

FEE/AMA SME/SMP VERSAILLES CONGRESS

“GROWING BUSINESSES IN A CHANGING GLOBAL ENVIRONMENT”

PLENARY SESSION ON SME AUDIT, 7 September, 15.35 Hrs – 18.15 Hrs

Summary of Remarks by David Damant

I. Audit

As a result of the changes to the structure of the International Federation of Accountants (IFAC) agreed in 2003, the Consultative Advisory Group of the International Auditing and Assurance Standards Board was considerably expanded, and I was appointed as the first independent Chair, my own background being investment management. The membership of the IAASB CAG is by organisation in the large majority of cases, and a list of the current members is attached.

On several occasions the CAG has discussed the question of an audit in the context of SMEs. It will be noted that a number of the members of the CAG are concerned in the small company area, and in addition the two relevant IFAC committees, on Developing Nations and SMEs, were represented in the discussions.

The principal conclusion of these discussions was that an audit is an audit. That is, the overwhelming view of the CAG was that there should be no derogation in audit quality whether the enterprise being audited is large or small. The degree of assurance provided by the audit remains the same in all cases.

One of the concerns during these discussions, and in other arenas, has been the extended documentation which an audit would require in the case of a small enterprise, even when many audit procedures were unnecessary in view of the limited extent of the enterprise's activities. This matter is a matter of continuing discussion in the CAG (and is also taken up by the IAASB in the context of the Clarity Project). Discussions in the CAG on the application of ISQC1 to SMEs will also be held.

The relevant point, as regards SMEs in the context of the Clarity Project, is that in the third section of the clarified ISAs (the Application Guidance) appropriate space will be given to explicit comments on considerations relevant to SMEs. This explicit delineation of SME concerns is an important dimension in the ongoing work of clarification.

II. Alternatives to Audits for SMEs

It may be that in some jurisdictions the regulatory authorities may decide that for all enterprises, including SMEs, an audit should be required. In other cases a jurisdiction may decide that for small (or very small) enterprises, no public assurance is necessary. But this “all or nothing” approach may not be satisfactory in the minds of many observers, since on the one hand some degree of assurance may be desirable, whereas on the other hand a full audit may be regarded as onerous.

It is interesting in this context, therefore, to discuss the various mechanisms which might be developed to provide a limited degree of assurance, not the “reasonable assurance” provided by an audit. The following possibilities may be considered amongst others:

- a) The first and existing possibility is that of a “Review”. The International Standard on Review Engagements 2400 may be considered. A Review as currently delineated may be appropriate when given as a degree of assurance on interim results for a company where the annual results will be audited to the full extent, and in other contexts, but it may not be suitable in all contexts, such as SMEs. Furthermore, a Review as currently conceived may entail the degree of independence of the auditor which is also applicable in the case of the audit; and although this may be appropriate for some purposes it could be inappropriate, it may be argued, for other purposes.
- b) The question of the degree of independence arises for example if there is direct involvement by the “auditor” in the preparation of a company’s accounts, which is sometimes referred to as a “Compilation”. The approach to independence in this context, and the delineation of the roles of the management and of the auditor, has to be different than in the case of a full audit. Nevertheless this approach recognises reality, as it exists in many countries, and that is that the auditor is in fact the financial advisor to the enterprise, to a greater or lesser degree.

In the light of these considerations, the IAASB through the IFAC staff is discussing the possibility of holding a Forum on this topic, to be arranged in each of three centres - in New Delhi, Brussels and Sydney (Australia). There will be a meeting of the IAASB CAG the day after the Forum held in Brussels, in order to develop the ideas in more detail and from the viewpoint of the different interest groups represented on the CAG.

This topic - that is, the question of an interim tool to give a degree of assurance without being a full audit - is of importance in the development of standards on assurance throughout the world, in diverse economies and in diverse legal and regulatory environments. This FEE/AMA Congress to consider the possible lines of the approach to these questions is therefore very well timed.