



Federation of European Accountants
Fédération des Experts comptables Européens

FEE/CNDCEC SME/SMP Congress

European Accountants: Shaping the future
How to advise, assist and audit SMEs in a changing regulatory environment

Session 6: Beyond auditing: How to better service SMEs?

16 April 2010, Venice

Standing for trust and integrity



FEE Survey on the Provision of Alternative Assurance and Related Services across Europe

July 2009

Hilde Blomme, FEE Director of Practice Regulation
Moderator

Assurance services other than audit

Issues:

- “An audit is an audit” must be preserved
- Increase in audit exemption thresholds
- More regulatory pressure
- Clarified ISA audit more demanding and more costly
- Desire by profession to provide something to fill the hole
-

Responses:

- Development of / changes to assurance services other than audit
- Addressed on national, FEE & IAASB level
- Divergent views in different countries
- Desire to arrive at positive audit opinion with less work
- FEE survey July 2009

Assurance initiatives other than audit in some countries

- Consideration of or proposals for non audit assurance service for (certain) smaller entities in Denmark, Finland, Malta and Sweden
- Mandatory statutory review for “SMEs” in Estonia and Switzerland
- Presentation or compilation engagements with certain assurance in France and Germany
- Accountant (not auditor) report for small charities & pension schemes in Ireland
- Continuous integrated reasonable assurance by Collegio Sindacale in Italy
- Limited assurance based on review plus substantive procedures in UK (ICAEW)

Assurance services other than audit: conclusions

- IAASB being encouraged to speed up work on review and compilation engagements
- Fragmentation a major issue in Europe and beyond
- Call by FEE for Member States and National Institutes to exercise constraint
- Some concerned about moving from negative to positive opinion

Panel questions

- Yesterday, the needs of SMEs were debated. Do we respond to them now and what do we need to do more in the future?

Panel questions

- How does moving away from auditing impact our profession as far as the provision of services, recruitment, training, specialisation, etc. are concerned?

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International Auditing and Assurance Standards Board

**Services for SMEs on Financial Information:
IAASB Standards and Projects**

Josef Ferlings, IAASB Member

FEE/CNDCEC SME/SMP Congress
European Accountants: Shaping the Future

Venice, Italy

16 April 2010



Agenda

- Today's Profession - Key Perspectives
- Implementation of the International Standards on Auditing and proportionate application in SME audits
- IAASB project to develop international standards for assurance and related services other than audits, relevant to financial information



Responsiveness and Innovation

- A key perspective in the environment of the profession today is to understand and respond to the needs of developed and developing markets for auditing, assurance and related services, in the global environment

Responsiveness and innovation are key

“... the sustainability of the accountancy profession depends upon the quality of the services provided by its members and on the profession's capacity to respond effectively and efficiently to the demands of the economy and society.”

IFAC Policy Position: *Regulation of the Accountancy Profession*, December 2007



Challenges in the SME Sector

“SMEs face unique challenges, including... the ability to cost effectively meet regulatory and compliance requirements... Consideration [in particular] needs to be given to their capacity to meet new standards, as well as the appropriateness of these standards to this sector.”

[Robert Bunting, IFAC President: “Seeking Progress in a Time of Crisis,”
The World Bank, April 16, 2009]



Importance of Convergence to International Standards

- Key element of the profession's future
- Meaning of "convergence"
 - A process of coming together from different bases
- International standards establish internationally accepted best practice
- Benefits of using globally accepted standards
 - Helps to strengthen transparency and accountability
 - Higher consistency in services performed by the profession in different countries
 - Reduced costs associated with having differing standards
 - Enhances uniformity and effectiveness of regulatory systems in so far as they involve services provided by professional accountants
 - Consistent with integration efforts within and beyond EU



ISAs: Implementation Challenges & Support

- Clarity ISAs are now effective
 - Periods beginning on or after 15 Dec 2009
 - Applicability of the ISAs to SMEs is a key consideration
- Adoption and implementation challenges
- IAASB recognises there are significant changes to audits; and implications for auditors and audited entities
- Strong IAASB commitment to implementation support and implementation monitoring



Considerations in audits of SMEs

- Differences between SMEs and larger entities recognised by ISAs
 - Audit approach may vary with circumstances (simpler/more complex)
- Requirements do not usually specify audit procedures
 - Professional judgment needed to determine procedures
- Application of ISAs designed to be proportionate
 - Proportionate to size, level of complexity, nature of entity and its activities, etc.
 - Proportionality ≠ modification of requirements
- ISA Staff Q&A issued August 2009



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IAASB Project to Develop Standards for Services Other than Audits: Standards for Assurance and Related Services on Financial Information

- New directions and challenging projects
 - IAASB Staff Project Update published March 2010 (IAASB website)
- Existing IAASB standards for services other than audits relevant to financial information
 - Compilation of financial information (ISRS 4410)
 - Review of financial statements (ISRE 2400)
 - Performance of agreed-upon procedures (ISRS 4400)
- First step is to revise standards for compilations and reviews
 - Exposure Draft is expected to be issued in Q4 2009



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Standards for Compilation of Financial Information

- Service focuses practitioner's effort on the presentation of an entity's financial information in accordance with the applicable financial reporting framework or other basis of presentation
 - Practitioner applies expertise in accounting and financial reporting to the entity's presentation of the financial information; performs engagement in accordance with the applicable ethical obligations (e.g. the "*Code of Ethics for Professional Accountants*" issued by the International Ethics Standards Board for Accountants)
 - A report is provided to accompany the financial information that describes the service performed (and its limitations) for users of the information.



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Standards for Compilation of Financial Information

- Key issues under consideration in the project are:
 - The scope of the standard; defining the objectives; focusing requirements and guidance in key areas that are the essence of performance of the compilation engagement
 - The practitioner's work effort for the engagement to discharge their ethical obligations
 - Reporting considerations
- Communication challenges
 - The compilation service is not an assurance engagement – no evidence-gathering procedures are performed and so no opinion/conclusion is expressed. Value to users lies in the practitioner's association with the financial information through contribution of their professional expertise



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Standards for Reviews of Financial Statements

- Review is an assurance service designed for financial statements
 - A procedures-based engagement: the practitioner's work effort provides an evidential basis that allows expression of a conclusion on the financial statements in the form: *"Based on our review, nothing has come to our attention that causes us to believe that the financial statements are not in accordance with the applicable financial reporting framework in all material respects."*
 - Distinct from the audit service
 - The practitioner performing the review is not the entity's auditor
 - Model can be applied by practitioners also to reviews of other historical financial information
- Critical success factor: educational effort to build understanding and acceptance for both users and practitioners

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Standards for Reviews of Financial Statements

- Key areas under consideration in the project are:
 - Application of the concept of 'limited assurance' in a financial statement review
 - Approach to performance of the review (including knowledge of the entity) so that limited assurance is obtained as the basis for the conclusion
 - Scoping work effort required to address risk of material misstatements, and so that the conclusion expressed is based on evidence that provides a meaningful basis for achieving the assurance objective.
 - Engagement acceptance considerations
 - Guidance on application of review procedures (primarily inquiry and analytical review)
 - Reporting: form and content of the report; communication of the practitioner's conclusion (i.e. expression)

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**Services for SMEs on financial information:
IAASB Standards and Projects**

Josef Ferlings, IAASB Member

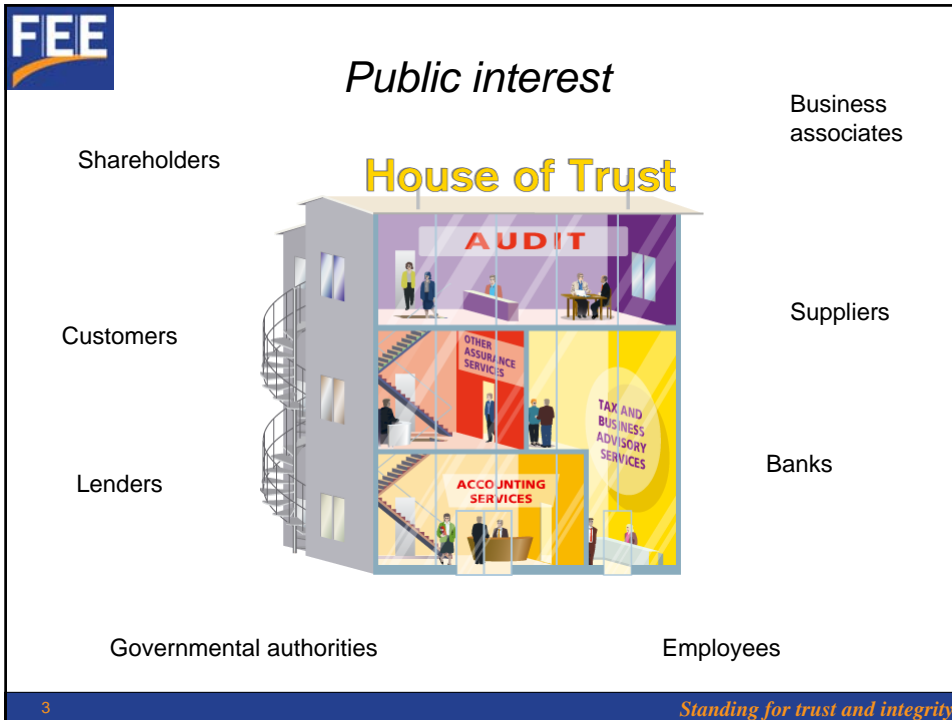




House of Trust

“Other assurance services”

Bengt Skough, SME Director
The Swedish Institute, Far



-
- Swedish business society
- ↪ 9,3 million citizens
 - ↪ More than 950 000 business firms
 - 538 000 private businesses
 - 350 000 limited liability companies
 - 62 000 others
- 4 *Standing for trust and integrity*

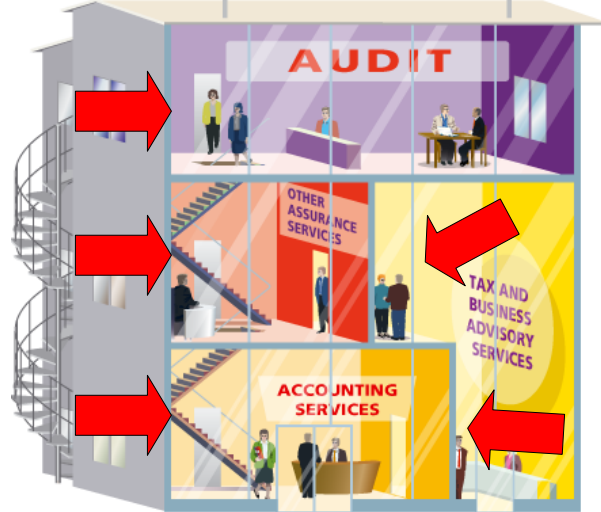
- 350 000 limited liability companies
 - ↪ 325 000 are small
 - ↪ 24 000 are medium-sized
 - ↪ 1 000 are big, and of those
 - 375 are listed on the Swedish stock exchange

- 4 000 auditors
- 6 500 accounting consultants licensed by an institute
 - ↪ Accounting consultant =
highly qualified book-keeper

- Audit exemption 1/1/2011
 - 3 employees
 - € 150 000 assets
 - € 300 000 turnover
- 177 000 operating limited liability companies



House of Trust

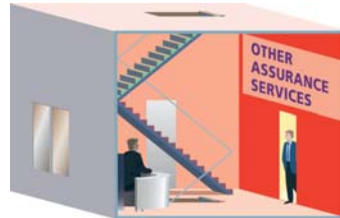


ISA 800, 805, 810
ISAE 3000
ISRE 2400, 2410
ISRS 4400

ISRS 4410
Reko



Other assurance services



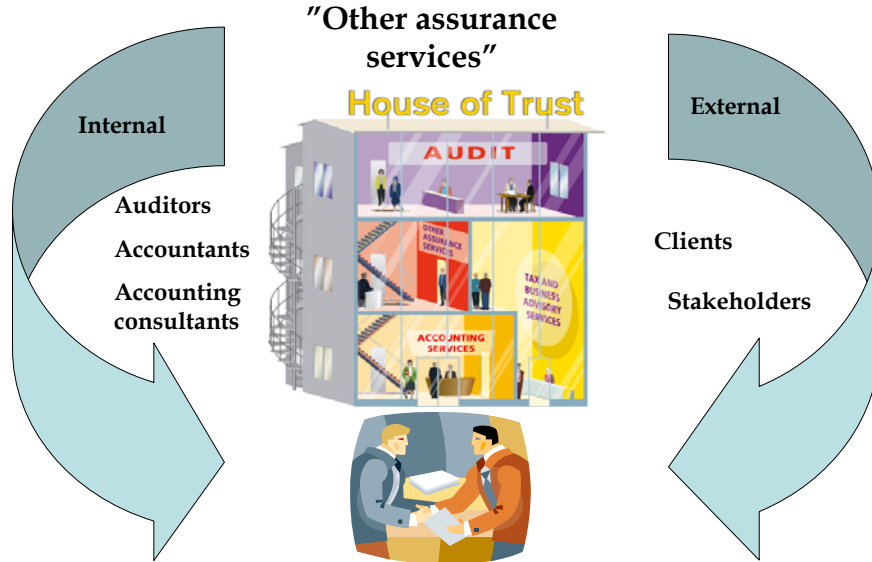
- ISA 800, 805, 810 - Primarily audits of special purpose financial statements and specific elements, accounts or items
- ISAE 3000 - Assurance engagements other than audits or reviews of historical financial information
- ISRE 2400-2410 - Review of interim financial information
- ISRE 4400 - Engagement to perform agreed-upon procedures regarding financial information

Accounting services



- ISRS 4410 - Engagements to Compile Financial Statements
- Swedish adaptation
- REKO, Standard for Accountancy Services

The challenge...





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Belgian Private Companies: At your service !

Nikolaas Tahon
Managing partner Deloitte Fiduciaire

Deloitte Fiduciaire anno 2010

- The largest SME-Accountant & Tax-Consultant in Belgium
 - Belgian marketleader in accountancy, tax & legal consulting and financial management consulting to SME's and family governed companies
 - Over 5.000 clients (companies, business owners, professional service providers)
 - Exactly 75 years of multi-disciplinary SME-focus and market leadership
- Unique provider of multidisciplinary teams of accountants and tax and legal consultants in each of our 10 offices that are fully dedicated to family governed companies
- The accountant-tax consultant as trusted business advisor and entrance to a large world of top experience and specialist services at Deloitte.

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samen ondernemen - entreprendre ensemble

Mission Statement

Deloitte Fiduciaire is

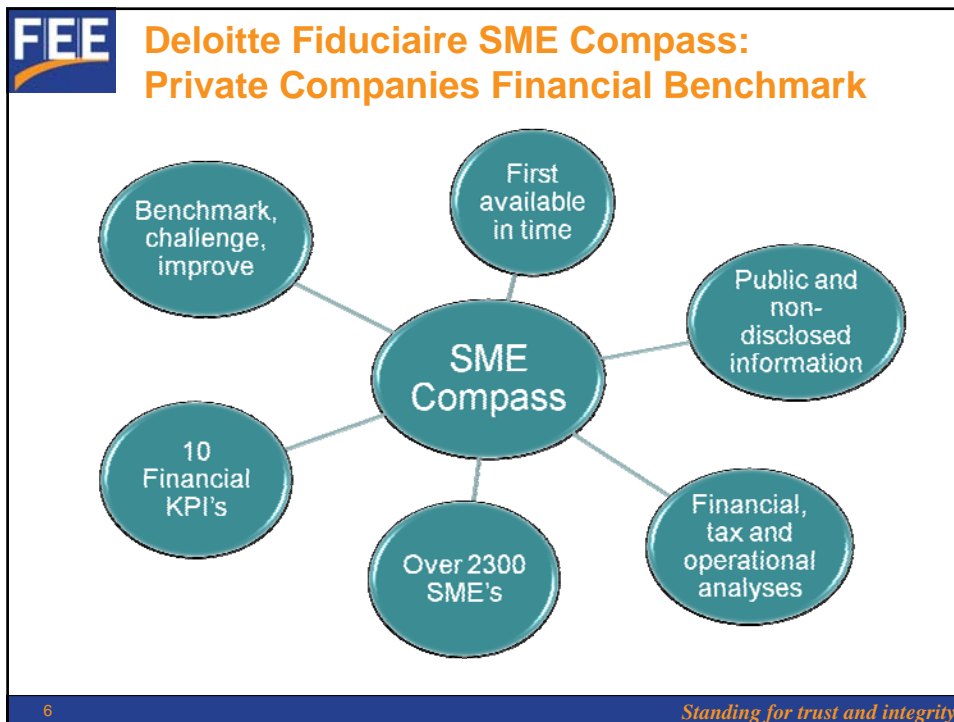
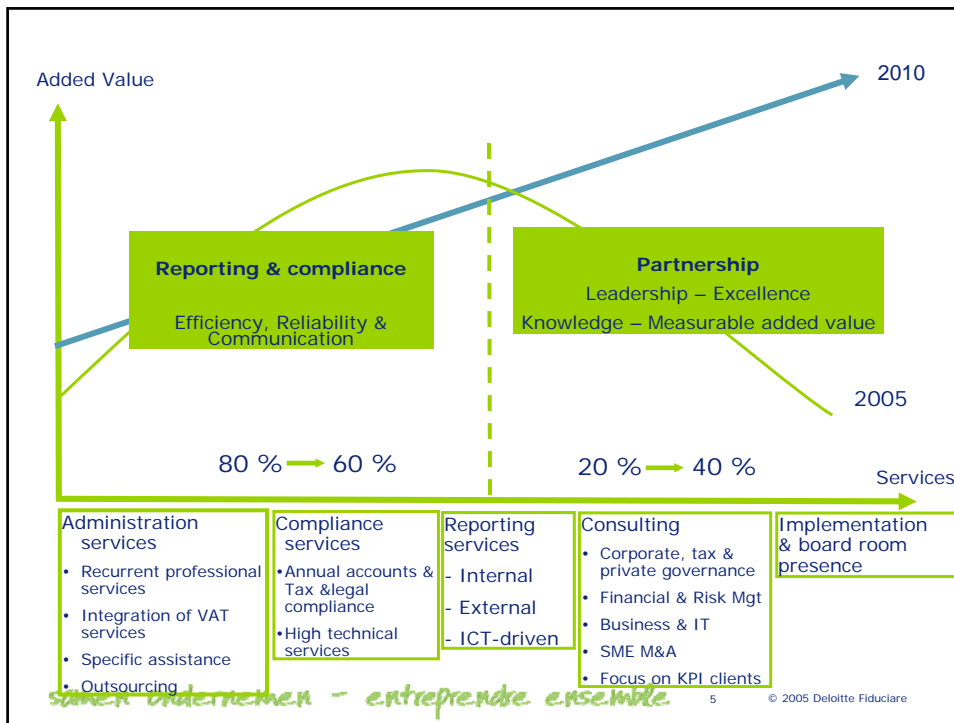
The missing link and preferred partner of business owners and CFO's of dynamic private companies and medium sized family governed companies.

Thanks to our outstanding accountants and tax & legal consultants – who are trusted business advisors – we are the unique sparring partner in realising their strategy and exploiting at most their business opportunities.

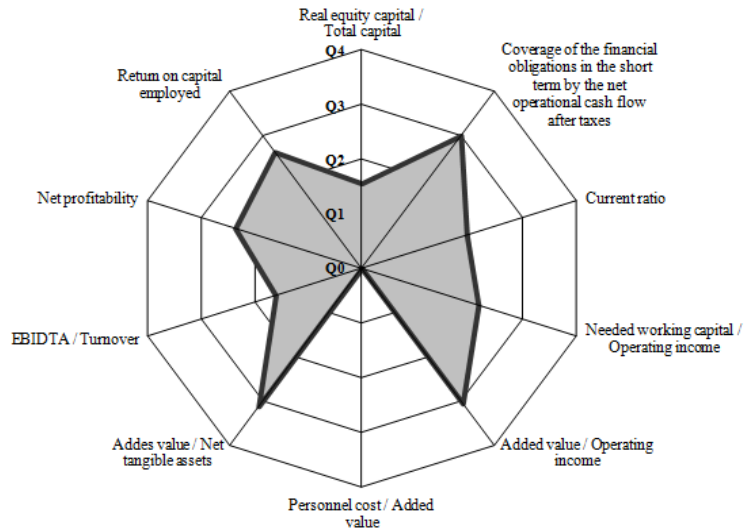
samen ondernemen - entreprendre ensemble

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Integrated in financial statement



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Gratis KMO Kompas
van uw
onderneming

Gratis aanvraag
studie

Our vision on the future

- Integrated multi-disciplinarity is our core DNA
- Combine
 - ↳ independence (from accountancy to assurance) and
 - ↳ partnership (as external CFO of private companies) thanks to specialised knowledge
- Accountancy has to add value, not to cost money
- Increasing power/importance of (global) private company
- Act local, think and advice global

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Corporate Governance

**A wider role for SMPs
encouraging SMEs to adopt
corporate practices**

Andrea De Marchi, Axis S.r.l.

Why corporate governance

Rules setting the way to run an entity for business

Vital for company

Networked business community

Balance:

- strategy and sustainability
- policies and processes
- monitoring and control function

Ensuring trustworthy relations
and restoring public confidence



Quality elements



appropriate approach
compliance
information
and
decision making process
dialogue
independence
integrity and ethical behaviour

Role of SMPs

Assurance to Stakeholder
Reliable and credible information
Compliance
Consistency
Transparency





Opportunities for SMPs

Contribute to debate on corporate governance

Responsibility to take into account the public interest

Creating trust inside and outside (entity) providing added value service:

- culture and confidence in governance
- know-how in risk assessment and management
- quality of board and management team

Wide ranging client services and new clients to service



SMEs needs

Short-term results and long-term sustainability

Human resources and technical expertise

Information flow

Adapted practices and policies

Tailored corporate governance approach

Restore confidence

Collegio Sindacale

Traditional Italian corporate governance model

- **Independent board of 3-5 members within the company's governance system**
 - qualified professionals, nominated by GA of Shareholders
- **Three main areas of ongoing monitoring and assurance**
 - statutory auditing
 - compliance with the law and with the company by-laws
 - adequacy of organisational, administrative and accounting systems of the company and their actual functioning
- **Oversight on entire decision making process**
 - take part in all meetings (Board & Shareholders)
 - unrestricted access to documents, accounts and information
 - intervention power to protect stakeholders

Collegio Sindacale

what & when

PUBLIC INTEREST ENTITIES

LIMITED LIABILITY companies

Share capital at least 20,000 €

JOINT-STOCK companies

Share capital at least 120,000 €

- Share capital is at least 120,000 €
- Not allowed to publish abridged financial statements

- Articles of association assign statutory audit to the collegio sindacale

Consolidated balance sheet

- Statutory auditing
- Assessment of Corporate Governance

- **Auditing**
 - Italian standards refer to ISAs
 - SMEs needs
- **Compliance and adequacy**
 - continuous assurance not limited to historical data
 - long-standing relationship and deep knowledge
 - SMEs needs and added-value
 - failure rate 40% less than those without
- **Independent and qualified professionals**
 - board with multi-experience and professional skills
 - integrity and transparency to gain trust of all stakeholders

- **Corporate governance**
 - beyond short-term financial performance
 - quality must be continuously improved
 - must integrate the interest of all stakeholders
 - long-term sustainable business
- **Role of accountancy profession**
 - share practices and experience
 - be open-minded and understand the need for change
 - promote governance culture
 - ongoing dialogue and discussion
 - show integrity and consistency reinforcing public confidence



THANK YOU!

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Beyond auditing: How to better service SMEs?

Tax services

Stefano Marchese, FEE Vice-President

Tax matters and the Italian profession

- The Law on the Italian accounting profession states that Commercialisti have competence, among the others, in:
 - ↪ representing and assisting taxpayers in front of the Tax Courts [Provincial T. C. and Regional (Appeal) T.C.] (tax litigation)

Tax matters and the Italian profession

- ↪ Tax bookkeeping, tax return preparation and filing
- ↪ Tax consultancy and advice: oral or written opinion, evaluation of the tax implications of a transaction or operation, suggesting arrangements or plans that are tax efficient: tax planning

Tax matters and the Italian profession

- ↪ Assurance services related to tax matters for the benefit of the taxpayer or of the Tax Administration (i.e. VAT netting, etc.)
- ↪ Assistance of taxpayers in negotiations with tax authorities

Tax matters as an area of specialisation

- The accounting profession has the leadership in Europe in tax services and related matters [see FEE, Provision of Accountancy, Audit and Related Services in Europe, 2005]

“In the overwhelming majority of countries surveyed, professional accountants are recognised as having expertise in tax matters. For technical reasons, some aspects of tax services are hardly separable from accounting services, particularly in small companies. In only a very small minority of countries surveyed is the provision of tax services reserved to professional accountants. Over half of all countries surveyed treat the bulk of tax services as an area of free consumer choice. A small number reserve the provision of these services to regulated professions, principally lawyers in addition to professional accountants”

Classification of tax services

- High Value Added Services: consultancy, tax litigation, international taxation
- Low Value Added Services: tax compliance services
- A-cyclical services: tax services

Integrating tax services in the accountancy practice

- Investments:
 - ↳ Investing in knowledge and competence
 - ↳ Specialisation
 - ↳ Multi-disciplinary practice
- Opportunities: increased complexity of the cross-border activity of EU companies in the (non or badly harmonised) Internal Market
- Returns:
 - ↳ Diversification of firm revenues, continuous need for high quality assistance to SMEs and cross-selling

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