

IESBA SME/SMP Working Group

Status Report

The IESBA SME/SMP Working Group met in January 2011 to identify and consider unique and challenging issues facing SMEs and SMPs as they comply with the Code, particularly with respect to SMPs serving SMEs. For this purpose, SMEs were characterized as entities other than public interest entities. The focus was on developing a preliminary list for further research and consideration. The following matters were included in this preliminary list:

Knowledge and Understanding of the Code

Professional accountants in SMEs and SMPs face a number of challenges in knowing and understanding the Code. Resource constraints (time, cost, infrastructure, etc) may be exacerbated by the length of the Code, which includes material (notably sections dealing with the independence of auditors and others providing assurance services) not relevant to many professional accountants in SMEs and SMPs.

For those using a language other than English, resource constraints and the length of the Code may discourage or otherwise impede translation.

Resource constraints, length of the Code, and language may also impede training.

In the near term, it may be worthwhile packaging components of the Code so that users can more easily focus on the components relevant to them; in the longer term, it may be worthwhile reviewing the packaging of the Code itself.

Knowledge and understanding may also be enhanced by guidance summarizing the Code and providing links to more detailed coverage of issues. Relevant examples may also be helpful.

These actions may also increase the potential for adoption of the Code in certain jurisdictions.

Safeguards Available to Sole Practitioners and Other Small Firms

The Code provides many examples of safeguards available to professional accountants when managing threats to compliance with the fundamental principles. Many of these safeguards are not readily available to sole practitioners or certain other SMPS, such as SMPs with only one audit partner.

The Working Group considered, for example, discussion of safeguards in the following paragraphs:

- Long association of senior personnel with an audit client (290.150)
- Preparing accounting records and financial statements (290.171)
- Valuation services (290.176)

- Tax calculations for the purpose of preparing accounting entries (290.184)
- Assistance in the resolution of tax disputes (290.192)
- Fees – relative size (290.220 - .221)

If additional safeguards more readily available to these small SMPs can be identified, it may be worthwhile communicating these additional examples. One issue being considered is the relevance of a regular quality monitoring program involving inspection of a sample of engagement files by an oversight body.

Non-audit Services Performed by Auditors

Many SMEs, particularly those subject to resource constraints, depend on professional accountants in public practice for advice and assistance. This assistance may be provided by an SME's auditor. For example, the auditor of an SME may provide assistance with preparation of accounting records and financial statements, and certain tax and valuation services. Auditor independence is safeguarded by management taking responsibility for certain matters. The effectiveness of this safeguard may be limited if management is not sufficiently informed of the issues.

It may be worthwhile providing additional guidance on information to be communicated to management by an auditor providing non-audit services who is depending on the safeguard provided by management taking responsibility for certain matters.

It may also be worthwhile reviewing the Code's discussion of safeguards and consider the need for additional guidance related to the preparation of accounting records and financial statements, and certain tax and valuation services provided to SMEs.

Topics Not Addressed in Detail in the Code

Much of the Code is focused on the independence of auditors and others providing assurance services. Guidance for professional accountants in SMPs providing non-assurance services is more limited, as is guidance for professional accountants in SMEs.

It may be worthwhile expanding the Code to provide additional guidance for those providing non-assurance services and professional accountants in business.

Other Matters

It was noted that in certain jurisdictions a professional accountant in public practice may be allowed to have a minority financial interest in an audit or review engagement client. This may be a factor affecting adoption of the Code in those jurisdictions.