

The Chairman of the Institute's Small and Medium Practitioners Committee, and Managing Partner of Nexia Charles Mar Fan & Co., highlights the myriad ways SMPs can stay ahead of changing standards and regulations



Big challenges for small practices

All firms, whether big or small, face various challenges but with different degrees of intensity. According to the International Federation of Accountants' 2015 global SMP survey, the two most pressing challenges facing small- and medium-sized practices are keeping up with new regulations and standards, and attracting new clients. In the case of Hong Kong, according to a mini-survey carried out at the Institute's 2015 SMP symposium, the top challenges facing SMPs are the same – keeping up with new regulations and standards affecting CPA practices.

SMPs cover a wide range of firms, from sole proprietorship to medium-sized firms. The majority of the CPA firms in Hong Kong (around 95 percent) are sole practitioners or firms having less than three partners. SMPs provide a broad range of professional services, from audit, accounting and tax services to business advisory, to meet the needs of their clients who are typically small- and medium-sized entities. They also remain heavily reliant on audit services as their main source of revenue.

Hong Kong Standards on Auditing have fully converged with International Standards on Auditing and accordingly, HKSAAs will literally need to follow the international standards. The International Auditing and Assurance Standards Board maintains a policy of a single set of auditing standards being applied to all audits

in order to ensure that the consistent delivery of high-quality audits. Hence, every audit, whether small or large, simple or complex, needs to comply with these standards.

There are concerns that some of these regulations and standards are uppermost in the minds of SMPs for whom compliance may be disproportionately burdensome. The IAASB, nevertheless, acknowledges that some requirements in the ISAs may not be relevant in the circumstances of a particular audit (e.g. audit of an SME) and in applying ISAs, the auditor is allowed to exercise professional judgment to determine the most effective approach for an audit of a particular entity.

The Institute's Small and Medium Practitioners Committee was set up with the objective to provide advice and assist the Institute to understand the needs, interests and concerns of its SMP members, and to provide the necessary support to them.

The Institute has created a designated webpage to facilitate its members in the SMP and SME sector to access related technical resources effectively. In addition, the Institute, with the assistance of the committee, published *Audit Practice Manual* and *A Guide to Quality Control* as well as the issuance of technical bulletins. The manual, with audit programmes and illustrative cases, provides guidance to the SMPs on how they can effectively conduct an audit in accordance with HKSAAs while the guide

assists SMPs with practice management issues.

The Global Knowledge Gateway, created by IFAC, provides useful technical resources to SMPs. The IFAC's SMP Committee website also has useful guides covering practice management, quality control, and ISAs for auditing SMEs.

The Financial Reporting Council in United Kingdom is also a good resource centre that publishes practice notes for practitioners. The Practice Note 26 *Guidance on Smaller Entity Audit Documentation* is useful for SMPs, demonstrating the extent of documentation required for compliance with ISAs with illustrative examples.

This year, the Institute has partnered with the Institute of Chartered Accountants in England and Wales in offering members free, premium resources on audit and ethics under the International Accounting, Auditing & Ethics online platform. Members are encouraged to make use of this facility.

There are indeed plenty of resources, both locally and globally, that provide useful guidance to help SMPs tackle the changing and demanding standards and regulations. As practitioners, we need to know where to look up for them and keep our knowledge up to date. Apart from empowering our knowledge, the pooling of resources or joint cooperation among SMPs may be a way forward.

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