

WELCOME



ACCOUNTANCY EUROPE

SIMPLIFYING AUDITING STANDARDS FOR SMALL OR NON-COMPLEX ENTITIES

Exploring possible solutions

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OPENING AND WELCOME

Edelfried Schneider

Accountancy Europe, President



2017 INITIATIVES

7



publications

3



events

13



consultation responses

3



articles & press releases

SME ACCOUNTANTS



**1 IN 3
PRACTITIONERS**

in our Expert Groups & Board
come from SMEs



PRESENTATION OF ACCOUNTANCY EUROPE PROJECT

Hilde Blomme

Accountancy Europe, Deputy CEO

SIMPLIFYING AUDITING STANDARDS FOR SMALL OR NON-COMPLEX ENTITIES

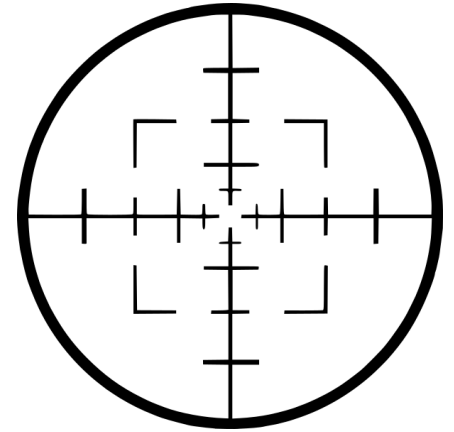
Exploring possible solutions

April 2018

Scope

Small entities based on thresholds defined in local legislations

Non-complex entities based on the auditor's judgement



Context of the Cogito paper

Importance of SMEs in our economic environment

- SMEs are the backbone of the EU economy
- Audit ensures financial statements are reliable, instilling trust in the economy & its growth

Conflicting pressures

- Development of the regulatory environment → very detailed and complex auditing standards (ISAs)
- Proportionality and scalability difficult to apply

Difficulties encountered by practitioners

Conditions for a workable solution

- **Global**
- **Consistent**
i.e. provides same audit
comfort & assurance level
- **Technology-oriented**



Possible solutions and their pros & cons

1. Build within the ISAs

- a) develop guidance to apply the ISAs
- b) revise ISAs to apply 'think small first' approach
- c) revised ISAs to deal with language complexity
- d) always: apply information technology to the ISAs

2. Develop a standalone standard – alongside ISAs or not

3. Other routes

1.a) Develop guidance to apply the ISAs

Additional material, over and above the Application Material, to help practitioners scale-down ISAs

Pros	Cons
Continuity of the work done so far	Not enough to respond to challenges Solution already tried (SMP Committee Guide) More material Very long and complex guidance not useful

1.b) Revise the ISAs – ‘Think small first’

Leverage ISAs’ proportionality, starting from a ‘think small first’ perspective

Pros	Cons
Proportionality From ISAs' general objectives, adding a ‘think small first’ approach Scalability Complexity can be added to each ISA, depending on specific circumstances	Easier said than done Requires redrafting all ISAs



1.c) Revise ISAs for understandability

New language complexity after Clarity Project → need new or perpetual Clarity Project

Pros	Cons
<p>Improve understandability of all ISAs</p> <p>Clarity for all practitioners to get all ISAs more understandable</p>	<p>Very time consuming (Clarity Project took 5 years)</p> <p>Tendency to add language complexity</p> <p>Creates instability as ISAs keep on changing</p>

1.d) Apply IT to the ISAs

Regardless of the solution, IT needs to be integrated

Audit software/tools developed in 9 European countries

Developing a generic methodology or software to be explored by the IAASB (or other standard setters)

Pros	Cons
Enhance navigation for users Remove repetitions in standards	None

2. Develop a standalone standard

Enhances the use of professional judgement in applying relevant principles-based requirements

Pros	Cons
<p>Solution oriented, more agile & quick</p> <p>More relevant services to SMEs</p> <p>Digital perspective embedded</p> <p>Same fundamental principles, emphasising professional judgement and enabling customised approach</p>	<p>Different sets of standards confuse</p> <p>When apply which set of standards?</p> <p>Perception as less rigorous than ISAs might obstruct wide adoption</p> <p>Design for experienced practitioners might hinder application</p> <p>More challenging for regulators to enforce</p>



3. Other routes to be explored

May be part of a possible solution, but not a full response to the issues at stake

Including a 'direct engagement dimension'

Engagement where the auditor is involved in:

- ✓ Calculation of closing entries
- ✓ Measurement of estimates

Pros

Closing the expectation gap
Add value to auditor's work

Making full use of data analytics

Embedding new technology more comprehensively in audit standard setting

Pros

Leverage use of data
Straightforward control testing

Next steps – *Status quo is not an option*





IAASB PERSPECTIVES

Arnold Schilder

IAASB, Chair



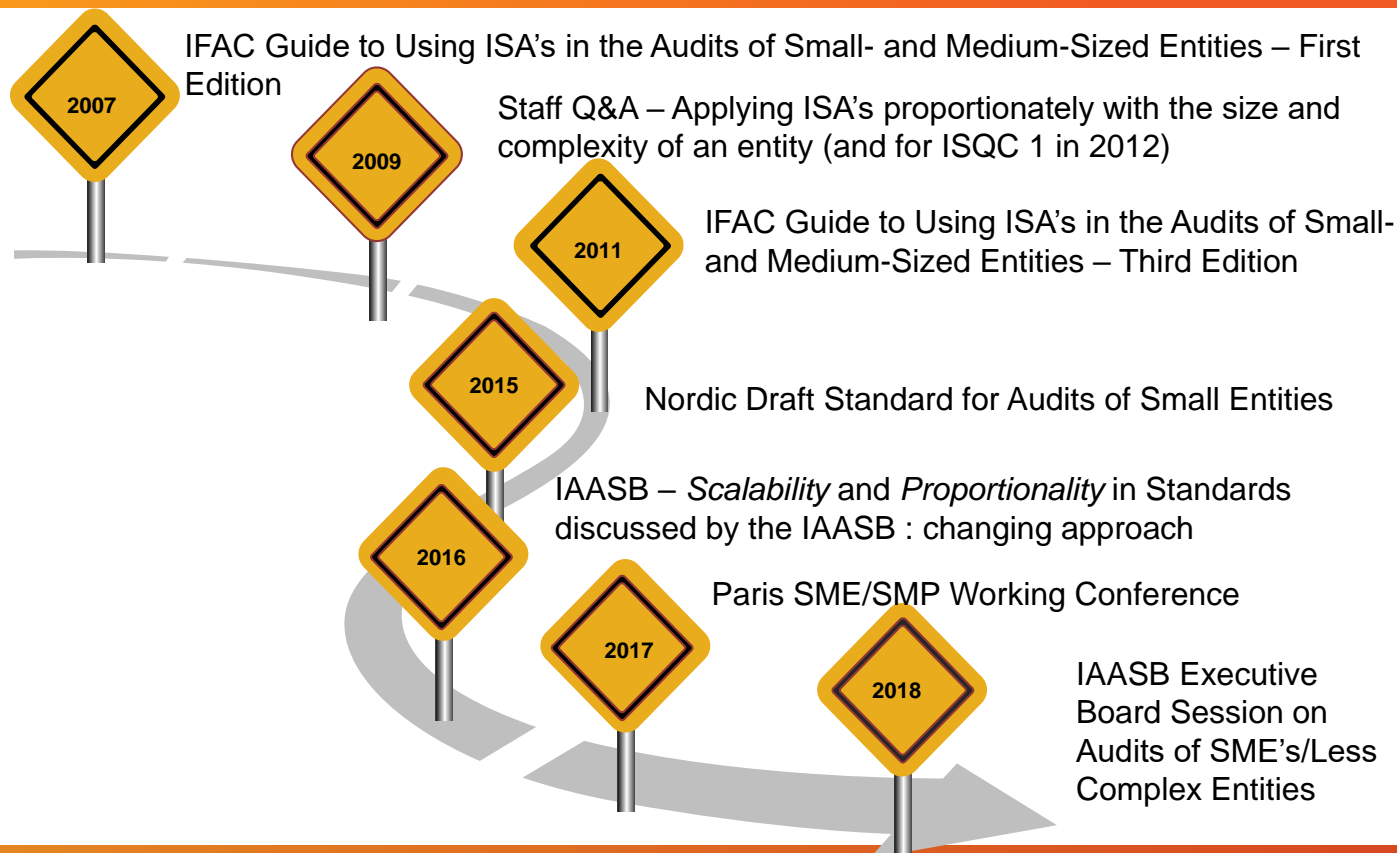
Small- and Medium-Sized Practices (SMP)/ Small- and Medium-Sized Entities (SME) - Issues

Accountancy Europe Event

Prof. Arnold Schilder, IAASB Chairman

Brussels, May 30, 2018

The Road to Here



The Horizon

- Questions continue to be asked about the ISAs **being fit for purpose in an SME environment**
 - **National and regional initiatives** are being developed to respond to perceived issues
 - The lack of an international response by the IAASB may be perceived as a **risk to the continued implementation of the ISAs for SMEs**
 - To understand the solution we **must understand the issues**
 - Only the IAASB can provide a **global authoritative perspective**
-

Observations of IAASB Board in March 2018 Exec Session

- Support the initiative for consultation and recognise the expectation has been created. But there is no simple answer
 - Not just an SMP issue. Consideration for larger firms and the public sector
 - Recognise that jurisdictional responses may need to be different
 - Is there a role for further academic research?
 - IAASB may not be the only solution – roles for others
 - Commercial considerations are a driver
 - Core: Complexity and simplification in audits
 - Challenges with engagement of target audience
-

Next IAASB Steps—Indicative

September 2018

- *IAASB to approve a process for consultation to determine what if any actions need to be taken*

March 2019

- *IAASB to approve a consultation paper*

Q2 2019

- *2nd SMP/SME Working Conference*

Sept/Dec 2019

- *IAASB to consider results of consultation paper and further actions*
-

The Ask

KEEP AN OPEN MIND

**Cogito – ergo sum: we will exist
as long as we are willing to think!**



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and Assurance
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PERSPECTIVES FROM THE IFAC SMP COMMITTEE

Katharine Bagshaw

IFAC SMP Committee, Deputy Chair

COFFEE BREAK

15.00-15.10



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OPEN DISCUSSION

Myles Thompson, Accountancy Europe, Audit and Assurance Policy Group, Chair

Kai Morten Hagen, Norwegian Institute, Technical Manager

Svetlana Berger, Canadian Auditing and Assurance Standards Board, Principal

Gill Spaul, Moore Stephens Europe LTD., Technical Director

Klaus Bertram, DELTA Revision GmbH, Managing Director & IFAC SMP Committee Member

AASB

Auditing and Assurance
Standards Board



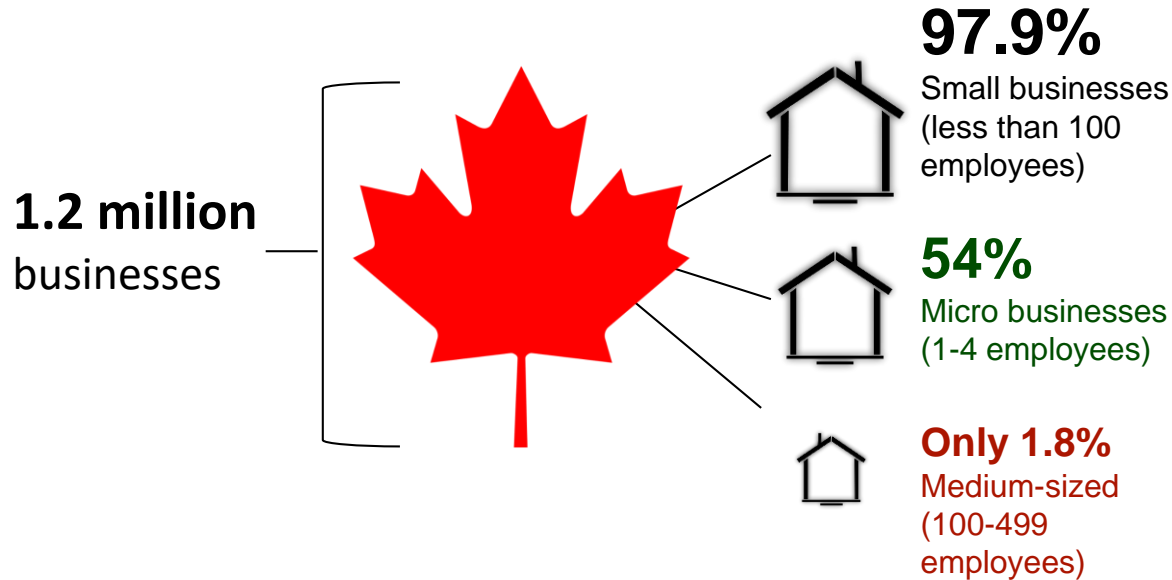
Audits of Small Entities

**Accountancy Europe Event
Brussels - May 30, 2018**

Presented by: Svetlana Berger, Principal



Small business is big in Canada



More about Canada...

- Canadian Auditing Standards = ISAs
- One set of auditing standards that applies to all entities
- Large number of small-cap Canadian public companies
- Private companies can opt out of an audit – all S/H must consent
- Audit requirement is dictated by F/S users
- Review engagements and compilation engagements are well established in the Canadian marketplace & accepted by lenders

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SLI.DO TIME

Go to www.sli.do

Event code: #SMEAUDIT



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CLOSING REMARKS

Myles Thompson

Accountancy Europe, Audit and
Assurance Policy Group, Chair

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FOR YOUR
PARTICIPATION!**



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