

April 11, 2023

IFAC Small and Medium Practices Advisory Group Response to the IAASB's Proposed Strategy and Work Plan for 2024-2027

INTRODUCTION

The IFAC SMP Advisory Group (SMPAG) is pleased to respond to the IAASB (the Board) Proposed Strategy and Work Plan for 2024-2027.

The SMPAG is charged with identifying and representing the needs of its constituents and, where applicable, to consider relevant issues pertaining to small- and medium-sized entities (SMEs). The constituents of the SMPAG are small- and medium-sized practices (SMPs) who provide accounting, auditing, assurance, and business advisory services principally, but not exclusively, to clients who are SMEs. Members and Technical Advisers serving the SMPAG are drawn from IFAC member organizations representing 25 countries from all regions of the world.

GENERAL COMMENTS

Overall, the SMPAG generally supports the IAASB's Proposed Strategy and Work Plan for 2024-2027. A key point, which is highlighted throughout our response, is the need for the IAASB to be far more sensitive to the volume and number of changes with the ISAs going forward. SMPs and Professional Accountancy Organizations (PAOs) are continuing to struggle with the implementation and adoption of new and revised standards because of the pace of change. Practitioners are being overwhelmed by the changes, which should not be viewed in isolation, as they are also dealing with changes to other international standards and local regulations, together with all the daily issues that come from managing their practices. PAOs are also finding it challenging to support education and training on a timely basis to maintain quality. In this context, we strongly believe that – once the existing projects on going concern and fraud have been completed – there needs to be a period of stability where no new or revised auditing standards become effective for a period of time.

DETAILED COMMENTS

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

1) Do you agree with Our Proposed Goal, and Our Proposed Keys to Success and Stakeholder Value Proposition (see pages 5–6)?

The SMPAG broadly agrees with the proposed goal, keys to success and stakeholder value proposition, subject to consideration of the following points.

We believe that the focus on only enhancing “trust in markets” in the proposed goal is too narrow and could be interpreted as not reflecting the full audit ecosystem. The majority of audits globally are being undertaken for SMEs and not-for-profit organizations who are not active on public markets.

The stakeholder value proposition section on ‘Our standards’ is missing an emphasis on the Board continuing to develop ‘principles-based’ standards. This is important because there are concerns that the Board has in recent years had an increasing tendency to move away from developing truly principles-based standards, to longer, more ‘rules-based’, complex and detailed standards.

We support the close coordination with IESBA highlighted in the section 'Our coordination with other standard setters'. Given the importance of sustainability reporting and the Board's work on sustainability assurance, additional prominence could be placed on the interaction with the International Sustainability Standards Board (ISSB).

The proposed goal and stakeholder value proposition does not seem to capture an important reference of ensuring that standard-setting activities are progressed through the lens of enhancing both the quality of international standards and the efficiency and performance of engagements, in particular with audits. For example, the cost and benefit of changes to standards should be rigorously evaluated, with greater consideration given to narrow scope maintenance to deal with targeted issues, compared to opening up and changing full standards. The volume and pace of changes continues to have a significant impact on SMPs and organizations supporting the adoption and implementation of international standards. We therefore urge the Board to address the need to allow for a stable platform instead of issuing frequent piecemeal revisions, as implementation is a matter of significant concern, and which could potentially be detrimental to the successful achievement of that part of the IAASB's proposed goal referring to enabling the performance of high-quality engagements. In other words, developing and issuing standards in a timely manner is not enough, unless the Board factors in the ability of all who are affected by changes to implement them into their respective methodologies.

2) Do you agree with Our Proposed Strategic Drivers as the key environmental factors that drive the opportunities and challenges impacting our ability to achieve our goal (see pages 7–9)?

In general, we agree with the proposed strategic drivers. However, in the section addressing 'Confronting 'headwinds' to global adoption of standards', we believe that greater recognition could be given to the volume, pace and number of changes made to international standards, which is having an impact globally on adoption and implementation. The IFAC [International Standards: 2022 Global Adoption Status Snapshot](#) highlighted a slight fall in adoption of the latest version of the ISAs (6.7% from 2019 to 2021) and a rise in partial adoption (28.9% from 2019 to 2021). The Board needs to be cognizant and closely monitor the adoption status, especially with the recent changes and new standards being issued.

We understand the Board needs to balance the pressure to both react to changes in the marketplace and feedback from a spectrum of stakeholders, but we believe it needs to be more sensitive to the impact of changes on the accountancy profession, including on audit firms (especially SMPs), PAOs and translating bodies etc. In the section on changing demands, it states that "*stakeholders are asking for sufficient time...*" We consider that this is in the public interest (and essential for SMPs), and it should be a success factor for the Board to allow for sufficient time. This may require more consideration being given to longer periods before the effective date of new and revised standards, or a clearly defined period of stability where no new or revised standards become effective.

The IAASB could explore how it can enhance its work through undertaking more robust and rigorous impact assessments of any proposed changes as part of the initial project proposal (e.g., covering costs related to translation, consideration of any national specifics, staff training, methodology changes, etc.). 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 an audit perceived by society, including respective stakeholder groups.

The attractiveness of the profession (especially for audit firms) has become one of the top challenges with issues concerning both recruiting and retaining staff. It is likely that there is a link between the pace of

change in standard-setting, the level and prescription of requirements (and corresponding level of regulatory oversight) and talent attraction that requires more consideration by the Board. The lack of explicit reference to principles-based standards and importance of professional judgment may also reinforce a perception of a 'checklist' approach/ mindset. These growing trends are increasingly unappealing for the next generation and could have significant long-term implications, for example, to the future of the audit profession.

The timely issuance of implementation support materials is very important to assist the effective and efficient application of the standards. The recent significant changes (in particular ISA 315 (2019 Revised)¹, ISA 540 (Revised)² and new quality management standards) have led to a number of implementation challenges for practitioners and a very strong demand for various, simplified, timely and multiple support initiatives. Further clarity would be helpful on the future role and commitment of the IAASB in producing, facilitating and supporting the development of relevant material in order to manage different stakeholder expectations. The current projects (for example, fraud, going concern and ISA for LCEs) are likely going to require a high-level of resources to support awareness raising and specific implementation support initiatives once the standards are approved. The SMPAG has been involved in multiple initiatives to support the global profession in this space over the years and remains committed to coordinating with the IAASB in the future. We also refer to our response to question 3 below in regard to the need to ensure the timely availability of implementation support materials.

3) Do you agree with Our Proposed Strategic Objectives and Our Proposed Strategic Actions (see pages 10–14)?

The SMPAG generally agrees with the proposed strategic objectives and actions. Similar to our comment in response to question 1, there could be a greater emphasis placed on both efficiency of engagements and developing high-quality standards. For example, 'Support the efficient and consistent performance of quality audit engagements by enhancing our auditing standards in areas where there is the greatest public interest need'. We also refer to our responses to questions 1 and 2 in which we point to the need for sensitivity to implementation abilities. We are pleased to note that the proposed strategic actions include the development of implementation support materials for complete projects and would urge the Board to ensure that these are available at the time a new or revised standard is issued.

Two of the goals make explicit reference to the public interest, which may be better positioned as an overarching theme for all the Board's goals, objectives and strategic actions. There is a risk that in the context of the first goal (noted above), it may be interpreted as the Board just focusing its activities and lens on public interest entities (PIEs).

4) Do you support the identified possible new standard-setting projects as set out in Table B (see pages 20–22) within the area of audits and reviews (numbered A. to K.)?

We generally support the list of possible new standard-setting projects. However, we note that both ISA 540 (Revised) and ISA 315 (Revised 2019) may be candidates for post-implementation review projects during the work plan period. Given the significant challenges with the implementation of both these standards, we recommend that the Board considers whether it would be valuable to prioritize these post-implementation reviews to help inform the other projects (particularly those in the 300 and 500 series) in a timely manner and ensure further changes are based on learnings from previous experience and aligned.

¹ ISA 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*

² ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*

There are only two possible projects (ISA 501³ and ISA 720 (Revised)⁴), which make reference to being potential narrow-scope projects. We encourage the Board to continue to consider which other projects may warrant this approach, rather than ‘full scope’ revision projects. Following the comments above about the pace and volume of changes, limited targeted amendments to address specific issues could have a number of advantages, as well as demonstrating the Board’s agility to respond quickly.

Whilst not a matter of key priority from the perspective of SMPs, we note that ISRE 2410⁵ is now considerably outdated. We support including the revision of this standard on the work plan in 2024-2027 as it would also help ease the pace of change in ISAs. In addition, in our view, given the developments in sustainability reporting, the use of an auditor expert (and the revision of ISA 620⁶) might be even more important to consider in the context of sustainability assurance, especially for SMPs.

5) Do you support the identified possible new standard-setting projects as set out in Table B (see pages 20–22) within the area of sustainability and other assurance engagements (numbered L. and M.)?

The SMPAG supports the approach of developing an overarching standard for sustainability assurance engagements. Whether and when this can be followed by future standards as part of a bespoke suite on sustainability assurance is, however, unclear. There will be some jurisdictions that are moving quickly in this space, but we do not have any global topics for consideration at this time. We believe that it is currently still too early to determine the need for further standards in this area and recommend the Board undertakes outreach activities to understand where, if any, the most demanding areas to further explore are. That said, we appreciate the IAASB’s signaling its willingness to address new demands that will undoubtedly arise in this field in future.

As noted in our December 2022 comment letter, given the differences in national legal requirements for XBRL, we are not convinced that it will be possible to develop a global assurance standard, so this will require further exploring before starting any project.

6) Are there other topics that we should consider as new standard-setting projects?

There are no other topics we think should be considered as new standard-setting projects. As raised in our response to question 2, in our view the Board needs to be very careful about assessing the need for new standard-setting projects. The current volume of projects is resulting in multiple changes to the ISAs, which is causing significant challenges for PAOs and practitioners. The speed of development of ISSA 5000 will also require numerous adoption and implementation initiatives and create additional pressure and complexity. New projects should only move forward following a full understanding of the issues and clearly identifying the problems 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.

³ ISA 501, *Audit Evidence – Specific Considerations for Selected Items*

⁴ ISA 720 (Revised), *The Auditor’s Responsibilities Relating to Other Information*

⁵ International Standard on Review Engagements (ISRE) 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*

⁶ ISA 620, *Using the Work of an Auditor’s Expert*

In addition, as noted in our response to question 4, we believe that the Board should consider the prioritization of the post-implementation reviews for both ISA 540 (Revised) and ISA 315 (Revised 2019) to inform its next potential projects.

We also support the Board continuing to monitor and assess developments in technology and its application in an audit. At this point in time, we do not suggest a specific standard setting initiative for technology be added to the work plan but note that both staff and Board resources will nevertheless be needed in this area. One example could be the development of guidance on the impact of technology on audit sampling. Auditors are increasingly using ATT in selecting samples for testing and data analytics tools to analyse data used to build financial reports and may benefit from guidance on identifying exceptions and how to address or respond to those identified exceptions.

7) Our proposed Strategy and Work Plan emphasizes the importance of close coordination with our sister-Board, IESBA. What are your views about whether and, if so, how coordination could be enhanced in terms of opportunities for joint or complementary actions that would better serve the public interest?

We recognize the close coordination between the IAASB and IESBA, which is very important given the interrelated issues being addressed.

For stakeholders that closely follow both Boards and provide input ahead of each respective meeting, the fact these both take place around the same time each quarter is especially challenging because of the volume of papers that need to be reviewed in a very short period of time. We urge both Boards to consider a new model to address this issue.

We believe that the coordination could be enhanced on the timing of consultations by both Boards, with greater consideration being given to the number of open consultations and the timing of respective comment periods. We understand there can be pressure to move quickly on certain projects, but on some perhaps consultation could be coordinated and delayed until there is an appropriate 'gap'. It's important that stakeholders have sufficient time to review and collate feedback in order to provide high-quality and useful input to help develop the standards. This can be compromised when there are multiple overlapping consultations for both boards. In addition, the IAASB includes a helpful project timetable with target dates for projects, exposure drafts and approvals for final standards on its current project's webpages. We believe that it would be very useful for stakeholders to have a combined calendar of activities for both IAASB and IESBA, which is visible in one place.

There is also a need to consult on the respective responsibilities of the Boards at the earliest stages of a project. As an example, the recent and ongoing work concerning the definition of the term PIE led to IESBA debating changes to the auditor's report, which is an issue clearly in the remit of the IAASB and that would have benefited from better coordination - also in terms of aligning timing of the two Board's respective projects.

8) Are there any other matters that we should consider in finalizing our Strategy and Work Plan?

As the application of the ISA for LCEs will be voluntary, it will be critical for the Board to ensure that the scalability and proportionality of the ISAs is firmly at the forefront of future standards and revisions. This will be particularly important once the Monitoring Group reforms are fully implemented, including the reduction in the number of practitioners on the Board. There are concerns from some stakeholders that the Board may increase its focus on PIEs in the future. Therefore, further consideration may be needed for how the IAASB can give due care to understanding and addressing the perspective of both SMPs and SMEs. For

example, whether the Board can think differently about how to best connect and hear from these constituency groups, who do not have the time or resources to closely follow all the projects. This may include an open mechanism where practitioners can provide comments on challenges with applying particular ISA requirements, consideration of more field-testing of certain proposals, which could highlight potential practical difficulties and provide information on if/how standards could be simplified, or more frequent targeted engagement being organized with national standard setters, PAOs or regional organizations.

The SMPAG, of course, looks forward to continuing to engage regularly with the IAASB on its various projects.

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 and work plan for 2024-2027.

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

Sincerely,

A handwritten signature in blue ink that reads "Monica Foerster".

Monica Foerster

Chair, SMPAG