

DATE: JANUARY 22, 2010
TO: IFAC BOARD
FROM: SYLVIE VOGHEL
CHAIR, SMALL AND MEDIUM PRACTICES (SMP) COMMITTEE
SUBJECT: SMP COMMITTEE REPORT

Section 1 Report Overview

- 1.1 This report covers the period since the November 2009 IFAC Board meeting. The report focuses on the execution of our *Strategic and Operational Plan for 2009-2012*¹. This plan adopts a two-pronged strategy of: (1) inputting to international standard-setting, helping to ensure the relevance and proportionality of these standards to SMPs and small- and medium-sized entities (SMEs), and (2) providing practical support to help SMPs efficiently implement IFAC standards, proficiently manage their practice and remain competitive and client-focused.
- 1.2 The SMP Committee will commence a strategic review at its next meeting with the aim of issuing a *Strategic and Operational Plan for 2011-2014* in late 2010. The outcome of the IFAC Board initiated review into how IFAC can best support SMPs will have a significant bearing on the form and content of this plan (see Agenda Paper 2.5.1). Various IFAC surveys continue to indicate that addressing the needs of SMPs and SMEs is a high priority for the profession.

Section 2 Meeting Updates

- 2.1 The SMP Committee has not met since the November Council meeting: the committee last met on October 29-30, 2009 in Beijing, China. The Beijing meeting was preceded on October 28 by the committee's IFAC SMP Forum (see **Section 5**). The next meeting is scheduled for March 11-12, 2010 in New York, USA.

Section 3 Significant Project Status/Updates

Input to International Auditing and Assurance Standards Board (IAASB) Standard-Setting

- 3.1 The committee continues to devote a large proportion of its time and resources to providing input to the International Auditing and Assurance Standards Board's (IAASB) standard-setting process with the goal of helping to ensure that issues of importance to SMPs and SMEs are reflected in their standards. The committee fully supports the IFAC policy paper, *A Single Set of Auditing Standards - Implications for Audits of Small- and Medium-sized Entities*.²
- 3.2 As well as inputting through the submission of comment letters on draft material, the committee also provides input through its representation on the IAASB's Consultative Advisory Group (CAG) and through liaison with small practitioners serving on the IAASB.
- 3.3 With the completion of the Clarity project the committee's input has switched from commenting on redrafted standards to commenting on a number of new IAASB projects. Since the date of my November 2009 Council report the committee has

¹ See http://web.ifac.org/download/SMPC_Strategic_and_Operational_Plan_2009-2012.pdf

² See <http://www.ifac.org/MediaCenter/?q=node/view/592>

provided input, through comment letters and staff liaison, to the following projects including:

- Revision of International Standard on Review Engagements (ISRE) 2400, *Engagements to Review Financial Statements*, and International Standard on Related Services (ISRS) 4410, *Engagements to Compile Financial Statements*;
- Revision of International Standard on Assurance Engagements (ISAE) 3000, *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*;
- Clarity ISA Implementation Monitoring; and
- Auditor's Reporting Research Working Group.

Input to International Accounting Standards Board (IASB) Standard-Setting

- 3.4 On July 9, 2009, the final *International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs)*³ was issued. IFAC and the SMP Committee, which has been closely following this project since its inception, issued a supportive press release.⁴ The final standard marks the culmination of five years of development and its publication is widely regarded as highly significant.
- 3.5 The IFAC press release notes the considerable task of implementing the standard. In recognition of this the International Accounting Standards Committee (IASC) Foundation published the first part of its comprehensive set of training materials for the *IFRS for SMEs*⁵. The free-to-download training material forms part of a range of initiatives to support the widespread adoption of the *IFRS for SMEs*. The committee sees a clear need for implementation support such as this initiative and encourages member bodies to make use of this training material.

Input to International Ethics Standards Board for Accountants' (IESBA) Standard-Setting

- 3.6 The committee was pleased to see the International Ethics Standards Board for Accountants' (IESBA) issue materials to assist with the adoption and implementation⁶ of its revised and redrafted *Code of Ethics for Professional Accountants* (the Code)⁷. The SMP Committee has provided input to the development of the IESBA, *Strategic and Operational Plan, 2010-2011*. SMP Committee and IESBA staffs are currently evaluating the need for additional guidance and other resources, particularly for SMPs in relation to the new provisions of the Code.

Guide to Using International Standards on Auditing in the Audits of Small- and Medium-sized Entities

- 3.7 An update to the *Guide to Using International Standards on Auditing in the Audits of Small- and Medium-sized Entities* (the ISA Guide)⁸ is scheduled for launch in mid-2010. The updated ISA Guide will accommodate feedback from users and conform to the newly redrafted ISAs.⁹ The ISA Guide, the committee's first implementation

³ See <http://www.iasb.org/IFRS+for+SMEs/IFRS+for+SMEs.htm>

⁴ See <http://www.ifac.org/MediaCenter/?q=node/view/658>

⁵ See <http://www.iasb.org/News/Press+Releases/IFRS+for+SMEs+training+material+launch.htm>

⁶ See <http://www.ifac.org/Ethics/Resources.php>

⁷ See <http://www.ifac.org/Store/Details.tml?SID=1247239521617174&Cart=1247239712617245>

⁸ See <http://www.ifac.org/Store/Details.tml?SID=1197644225547443>

⁹ See <http://web.ifac.org/clarity-center/index>

guide, is designed to help practitioners efficiently and consistently apply ISAs to audits of SMEs. The committee is facilitating the development, by member bodies and others, of derivative products to support the ISA Guide such as checklists, software and training materials. In addition, a number of reproductions and translations have been completed and are available for free download from the Translations Database¹⁰. The ISA Guide was downloaded 6,679 times in the 2009 making it one of IFAC's most popular publications in 2009.

- 3.8 To help SMPs apply ISAs in a cost effective manner an article, *Tips for Cost Effective ISA Application*, commissioned by IFAC, is scheduled for issue in February. As well as suggesting tips on how to apply the ISAs the article also references a range of materials produced by IFAC to assist with implementing the ISAs. This article will be disseminated to IFAC member bodies, recognized regional organizations and acknowledged accountancy groupings so as to help them communicate to and provide implementation support for their SMP constituencies. This may include, but not be limited to, including it into their journals, newsletters, websites, training courses, and other forums and activities where they wish to assist SMPs in implementing the Clarified ISAs. Depending on the success of this article similar ones may follow.

Guide to Quality Control for Small- and Medium-sized Practices

- 3.9 In March 2009, the *Guide to Quality Control for Small- and Medium-sized Practices* (the QC Guide)¹¹, the SMP Committee's second implementation guide was published. The QC Guide, which has been developed by Certified General Accountants of Canada (CGA-Canada), is intended to help SMPs understand and efficiently apply the recently redrafted International Standard on Quality Control (ISQC) 1, *Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements*.¹² The QC Guide was downloaded 10,483 times in the 2009 making it IFAC's 2nd most popular IFAC publication in 2009. In addition several translations have been completed and are available from the Translations Database¹³. Work has commenced on updating the QC Guide, primarily to improve its functionality and to conform it to the revised and redrafted Code. The update is scheduled for issue in mid-2010.

Guide to Practice Management for Small- and Medium-sized Practices

- 3.10 Significant progress has been made in developing SMP Committee's third guide, the *Guide to Practice Management for Small- and Medium-sized Practices* (the PM Guide). The PM Guide is intended to help SMPs operate proficiently and profitably as well as enhance their responsiveness to the needs of their clients. CPA Australia, the developers, recently submitted a third draft comprising over 500 pages. This is now undergoing review. The plan is to publish the first edition in mid- 2010. Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili (CNDCEC) and CGA-Canada, are helping to finance its development.

¹⁰ See <http://www.ifac.org/Translations/database.php>

¹¹ See <http://www.ifac.org/Store/Details.tml?SID=1236610272184921>

¹² See <http://web.ifac.org/clarity-center/index>

¹³ See <http://www.ifac.org/Translations/database.php>

Information Sharing

- 3.11 The SMP Committee continues to provide input on how to develop IFACNet¹⁴ so as to best serve SMPs. Furthermore, the online International Center for Small and Medium Practices (the Center)¹⁵ continues to expand, in particular the set of links to free resources of member bodies and others that are designed to help SMPs apply international standards, manage their practices, offer business advice, and assist them and their SME clients cope with the economic slowdown.¹⁶ In late November 2009 the SMP Committee issued its fourth SMP eNews of the year. The next issue of this quarterly newsletter, which has almost 10,000 subscribers, is slated for February. The Center received 10,238 unique visitors in 2009, 24% more than the 8,239 in 2008, while its SME/SMP Discussion Board had 2,688 views.

Global Voice – IFAC/*The Banker* SME Lending Survey

- 3.12 In the final quarter of 2009 The SMP Committee assisted IFAC Communications in a survey of SME bank lending, conducted in association with *The Banker* magazine¹⁷. The online survey was conducted by *The Banker* during August and September 2009 using a survey instrument designed by IFAC. Over 500 bankers from banks in over 80 countries responded. The results, published in the October issue of *The Banker*, provide insights on a range of issues including the role of accountants in the bank lending process. Since its issue every opportunity to promote the survey has been taken. The SMP Committee is also factoring the findings into its various projects, most especially the ones to develop a Practice Management Guide (see paragraph 3.9) and to develop an information paper on business support (see paragraph 3.12).

SMPs Providing Business Support to SMEs

- 3.13 The committee's project on the *Role of SMPs in Providing Business Support to SME Clients* is well advanced. This project entails an extensive literature review as well as some primary research into the business advice and similar services SMPs provide SMEs. The project is expected to produce an information paper in early 2010.

Section 4 Critical Environmental Issues

Competitive and Economic Pressures

- 4.1 SMPs continue to be confronted with acute competition from both non-accountants, as well as accountants, lacking a professional qualification. This competition is compounded by the financial crisis which is affecting SMEs, their most important category of client, particularly hard, a point stressed repeatedly by the IFAC Leadership in numerous presentations throughout 2009.

Regulatory Burden on SMEs

- 4.2 There are growing concerns over the burden of regulation in general on SMEs. These concerns appear to be fuelled by the fear of excessive re-regulation arising from the G-20's response to the global financial crisis. Indeed IFAC in its submissions to the G-20 recommended that that regulation or re-regulation in financial policies should not place unreasonable burdens on SMEs.

¹⁴ See <http://www.ifacnet.com/>

¹⁵ See <http://www.ifac.org/smp>

¹⁶ See <http://www.ifac.org/SMP/index.php#Resources>

¹⁷ See <http://www.ifac.org/MediaCenter/?q=node/view/668>

- 4.3 In this context it is worth noting the adoption of the “Small Business Act” for Europe which has set the objective to irreversibly anchor the “Think Small First” principle in policy making. This principle requires that EU legislation takes SMEs' interests into account at the very early stages of policy making. Various tools and techniques could lead to an effective implementation of the principle including the application of an SME test to forthcoming legislative proposals, the consultation of the SME stakeholders, the use of specific SME provisions in legislation in view of avoiding disproportionate burden on SMEs etc.¹⁸.

Applicability of International Standards to SMPs/SMEs

- 4.4 Many have expressed general concern about the applicability of international standards on auditing and assurance, accounting, and ethics to SMEs and SMPs. The IFRS for SMEs, redrafted ISAs, and new Code will have a significant impact on SMPs and their SME clients and the burden of implementing these standards and codes will be considerable.
- 4.5 If these concerns crystallize possible adverse outcomes include: the viability of SME audits, and ultimately that of SMPs that perform them, being undermined which may in turn impair public confidence in financial reporting and reduce audit choice; the costs of compiling, auditing, and disseminating financial reports exceeding the benefits from using them; national and/or regional jurisdictions seeking unilateral solutions, in turn resulting in diverging global practices; and an increased demand for alternative assurance services for SMEs.
- 4.6 The committee's strategy and work plan seeks to address these issues directly and stresses the need for a collaborative effort involving member bodies, national standard setters, regional organizations, and others. Furthermore, the committee is pursuing various ways of obtaining more input to standard-setting from SMEs and SMPs, for example through SMP eNews, the SME/SMP Discussion Board, and communicating the relevance of international standards to these constituents.

Section 5 International Relations and Communications

- 5.1 The SMP Committee is committed to an intensive program of outreach and awareness raising activities the centre-piece of which is its SMP Forum, last held on October 28, 2009 in Beijing, China. The press release, speeches and presentations from this event can be found in the Center¹⁹. These will be supplemented with videos using a similar web-streaming format to that used for the IAASB's ISA Modules.
- 5.2 Since the last Council meeting presentations by IFAC staff, committee members, myself and others on the committee's behalf include:
- “IFAC Update”, “Implementing International Standards” and “IFRS for SMEs”, 26th Session of the United Nations Conference on Trade and Development's Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting, October 7-9, Geneva, Switzerland;
 - “IFAC's SMP Related Activities”, AGN International Conference, October 19, Chicago, USA;

¹⁸ See http://ec.europa.eu/enterprise/entrepreneurship/think_small_first.htm

¹⁹ See ‘Conferences’ at <http://www.ifac.org/smp/index.php#Resources>

- “IFAC’s SMP Related Activities”, Praxity Annual World Conference, October 20, Chicago, USA;
- “The Value and Impact of Financial Reporting for Private Enterprises”, Association of Chartered Certified Accountants/Association for Accounting Education and Research Roundtable, October 23, New York, USA;
- “IFAC’s SMP Related Activities”, IAPA International Conference, October 26, Madrid, Spain;
- “Recent IFAC Initiatives in Support of SMPs”, IFAC Council Workshop, November 18, Washington D.C., USA;
- “IFAC/*The Banker* SME Lender Survey”, IFAC Council Workshop, November 18, Washington D.C., USA;
- “IFAC’s Support for SMEs and SMPs”, Institute of Chartered Accountants of the Caribbean/ Institute of Chartered Accountants of Trinidad and Tobago IFRS for SMEs Forum, November 30, Port of Spain, Trinidad;
- “IFAC/*The Banker* SME Lender Survey”, European Federation of Accountants and Auditors for Small and Medium-sized Enterprises Conference, January 19, Brussels, Belgium; and
- “SMP Committee”, IESBA Meeting, February 18, New York, USA (forthcoming; provisional).

Section 6 Operations and Other Matters

- 6.1 I would like to thank the members, their technical advisors, and staff for their commitment, professionalism, and dedication.