



PARTNERS FOR GROWTH

MARCH 2011



SMPs AND SMEs IN EUROPE

Encouraging innovation and quality in a challenging environment

PLUS...

- Access to finance
- Helping businesses go global
- Strengthening the audit profession
- Working in partnership



**FROM MICHAEL IZZA,
ICAEW CEO**

SMEs represent 99% of businesses in the European Union: their growth will drive Europe's economic recovery. Yet they continue to face a challenging economic environment. As Joanna Drake, Director at the European Commission's Enterprise Department, makes clear in these pages, SMEs are still encountering difficulties in accessing finance. Several articles in this short publication examine what can be done to assist SMEs, including those with international aspirations.

Research shows that the SME sector looks to SMPs for an increasingly wide range of business services, in addition to traditional accounts preparation and assurance services. ICAEW members are key players in both sectors: the vast majority of our business members work in SMEs and over 11,000 practices with

five partners or less are subject to our Practice Assurance scheme.

We constantly seek innovation in the support we provide to our SMPs and business members, just as they do in the services that they supply. Enhancing the overall quality of the activities undertaken by SMPs – and thereby the value that they add to the SMEs that they serve – is critical. Increases in audit exemption levels across Europe are partly responsible for this but the creativity of practitioners themselves in response to market demands is the most important factor.

Professional bodies too have a key role in fostering this creativity. I am delighted that we are able to work in close partnership with fellow bodies in Europe to encourage innovation and quality in our profession.



**FROM MARTIN MANUZI,
ICAEW REGIONAL
DIRECTOR, EUROPE**

Maintaining high professional standards is a key theme in this publication. This is of particular relevance in light of the debate on the future of audit now taking place in Europe. As is clear in these pages, our focus on the importance of audit quality is equally shared by our fellow professional bodies. We are delighted to be working in partnership with our European counterparts, including in Bulgaria and Poland, to exchange best practice with a view to further strengthening the profession.

The establishment of the ICAEW Europe Region last year has significantly enhanced our ability to offer access to our portfolio of qualifications and capacity building services. This is in addition to our ongoing activities to engage with EU policy-makers and to extend our thought leadership work on

the many critical discussions relating to the profession in Europe. All our work on technical and regulatory issues – whether EU-focused or undertaken in partnership with professional institutes – remains firmly grounded in our public interest remit.

European SMEs are facing a critical year. Their role as the engine of sustainable economic growth is undisputed. In Brussels, as in other capitals across Europe, measures are being enacted to deal with the different obstacles that SMEs are facing. Facilitating their growth will require action also from SMEs themselves – as well as from the accountancy profession.

This publication provides different perspectives on our work as well as on issues of relevance to both SMEs and SMPs. I hope that you find it interesting.

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ACCESS TO FINANCE

Dr Joanna Drake, Director, Promotion of SMEs' competitiveness, DG Enterprise and Industry, European Commission, examines funding opportunities for SMEs.



Many SMEs encounter difficulties when trying to secure funding from banks as they do not have enough equity or simply do not meet the required standards. These problems are common in many EU countries and the European Union has launched several initiatives to help small firms secure financing.

SMEs are the backbone of the EU's economy and represent the drivers of innovation, competitiveness and growth. Despite this, their size makes it more difficult for them to obtain funding.

As we emerge from the economic downturn, it is crucial to ensure that small businesses can thrive. In June 2008, the European Commission adopted the Small Business Act, which places SMEs at the centre of policy-makers' attention at national and European level and proposes several measures concerning access to finance. The Commission has recently adopted a review communication to track progress and build on successes.

'The EU supports SMEs with grants, loans, equity investments and guarantees.'

With the Small Business Act, the EU has shortened payment times, reduced the regulatory burden facing small firms, and facilitated access to public procurement. However, to build on these achievements and encourage growth, the Commission and national governments must cooperate closely.

The EU supports SMEs with grants, loans, equity investments and guarantees. Some of the programmes are managed directly from Brussels whereas others are managed by regions, member states and local banks.

There are several different types of funding opportunities for SMEs. Firstly, those which seek to support our policy themes and objectives such as the environment, research, and education. SMEs or other organisations can usually apply directly

for grants from these programmes, generally on condition that they present high-quality projects. Depending on the programme, applicants can also include industrial groupings, business associations, business support providers or consultants. The grant only covers part of the costs of a project.

Secondly, we have our regional funds. The European Regional Development Fund and European Social Fund benefit large numbers of SMEs in various thematic programmes and initiatives. The projects are selected by the regions and the funding can take the shape of grants, loans, equity, or guarantees, depending on the region and the programme. One of the most important sources of funding that the EU countries can draw on to help small firms is the European Regional Development Fund. Many countries have decided to participate in the JEREMIE scheme that helps when these funds are used to guarantee loans to SMEs – or when they are invested in directly into them.

Thirdly, there are the financial instruments that help SMEs through professional investors and lenders: banks, venture capital funds and public financing institutions. This is an effective way of increasing the provision of finance in places where it is necessary ie, in situations of market failure. Over 300,000 European SMEs will have benefited from better access to loans and equity investments by the end of the programme in 2013.

The financial instruments in particular have proven highly effective as 90% of beneficiary SMEs are micro-enterprises and about 99% are either micro- or small enterprises. On average, each SME that gets a guaranteed loan creates 1.2 jobs. That's more than 200,000 new jobs so far under the previous programme period and more than 400,000 new jobs since the launch of the financial instruments in 1998.

Finally, the European Investment Bank has greatly expanded its lending to small businesses across Europe. About €30bn was made available for banks in 2008–2010.

HELPING BUSINESSES GO GLOBAL

Clive Lewis, Head of Enterprise, ICAEW, highlights some key points from the latest ICAEW *Global Enterprise Survey*.



Despite a challenging economic environment European businesses are generally positive about continued globalisation, as a growing number consider exporting and expanding outside their domestic market.

GLOBALLY ENGAGED

The latest ICAEW *Global Enterprise Survey* indicates that businesses in all regions covered – Europe, the US, Asia-Pacific, the Gulf and Africa – are increasingly active in international markets although barriers to expansion persist.

Regardless of size, businesses generally look first at selling into neighbouring countries before looking further afield. Most EU businesses, for example, are planning to target the EU internal market, sticking relatively close to home – although there is a high level of interest in the Asia-Pacific region.

Strategies for coping with globalisation are also converging. Again, our survey indicates that the majority of businesses across all regions plan to enhance their product offering to compete more effectively in world markets.

HURDLES TO OVERCOME

Barriers to international expansion continue to cause difficulties. Our members working in business commonly list administrative, regulatory and legal considerations as posing obstacles to their global activities. Corruption is also frequently flagged – as are issues related to the skills of local workforces and the availability of internal resources to manage expansion into new markets.

Other barriers will be familiar to accountants – from uncertainty regarding exchange rates to problems accessing finance. Consideration of the risks of exporting can deter some businesses from venturing into foreign markets at all. Accountants can play a key role, providing a vital source of expertise by:

- doing appropriate checking of potential customers to ensure they are creditworthy;
- deciding which currency to invoice in and how to reduce exchange rate risks;

- making sure the contract terms do not expose the exporter to unacceptable risks;
- ensuring compliance with the customs rules, tax regime and business laws of the importing country;
- making sure payment is received and taking out bad debt insurance; and
- ensuring that the business can accommodate the lengthier working capital cycle.

A CONSIDERED VIEW

Decisions on which markets to export into will help deal with some of these issues as will agreement on the best distribution channels, such as using local agents or setting up a local office. Costs can also be reduced or eliminated by selling products through the internet, although marketing costs in driving traffic to the website can offset some of the savings.

Decisions to sell overseas need to be based on a full understanding of all the likely costs as well as the potential profits. There may well be additional product or service costs associated with tailoring domestic sales to overseas markets. Additional insurance, marketing, commissions and travel costs may also need to be factored in.

Businesses often prepare a spreadsheet to calculate the potential profitability of export sales, sometimes with optimistic and pessimistic variations. These can be further flexed to account for potential exchange rate changes. These should be updated with actual costs after a period of trading to assess whether forecasts are being met or if action is needed to remedy the situation.

The trend towards globalisation is re-asserting itself after the financial and economic crisis. Our survey suggests that governments need to address a number of issues hindering businesses' international activities if the global economy is to continue to expand. Accountants too have a key role to play, whether making informed decisions regarding target markets or dealing with financial management issues arising from exporting.

To view the latest ICAEW *Global Enterprise Survey* visit icaew.com/enterprise.

FINANCING GROWTH

Susanna Di Felicianantonio, Head of EU Public Affairs, ICAEW, looks at how to facilitate SMEs' access to finance.



SME growth will be the foundation of economic recovery across Europe. Kick-starting growth entails external financing – and that requires a good relationship between banks and businesses.

According to data from the European Central Bank, SMEs still face difficult financing situations across the EU, with credit standards on loans having been tightened further in the last quarter of 2010. SMEs have been far slower than larger companies in regaining access to credit markets and continue to face distinctive problems in obtaining finance.

‘SMEs have been adapting to an uncertain economic environment, often by focusing on the fundamentals.’

This is also due to the inherent challenges of assessing SME risk. It is no surprise that the two European Commissioners with responsibilities in this area – Antonio Tajani (Industry and Entrepreneurship) and Michel Barnier (Internal Market and Services) – agreed last year to convene a high-level dialogue between financial institutions and SMEs to monitor market developments while putting forward concrete recommendations to improve access to finance.

With bank lending forming the largest source of external SME finance in Europe, accountants are in a unique position to assess the relationship between banks and SMEs. Accountants play a key role in advising SMEs on how to approach banks and where else to find finance when banks refuse.

ADAPTING TO CHANGE

ICAEW research, published in January 2011, highlights that SMEs have been adapting to an uncertain economic environment, often by focusing on the fundamentals – cutting costs, managing cash flow more efficiently and avoiding further indebtedness. The research, undertaken by Ipsos

MORI, sought the views of partners in practice advising UK SMEs on raising finance – people at the critical juncture between small businesses and banks.

According to the partners interviewed, SME demand for credit has been muted but there is also a sense that SMEs are poised to move into more aggressive mode as they gain confidence that their markets are recovering. In line with other data, our findings also indicate that:

- bank credit comes with tougher conditions attached;
- there is limited competition in bank lending markets for SMEs;
- alternative sources of finance are not always clear; and
- trust between banks and SMEs has been damaged.

We believe it critical that SMEs have the confidence to seek finance for growth – and have outlined some best practice recommendations to help ensure that this is the case.

STRONG LOCAL RELATIONSHIPS

Our first group of recommendations calls for a strong local relationship between banks and SMEs. We believe it is best practice for banks to empower their relationship managers and ensure that there is sufficient local discretion to agree credit applications. Relationship managers should act as businesses' advocates within the bank when presenting credit applications to local and higher management. This role must be based on a deep relationship with their customers to enhance their understanding of the businesses within their portfolio. Banks also have a key role to play in signposting other sources of advice such as accountants as well as other mentors.

CLARITY OF PROCESS

Our second group of recommendations concerns the need for banks to bring greater transparency to the process of applying for finance. In a UK context, we specifically call for commitment to a



28-day turnaround for 95% of finance applications. Our respondents felt that such a timeframe would be sufficient for banks to consider applications, including reference to credit committees where necessary. Agreeing a target, however, would set a challenge for many banks to measure and report their performance.

Another good practice would be to ensure that rejections are accompanied by advice regarding whether the business would be successful with alternative forms of finance – and if so, which ones and from whom. And we call for a clear appeals process for those that wish to query rejections at a higher level within the bank.

SOUND MANAGEMENT

SMEs must also raise their game, demonstrating good financial management when applying for finance. Our research suggests that well managed, viable businesses with good track records can

obtain the finance they need albeit at greater cost and with tougher conditions. Apart from helping SMEs to access finance, accountants can ensure that there are adequate systems in place to help SMEs to control cash flows and to be confident in their dealings with finance providers. Accountants will also be aware of the best finance deals available as well as the alternatives to bank loans and overdrafts.

Facilitating SMEs' access to finance will require action from the banking sector, SMEs themselves as well as the accounting profession. Policy-makers too will need to continue to play a major role in monitoring and supporting efforts across Europe. The stakes for future growth across the continent could not be higher.

The ICAEW *SME Access to Finance* research report (January 2011) and other related information is available at icaew.com/SMEFinance.

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CHAMPIONS OF GLOBAL STANDARDS

Robert Hodgkinson, Executive Director, Technical Strategy, ICAEW, looks at the work of ICAEW in helping to implement standards and develop guidance.



ICAEW has long championed global standards and has a fair amount of experience in implementing them. Over the past decade we have helped implement IFRS, ISAs and now clarified ISAs – all substantial changes in their own right. This work has not been easy and we have made mistakes. We hope we have learned from them, too. But we could not have done this work at all without the help of active members populating our committees, boards and working groups. They come from business and accounting firms of all sizes, from the smallest to the largest. These are the people with the real jobs in real businesses, who are out there preparing real financial statements for real companies and conducting real audits with real clients on a day-to-day basis. This alone provides us with the credibility, nationally and internationally, to effectively challenge standard-setters and regulators. Standards, after all, are a means to an end, not an end in themselves. The purpose of global standards is to raise audit quality and to enhance international consistency. Issues such as the translation of standards have a major impact on how well they are implemented as do broader structural issues such as the quality of oversight and inspection regimes as well as national cultures. With the support of ICAEW, the *Audit Quality Forum* has recently published a report, *International Consistency*, which looks at how national circumstances affect audit quality.

‘That trust is earned; we do not take it for granted.’

At the other end of the spectrum, ICAEW takes a particular interest in the application of ISAs to smaller audits. Many of our comment letters to standard-setters focus on this issue. Our ISA Implementation sub-group has been working since 2003 to ensure that the implementation of ISAs in the UK is effective. The group has run annual roadshows on ISAs for SMPs, issued numerous publications and liaised closely with training providers and standard-setters. *Right First Time with the Clarified ISAs*, our most recent ISA publication,

looks at areas that a group of practising auditors from firms of all sizes considered were likely to be most problematic for SMPs; it has been very well-received internationally.

UK standard-setters have also picked up the baton and the Auditing Practices Board’s Practice Note 26 *Guidance on Smaller Entity Audit Documentation* has proved very popular. We strongly believe that the absence of major problems reported by regulators, the relatively few voices of dissent and the absence of significant resistance to the introduction of these new standards, is testament to the resources ICAEW has devoted to implementation issues in recent years and to the trust that ICAEW members have in their professional body to support them through these major changes. That trust is earned; we do not take it for granted.

ICAEW has believed for some time that while audit remains the gold standard, there are alternatives to audit for smaller entities. ICAEW invested in this area before it even appeared on the agenda of others and our development of the Assurance Service is now paying off; much of the work we have done in this area is being referred to by national and international standard-setters.

ICAEW represents a very substantial body of smaller practitioners: we regulate over 13,000 firms with 10 or fewer partners. Our understanding of SMP issues is derived from sometimes tough discussions with a free thinking and independently minded section of our membership. The UK Government recognised the strength of our relationship with SMPs and its importance to SMEs when it recently asked ICAEW and its members to act as an authoritative source of information about relationships between SMEs and banks. We are particularly pleased that the first of our *SME Access to Finance* publications, dealing with how enterprises in the UK access finance from banks has recently been translated into Chinese.

The *International Consistency* report is available at icaew.com/aqf and the *Right First Time with the Clarified ISAs* guide at icaew.com/aaf.

TIME TO THINK SMALL FIRST

Pablo Portugal, EU Regulatory Affairs Manager, ICAEW, discusses how SMEs could benefit from a re-think of audit and assurance in Europe.



The global financial crisis looms large in the debate launched by the European Commission on the future of audit. There are many areas of reflection and ICAEW sees this as a major opportunity to enhance audit quality, choice and market confidence as part of a wider scheme of reforms to capital markets and the economic environment.

Small businesses have been particularly affected by the financial crisis: we should seize this opportunity to re-think their assurance needs so as to facilitate long-term economic recovery and job creation. A good understanding of the needs and requirements specific to SMEs – and how they differ from listed companies – is essential.

ICAEW has called for a tailored approach to SME

assurance. EU countries should be allowed to take up non-audit assurance services according to their national environment and for the benefit of audit exempt companies. A broad EU debate on future company law thresholds is needed, rather than a policy of discouraging the statutory audit in the SME sector.

Taking a long-term, public interest perspective to the debate will help meet the challenge of achieving a robust audit and assurance environment to serve the economy in the future.

The ICAEW response to the *Future of Audit Green Paper* is available as ICAEW Rep 136/10 at icaew.com/representations.



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WORKING IN PARTNERSHIP

Adam Keşik, President, the National Chamber of Statutory Auditors (KIBR), Poland, talks about the strengthening of ties between KIBR and ICAEW.



The signing of our Memorandum of Understanding with ICAEW at the end of February this year was an important moment for KIBR and our members in many ways. Our two bodies have had a strong relationship for many years: I am delighted that our ties have intensified more recently, leading to our formal agreement for cooperation.

Working with ICAEW, with its high reputation and international influence, means that KIBR has a reliable and renowned partner to help in our aim to further develop the profession in Poland. The spirit of cooperation and obvious commitment to development in Poland, the region and internationally is a refreshing approach for a fellow professional body and inspires confidence in the work ICAEW is performing.

From my perspective, it is particularly significant that we are undertaking much of this work jointly. The joint ICAEW–KIBR workshops on quality control and auditing standards, recently held in Warsaw, are one such example of cooperation. I am convinced that sharing expertise through such initiatives is very important for KIBR members. I hope the workshops will have provided important continuing professional development for our members as well as the opportunity to broaden knowledge about approaches to ISQC1 and the clarity ISAs. I look forward to working with ICAEW in developing similar workshops and conferences as we embed our partnership.

‘The spirit of cooperation and obvious commitment ... is a refreshing approach.’

ATTRACTING THE BEST PEOPLE

One of the key challenges we face is to ensure that we continue to attract the best people to our profession – and to keep their knowledge updated once they qualify. When I visited Chartered Accountants’ Hall, ICAEW’s London headquarters, for our Memorandum of Understanding signing

ceremony, I had the pleasure of meeting a number of ICAEW’s many experts. In particular, I discussed how our two bodies might work together to ensure the continued provision of high-quality education for accountants and auditors in Poland, both those wishing to join our profession and those who are long standing members. Sharing best practice of ICAEW’s highly-respected ACA qualification and of its specialist Faculties and other member services is hugely beneficial for KIBR – as for other professional bodies in the region – and I look forward to their further development in Central and Eastern Europe.

AUDIT CHALLENGE

Without a doubt, the biggest challenge our profession faces at the moment is that posed by the debate on the future of audit currently underway in Brussels.

From our perspective, we believe it critical that auditors enjoy the confidence of the public and private capital markets. But we consider it important to also underline that the Statutory Audit Directive has not yet been fully implemented in all EU countries – and that we are still awaiting a comprehensive assessment of the impact of the changes introduced by this Directive on the functioning of the profession across the EU. Any proposed changes in the audit policy area must be considered also in light of parallel initiatives dealing with corporate governance and financial reporting issues.

We will continue to work closely with our partners at the Federation of European Accountants to ensure the profession addresses the key issues under discussion, supporting initiatives, including those that may arise at European level, which will help maintain and enhance audit quality. Our overarching goal remains to ensure that our members are well positioned to face the challenges ahead.

QUALITY MATTERS TO SMPs AND SMEs

David Chitty, International Accounting and Auditing Director, Crowe Horwath International, explains why audit quality is so important.



I have the privilege of wearing several different professional hats. I am a member of ICAEW's Council, a member of IFAC's SMP Committee, and a partner in a mid-tier firm with significant interests and a substantial presence in Asia and the USA, as well as in Europe. Regardless of which hat I am wearing, quality, and especially audit quality, is never far from my mind.

The issue is not just on my agenda: it is also on the agendas of audit regulators in Europe. It is a difficult concept to grasp – and one that it is important to understand properly if it is to be achieved. For this reason, it has been debated at some length and for some time by professional bodies, regulators and others. Indeed, regulators now expect to see reference to audit quality in firms' brochures. In the UK, there is much emphasis on ISQC 1, which I believe is an audit quality fundamental.

ICAEW pioneered the idea of a multi-stakeholder *Audit Quality Forum* (AQF) in 2004. Since then, the AQF, and UK and international regulators and standard-setters (taking their cue from ICAEW), have issued a number of publications on the subject. The most recent includes the AQF's fourth work programme *Global Challenges* which covers how national infrastructures affect audit quality, what makes financial statements reliable, the auditor's role in managing systemic risk and the provision of non-audit services by auditors.

The IAASB's *Audit Quality an IAASB Perspective* is another significant contribution to this debate. But rather neglected until recently, has been some recognition of the fact that audit quality is important not just to auditors and regulators, but to audit clients! I strongly believe that in the future, firms will increasingly compete on the basis of audit quality and that this is to be welcomed. Firstly, it provides an opportunity for firms to distinguish themselves from one another. Secondly, it addresses audit efficiency and effectiveness, and hence audit profitability. This is a virtuous circle but it depends on the fundamentals being in place. I believe that adherence to ISQC 1, as part of the corpus of international standards, or to a standard



that is at least equivalent to this, is fundamental to audit quality. Without the bedrock of proper audit quality procedures at the firm level, audit quality procedures at the engagement level are built on shaky foundations.

While auditing standards are only one contributor to audit quality, they are an important contributor. Another audit quality fundamental is that of clarified ISAs throughout Europe. Regardless of what is happening in Brussels, many countries across Europe are adopting clarified ISAs. The challenge for firms, and particularly networks of firms such as mine, is to provide effective implementation support across the region. This is a substantial undertaking. As always, implementation is the critical element in raising standards and I am delighted to note that standard-setters and regulators are increasingly aware of the need for them to step up to the mark and contribute, alongside the firms and the professional bodies



‘In the future, firms will increasingly compete on the basis of audit quality.’

to the overall implementation effort. The material produced by IFAC on ISA implementation is testament to the importance that one standard-setter attaches to high-quality implementation. It sets a good example to other standard-setters.

Quality of regulation is also key. Audit regulation, and regulation of the profession in general across Europe, is currently undergoing a profound transformation. I hope that the changes now being made will have the desired effect of opening up European markets to a wider range of high-quality audit, assurance and other services – especially those provided by SMPs to SMEs. It is essential

that governments, regulators and standard-setters keep these objectives in mind when developing and implementing changes. We must all remember that reining in the commercial excesses of the few must not result in the suffocation by regulation of the many. SMEs are critical to recovery and growth in Europe and they rely on a vigorous and active market in services provided by SMPs, including audit services.

Audit is the gold standard. It is important that SMPs continue to be able to provide it to their clients, regardless of thresholds for audit exemption, in order to encourage competition and choice while avoiding further polarisation in the market for audit services. ICAEW, IFAC and my firm all strongly believe that an audit is an audit and that auditing standards should continue to be workable for audits of all sizes. Anything less would be a disservice to the millions of SMEs that are the backbone of Europe’s economy.

MOVING TOWARDS NEW REPORTING REQUIREMENTS IN TURKEY

Dr Cemal İbiş, President, Expert Accountants' Association of Turkey (EAAT), assesses the impact of the new Turkish Commercial Code on the ability of businesses to access capital.



Turkey, where east meets west, has a young and dynamic population of almost 75m people with an active labour force of about 25m people. A candidate for EU membership, Turkey has the fourth largest labour market in Europe, and is the sixth largest economy in Europe, the sixteenth largest in the world. As one of the top 10 emerging markets, it is also a member of G20. With an average GDP growth rate of 6% over the 2004–2008 period, Turkey is forecast by the OECD to have the third highest growth rate after China and India by 2017. Foreign direct investment inflows amounted to €10bn in 2008, while Turkish direct investments in more than 50 countries amounted to €1.7bn.

SMEs (with under 250 employees) have a particular importance in the Turkish economy; of businesses operating in Turkey, 99.5% can be classified as SMEs. These companies provide approximately 70% of workforce and 33% of GDP. A strong SME structure in Turkey will continue to contribute positively to the economy helping to lower unemployment while increasing productivity, competitiveness and growth. But Turkish SMEs also face problems. Difficulties include managerial shortcomings caused by a lack of professional managers and skilled employees, problems in the process of institutionalisation, deficiencies in management information systems, and insufficiencies of capital, all of which are caused by an organisational structure common to all SMEs.

Like all countries, Turkey has to deal with extremely rapid developments across most economic sectors. The increase in international business activities, investment decisions, and the pace of transformation in capital markets affected by technological changes, require new regulations in the economy.

A NEW COMMERCIAL CODE

There has been significant progress in recent years in improving the environment and framework for financial reporting in Turkey. Further reforms are in progress. Of particular note, is the new Turkish

Commercial Code, due to come into effect on 1 July 2012.

Financial reporting in Turkey has traditionally been based on tax accounting which does not necessarily provide adequate information for managers, investors and creditors. Accounting requirements are also fragmented, with several agencies issuing specific accounting standards for entities falling under their respective jurisdictions.

The new Turkish Commercial Code will modernise statutory regulations of financial reporting. In doing so, it will set a major challenge for the accounting and auditing profession in Turkey through the requirement to apply Turkish Accounting Standards (TASs) based on IFRS and audits based on International Standards of Auditing (ISAs).

The Turkish Commercial Code specifically requires all companies to:

- present their legal and consolidated financial statements in accordance with TASs which are based on IFRS;
- have an annual audit by independent auditors. (these audits must be carried out in accordance with ISAs); and
- publish financial statements on the company website and in the *Trade Registry Gazette*.

Benefits of full application of IFRS and ISAs in Turkey are likely to include easier access to credit in the world financial markets, a decreased cost of capital and an increase in foreign direct investments in Turkey. The new Commercial Code should also create an acceptable and understandable financial reporting environment for stakeholders, facilitating integration with the international economic environment while further encouraging Turkey's prospective membership of European Union.

The Turkish Commercial Code will significantly improve the statutory framework for financial reporting and is expected to bring significant benefits. The accounting and auditing profession in Turkey will need to respond to the new challenges brought about by a new regulatory framework.

STRENGTHENING THE AUDIT PROFESSION IN BULGARIA

Professor Mihail Dinev, President, the Institute of Certified Public Accountants in Bulgaria (ICPAB), examines the role of professional bodies in building quality.



Stimulating a creative atmosphere of mutual respect and ethical behaviour is a key function of my role as President of ICPAB. This is particularly important in light of the current debate on the future of audit underway across the EU at the moment – and I hope that our biennial congress on the role of registered auditors in strengthening trust in the Bulgarian economy, which takes place this spring, will provide a useful forum to discuss these critical issues.

‘Our focus on developing and promoting the audit profession informs many of our activities.’

THE IMPORTANCE OF PROFESSIONALISM

It is the job of bodies such as ICPAB and ICAEW to ensure the ongoing maintenance of high professional standards. As an independent, self-sustaining professional body, ICPAB provides for the exercise of registered auditors in the public interest. Like many of our counterparts, we organise and run exams to award certified public accountant diplomas. We also ensure our members undertake continuing professional development (CPD), often inviting lecturers from other countries, including recently from ICAEW. Disseminating information on developments in the accounting and audit spheres is essential: my aim is for all ICPAB members to be able to access all news relating to accountancy, audit, tax, legal and commercial matters.

Our focus on developing and promoting the audit profession informs many of our activities – from quality control of audit activity to research activities on independent financial audit, accounting and financial analysis, to name but a few. We engage closely with the Bulgarian Parliament, the Ministry of Finance and other governmental structures; this in addition to our close contacts with the World Bank, IFAC, and FEE as well as professional bodies in the UK, France, Italy, Germany and beyond.

KNOWING OUR PARTNERS

We pay special attention to establishing relations with leading European professional bodies. It is vital if we are to gather knowledge and exchange best practice. In this respect, I warmly welcome our closer relationship with ICAEW over the last years. From the early days of getting to know each other better we are now liaising on significant issues such as quality control, training and education, enforcement and disciplinary processes. Much of this work builds on the outcomes of several workshops, including a joint roundtable where we discussed international trends as well as implementation of the EU Statutory Audit Directive.

I would particularly like to flag a five-day quality assurance workshop held in Sofia at the end of 2009 which brought together staff from the Bulgarian Oversight Commission (CPOSA) and ICPAB. ICAEW trainers made sure the interactive programme gave participants real insight into audit oversight in the UK – as well as in-depth understanding of the ICAEW’s quality assurance methodology. This was followed up by a visit in late 2010 to Chartered Accountants’ Hall by two CPOSA representatives and the chairman of ICPAB’s Quality Assurance Committee where they had the valuable opportunity to participate in an ICAEW quality assurance review visit. We are now studying the possibility of transferring the ICAEW quality assurance methodology into our practice.

Looking ahead, there are a number of areas that we would like to investigate further, ranging from undertaking further work in the CPD area to studying ICAEW’s experience in developing and managing qualifications. I hope that we will also be able to translate and publish some of ICAEW’s technical guides, circulating them more widely to our membership.

Strengthening relationships between organisations takes initiative, creativity and commitment: I am determined that ICPAB and ICAEW will continue working together in the future to advance high ethical standards for the profession in Bulgaria.



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