

Arnold Schilder
Chair
International Audit and Assurance Standards Board
529 5th Avenue
New York, New York 10017
United States of America

Bodo Richardt
President
4 Rue Jacques de Lalaingstraat
B-1040 Brussels
T +32 2 736 88 86
bodo.richardt@efaa.com

Submitted electronically

Brussels, 4 June 2019

Dear Sir,

Response to the IAASB's Proposed Strategy for 2020–2023 and Work Plan for 2020–2021

EFAA appreciates the opportunity to provide our comments to the [IAASB Strategy and Work Plan Consultation](#) which have been prepared with input from our Assurance Expert Group and our CAG representative Hysen Cela.

EFAA believes the IAASB's Proposed Strategy for 2020-2023 and Work Plan for 2020-2021 is well written and presented, clear and concise. We commend the Board for this approach and provide our comments and suggestions below.

The European Federation of Accountants and Auditors for SMEs ("EFAA") represents accountants and auditors providing professional services primarily to small and medium-sized entities ("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 represents 14 national accounting, auditing and tax advisor organisations with more than 370 000 individual members.

GENERAL OBSERVATIONS

We broadly support the IAASB's Proposed Strategy for 2020-2023 and Work Plan for 2020-2021. Nevertheless, we have some general remarks as well as comments in response to the questions posed in the paper.

Prioritization of Less Complex Entities / SMEs / non-PIEs

Our [response](#) to the IAASB Strategy Survey urged the Board to place a high priority on addressing audits of less complex entities. There is an acute tendency of the development of diverging national

standards and practice in the SMPs and SMEs arena as a reaction to widespread belief that the ISAs are not sufficiently scalable for these purposes. We therefore urge the IAASB to accelerate Theme C activities. Where necessary, we suggest to defer the completion of projects that may ultimately be impacted by the outcome of the project [“Audits of Less Complex Entities”](#) and its expected significant reengineering of the ISAs to make them sufficiently scalable for such purpose.

While supporting the efforts to improve the scalability of the auditing standards we have doubts that this immense task can be accomplished in time for the current acute demands for the audit of less-complex entities. We therefore urge the Board to consider, as a matter of urgency, whether stand-alone SME auditing standard for less-complex entities, based on the same principles as the ISAs, could be developed in a much shorter timeframe rather than trying to reengineer the ISAs.

We also suggest that the Board reconsiders the definition of the set of enterprises eligible for simplified treatment. While “less complex”, which inevitably poses not so trivial definition questions, appears convincing from a risk-oriented approach we can see merit in applying the easier to convey concept of “small and medium-sized” as a classification criterion. This seemingly simple criterion, however, has the inherent disadvantage that entities can, unjustifiably, become small whether by fraud or error, for example by externalizing liabilities. A similar inherent disadvantage would come with the common approach in practice to differentiate between public interest entities (PIEs) and non-public interest entities. We will continue to support the Board in finding an appropriate definition and criteria.

Engagement with SMPs and SMEs

While we broadly support the proposed framework of activities and new approach to how the Board will revise and develop standards we are concerned at the present lack of involvement of SMPs and SMEs in the standard setting process potentially resulting in biased outcomes. Therefore, we encourage the Board to consider how it will obtain more feedback/ input from SMPs and whether to undertake a more comprehensive impact analysis covering proposed future changes to international standards for example, covering costs related to translation, staff training, methodology changes, etc.

Value and Purpose of SME Audit

EFAA has recently published a report '[Evidence on the Value of Audit for SMEs in Europe: Perspectives of Owner-Managers, Company Accountants and Directors](#)' that presents new and previous evidence on the perceived value of audit for SMEs in Europe. The key finding, summarized in the [news release](#), is that the top three most commonly cited benefits from having an audit were 'audit provides a check on accounting systems and records', 'auditor provides useful advice to management' and 'improves internal control', significantly ahead of 'gives assurance to external providers of finance'. The evidence has potentially significant implications. The European Commission (EC) and national regulators may have gone too far in exempting small companies from having to have an audit as part of a perceived relief from regulatory burdens on SMEs. Furthermore, if SMEs have a strong desire to receive advice from the auditor as part of the audit then this may ultimately demand that the current auditing and ethical standards be modified to allow for auditors of SMEs to render certain types of advice during the ordinary course of the audit engagement, while at the same time maintaining a high level of auditing and ethical standards.

Non-Audit Standards

We encourage the Board to be alert to the importance of its non-audit standards, particularly in the increasing number of jurisdictions that have introduced or raised audit thresholds. It is, therefore, vital that the Board keeps to the timetable for the revision of ISRS 4400 (Revised) and, if possible, initiates post-implementation reviews including assessment of use of both compilation and review standards.

QUESTIONS

1) *You agree with Our Goal, Keys to Success and Stakeholder Value Proposition, as well as the Environmental Drivers*

Yes, we generally agree with the goal, keys to success and stakeholder value proposition, as well as the environmental drivers.

While we are pleased to see emphasis on strengthening implementation support, we encourage the Board to continue to strive for the standards themselves to be clear, comprehensible and only as complex as is absolutely necessary.

We especially welcome more attention being directed towards SMEs and SMPs as reflected in the inclusion of the environment for SMEs. This is appropriate given the fact that the vast majority of audits conducted around the world in accordance with ISAs are of less complex and smaller entities and, moreover, the fact that over the past decade or so we have witnessed a trend away from truly principles-based ISAs towards more prescriptive and detailed standards.

Technological change is pervasive, partially disruptive and ongoing and so rightly included. The Board, however, should recognize that SMPs and their SME clients have, relatively speaking, less resources than larger firms and clients to invest in order to keep up with all aspects of technological change. We therefore suggest the Board ensures that changes to international standards do not inadvertently limit their use by or place undue demands or expectations on SMPs in supplying their services to SMEs. The Board might need to consider using staff publications to provide additional and specific guidance about automated tools and techniques for these circumstances.

2) *You agree with Our Strategy and Focus and Our Strategic Actions for 2020-2023*

Yes, we broadly agree with the IAASB's strategy and focus and the strategic actions for 2020-2023.

General

We note that Themes D and E differ from A, B and C in that they are about operating capacity and effectiveness, means rather than the ends. These themes are closely related to the key guiding principles set out in the introduction to the WP 2020-2023 on page 14. Therefore, we wonder whether these be presented as 'enablers' or else integrated with the guiding principles.

Theme A

While we accept the emphasis on completing outstanding projects it is vital that these projects culminate in scalable standards. Hence, if the Discussion Paper on Audits for Less Complex Entities under Theme C gives rise to a project to reengineer the ISAs then there may be a case for delaying such impacted projects. Once the Board has finished projects such as quality management and ISA 315 we suggest that there then be a period of stability with no new or revised auditing standards becoming effective, to allow adequate time for effective adoption and implementation.

While supporting the efforts to improve the scalability of the auditing standards we have doubts that this immense task can be accomplished in time for the current acute demands for the audit of less-complex entities. We therefore urge the Board to consider, as a matter of urgency, if the development of stand-alone SME auditing standard for less-complex entities, based on the same principles as the ISAs, could be developed in a much shorter timeframe rather than trying to reengineer the ISAs. We also suggest that the Board reconsiders the definition of the set of enterprises eligible for a simplified treatment and refer to our comments under GENERAL OBSERVATIONS above.

Theme B

In respect of EER we suggest the Board broaden the scope beyond assurance engagements as SMEs may seek simpler and, therefore, less costly related service engagements as opposed to assurance.

Theme C

We especially welcome this theme. “Principle-based standards and guidance that is clearly articulated, and able to be applied to a wide variety of circumstances”, as stated in the consultation paper on page 11, stand to benefit the audit of all entities not just less complex and smaller entities. Hence, we recommend that the Board consider having an overt “think simple first” approach. We believe there is already more than enough evidence, accepted largely anecdotal, to demonstrate beyond reasonable doubt that the ISAs are too complex and insufficiently scalable for less-complex entities and, further, that this deficiency is a serious and pressing issue that demands timely action. We believe that there is a strong correlation between complexity and size of organization. Ceteris paribus small entities tend to be less complex than large ones so that SMEs are especially affected by the lack of scalability. Under GENERAL OBSERVATIONS above we also suggest that the Board reconsiders the definition of the set of enterprises eligible for a simplified treatment.

Theme D

We welcome the proposed approach for the Board to develop and implement a Framework for Activities which encompasses robust information-gathering and research activities. This is especially critical in the context of SMEs and we refer to our comments above about the relevance of SMEs.

Theme E

We support exploring collaboration in relation to implementation support activities. Quality Management and ISA 315 (Revised) will require substantial implementation support.

In the light of decreasing confidence and trust in audits, at least in some countries, and a persistent expectation gap between what auditors are required to do and what stakeholders expect, the Board might wish to consider increased activity and effort centered on educating stakeholders on the role and value of audit. Please see our own research referred to above.

3) *You agree with the IAASB’s proposed Framework for Activities and the possible nature of such activities as set out in Appendix 2*

Yes, we agree with the proposed Framework for Activities and the possible nature of such activities as set out in Appendix 2.

Despite all its efforts we believe the Board is still insufficiently connected and engaged with certain key stakeholder groups, notably SMEs and SMPs. Consequently, there is a real risk that the development and revision of standards is subject to material non-response bias whereby the feedback from consultation is non-representative and as a result actions based on that feedback potentially misdirected. We recognize the difficulties of obtaining input from this constituency as they often lack the resource or awareness of how they might participate. Innovative new ways need to be sought to garner their input and participation. NSS and PAOs stand to play a key role as they are closer to the end user.

4) *You support the actions that have been identified in our detailed Work Plan for 2020-2021. If not, what other actions do you believe the IAASB should prioritize?*

We support the actions that have been identified in the Work Plan for 2020-2021.

As indicated above regarding Theme C, we strongly believe that actions by the Board following the Discussion Paper on Audits for Less Complex Entities should be a high priority but that the Board should consider a focus on SMEs or non-PIEs rather than LCEs.

We have consistently urged the Board to expedite the revision of ISRS 4400 (Revised), Agreed-Upon Procedures (AUP) Engagements and duly encourage the Board to adhere as far as possible to its plan to finalize the standard in 2019. In [our response](#) to the ED we said:

“EFAA believes that there is a significant need for agreed-upon procedures engagements (AUP), especially in terms of small and medium-sized practices (SMPs) performing such engagements for SMEs and their stakeholders. The realization, however, of this potential rests in large part on the ability of SMPs to innovate and their having a high-quality standard to work with. Hence the importance of this project”.

We believe the Board should undertake post-implementation reviews of its compilation (ISRS 4410 Revised) and review (ISRE 2400 Revised) standards. The Board may wish to undertake an information-gathering exercise to understand the adoption and use of IAASB standards other than the ISAs, as well as more deeply understanding what services are being performed by SMPs around the world and whether its standards are appropriate for these purposes.

Please see our remarks above regarding potential deferral of projects under Theme C pending indication of potential outcome of activities under Theme A.

- 5) *There are any other topics that should be considered by the IAASB when determining its 'information gathering and research activities' in accordance with the new Framework for Activities. The IAASB has provided its views on tentative topics to be included in its 'information-gathering and research activities'.*

We have no further suggestions.

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,

Bodo Richardt

President

Paul Thompson

Director