Feedback Statement and Way Forward
Audits of Less Complex Entities
The International Auditing and Assurance Standards Board (IAASB) is a global independent standard-setting body that serves the public interest by setting high-quality international standards which are generally accepted worldwide.

The IAASB follows a rigorous process in developing its standards, involving multi-stakeholder input, including from the IAASB’s Consultative Advisory Group, the International Federation of Accountants’ (IFAC) relevant committees and professional accountancy organizations, regulatory and oversight bodies, firms, national standard setters (NSS), governmental agencies, investors, preparers and the general public.

Contents

- A Word from the IAASB Chair ................................................................. 3
- Section I – Background ........................................................................... 4
- Section II – Overview of Respondents ...................................................... 5
- Section III – Overview of Responses to Discussion Paper.......................6-7
- Section IV – Feedback from the IFAC Survey.............................................8
- Section V – Feedback from the IAASB’s Paris Roundtable.......................9
- Section VI – The Way Forward..................................................................10
Purpose of this Feedback Statement

This Feedback Statement provides an overview of the key messages from the responses to the IAASB’s Discussion Paper, *Audits of Less Complex Entities: Exploring Possible Options to Address the Challenges in Applying the ISAs*, and related outreach activities.

The IAASB welcomes the significant interest in our work related to audits of less complex entities (LCE) and appreciates respondent comments which have been thoughtful and informative.

A Word from the IAASB Chair…

Our recent consultation on audits of less complex entities has garnered much interest – we have received feedback to our questions from a wide range of jurisdictions and stakeholder groups. Not only did we receive a significant number of written responses to our Discussion Paper, we are excited to benefit from the more than 1,700 respondents from a broad range of jurisdictions to the International Federation of Accountants’ (IFAC) survey.

The unprecedented participation in our consultation and thoughtful comments received demonstrate the importance of, and interest in, this initiative. The IFAC survey, which was based on the questions in our Discussion Paper, ran concurrently with our consultation during the consultation period. Through the survey we heard from many stakeholders we would not ordinarily have heard from, in particular practitioners who offered many valuable insights as to the challenges of auditing less complex entities.

Throughout this consultation process, including our related outreach activities, we have heard that there are a diversity of views on the three options that we outlined for possible action. This may be a reflection that these options are not mutually exclusive.

In the coming months we will seek to chart a clear course of action on this topic. We will do so taking into account the views expressed by all of our stakeholders, and hope that our efforts in this area will be beneficial to all who benefit from high-quality audit and assurance standards, not only those auditing less complex entities.

We have developed this feedback statement to acknowledge the important and constructive input received, but also to keep our stakeholders informed about where we are in this important initiative. The IAASB believes that sharing what we have heard will be useful in stimulating further thinking and exploration of this very important topic.

TOM SEIDENSTEIN
IAASB Chair
I. Background

**2016**
IAASB establishes informal Working Group to explore issues and challenges relating to audits of Small and Medium-Sized Entities (SMEs).

**2017**
Jan – first Paris roundtables to explore issues and challenges related to SMEs / small and medium practices (SMPs);
Informal working group continues to explore related matters.

**2018**
March – IAASB in executive session discuss feedback from first Paris roundtable and other outreach
Dec – proposal agreed for formal information gathering related to audits of LCEs

**2019**
May – second Paris Roundtable
April to Sep – consultation through DP and surveys
Working Group continues to explores matters related to audits of LCEs

**2020**
March - recommendations for future actions discussed by IAASB
II. Overview of Respondents

- **Number of Countries**
  - Europe: 39
  - Asia Pacific: 29
  - South America: 46
  - Africa and Middle East: 13
  - North America: 2

- **Respondents - Discussion Paper**
  - IFAC Survey: 542
  - Discussion Paper: 67

- **Respondents – IFAC Survey**
  - Academics: 315
  - Accounting Firms: 509
  - National Auditing Standard Setters: 16
  - Regulators and Audit Oversight Authorities: 23
  - Individuals and Others: 45
  - Public Sector Organizations: 57
  - Member and Other Professional Organizations: 32
  - Public Practice: 27
  - Preparers of Financial Statements: 86
  - IFAC Member Organization: 27
  - Those Charged with Governance: 13
  - Investors / Analyst: 46
  - Others: 22

**Global Respondents:** 18
III. Overview of Responses to the Discussion Paper

The comment period for the Discussion Paper closed on September 12, 2019, and we received 93 responses. An overview of the respondents by country and group is set out on page 5.
Key Messages from Respondents to the Discussion Paper

The IAASB welcomes respondents support for our efforts on this initiative, and we will use the valuable and helpful information as we determine our future actions in relation to LCEs. Broadly, the following sets out a high-level summary of the key messages in the responses.

Description of “Less Complex Entities”
- Support for a principle-based approach using qualitative characteristics
- Further consideration needed about qualitative characteristics, including other risk-based factors
- Mixed views on excluding ‘listed’ or ‘public interest entities’ expressed
- Caution that description needs to be in context of outcomes of IAASB’s work – so that description is relevant

Root Causes of the Challenges in Using the ISAs in an Audit of LCEs (relating to ISAs)
- Overall length and volume of the standards
- Complexity is an issue, as well as increasing level of prescriptiveness
- Some prescribed procedures in some cases do not have a benefit or add little value
- Lack of support tools and guidance
- Specific ISAs highlighted include ISA 230 (documentation), ISA 240 (fraud), ISA 315 (Revised) (identifying and assessing risks) and ISA 540 (Revised) (accounting estimates)

Possible Actions – Mixed Views on All Options

<table>
<thead>
<tr>
<th>OPTION A – REVISING THE ISAS</th>
<th>OPTION B – DEVELOPING A SEPARATE STANDARD</th>
<th>OPTION C – GUIDANCE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Preference for ‘building-blocks’ approach</td>
<td>More timely - would be quicker than revising all of the ISAs</td>
<td>Not seen as a standalone solution</td>
</tr>
<tr>
<td>Mixed views about targeted approach versus a ‘big bang’</td>
<td>Needs to be a reasonable level of assurance</td>
<td>Need identified, but should support the other two options as appropriate</td>
</tr>
<tr>
<td>Would be most effective solution in addressing issues and challenges, but recognition that not timely</td>
<td>Little support for development of a separate standard using a different framework – i.e., not based on the ISAs</td>
<td></td>
</tr>
<tr>
<td>Need simpler language and principles-based requirements</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Need more scalability and proportionality</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

IAASB encouraged to consider a combination of approaches
IV. Feedback from the IFAC Survey

IFAC undertook an online survey, at the same time that the IAASB Discussion Paper was out for consultation, targeted at stakeholders who would not necessarily respond to the IAASB’s formal consultation. The information from this survey will help inform the IAASB’s discussions as it determines its future actions.

### Top three most significant matters impacting the audit environment for LCEs

<table>
<thead>
<tr>
<th>Issue</th>
<th>No. 1 most significant</th>
<th>No. 2</th>
<th>No. 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Users do not value audit as a service</td>
<td>21%</td>
<td>18%</td>
<td>13%</td>
</tr>
<tr>
<td>Audit fee pressure</td>
<td>19%</td>
<td>19%</td>
<td>17%</td>
</tr>
<tr>
<td>An expectation gap between what is required of an auditor and what is expected by some stakeholders</td>
<td>16%</td>
<td>16%</td>
<td>14%</td>
</tr>
</tbody>
</table>

### Top three most significant issues that make the ISAs challenging to apply to audits of LCEs

<table>
<thead>
<tr>
<th>Issue</th>
<th>No. 1 most significant</th>
<th>No. 2</th>
<th>No. 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Requirements result in certain procedures being performed solely to comply with ISA requirements with no additional assurance or measurable increase in audit quality</td>
<td>23%</td>
<td>18%</td>
<td>12%</td>
</tr>
<tr>
<td>Documentation requirements are extensive and onerous</td>
<td>16%</td>
<td>12%</td>
<td>12%</td>
</tr>
<tr>
<td>There is a lack of separate implementation support/guidance in respect of the application of the ISAs to the audit of LCEs</td>
<td>12%</td>
<td>13%</td>
<td>13%</td>
</tr>
</tbody>
</table>

### Revising the ISAs
- 45% Buildings Blocks
- 35% Greater Focus on what the Auditor needs to do

### Separate Standard:
- 60% Based on ISAs
- 38% Based on a Different Framework

### Guidance:
- 44% Comprehensive ISA Guide
- 20% International Auditing Practice Note (IAPN)

### Other
- 2%
V. Feedback from IAASB’s Paris Roundtable

Views expressed at the IAASB’s conference discussing matters related to audits of LCE’s included quick polls during the event.

**ACTION TO BE PURSUED AS A PRIORITY**

- Revising ISAs 51%
- Developing separate standard 44%
- Guidance 5%

**MOST SIGNIFICANT ISSUE THAT MAKES ISAs CHALLENGING TO APPLY IN AUDITS OF LCES**

- Language complex and difficult to understand (24%)
- ISAs long and voluminous (46%)
- Documentation requirements extensive and onerous (6%)
- Other (24%)

73 Participants
24 countries
## VI. The Way Forward

<table>
<thead>
<tr>
<th>What We Have Heard</th>
<th>Our Actions Going Forward</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Mixed Views</strong></td>
<td></td>
</tr>
<tr>
<td>We have heard mixed views on the options – the way forward is likely a combination of approaches</td>
<td></td>
</tr>
<tr>
<td><strong>Committed to Action</strong></td>
<td></td>
</tr>
<tr>
<td>We are committed to moving forward – we recognize a global solution is needed</td>
<td></td>
</tr>
<tr>
<td><strong>Implications for All of Our Stakeholders</strong></td>
<td></td>
</tr>
<tr>
<td>We will remain mindful of the implications of the options selected for all of our stakeholders</td>
<td></td>
</tr>
</tbody>
</table>

**Where Are We?**
We are currently analyzing and discussing feedback – first discussions in December 2019.

**How Will We Move Forward?**
Recommendations for the way forward will be discussed at our March 2020 IAASB meeting. The proposed recommendations will likely include actions related to LCE’s, as well as a broader consideration of the ISAs.