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Your ref:

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Dear Paul

Proposals on How IFAC Can Best Support Small and Medium Practices

The Institute of Chartered Accountants in England and Wales (the ICAEW) welcomes the opportunity to comment on the Consultation Paper, *Proposals on How IFAC Can Best Support Small and Medium Practices*, published in August 2009 by the IFAC Small and Medium Practices Review Task Force.

The ICAEW operates under a Royal Charter, working in the public interest. Its regulation of its members, in particular its responsibilities in respect of auditors, is overseen by the UK Financial Reporting Council. As a world leading professional accountancy body, the ICAEW provides leadership and practical support to over 132,000 members in more than 160 countries, working with governments, regulators and industry in order to ensure the highest standards are maintained.

We hope that the comments set out below in answer to the specific questions in the Consultation Paper are helpful, and we look forward to the outcome of the consultation. Please do not hesitate to contact me should you wish to discuss further any of the issues raised in this response.

Question 1: Do you have any comments on the general considerations for IFAC?

We have the following comments on the general considerations highlighted in the Consultation Paper:

The SME sector: we agree that the SME sector is crucial to global economic growth and financial stability and that the SMP constituency has a key role to play in the health and vitality of this sector. However, we note that the SMP constituency is central not only to the profession as a whole, but to virtually all IFAC member bodies, including well-resourced larger member bodies such as the ICAEW, many of whose members work for larger firms. It is also critical to recognise that SMEs are served by firms of all sizes, that in many jurisdictions member firms of the large networks are in effect SMPs and that professional accountants in business (PAIBs) play a vital role in the health and vitality of the SME sector. Therefore, we doubt whether IFAC will best serve the public interest in a healthy and vital SME sector by giving special recognition to a subset of member bodies claiming exclusive expertise on SMP and SME issues.

The boundary between IFAC and its member bodies: as a well-resourced larger member body we do not believe that IFAC has a narrow role with regard to SMPs and SMEs. On the contrary, we believe

that IFAC has a role both in delivering high quality international standards *and* in helping member bodies to deliver services to SMPs.

'IFAC is of limited relevance to the growing body of SMPs that do little if any assurance-related work': we are disappointed by this statement and do not agree that it should be the case. IFAC will only be of limited relevance if it so chooses. The SMP Committee is currently investigating the range of services that SMPs provide and there is potentially a great deal of support that may be considered. Consultancy and outsourcing for HR, IT systems and specialist areas of legislation are increasingly offered by SMPs as well as larger firms. While some within IFAC may have little experience of such developments, if IFAC fails to acknowledge them, it will over time find itself out of step with the profession it purports to represent.

Question 2: Do you have any comments on the specific areas to be addressed?

The areas listed under the headings of practical support, representation, global identity and visibility, and voice and policy making are all-embracing. However, it is important to recognise that SMP issues should be considered and prioritised by the organisation as a whole. IFAC should address these concerns at a strategic level, rather than risk marginalising them by leaving them to a separate grouping.

The list of areas to be addressed also gives the impression that SMPs represent a new constituency which requires new structures. This is not the case. We believe that all the identified areas might be addressed by existing structures. SMP and SME representation on IFAC boards and committees is essential but already exists. Additional and more visible representation may be desirable but given the severe pressures on board and committee numbers, it would inevitably come at a cost to some other constituency. There should however be renewed efforts to overcome the apparent dearth of good SMP candidates and the SMP Committee has consistently noted that greater SMP representation on working groups in the early stage of standards development would be helpful.

Question 3: How does your organization obtain meaningful input from its SMPs constituency?

Virtually all IFAC member bodies, including the ICAEW, have a large number of SMPs and IFAC should draw on the experience of member bodies to help overcome the challenges of obtaining input from this constituency. Helpful input from SMPs is not as readily available as it is from larger firms but the ICAEW makes considerable efforts to make sure that we do get such input. A substantial number of the members of our governing Council are SMPs and SMPs are active in our principal committees, as well as in other committees, working groups and panels dedicated more specifically to the activities of SMPs.

A sustained communications strategy is also essential to maintaining relationships with SMPs and promoting awareness of relevant services and support, particularly through decentralised programmes of events, as well as written communications. SMPs also benefit from membership of our specialist faculties.

Question 4: Do you have comments on the enhanced roles and responsibilities?

We are concerned that the proposed enhanced roles and responsibilities of a specific SMP grouping would be divisive and weaken the commitment of IFAC as a whole to SMP issues by marginalising them. Such a grouping's role and responsibilities should involve providing input to IFAC's decision making but monitoring, co-ordination, development and execution activities should be subject to IFAC Board oversight and responsibility. Moreover, we do not think that such a grouping should have any role in the process for nominating members onto IFAC boards and committees.

Question 5: Overall, which option would be the most effective means of delivering additional services? Please explain.

Every effort should be made, particularly in the current economic climate, to deal with SMP issues within existing structures to avoid unintended consequences including unrealistic expectations, divisive precedents for other constituencies, and unnecessary expenditure. We have no objection in principle to that part of Option 4 that suggests widening the remit of the SMP Committee but we are concerned by the presumption that there should be a net increase in services. This concern is reinforced by the Task Force's conclusion that all the options presented should involve additional annual resources costing US\$225,000. The SMP Committee's heroic input into the Clarity Project is now drawing to a close and guidance material has been produced. It may therefore be the right time to redeploy resources to work in new areas.

We believe that a starting point for better supporting SMPs would be for IFAC to articulate clearly its vision for the future of the practitioner community and the SMEs it serves. This vision should recognise the impact of IFAC's own standard setting work and other changes in the global regulatory environment on the services provided by SMPs to SMEs, including the potential for alternatives to audit. A shift from the SMP Committee's historical emphasis on standard setting to a wider range of activities could reflect the ways in which SMPs will develop in many jurisdictions.

Question 6: Please identify any specific attributes that could contribute to the most cost effective solution.

We agree with the analysis presented in the Consultation Paper which shows the additional costs of setup and ongoing governance and operations that are avoided by simply retaining the existing SMP Committee. We do not find the suggested advantages of Options 1, 2 and 3 compelling reasons for incurring the additional costs of new structures.

Consultation on proposed major changes with significant resource implications needs to be, and be seen to be, comprehensive and recognise the significance of current resource constraints. IFAC needs to be seen to be seeking to secure cost-effective solutions and the presumption in the Consultation Paper that IFAC member bodies will make resources available for new activities and changes in existing structures is regrettable. It is also important for the Task Force to acknowledge the vital and irreplaceable role of member bodies in helping SMPs address national regulation, as well as the contribution that will continue to be made to SMPs through a wide range of IFAC's activities, for example in relation to compliance, PAIBs and developing nations.

Yours sincerely

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