

International Ethics Standards Board  
for Accountants

**IESBA SME/SMP WORKING GROUP  
PRELIMINARY REPORT**

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IESBA Board Meeting

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## **Topics for Discussion**

- Objectives
- Background
- Information sources
- Preliminary findings & recommendations
- Next steps

## Objectives

- Present & obtain Board feedback on the Working Group's *Preliminary Report*
- Identify & advise the Board
  - unique & challenging issues faced by professional accountants in SMEs & SMPs complying with the Code
- Public interest entity auditor independence excluded – outside the scope of this initiative

## **Background – SMEs**

- More than 98% of businesses are SMEs
  - Major impact on economic & social health
- Common characteristics of SMEs
  - Limited number of users of audit/review reports
  - Dominant owner-manager, limited controls
  - Resource constraints (time, funds, people, etc)
  - Value advice & other non-assurance services

## **Background – SMEs & SMPs**

- SMEs' professional accountants often SMPs
- SMEs & SMPs not defined in the Code
  - Not considered necessary for the findings & recommendations in the *Preliminary Report*
    - Working Group mandate is SMEs & SMPs
    - Not recommending that SMEs & SMPs be singled out for separate treatment
  - Public interest entity auditor issues excluded

## **Information sources**

- Experienced Working Group members
- Research
  - Past reports & submissions
  - Standards applicable in various jurisdictions
- Consultation
  - SMP Committee, SMP Forum, SMP poll
  - National standard-setters

## **Knowledge & Understanding of the Code**

- Challenges
  - Resource constraints (time, funds, people)
  - Length of the Code
- Recommendations
  - Guidance (Q&As, case studies, etc), align PD
  - Synopsis of the Code
  - Packaging to facilitate ready access

## **Safeguards - Challenges**

- Intuitive approach to safeguards impeded
- Importance of informed management unclear
- Professional judgment may be discouraged
- SMEs' ability to benefit from the knowledge of their professional accountant to obtain services in addition to audits/reviews may be unduly restricted if ignore circumstances
  - Often limited number of users, lower risk



## **Safeguards - Recommendations**

- Consider clarifying importance of applying professional judgment to circumstances
- Clarify importance of informed management
- Consistent framework of safeguards
  - Enables a more intuitive approach
  - For audits of entities other than PIEs, consider consistency of valuation & tax advocacy prohibitions with the basic framework

## **Safeguards – Sole Practitioners, Small SMPs**

- Challenge
  - Many safeguards not readily available to sole practitioners & SMPS with only 1 audit partner
- Recommendation
  - Develop guidance to help identify safeguards
  - Consider informed management combined with exposure to inspection
    - Maybe restricted to lower risk engagements with additional communication

## **Network Firm**

- Challenge
  - SMP alliances may be confused with the Code's concept of a network firm
- Recommendation
  - Develop guidance on a network firm

## **Future Expansion of the Code**

- Challenge

- Code does not provide guidance on specific services other than on auditor & other assurance providers' independence

- Opinions divided amongst those providing input as to whether this warrants action

- Recommendation

- When developing future workplans, consider expanding the Code to deal more specifically with non-assurance services, particularly tax

## **Ongoing Consideration of SMEs & SMPs**

- Challenge
  - SME/SMP issues warrant continuing attention
- Recommendations
  - Processes to always address SME/SMP issues
  - Qualified nominations for Board (& CAG?)
  - Cooperate closely with SMP Committee
  - Consider continuation of Working Group

## **Next Steps**

- Working Group
  - Address the Board's feedback
  - Complete interviews for further validation
- Board or Planning Committee
  - Consider whether any of the preliminary recommendations in this report warrant action in advance of the final report

