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Dear Tom,

Response to the International Audit and Assurance Standards Board (IAASB) Consultation Paper: *The IAASB's Proposed Strategy and Work Plan for 2024–2027*

EFAA appreciates the opportunity to provide our comments to the [IAASB's Proposed Strategy and Work Plan 2024-2027](#). Our response has been prepared with input from our Assurance Expert Group. Through our representation on the IAASB Consultative Advisory Group (CAG) we have also been able to provide input as the IAASB has developed the Consultation Paper.

The European Federation of Accountants and Auditors for SMEs (EFAA) represents accountants and auditors providing professional services primarily to SMEs both within the European Union and Europe as a whole. Constituents are mainly small practitioners (SMPs), including a significant number of sole practitioners. EFAA's members, therefore, are SMEs themselves, and provide a range of professional services (e.g., audit, accounting, bookkeeping, tax, and business advice) to SMEs. EFAA currently represents 15 national accounting, auditing, and tax advisor organisations with more than 380,000 individual members.

GENERAL COMMENTS

EFAA is concerned to ensure that professional standards and regulation is scalable and proportionate to the capacities of SMPs and their SMEs clients and tailored to the needs and characteristics of SMPs and SMEs. We are also concerned that SMPs will be least likely to respond to this important consultation for various reasons, including lack of awareness as well as lack of time and resources. In the absence of sufficient engagement with SMPs there is a real risk of non-response bias with the consequence that the strategy and work plan will be biased in favour of large accountancy firms and regulators, standard setters and other stakeholders from large western economies working in English.

EFAA, therefore, strongly encourages targeted outreach to the SMP community so that SMPs are aware of the consultation and that they can *either* respond directly *or* by participating in the development of a response by their professional accountancy organisation (PAO) or national standard setter (NSS). The IAASB might wish to facilitate this by running a short online survey or providing such a survey to PAOs or NSS for them to use so that the feedback is prepared on a consistent basis.

EFAA, therefore, strongly encourages targeted outreach to the SMP community and awareness raising initiatives to ensure they are aware of and are welcome to either respond directly or by participating

in the development of a response by their professional accountancy organisation (PAO) or national standard setter (NSS). The IAASB might wish to facilitate this by running a short online survey or providing such a survey to PAOs or NSS for them to use so that the feedback is prepared on a consistent basis.

QUESTIONS IN CONSULTATION PAPER

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

We generally agree.

We wonder, however, whether the goal needs rewording. Since the IAASB’s standards also apply to SMEs, not just public interest entities (PIEs), we believe the goal extends beyond enhancing ‘trust in markets.’ ‘Markets’ is typically understood to mean capital markets. SMEs often do not participate in these markets. Furthermore, assurance on sustainability reporting serves a greater purpose than trust in markets: it will foster greater public confidence in published information on a company’s impact on society and the environment by mitigating greenwashing etc. The IAASB’s goal is wider – it’s to enhance trust in financial and, increasingly, non-financial information. This information is generally, but not always, put into the public domain.

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)?

We generally agree.

We wonder, however, whether the drivers adequately capture and reflect heightened expectations from the wider public to access relevant and reliable information on the impact of corporations on the economy, society, and the environment. The European Union’s Corporate Sustainability Reporting Directive embraces double materiality reflecting the European public’s desire to understand how companies impact society and the environment.

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

We generally agree.

We support the strategic objectives and most, if not all, of the supporting actions. We have further comments on two of the objectives:

- ***Strategic Objective 1 and Actions***

Please see our response to Q1 where we suggest the IAASB’s overarching goal be reworded. If the IAASB accepts this, then conforming changes may be needed to the description of this objective as it refers to ‘trust and confidence in markets.’

We especially welcome the enhanced focus on implementation, outreach, and other actions that primarily benefit the profession in emerging markets and / or in smaller practices. We also welcome the proposed action to draft standards in line with the complexity, understandability, scalability, and proportionality (CUSP) drafting guidelines and principles. That said, we wonder whether adherence to CUSP might be ensured by having a small group, independent of the drafting task

force, ‘kick the tires’ by evaluating whether they have indeed been followed. This could be a formal due process step for all drafting projects.

We also welcome the action to “continue engagement and communication with stakeholders through timely and meaningful outreach activities (including exploring and using different means of reaching and consulting our stakeholders) focused on: promoting the effective implementation of the International Standards on Auditing (ISAs), International Quality Management Standards (ISQMs), and the proposed ISA for Audits of Financial Statements of Less Complex Entities”. It is vital that the IAASB hears from constituencies like SMEs and SMPs that often, for various reasons including lack of awareness as well as resource, are under-represented and do not participate in the standard setting process. Due process around consultation needs to ‘think out of the box’, beyond the written responses to exposure drafts.

- **Strategic Objective 2 and Actions**

We are especially pleased to see this objective and the suite of supporting actions. Corporate reporting and assurance are undergoing a revolution, a once in a generation shift from a narrow focus on financial reporting to a holistic vision centered on sustainability reporting. These are exciting times. That said, we have concerns. Our main concern is to ensure from the outset that the new standards on sustainability reporting and assurance, that are being developed at such speed that poses serious risk to due process and multi-stakeholder consultation, carefully and fully consider scalability, proportionality, and SMEs / LCEs from the outset – ‘Think Small First’ or ‘Think Simple First’. Vast numbers of SMEs stand to be impacted indirectly due to trickle down effects through the value chain.

In the sustainability reporting space, we witness two different approaches. The International Sustainability Standards Board (ISSB) is baking scalability and proportionality into its core suite of standards – at least for now. Meanwhile the European Financial Reporting Advisory Group (EFRAG) is developing separate standards for SMEs. We are agnostic between these approaches. The important thing is that scalability, proportionality, and SMEs are front of mind from the outset, rather than an afterthought that gets addressed 30 years later as with IFRS for SMEs. We also urge that if the ISSB style approach is taken that scalability and proportionality are addressed in a more fundamental manner than simply applying the CUSP drafting guidelines and principles ‘after the fact’. Finally, we stress that whichever approach is taken it is critical that the standards support global alignment on sustainability reporting assurance as far as possible.

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.)? Please share your views on the individual topics, including, if relevant, why certain topics may be relatively more important to you, your organization or within your jurisdiction.**

We generally support the identified possible new standard-setting projects.

We are pleased to see the inclusion of topic K. Joint Audits.

EFAA is concerned about audit market concentration, and any potential consequential detrimental impact on audit quality (and going forward the quality of sustainability assurance). In 2023 we expect the European Commission to progress its initiative on [Corporate reporting – improving its](#)

quality and enforcement. Some have suggested joint audit (or managed shared audit) as a potential measure to enhance audit quality by opening the market up to smaller audit firms.

There is some evidence that joint audits can enhance competition and choice in the audit market, and the fast-emerging market for sustainability assurance market, as well as lead to higher quality engagements. A high-quality standard will support the recognition, development, consistent conduct and efficiency of joint audits. In so doing this will give joint audits the chance to prove their potential to serve the public interest.

We also welcome B. Responding to Assessed Risks of Material Misstatement (Revision of ISA 330). ISA 330 needs modernizing but also adapted to enhance the overall scalability of the ISAs.

- 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.)? Topic L., *Further Standards for Assurance on Sustainability Reporting*, would involve addressing multiple topics (as part of possible multiple projects). Please provide your views about likely candidate topics for further standards.**

We generally support the identified possible new standard-setting projects.

We welcome topic L. Further Standards for Assurance on Sustainability Reporting (new standards). That said, as we note above in our response to Q3 we are concerned to ensure from the outset that any new standards on sustainability reporting and assurance carefully and fully consider scalability and SMEs / LCEs from the outset – ‘Think Small First’ or ‘Think Simple First’.

- 6. Are there other topics that we should consider as new standard-setting projects? If so, please indicate whether any such topics are more important than the topics identified in Table B (see pages 20–22), and the needs and interests that would be served by undertaking work on such topic(s).**

We have two comments.

While we applaud the IAASB’s development of an ISA for LCEs, to realize its potential the roll-out of this standard will demand an extensive education campaign to build understanding and trust in the merits of an LCE audit engagement that uses it.

We fear that the post-implementation review of the quality management standards will prove they are insufficiently scalable for SMPs. We therefore urge the IAASB to assist the IFAC SMP Advisory Group in the development an implementation guide like IFAC’s ‘Guide to Quality Control for SMPs’ and if this is not enough to be open to carefully consider the need for an ISQM for SMPs.

- 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? Suggestions could entail standard-setting work, engagement with stakeholder groups, and improved ways of working, among others.**

We support close coordination with the IESBA.

The Standards Advisory Council will go some way towards forging closer coordination.

We have some suggestions on how to ensure closer coordination:

- *Create a combined leadership superstructure consisting of the Managing Director, Professional Standards as well as the technical directors, chairs, and deputy chairs of both boards.*
- *We have some suggestions on how to ensure closer coordination.*
- *Technical directors observe the meetings, or parts of the meetings, of the other board.*
- *Regular joint meetings as the CAGs practice.*
- *Joint / shared outreach events and meetings.*
- *Staff assigned, where possible, to work on projects for both boards.*

Board independence does not need to mean independence of each other.

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

Please see our general comments regarding how to get SMPs and SMEs involved in this consultation.

CONCLUDING COMMENTS

We trust that the above is clear, but should you have any questions on our comments, please do not hesitate to contact us.

Yours faithfully,

Salvador Marin
President

Paul Thompson
Technical Director