to implement? What role should the IAASB, the IFAC SMP Committee or others play in this regard?
  - (iv) What are your views on of the Nordic Federation of Public Accountants Standard for Audits of Smaller Entities?
  - (v) What do you believe are the most pertinent public interest issues in relation to other services that SMPs may perform (such as reviews, compilations and AUPs)? Do you believe the IAASB's International Standards addressing these services are sufficient or are there other services that may be worth exploring to meet the needs of SMPs and SMEs?

Respondents and Observers are also welcome to raise matters specific to IAASB projects either during the breakout session (e.g., in relation to the AUP discussion paper included as a CAG Reference Paper) or in the individual discussions of the relevant agenda items. Finally, Representatives will have an opportunity to ask questions in response to the IFAC SMP Committee presentation.

## Material Presented – IAASB CAG Reference Papers

Agenda Item 8-A of the June 2016 IAASB Meeting – Draft Discussion Paper, [Link to be added](#)  
*Exploring the Growing Demand for Agreed-Upon Procedures Engagements and Other Services and Implications for the IAASB's Standards*