

July 6, 2023

## **IFAC Small and Medium Practices Advisory Group Response to the IESBA's Proposed Strategy and Work Plan for 2024-2027**

### **INTRODUCTION**

The IFAC SMP Advisory Group (SMPAG) is pleased to respond to the IESBA Proposed Strategy and Work Plan for 2024-2027.

The SMPAG is charged with identifying and representing the needs of its constituents and, where applicable, to consider relevant issues pertaining to small- and medium-sized entities (SMEs). The constituents of the SMPAG are small- and medium-sized practices (SMPs) who provide accounting, auditing, assurance, and business advisory services principally, but not exclusively, to clients who are SMEs. Members and Technical Advisers serving the SMPAG are drawn from IFAC member organizations representing 25 countries from all regions of the world.

### **GENERAL COMMENTS**

Overall, the SMPAG generally supports the IESBA's Proposed Strategy and Work Plan for 2024-2027. A key point, which is highlighted throughout our response, is the need for the IESBA to be far more sensitive to the volume and number of changes going forward. SMPs and Professional Accountancy Organizations (PAOs) are continuing to struggle with the implementation and adoption of new and revised standards because of the pace of change. Specific challenges for SMPs include updating manuals and processes, providing staff training and monitoring and control of new changes. Practitioners are being overwhelmed by the changes, which should not be viewed in isolation, as they are also dealing with changes to other international standards and local regulations and legislation, together with all the daily issues that come from managing their practices. PAOs are also finding it challenging to support education and training on a timely basis. Ultimately, there may be a decrease in full adoption rates due to the pace of change and complexity of recently issued changes and we therefore agree that this should be a strategic focus of the IESBA.

The SMPAG is supportive of an approach that minimizes revisions to the Code, which should only be made when essential. Non-authoritative guidance should be issued where possible in response to emerging issues. Where any revisions to the Code are made, scalability and the impact on SMPs should be carefully considered.

We have outlined our responses to the questions (in bold) below.

#### **1) Do you agree with the IESBA's Proposed Strategic Drivers (see pp.9-13)?**

The SMPAG broadly agrees with the proposed Strategic Drivers but has some comments. We believe that 'Further Increasing Global Adoption of the Code and Supporting Its Effective Implementation' is very important given the volume, pace and number of recent changes, which is having a significant impact globally on adoption and implementation. As acknowledged, working closely with IFAC and collaborating to document the latest status of adoption will also help inform the Board about any issues that need to be addressed with further guidance or adoption and implementation support, including outreach. An increased focus on these activities is needed more than on further new revisions to the Code.

We understand the Board needs to balance the pressure to both react to changes in the marketplace and feedback from a spectrum of stakeholders, but we believe it needs to be more sensitive to the impact of changes on the accountancy profession, including on audit firms (especially SMPs), PAOs and translating bodies etc. The IESBA could explore how it can enhance its work through undertaking more robust and rigorous impact assessments of any proposed changes as part of the initial project proposal (e.g., covering costs related to translation, consideration of any national specifics, staff training, methodology changes, etc.). Such a thorough cost/benefit exercise may help guide the determination on whether, and the extent of, any future revisions may be necessary or if separate guidance could be issued instead.

Looking specifically at the environmental drivers outlined, an argument can be made that these are seeking to address public trust issues within the profession. This poses a risk that the areas selected are focused only on areas of greatest public concern at present, such as sustainability. IESBA should ensure that any confirmation bias is avoided in selecting strategic drivers. It is possible that the areas where guidance will add greatest value for Professional Accountants (PAs) would not necessarily be those the public are most concerned with and IESBA should be mindful of this. Trust in the profession is undoubtedly important, but in many jurisdictions, the focus is more on the effectiveness of the profession and how poor quality and other issues can create barriers to attracting talent. As trust is predicated on effectiveness, some focus on considerations like quality and competence may have been useful.

**2) Do you agree with the IESBA's Proposed Strategic Themes and Proposed Strategic Actions (see pp.13-18)?**

The SMPAG generally agrees with the proposed strategic themes and actions, though we raise some concerns for consideration. Generally, we would have liked some reference to a commitment to continuing to develop principles-based standards within the strategic drivers, themes or actions to emphasize this approach being favored over detailed prescriptive requirements.

There is a concern that IESBA may be moving quickly in response to issues relating to certain jurisdictions at the expense of making broader considerations before introducing changes that will impact the profession internationally. Paragraph 50 refers to the Benchmarking Working Group's (BWG) Phase 1 Report, Comparison of IESBA and US SEC/PCAOB Independence Frameworks. This paragraph demonstrates an appetite to react to findings from this exercise, which only considers one jurisdiction. We would challenge whether this approach is appropriate and whether findings from other jurisdictions should first be sought before any action is taken.

In terms of the specific themes and actions, we have no comments on the first strategic theme. The second focuses on strengthening the Code, which we do not oppose in principle. However, there needs to be a clear evidence-based justification of what the deficiencies are before any additional revisions are proposed, together with an examination of the root cause of the issues. The IESBA should be careful to avoid adding complexity through creating stringent requirements for PAs unless these address significant and widespread concerns as PAs already struggle to understand and adopt what is in the existing Code, which also indicates additional supportive guidance may be needed to fully understand extant requirements. The actions for this second theme refer to progressing and completing projects in a timely manner. This may be read as a reference to moving more quickly on projects, when it should be more of a reference to moving on an appropriate time basis taking into account the comments raised by stakeholders.

Where the third theme, enhancing the diversity of stakeholder perspectives, and global operability and acceptance of IESBA standards is concerned, we are pleased to see specific reference to SMPs in the actions. However, it would have been good if this pattern was repeated throughout the other areas to

emphasize that SMP considerations are important across all strategic areas. There is a reference to proactive engagement with assurance providers independent of the accountancy profession. We agree with this approach but note that engagement must lead to resolutions that are on an equal footing with other providers having equally high standards, so as not to negatively impact PAs. We note there is a commitment to engage with a broad range of stakeholders, and while this is welcome, a focus must be retained on developing the Code in a way that is practical to implement, so views in respect of this should be given appropriate prominence alongside any more theoretical approaches.

On the fourth theme, widening the influence of IESBA's standards through a continued focus on adoption and implementation, we note there is an emphasis on engaging in outreach. It is not clear whether significant additional IESBA staff time will be allocated to outreach, or if this is activity that will primarily be undertaken by Board members. If staff time is to be diverted to this activity, we fear there may be an impact on important areas such as the development of non-authoritative material and conducting post-implementation reviews.

A major concern in this area is some jurisdictions not adopting the latest versions of the Code, and if the reasoning behind this is examined, this may, in part, result from the piecemeal introduction of changes. The IESBA should consider whether an approach that introduces several changes together, rather than changing the Code every time a project is completed would be more conducive to effective adoption and implementation. Revisions to the code are only effective if they are widely implemented and PAs and PAOs can find regular changes very challenging to deal with.

While we agree a focus on adoption and implementation is critical, it is equally important to consider the significant issues raised by stakeholders due to the volume of new changes. Where concerns are raised about responding in a timely manner to regulator's expectations, it must be stressed that this needs to be done in a very disciplined and targeted way. Early focus on limiting the scope of changes to those strictly necessary to address regulatory concerns is as important as the focus on adoption and implementation.

**3) Do you support the IESBA considering the topics set out in Table B as potential work streams (see pp.22-24)?**

**If so, please also share your views on any specific issues or questions you believe the IESBA should consider under these topics. If not, please explain your reasons.**

The SMPAG supports the topics set out in Table B but would like to remind IESBA of the challenges faced by SMPs in dealing with the scale and pace of changes to the Code in recent years.

In relation to the topic on communicating with Those Charged With Governance (TCWG), we note that there may be some challenges in certain jurisdictions in defining TCWG, so perhaps some clarity is needed. There will also be many non-PAs that are fulfilling roles as TCWG globally who, while not familiar with the Code, could be very interested in developments in this area. IESBA could consider some guidance outside of the Code for the benefit of non-PAs which presents some of the developments and considerations from this project. We note that there are often challenges with the effectiveness of TCWG who, while having a critical role in organizations, often have no guidance to assist them in conducting their work and performing their role. Similarly, guidance for others fulfilling non-executive roles on Boards and Committees who are not part of TCWG could also add value.

Generally, for the topics set out in Table B, the SMPAG would favor an approach of considering whether non-authoritative guidance could address challenges in these areas as opposed to big projects aiming to reopen the Code.

**4) Do you believe the IESBA should accelerate or defer any particular ongoing, potential or pre-committed work**

We note the proposed commencement of the post-implementation reviews for Non-Assurance Services and Fees is Q4 2027, and we acknowledge that the demand on resources would be high. This is an area where current requirements mean that SMPs may be impacted disproportionately, as many SMEs are looking for a single service provider for numerous activities. This can result in SMPs losing work due to independence issues, even if their clients are not PIEs. As such, this is an important area where we would encourage the IESBA to consider whether it is realistic to bring this project forward, potentially to Q1 2026.

Following the restructuring of the Code in 2019, we note that a post-implementation review has been planned with a potential commencement date of Q1 2025. Noting that the restructuring may have impacted adoption, the SMPAG supports this review being undertaken in a timely manner.

**5) Are there other topics the IESBA should consider as potential new work streams? If so, please indicate whether these topics are more important than the topics identified in Table B (see pp.22-24), and the needs and interests that would be served by undertaking work on such topic(s).**

The SMPAG has not identified any additional work streams.

**6) The IESBA's proposed Strategy and Work Plan emphasizes the importance of close coordination with its sister Board, the IAASB. Do you have views or suggestions as to how coordination between the IESBA and IAASB could be enhanced to better serve the public interest?**

The SMPAG recognizes close coordination between the IESBA and IAASB is important given the interrelated issues being addressed. We also welcome the attempts being made to harmonize definitions and terms between IESBA and the IAASB. This should be done quickly to create clarity for PAs in an area which can, at times, create barriers to understanding.

For stakeholders that closely follow both Boards and provide input ahead of each respective meeting, the fact these both take place around the same time each quarter is especially challenging because of the volume of papers that need to be reviewed in a very short period of time. We urge both Boards to consider a new model to address this issue.

The SMPAG believe that coordination could be enhanced on the timing of consultations by both Boards, with greater consideration being given to the number of open consultations and the timing of respective comment periods. We understand there can be pressure to move quickly on certain projects, but where possible consultation could be coordinated and delayed until there is an appropriate gap for responders. It is important that stakeholders have sufficient time to review and collate feedback to provide high-quality and useful input to help develop the standards. This can be compromised when there are multiple overlapping consultations for both boards. In addition, both the IESBA and IAASB provide helpful project timetables with target dates for projects, exposure drafts and approvals for final standards on their respective websites. We believe that it would be very useful for stakeholders to have a combined calendar of activities for both IESBA and IAASB, which is visible in one place. Compilation of this may also help the IESBA and IAASB understand where there may be specific issues with the timing of input.

There is also a need to consult on the respective responsibilities of the Boards at the earliest stages of a project. As an example, the recent and ongoing work concerning the definition of the term PIE led to IESBA debating changes to the auditor's report, which is an issue clearly in the remit of the IAASB and that would

have benefited from better coordination - also in terms of aligning timing of the two Board's respective projects. SMPs in particular will struggle to adopt changes in multiple standards where the effective dates are too close to each other, as they have limited capacity to deal with such changes. In this way, delays between effective dates of IESBA and IAASB changes can be helpful and should actively be managed and consulted on with stakeholders, especially SMPs. This would be important, for example, when considering the effective dates for the IESBA and IAASB sustainability projects.

**7) Do you have comments on any other matters addressed in this Consultation Paper or any significant matters**

The SMPAG believes it is appropriate for IESBA to temper the pace of changes following the high frequency or revisions in recent years as noted elsewhere in this consultation. We welcome the shift in focus from practitioners to non-practitioners as some of the most significant issues in recent years, such as corporate failures, have been more to do with issues in managing businesses.

It is critical for the Board to ensure that scalability and proportionality are at the forefront of the future revisions to the Code. Where any future developments are intended to increase focus on PIEs or larger entities, consideration must be made of the potential impact on both SMPs and SMEs. It can be difficult for these constituency groups to provide their views as they often lack the time or resources to closely follow all developing projects.

The SMPAG, of course, looks forward to continuing to engage regularly with the IESBA on its various projects.

**CONCLUDING COMMENTS**

We hope that the IESBA finds this letter useful. We are committed to helping the Board in whatever way we can in its strategy and work plan for 2024-2027.

Please do not hesitate to contact me should you wish to discuss matters raised in this submission.

Sincerely,

  

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Monica Foerster

Chair, SMPAG