Audits of Less Complex Entities
Q3 Challenges not within control and scope of IAASB work on audits of LCEs

Q3 Value of audit and public expectations

3. National Audit Standards Setters

American Institute of Certified Public Accountants (AICPA) - 27

The perceived value of an audit is an issue with audits of LCEs. Robust standards are written to help ensure quality audits are performed, that apply to all entities, requiring extensive documentation requirements. We suggest that an analysis of the time and effort required to implement the standards be considered when writing new or revised auditing standards.

Australian Auditing and Assurance Standards Board - 73

Value of an audit and public expectations

Globally there are issues with the audit expectation gap. Audits, particularly in the LCE market, are in some cases considered purely as a compliance exercise with no value added. Whilst individual jurisdictions can work on addressing the gap, the IAASB should have an opinion and should identify actions to improve understanding of the audit process and the auditor’s role at a global level.

Austrian Chamber of Tax Advisors and Public Accountants (KSW) - 20

Answer: The IAASB could play an important role in promoting the role and value of audits, including LCE audit, in our society. In particular, the IAASB could do this by focusing on positive contributions of audit such as providing trust to the users of financial statements, including those of LCEs. The IAASB could also stress the value of an audit, which could change the view of many entities, even very large ones, that an audit is only a costly and time-consuming burden.

Canadian Auditing and Assurance Standards Board - 81

Educating users about the value of an audit

We believe that it is important to educate users about the value of an audit, including its contribution to public trust, capital markets, and good business practices. The value of an audit may not be understood by users based on practitioners’ comments that they are pressured by their clients to reduce audit fees. The IAASB is encouraged to further consider how the value of an audit can be better communicated to users and other stakeholders. We encourage the IAASB to work with users and other stakeholders to narrow the expectation gap.

Korean Auditing and Assurance Standards Board (KAASB) - 23

In addition, in order to improve audit environments for LCEs, the public awareness of value of audit should be enhanced, while at the same time public expectation on audit being satisfied as well.

When performing audit procedures as set out in the ISAs, understanding and cooperation from management and stakeholders are critical. The lack of awareness of management and stakeholders on the value of audit could bring about auditors not receiving sufficient cooperation from entities’ end, thereby creating unnecessary conflicts and increasing expectation gaps in applying the ISAs.
This DP does not deal with the value of audits, but we believe efforts to improve awareness of management and stakeholders on the value of audits should come first.

**Malaysian Institute of Accountants (MIA) - 30**

Another area on which the IAASB can place more efforts would be the promotion and advocacy of the value of audit of LCEs and how it is fit for purpose for their users, namely the LCE business owners.

**New Zealand Auditing and Assurance Standards Board - 53**

It is essential to understand what value is sought from an audit by smaller entities and why the existing arrangement is not addressing their needs. It is therefore important to engage with potential and existing users of audits of LCEs to evaluate how better to address their needs. Without such an engagement, auditing standards may stop to be relevant to a very important segment of the world economy.

We therefore believe that, out of the factors driving challenges that are excluded from this project (either because they are not within the IAASB’s control or scoped out of this project), the following factors should be a focus.

Commercial considerations relating to an audit

Value of an audit

Engagements other than audits

The NZAuASB believes that there is considerable overlap between the above factors and that it might be appropriate to consider these factors using an integrated approach.

4. Accounting Firms

**Baker Tilly International - 43**

- Addressing the expectation gap – working with other bodies in the profession and stakeholder bodies, the IAASB and others should focus on clarifying the public expectations of an audit to help reduce the expectation gap. Furthermore, it should work with appropriate bodies in the financial statements supply chain to make clear that audit quality and compliance can only improve where there is a suitable fee to perform such work and where the entity itself has the capability to prepare good quality financial statements. We believe that some of our suggestions around the level of assurance provided to LCEs and audit reporting would also go some way to addressing the expectation gap.

**Crowe Global - 86**

Expectations and Value

The IAASB makes important observations, and we would encourage it to use projects such as the audit of LCEs to debate the expectations of an audit of an LCE and the value that stakeholders derive from such an audit. Any audit has to meet the expectations of stakeholders and deliver value.

**HLB International - 57**

Value of an audit – while this has been scoped out, it is of paramount importance to continue to bring along and educate stakeholders (management, TCWG, the public at large) about the value of an audit. In particular, it would be helpful to have education campaigns regarding revisions to existing standards and why they serve the public interest as these changes can sometimes be viewed as adding little value or only as an excuse to increase audit fees.
HW Fisher - 17

While we accept that managing public expectations is outside IAASB's current remit, it would be useful if in public pronouncements the IAASB could describe audit as relying on judgements about the future and on judgements regarding the sufficiency of the evidence that can realistically be obtained in a cost-effective manner. The expectation that an audit would ever be able to give a conclusive clean bill of health is not realistic.

MNP LLP - 8

In our view it would be beneficial to focus on the value of an audit and public expectations.

The lack of trust in the audit process and persisting expectations gap puts added pressure on auditors already struggling to apply certain aspects of the ISAs to LCEs. Given these outside pressures, and absent any specific scalability guidance, auditors struggle to apply professional judgment to scale the level of procedures to perform on audits of LCEs.

Moore Global - 78

As regards the issue of the value of audit, we believe that if IAASB cannot articulate why audit is valuable then it may be that nobody can. We also believe that if IAASB is not prepared to stand up for the value of audit then it may be that nobody else will. We believe that it is crucial for IAASB to collaborate with the professional accountancy bodies, national standard setters (and regulators if appropriate) to drive the evolution of audit, in terms of transparency, audit technology and methodology to ensure that today’s profession is not left behind. We believe it is absolutely in IAASB’s remit to enhance the public's understanding of the value of audit.

NEXIA International - 52

Articulating and demonstrating the value of audit for LCEs, particularly those undertaking a voluntary audit. This is a public interest issue and an issue IAASB needs to consider in terms of its own long term strategic planning. The market is becoming increasingly cynical about the value of audit overall.

Other Areas of Focus:

PwC - 84

We believe IFAC has a key role to play in promoting the value of audit and in seeking to address the challenges identified with respect to public expectations and understanding of an audit. IFAC could take a lead in the debate over the future of audit, working with national standard-setters and others, allowing the IAASB to focus on analysing and responding to the feedback received. We believe it would, however, be important for the IAASB to be consulted on any such IFAC initiative.

RSM International Limited - 65

In our view, the IAASB could use its influence to provide thought leadership, lead debates and encourage others to act on the following:

Value of an audit; owners of LCEs often see the audit as merely a compliance exercise which must be completed due to a legislative requirement. They fail to see the other benefits, such as access to funding, that an audit can bring. Greater awareness of the wider value of an audit would be useful in mitigating this issue and might help to alleviate the fee pressure issue mentioned in this section.
Public expectations; as noted on page 12, it is important to close the “expectation gap” and improving the application of ISAs to LCEs may help to do this. However, this would only partly solve the problem. More needs to be done, in conjunction with others, to determine the changes necessary to the audit process to meet public expectations. This would be an opportunity for the profession itself to change and move the emphasis and scope of the audit to provide additional insight and assurance over broader risks and perhaps more forward looking information.

6. Member Bodies and Other Professional Organizations

Accountancy Europe - 83

Given how SMEs / LCEs make a critical contribution to the global economy, The IAASB could play a role in promoting the role and value of services provided to SMEs and LCEs more generally. These supporting actions could be done in collaboration with IFAC.

Promoting the Role and value of audit in the society, including in LCEs

The IAASB could play a role in promoting the role and value of audit, including LCE audit, to society. In particular, the IAASB could do this by focusing on the importance of providing trust to the users of the financial statements, including those of LCEs.

As detailed below, taking into account what has happened in Italy or Sweden, where the positive effects of audit have recently been rediscovered, clearly demonstrate the value of audit and could serve as helpful examples.

ASSIREVI - 3

Secondly, but not less important, would be the continuous effort to close the expectation gap.

However, our suggestions are relevant for all audits not only LCEs.

Belgium Institute of Registered Auditors (IBR-IRE) - 11

The IAASB could play a role in promoting the role of audit, including LCE audit, in our society. In particular, the IAASB could do this by focusing on positive contributions of audit such as bringing trust to the users of the financial statements, including those of LCEs.

Chartered Accountants Australia and New Zealand (CA ANZ) and ACCA - 51

The DP notes that exploring the value of an audit is relevant to LCE audits, but places this outside the scope of the discussion paper. We believe that broader considerations of the value of an audit are fundamental to the consideration of the LCE audits issue. A cornerstone of the discussion about the value of audit to the market is the need for the product (whether that is an ‘audit’ or an ‘LCE audit’) to be fit for purpose and meet the needs of users. The approach taken in addressing LCE audits will pay a role in how the profession adds value to the market in this space and therefore needs to be fit for purpose.

CPA Ireland - 70

We recognise that there are challenges that are not within the control or scope of this exercise. The factors that are scoped out of this exercise are though critically important to the success of the exercise. Of particular importance is the question raised around the value of the audit and this is a matter for ongoing debate and focus. Addressing the scalability of the ISAs for the LCE market, we believe, will enhance the value of the audit.
European Federation of Accountants and Auditors for SMEs (EFEAA) - 38

We have some concerns regarding the factors driving challenges that the IAASB believes fall outside its control or have been scoped out of its exploratory information gathering activities.

As we state above under ‘General Remarks’ the ultimate objective of this project must be to improve the cost-benefit of the LCE audit, and this demands the project also focus on enhancing the benefits not just the cost of performing LCE audits as present. We therefore urge the Board keep an open mind as to the need to change the standards to increase the benefits and value of audit to SMEs. Moreover, these benefits need to be better communicated since public perception is as important as fact. This is one area where others can be encouraged to act.

Purpose, Value and Benefits of SME Audit

Irrespective of the outcome of this project we encourage a concerted effort by the IAASB, IFAC, PAOs and others to communicate the value and benefits of SME audit. EFAA has recently published a report ‘Evidence on the Value of Audit for SMEs in Europe: Perspectives of Owner-Managers, Company Accountants and Directors’ that presents new and previous evidence on the perceived value of audit for SMEs in Europe. The key findings, summarized in the news release, indicate that we seem to be failing to convincingly communicate the purpose, value and benefits of the audit.

A survey of SMEs revealed that the top three most commonly cited benefits from having an audit were ‘audit provides a check on accounting systems and records’, ‘auditor provides useful advice to management’ and ‘improves internal control’, significantly ahead of ‘gives assurance to external providers of finance’. The evidence has potentially significant implications. Regulators may have gone too far in exempting small companies from having to have an audit as part of a perceived relief from regulatory burdens on SMEs. Furthermore, if SMEs have a strong desire to receive advice from the auditor as part of the audit then this may ultimately demand that the current auditing and ethical standards be modified to allow for auditors of SMEs to render certain types of advice during the ordinary course of the audit engagement, while at the same time maintaining a high level of auditing and ethical standards. A separate standard, based on the ISAs, make this possible.

As explained above under ‘General Remarks’ and Q3 irrespective of the outcome of this project we encourage a concerted effort by the IAASB, IFAC, PAOs and others to communicate the value and benefits of SME audit. EFAA’s recently published a report ‘Evidence on the Value of Audit for SMEs in Europe: Perspectives of Owner-Managers, Company Accountants and Directors’, summarized in the news release, indicates that we seem to be failing to convincingly communicate the purpose, value and benefits of the audit.

Irrespective of the outcome of this project we encourage a concerted effort by the IAASB, IFAC, PAOs and others to communicate the value and benefits of SME audit. As we explain above EFAA’s recently published a report ‘Evidence on the Value of Audit for SMEs in Europe: Perspectives of Owner-Managers, Company Accountants and Directors’, indicate that we seem to be failing to convincingly communicate the purpose, value and benefits of the audit. This presents other or exacerbates other challenges, for example, intensifying downward pressure on fees and causing regulators to see audit more as a burden than a benefit, prompting them to introduce or raise thresholds.

Institute of Chartered Accountants of England and Wales (ICAEW) - 24

There are three areas in which IAASB should, working with IFAC, encourage others to act:
Articulating and demonstrating the value of audit for LCEs, particularly those undertaking a voluntary audit. This is a public interest issue that IAASB needs to consider in terms of its own long term strategic planning. The market is becoming increasing cynical about the value of audit overall.

**Institute of Chartered Accountants of Sri Lanka - 92**

Value of an Audit

Value of the audits for LCEs cannot be disregarded. At the same time a practitioner of audits of LCEs cannot be expected to have the level of proficiency in all relevant standards as the auditor of a large, publicly listed entity. Keeping up with changing requirements and maintaining the required knowledge base can be challenging for a SMP. Whereas Small businesses tend to have particular characteristics that require increased attention, such as, fewer financial controls, more related-party transactions, lower capacity to close the books, and can be subject to some complex taxation requirements.

Therefore, when changes happen, practitioners get confused by different requirements and an apparent difference of rigor, both leading to the same audit comfort. Therefore, the Institute organized several round table discussions to obtain inputs and provide awareness on this standard.

Public expectation

NA

8. Individuals and Others

**Chartered Accountants Academy - 66**

In as much as we agree that the scope of this work is not intended to directly address the expectation gap, we are of the view that the IAASB could utilize any available opportunities to address this gap. By making the ISAs scalable to LCEs this allows for a better quality in the audit process thereby addressing aspects of the expectation gap, which in turn has a positive impact on the perceived value of an audit.

**Q3 Technology and methodology**

1. Monitoring Group

**IFIAR - 88**

Providing further tools to facilitate implementation

8. The IAASB historically has dealt with challenges of adapting the audit to various types of entities through development of principles-based standards that can be scaled for entities of different sizes or levels of complexity. Additionally, the IAASB has incorporated specific guidance in the relevant ISAs about audits of smaller entities. The adaptation of the audit approach to the size of entities and the complexity of their operations is already embedded to some degree in the international auditing standards’ framework. We believe, however, that providing further tools and means to adapting the audit to less complex entities in practice could further facilitate the implementation of ISAs by their auditors, as suggested in the IAASB’s consultation paper.

3. National Audit Standards Setters

**Australian Auditing and Assurance Standards Board - 73**

Technology/methodology
Technology is viewed in the Australian market as a major barrier to improving audit efficiency and effectiveness with the standards being perceived as the major blockage to its use particularly by small and medium practitioners. We would encourage the IAASB to consider how they could revise the ISAs to better consider technology and address the perceived barriers.

Institut der Wirtschaftspruefer in Deutschland e.V. (IDW) - 49

While technology may assist auditors in performing more efficient audits, we are not convinced that the IAASB has a direct role to play in this case.

Korean Auditing and Assurance Standards Board (KAASB) - 23

Most of the factors suggested in the DP are important tasks standard-setting bodies at the respective jurisdictional level should conduct. Most of all, the development of a technical framework or methodology designed to support the ISA application in audit of LCEs should be high on the list of importance, along with provision of sufficient, effective education.

4. Accounting Firms

Baker Tilly International - 43

With regard to key actions, we consider that the following should be prioritised:

• Use of Data Analytics and similar technologies – the IAASB should work with technology providers, other standard setters and regulators to ensure that there is clarity over the audit evidence provided by such technologies and techniques. The ability to amend or change standards in this regard is directly within the capability of the IAASB and would potentially have the greatest impact on all audits, including those of LCEs.

Crowe Global - 86

Technology

Audit technology applications are increasingly available in many markets and one of the challenges for auditors (and their oversight bodies) is that most ISAs do not reflect the current technological environment. The IAASB has a data analytics-working group and this group has to be more visible and engaged in projects such as the audit of LCEs.

Deloitte Touche Tohmatsu Limited - 46

Technology/Methodology

DTTL acknowledges and agrees that developing or promoting technology tools is not part of the remit of the IAASB as standard-setters. However, DTTL does not agree with the IAASBs view that access to technology to support audit firms performing audits of LCEs is limited, as many “off-the-shelf” products already exist in the current market, and the trend is pointing in the direction of even more products in this space going forward. DTTL further believes that analytics, in some circumstances, may be easier to apply, as simpler tools may be adequate for audits of LCEs than for audits of other more complex entities.

In regard to use of analytics in the audit, DTTL encourages the IAASB to provide more clarity on the level of understanding (and where appropriate testing is required) of GITCs that is necessary when using simple analytics based on non-complex data in the audit of an LCE and to provide Guidance and Examples on this.

DTTL agrees with the IAASB on the identified challenges and believes that the primary focus from the IAASB should be focused on the following challenges:
Technology

As further commented in Question 3 in Appendix I, technology plays a crucial role in the way forward, in particular on the topic of analytics. Although this does not only apply to audits of LCEs, it is especially interesting in audits of LCEs, as the data available is inherently less complex and therefore simpler analytics may be adequate and possible to perform using less complex and more accessible tools. It is the opinion of DTTL that an increased focus on the use of technology by practitioners performing audits of LCEs is an imperative and DTTL does not agree with the IAASB that technology in the space for audits of LCEs is limited.

DTTL expects that technology will play a significant role in audits going forward, and in particular in audits of LCEs, and DTTL believes that it is an imperative that the IAASB recognizes and responds to this development. By staying abreast of technology developments, the IAASB can ensure that the standards remain relevant to auditors performing audits using these new technologies.

KPMG IFRG Limited - 72

Although we agree with the IAASB’s observation that developing or promoting technology tools or methodologies is not part of their remit, we note that IT-enabled solutions in respect of user interaction with the standards themselves may go a significant way to improving the LCE auditor’s experience in using the ISAs, as we set out in our response to Question 4a).

Moore Global - 78

A good audit tool does not make a good auditor. But a poor audit tool can hamper the effectiveness, efficiency and quality of a good auditor. Timely engagement with the providers of audit software, to ensure they have the best possible opportunity to update their products with sufficient time remaining to ensure the users can be fully trained, would bring benefits to audit quality across the board, Similarly for engagement with providers of training. IAASB does a lot already, providing a wealth of materials via the website… but this is somewhat arm’s length. IAASB has in the past conducted outreach activities and the Paris conferences are good examples of these, however the level of actual engagement (as opposed to managed messaging) could be improved.

If IAASB wishes to focus on engagement with and gentle persuasion of other stakeholders in the audit process, then useful points of focus could be:

Regulators; and

Providers of audit software and audit training.

We believe that while there are issues with the applicability of ISAs to audits of all levels of complexity, these can in some cases be exacerbated by regulatory climate and by the providers of audit tools and audit training.

NEXIA International - 52

Promoting the scalability and use of technology in the audit of LCEs, in terms of both audit quality and audit value.

Pitcher Partners - 7

Where to focus: IAASB
Why: The statement “Access to technology tools/methodologies that may help with the application of the ISAs in an audit of an LCE may be limited.” This is categorically inaccurate. There are numerous tools that could enhance the execution of all audits and particularly audits in the LCE space were the audit standards revised appropriately. In particular the definition of evidence in ISA 500, and or a revision to ISA 520 such that a data analytic test is considered a substantive analytical procedure and therefore is a form of substantive evidence which would greatly enhance audit quality and efficiency.

The ability to amend or change these standards is directly within the capability of the IAASB and would potentially have the greatest impact on audit.

Adoption of a building block approach to standards from the ground up, i.e. the minimum requirements to perform an audit with guidance where additional work may be required is inherently more consistent with the idea that there is a minimum level of work to support a reasonable opinion.

6. Member Bodies and Other Professional Organizations

CPA Australia - 67
Technology/Methodology

Technology has the capacity to improve the efficiency and effectiveness of audits. However, the tools and methodologies which are currently available are not adequately accommodated in the standards. This is inhibiting implementation of technology in the audit and restricting innovation, which the IAASB could alleviate by explicitly allowing for these technologies in the standards.

CPA Ireland - 70
Technology has a vital role to play in the future of the audit process and the outcome of this consultation may find solutions in technology innovations.

Institute of Chartered Accountants of England and Wales (ICAEW) - 24

IAASB should seek to engage with providers of software, training, and methodology, both within firms and those operating independently, because the quality of a methodology has a profound impact on the implementation of the ISAs and perceptions of their effectiveness. Software and methodology providers would have to operationalise any new standard and it would need to be aligned with the ISAs to avoid the need to rewrite methodologies. Providers are positive about the opportunity a new standard provides for eliminating an unnecessary burden of documentation on LCE audits that seemingly consists of endless checklists explaining why things have not been done. Interestingly, they also note in many cases the helpfulness of application material and the relative unhelpfulness of requirements, and they question the value of the distinction.

Promoting the scalability and the use of technology in the audit of LCEs, in terms of audit quality and value.

Institute of Chartered Accountants of Nigeria - 6

Technology: We recommend that the Board should encourage the development of Cloud-based Audit Software that will help with application of ISAs in an Audit of LCE.

Institute of Chartered Accountants of Pakistan - 64

Sometime there is a tendency to rigidly follow a “tick-box” approach on the audit. This undermines the exercise of professional judgment and professional skepticism.
Other area which we noted is that the extensive advancement in technologies (robust use of Robot Process Automation, Data Analytics and Artificial Intelligence) have already shown significant positive impact on the quality of audits and it will continue to do as time progresses. However, there is a possibility that certain auditors /auditing firms (that are involved in the audit of LCEs generally) may have limited access to such latest technologies given lack of resources. These are emerging trends and in coming years would be relevant to LCEs, therefore guidance/application material might be needed on these areas.

We believe that IAASB should also work towards technological tools/ solution/s which the practitioners around the globe (especially SMEs) can afford and benefit from. This will help the small firms to become more competitive, and will improve the audit quality around the globe by applying auditing standards based on the standardised and consistent working methodologies.

Institute of Chartered Accountants of Scotland (ICAS) - 28

Finally, although we agree that developing or promoting technological tools or methodologies sits outside the remit of the IAASB, there is a need to keep abreast of developments in technology in the marketplace in order that any initiatives remain future proof and relevant as firms, and audited entities themselves, increase the use of technology to enhance their processes and business systems.

Instituto Mexicano de Contadores Públicos, A.C. - 37

Technology / Methodology

Collaborate with the proper entities or institutions (government or private) for the development of audit technology aids and methodology in different languages, where such tools can be obtained and used by firms involved in audits of LCE.

8. Individuals and Others

Adele Driscoll - 2

Factors not within control of IAASB but which have a major impact on the audits of LCE’s:

It seems that there is no audit software commercially available that is highly effective and efficient, is mapped to the ISAs and which would facilitate compliance with the ISAs and ensure consistency in application of the ISAs. In South Africa, many LCE’s may have their financial statements prepared and audited by the same audit firm however the available audit software that is integrated with financial statement compilation functionality is not user friendly and is far too cumbersome for LCE’s.

Alla Ejova - 42

The complexity of planning procedures is solved by the use of automation, which is expensive for small audit organizations.

It would be useful to provide smaller audit organizations with more examples of how to complete the working documentation that would be appropriate for the different cases of an LCE audit.

It would be particularly useful to provide auditors with the experience of the most effective means of automation of audit procedures used in the world. Perhaps IFAC or IAASB will perform a platform on which developers IT procedures in the audit would present their designs for small audit organizations, in the implementation of audit of MSO that wasn’t too complicated, and experts IFAC or IAASB would give their assessment of these products.
Auditors should be able to receive timely clarification of methodological issues arising in the application of ISAS, so it would be very useful to have a clear channel of communication in order to be able to ask questions.

**Q3 Engagement with regulators and NSS**

**3. National Audit Standards Setters**

**Canadian Auditing and Assurance Standards Board - 81**

Collaborating with practice reviewers

Many practitioners have told us that they are reluctant to exercise professional judgment in applying scalability in the performance of an audit because of the fear of being second guessed by practice reviewers. The fear of inspection risk creates a culture that encourages a “checklist” approach that is not tailored to incorporate scalability.

Practice reviewers play a significant role in educating practitioners on the application of the ISAs. In this regard, the IAASB could collaborate with The International Forum of Independent Audit Regulators to develop a common understanding of the application of new and revised standards and a more integrated approach to communicating and implementing standards. Also, education and development efforts could include National Standard Setters (NSSs) collaborating with practice reviewers in their respective jurisdictions.

**CNCC & CSOEC - 61**

In general, we encourage the IAASB to appreciate with relevant stakeholders desirable changes in these areas. We welcome the collaboration launched between the IAASB and national standard setters. We agree that the IAASB should engage in closer cooperation and better coordination with national standard setters, regulators and audit oversights.

**The Japanese Institute of Certified Public Accountants - 41**

We recommend that the IAASB encourage the regulators of LCEs to emphasize that it is the responsibility of management to properly prepare financial statements in accordance with the applicable financial reporting framework. In LCEs, management often has significant influence on the entity. Therefore, we believe that in order to ensure proper financial reporting in LCEs, it is essential to ensure that management acknowledge its responsibility for the preparation of financial statements, including prevention and detection of fraud.

**4. Accounting Firms**

**Baker Tilly International - 43**

We believe that the IAASB should work with other stakeholders, such as national standard setters, regulators, etc. to identify how best to take forward the agenda for LCEs. To maintain international standards, it is imperative that the IAASB liaises with national standard setters in particular given the feedback that nearly half of jurisdictions are already considering how to address this issue themselves.

- **Regulators and compliance** – the IAASB should work with regulators to clarify requirements in the standards and associated application material/guidance. Many regulators take a “checklist” approach to compliance with standards which are written on a principles basis. It is therefore important that the IAASB is
aware of the impact of statements included in application material which are often taken as “requirements” by regulators.

**Crowe Global - 86**

Audit Oversight

Some of the concern about the application of ISAs to less complex audits may have arisen because of the expectations set by some oversight bodies to the application of ISAs. We encourage the IAASB to engage with oversight bodies about the application of ISAs as the standards are intended to be scalable. An open and effective dialogue about scalability and realistic expectations as to what is expected of an ISA compliant may be beneficial to the discussion about the audit of less complex entities.

**Deloitte Touche Tohmatsu Limited - 46**

Other challenges, for secondary assessment

Secondarily, DTTL would also recommend the IAASB to revisit their influence on the challenges related to legal and other requirements for an audit.

In that regard, DTTL would like to encourage the IAASB to continue to engage with ‘local’ standard setters, regarding the ongoing process and the need for addressing the issues related to audits of LCEs, in order to mitigate the risk of those standard setters adding requirements “back in” through supplementation, because of specific local issues.

**Ernst & Young Global Limited - 25**

As a result, we believe that the IAASB could collaborate with regulators to provide directional advice on the expectations for documentation for audits of LCEs. For example, the fear of inspection risk has led to ‘over documenting’ by many practitioners for audits of LCEs in our experience. The IAASB could engage in a dialogue with regulators to see what could be done to ease the practitioner’s concerns about inspection risk at LCEs and to jointly discuss the requirements around documentation for audits of LCEs.

Regardless of the approach taken by the IAASB, we believe that supporting implementation guidance and materials related to performing audits of LCEs is likely to be an important component. We view the IAASB to have a primary role in the development of such guidance to promote international consistency, but we acknowledge the resource constraints of the IAASB. For the IAASB to commit to robust implementation support, we believe formal collaboration protocols with others (e.g., IFAC, member bodies, National Standard Setters) need to be established. National Standard Setters and member bodies are also more familiar with the nature and circumstances of entities in their jurisdictions, as well as the needs of their auditors.

**Grant Thornton International Limited - 62**

We are of the view that in encouraging others to act, the focus should be on the following groups:

External inspectors – to facilitate a more consistent interpretation of the requirements of the ISAs and the authority of application material, appendices and external guidance.

Member bodies – to facilitate the provision of relevant guidance on the local application of the ISAs and to make available current and relevant training.
HW Fisher - 17

The most significant area would be to encourage audit regulators and oversight bodies to focus more on the judgements made in the audit, and the question of whether the conclusions reached were justified by the level of evidence obtained, rather than on how well a particular audit process has been followed. We accept that this will make the reviews harder to do, but we do not think that confirming that a process has been followed is a reliable indication that the correct judgements have been made.

MGI Worldwide - 18

Too often regulators’ audit file reviews focus on the weaknesses in the audit, rather than providing guidance and training on how to avoid the issues going forward, suggestions for improvement etc. They also focus on rigid compliance with the ISAs on a line by line basis and no consideration is made as to whether ‘holistically’ the audit approach has addressed the key risks; this encourages excessive documentation and a tick box approach. More practical guidance and help needs to be given to SMPs in performing good quality audits.

Moore Global - 78

If IAASB wishes to focus on engagement with and gentle persuasion of other stakeholders in the audit process, then useful points of focus could be:

Regulators; and

Providers of audit software and audit training.

We believe that while there are issues with the applicability of ISAs to audits of all levels of complexity, these can in some cases be exacerbated by regulatory climate and by the providers of audit tools and audit training.

We would hope that all stakeholders would encourage regulators to take a proportionate risk-based approach to monitoring, focussing the bulk of their regulatory effort on the PIE sector and taking a lighter touch approach to monitoring the audit of LCEs, commensurate to their lower risk. This would include taking a practical/pragmatic approach to reviewing these engagements, and to assessing the sufficiency of audit documentation. We do not believe that regulators enforcing early (pre effective date) adoption of standards, when third party software and methodology providers have not yet updated the products which many auditors of entities of low complexity use to perform their audits, is in the public interest. We also believe that the regulators of firms that operate in this segment of the market could be more consistent in their approach.

If IAASB does move forward with option B getting regulatory support will be crucial.,

Pitcher Partners - 7

Where to focus: Regulators

Why: Regulators are taking a compliance and checklist mentality to audits which is adversely affecting the auditor’s ability to focus on the areas of audit risk. Therefore, the IAASB should be cognizant of their role in explaining that guidance is guidance, not a mandate, and assist in limiting the checklist approach to standard setting and consequently regulatory review.

A building blocks minimum audit requirements approach would also be consistent with this approach.
6. Member Bodies and Other Professional Organizations

Accountancy Europe - 83

We welcome the close engagement launched between the IAASB and national standard setters as announced earlier this year. We agree that the IAASB should continue to engage in closer cooperation and better coordination with national standard setters and regulators. Tackling the issue of LCE audits requires a joint effort.

We welcome the close engagement launched between the IAASB and national standard setters as announced earlier this year and agree that the IAASB should continue to engage in closer cooperation and better coordination with national standard setters and regulators.

Belgium Institute for Tax Advisors and Accountants (ITAA) - 59

The IAASB should focus on the reform of the global audit standard-setting process and on the impact of the differences between the main legal systems in force in the world, such as roman civil law, common law, or religious based law systems (for example Islamic finance). It should stay in a continuing dialogue with the national or regional authorities, such as the CEAOB of the EU. What should not be forgotten, is the promotion of the value and the benefits of audit for SMEs.

Cayman Islands Institute of Professional Accountants (CIIPA) - 9

3. One area the IAASB could focus on is with the regulators and potentially having them approve the LCE auditing framework as being appropriate. If an audit is required for regulatory purposes, then having the regulators agree and approve that the entity is an LCE would help reduce the inconsistent application of the definition. However, it is acknowledged that this would be an additional burden on the regulators who quite often already have their own resource constraints.

CPA Australia - 67

A number of the challenges identified as not being in the IAASB’s control, are issues which can be addressed at the national level by government policy-makers, regulators and professional accountancy organisations. However, the IAASB could support these efforts in a number of ways:

Legal and other requirements for audit

The IAASB could provide guidance for those setting audit requirements, including government policy-makers, regulators and industry bodies to clarify when an audit is appropriate and how the audit scope might meet different objectives; as well as when other assurance engagements may be more suitable. Australia has a myriad of Commonwealth, state and territory audit requirements, which are, in many cases, inconsistent between the Commonwealth, states and territories and can be inconsistent with the auditing standards.

CPA Australia supports our members in conducting audits for LCEs under these varied requirements by publishing a Small Entities Audit Manual (SEAM) which addresses the key engagements and how to meet those statutory and regulatory requirements and is widely used.

Institute of Chartered Accountants of England and Wales (ICAEW) - 24

The regulatory approach to LCE audits is important. We therefore encourage IAASB to engage closely with regulators with responsibility for LCE audits to establish what it is about the regulatory approach that can hamper an effective LCE audit.
Institute of Chartered Accountants of Sri Lanka - 92

Legal and other requirements for an audit:

It is advisable to collaborate with regulators to come to a consensus with the definition of LCE, so that regulators’ requirements relating to audit and audit documentations can be addressed in the context of an LCE.

Instituto de Censores Jurados de Cuentas de España - 22

IAASB engaging with national standard setters and regulators to explain and advocate changes in the areas described before.

We see benefits in:

The Institute of Chartered Accountants of Ghana - 71

The focus should be on empowering National Standard Setters (NSSs), in the case of Ghana, the Institute of Chartered Accountants (ICAG) to be in a stronger position to influence legal and other requirements for an audit, introduce technology tools and or methodologies to help apply ISAs in the general audits, and most importantly, the audit of smaller entities, to assist in training auditors, and also enhance the public perception of the value of audits and their expectations.

We strongly back this focus because, NSSs already have jurisdictional power, as well as a better understanding of peculiar happenings in the region. Challenges would be more easily identified and resolved appropriately. Further to that, the general public and even the practising accountants would easily buy in, once the actions are locally initiated.

Union of Chambers of Certified Public Accountants of Turkey (TURMOB) - 79

IAASB should liaise and cooperate with national and regional standard setters and professional accountancy bodies to receive feedback on and enhance clarity, implementability and public perception regarding value of the standards. It should also coordinate its efforts with other relevant standard setting bodies such as IESBA to address different issues raised by various stakeholders and promote its and the professions efforts and reputation.

Q3 Education and people

3. National Audit Standards Setters

Canadian Auditing and Assurance Standards Board - 81

Attracting, educating, and retaining skilled people

We believe that attracting, educating, and retaining people with the right skills, relevant experiences, and openness to growth and development are crucial to performing effective and efficient audits. In this regard, the IAASB could encourage jurisdictions around the world to:

assess their position on the continuum of attracting, educating, and retaining skilled candidates for the audit profession, and

consider how these efforts relate to achieving effective and efficient audits.
CNCC & CSOEC - 61
We believe that the IAASB should also contribute to greater collaboration with educational bodies at national level, including providing support to them.

4. Accounting Firms

BDO International - 60
In terms of the factors outside of IAASB’s control, we believe any additional focus should be on technology, methodology and training auditors. Acknowledging that the ISAs do not prescribe how auditors are trained, additional guidance and/or practical case studies could be beneficial to audit practitioners and audit firms when training staff on various standards and how they are applied to entities of varying sizes and complexities, but particularly to LCEs.

Deloitte Touche Tohmatsu Limited - 46

Education and People

DTTL believes that Education and People is a key aspect to consider. If action is taken towards creating a new and separate auditing standard for audits of LCEs it will be especially important for the IAASB to consider the following questions:

What is the impact of two different sets of standards?
How can we educate people to audit both less complex, and more complex, entities in an efficient and effective way?
How can we mitigate the risk that those who audit under both sets of standards simply default to auditing to the requirements of one set of standards on all audits – potentially doing either too much work for LCEs or not enough work for more complex entities?

As per our response in question 4, DTTL does not believe that working towards a separate auditing standard for audits of LCEs is the right approach, mainly due to the implications and consequences on the subject of Education and People and the practical challenges for those practicing in both spaces. In DTTL’s view, there are a number of risks and issues:

What constitutes an LCE will always be subject to some professional judgment, and if there is an entirely separate set of standards, it may create challenges if practitioners apply the wrong set of standards.

Learning time required to equip practitioners may be significantly increased where individual practitioners need to learn multiple sets of standards.

Practical approaches to learning may result in practitioners learning one set of standards and then building their knowledge by focusing on the areas of difference in the second set. This creates the risk that practitioners may not robustly or fully learn the requirements of the second set of standards. This challenge already exists for those working on both ISA and PCAOB audits.

There is a risk that over time the quality of work performed on LCEs will decline as the talent pool serving those engagements become increasingly disconnected from more challenging and developmental audit work required to deliver the audits of more complex entities.

One of the objectives of the IAASB is to strengthen public confidence in the profession and developing separate standards for LCE may hinder this objective as it may create a perception of a lesser quality audit. If audits of LCEs are regarded as a lesser quality product, and the ability of auditors to ‘scale up’ to audits of
more complex entities is inhibited through establishment of separate standards this may in turn also create issues recruiting and retaining the right quality of talent to serve audits in the LCE space.

It is therefore also important to address the expectation gap between auditors and stakeholders, including standard setters. Education will in DTTL’s view be a crucial aspect on this, especially if in the future there will be a difference in the audit of LCEs when compared to more-complex entities.

**MGI Worldwide - 18**

Training provided to students and existing auditors needs to be focused not only on the requirements of the standard but their practical application. Model audit files are useful to enable practitioners to visualise what is expected, however, there is a risk that they will simply end up being ‘cut and pasted’ into real audit files.

There are a number of audit systems on the market which are very checklist-orientated, and whilst their intention maybe that each question has supporting narrative this frequently does not happen.

**6. Member Bodies and Other Professional Organizations**

**ASSIREVI - 3**

The main issue might be the effort on Education and People. We acknowledge what is evidenced in the Discussion Paper “the auditor’s knowledge of the ISAs contributes to the effective execution of an audit”.

**Belgium Institute of Registered Auditors (IBR-IRE) - 11**

As mentioned above, the initiative such as the “Guide to Using ISAs in the Audits of Small and Medium-Sized entities” could be continued and developed and the IAASB could also contribute to greater collaboration with educational bodies at national level, including providing support to them.

**California Society of CPAs - 14**

Encourage education focused around the above areas of difficulty.

Encourage enhanced post-secondary education.

Encourage more emphasis on audit skills in professional qualification exams

**CPA Australia - 67**

Education and People

Often LCEs are audited by practitioners in small firms or sole practitioners, which are not supported by a technical team and have limited time to update themselves on the latest developments in the standards. Consequently, the accessibility and understandability of the standards—i.e., the way they are presented, how clear the key requirements are set out and other tools, such as diagrams and hyperlinks—can have a much more significant impact on audit quality than would be the case in larger firms. Whether the IAASB chooses to develop guidance, revise the ISAs or issue an LCE-specific stand-alone standard, any of these actions should support and enhance the quality of the work conducted by auditors of LCEs.

**Institute of Certified Public Accountants of Uganda - 55**

In regards to challenges to audits of LCEs that are not within the IAASB’s control, ICPAU suggests that the Board focusses on the following:

Training of auditors.
The IAASB should come up with different avenues through which the auditor’s understanding of existing, new or revised ISAs can be enhanced. This will help to equip the auditors with knowledge about the prescribed requirements in the different ISAs and thus make the execution of the audits of LCEs more effective. This training may take the form of frequent webinars or publication of articles aimed at addressing the challenges highlighted above.

**Institute of Chartered Accountants of Scotland (ICAS) - 28**

We note the list of factors driving challenges that are not within the IAASB’s control. We believe that the IAASB has a role to play in relation to some of these. Specifically, that of education and people. While the IAASB is not directly responsible for how auditors are trained, nor the attraction and retention of audit trained personnel, we believe that engaging in a programme of outreach and communication with education providers would be beneficial for all parties. Outreach activities of this nature would enable the IAASB to understand some of the practical challenges faced by the training bodies. It might also present an opportunity for the IAASB to support the training bodies by helping to promote the value of audit to society so that it is perceived as an attractive career option by those considering, and embarking upon, a career in the accounting profession. We also believe that there would a role here for the successor body to the International Accounting Education Standards Board (IAESB).

**Instituto Mexicano de Contadores Públicos, A.C. - 37**

Education and People

Collaborate with the different international and local professional institutions for the wide spread distribution of IAS guidance in different languages, which can assist audit firms (specially LCE audit firms) in complying in an efficient and comprehensive manner with IAS. Such guidance may include presentations, videos, templates, methodology, etc.

**The Institute of Chartered Accountants of Ghana - 71**

Education and people – This is critical for ensuring proper execution of audit engagement with appropriate level of professional competence and application of the provisions of ISAs and IFRSs.

**7. Academics**

**Hunter College - 68**

In regards to the table titled “Factors Driving Challenges that are not within the Control of the IAASB,” others should be encouraged to act regarding the Education and People as well as Enhanced Accessibility of the ISAs. Within the Education and People row of the table, it is stated that, “. . . a lack of understanding of existing, new or revised ISAs may negatively impact the way that the ISAs are applied.” While this was considered outside the scope of controls for the IAASB, there are still resources that can be set in place in order to decrease the chance of a negatively impacted audit. A course with a test included should be implemented by IAASB for each auditor following their standards, as well as alerts sent to each firm if a standard is added or altered. It is impossible for auditors to actually follow standards if they are not completely aware of them.

**8. Individuals and Others**

**Audit Assistant Limited - 33**

As noted, in many ways the problem is not completely with the ISAs as such but a problem with understanding the basics of risk based auditing.
Many of our users are practitioners trained before the advent of ISAs. They haven’t caught up, and there are limited opportunities for them to do so. Consequently they don’t coach or encourage their young graduates in best practice.

I often hear from our users that most of the training offered to audit practitioners is not especially helpful for auditors whose work is primarily for the charities sector which is dominated by LCEs.

I also hear from our users that many CAANZ practice reviewers come from a “high-street” perspective and do not fully appreciate the particular issues around the audit of LCEs. They therefore do not give helpful advice to help practitioners do better LCE audits.

Perhaps there is a case for more helpful focus on these kinds of entities by CAANZ?

It appears that educational institutions in many cases continue to train graduates in auditing theory but not so much in practical auditing skills – especially as they pertain to LCEs. Or perhaps they are so focussed on the details of the standards that they miss the flow of the big picture – not understanding how the whole process fits together.

This is partly the fault of the standards as they don’t provide a clear cohesive flow of how an audit fits together and partly of the educational institutions.

Maybe more connection between the standard setters and educational institutions would help, with a recognition of the needs of LCE audits?

Q3 Commercial considerations

3. National Audit Standards Setters

Australian Auditing and Assurance Standards Board - 73

Commercial considerations relating to an audit

The global pressure on the level of audit quality and the related commercial considerations including audit fees impacts on how the ISAs are viewed by the market but more importantly impact on audit quality at all levels of the market. We encourage the IAASB to undertake activities to enhance the perceived value of their product – the ISAs.

Malaysian Institute of Accountants (MIA) - 30

We believe that the IAASB should focus on commercial considerations relating to an audit because owners of the LCEs often hesitate to spend on audit fees and matters arising from the audit such as engaging a valuation expert. Despite the fact that they acknowledge the requirements of the ISAs as onerous, they hesitate to pay the audit fee that is commensurate with the audit work.

New Zealand Auditing and Assurance Standards Board - 53

While commercial viability of audit as a service is not a standard setting matter, it nevertheless underpins why the standards are needed in first place. If the market is unwilling to pay the fees needed to conduct an audit in full compliance with the ISAs, this may be a strong indication that the market considers that value delivered by an audit does not exceed its costs. The New Zealand constituents who participated in the NZAuASB online poll indicated they are often questioned about the value of an audit (e.g. about 88% of participants) and that the fee pressure in the LCE audit segment of the market is stronger than others (more than 88% of participants).
We therefore believe that, out of the factors driving challenges that are excluded from this project (either because they are not within the IAASB’s control or scoped out of this project), the following factors should be a focus.

Commercial considerations relating to an audit
Value of an audit
Engagements other than audits

The NZAuASB believes that there is considerable overlap between the above factors and that it might be appropriate to consider these factors using an integrated approach.

4. Accounting Firms

KPMG IFRG Limited - 72
We agree that the IAASB is not able to directly control commercial considerations relating to an audit. However, since much of the challenge in this regard is in relation to the cost-benefit relationship of an audit, the IAASB is able to take actions to avoid inefficiencies and therefore reduce fee pressure on LCE audits, by improving the clarity of certain ISAs/certain requirements, as we describe elsewhere in this letter.

NEXIA International - 52
First, we suggest a cost benefit analysis be performed for new, or revised, auditing standards. Consideration of this impact may assist in producing robust standards that are not outweighed by the costs to implement the audit standard. While fee pressure shouldn’t be an overriding concern, the lack of effective scalability complicates this matter, causing a much greater proportionate economic impact on smaller, less complex entities.

Pitcher Partners - 7
Where to focus: Public expectations/ Commercial considerations
Why: Focusing on clarifying the public expectation and capabilities of the audit. In particular, in the light of findings from the UK and other territories would help reduce the expectation gap. This, in conjunction with actively working to make clear that quality and compliance can only improve where there is a suitable fee to perform such work.

PKF International Limited - 69
Although the list of exclusions is reasonable and expected, the IAASB must not ignore the commercial considerations relating to an audit and we believe that more can be done to emphasize to the wider global market of end-users that an ISA-compliant audit has value. As correctly alluded to in the discussion paper, fees are driven by market forces and other environmental influences, which may not reflect the necessary and inherent cost for performing the required audit procedures.

The IAASB should not ignore that reality. If this gap between cost and perceived benefit continues to widen, it may drive down average audit fees to a level which is not sustainable in context of the related audit risk and with respect to achieving audit quality. Consequently, we may see a flight from the provision of audit services with increasing numbers of practitioners instead choosing to specialize in non-audit services, as well as a reduction in the numbers of new recruits into the profession.
In summary, we believe that unless there is some form of intervention on the issue of audit fee pressures, this will compromise the audit profession’s ability to support global markets in accessing high quality external audit services.

**PKF South Africa - 82**

It is our view that all stakeholders must be appreciative of the time and expertise involving a quality audit. Stakeholders are increasingly demanding more from auditors for less compensation. We believe that the IAASB can be instrumental to changing users of our reports’ views on fees. This will reduce the burden placed on auditors to perform quality audits for reduced fees. Educating the users of our reports are key.

6. Member Bodies and Other Professional Organizations

**CPA Australia - 67**

Commercial considerations

We acknowledge that the IAASB cannot directly alleviate fee pressure. However, indirectly any actions to support the value of audit beyond perceptions of audit as a mere compliance exercise and how those charged with governance, particularly audit committees, can support audit quality may assist.

**European Federation of Accountants and Auditors for SMEs (EFEAA) - 38**

Benefit and Cost of SME Audit

The ultimate objective of this project must be to improve the cost-benefit of the LCE audits. This demands that the project focuses both on reducing the cost of performing LCE audits and on enhancing the benefits. Presently the project concentrates on the former, paying only lip service to the latter. We urge the Board to not lose sight of the latter and not shy away from changing the standards to increase the benefits and value of audit to SMEs. Moreover, as noted below, these benefits need to be better communicated since public perception is as important as fact.

We otherwise generally concur with the challenges that the IAASB believes fall outside its control or have been scoped out of its exploratory information gathering activities. That said, we think it more accurate and appropriate to say that the challenges viewed as beyond its control are in fact challenges that fall outside its direct control as most if not all are indirectly affected by the IAASB. For example, the burdensome nature of the ISAs pushes up the cost of conducting an audit in turn reinforces fee pressure and undermines the commercial viability of SME audits.

**Institute of Chartered Accountants of Nigeria - 6**

Audit Fee: The Board should encourage professional accountancy bodies to develop, review and enforce approved scales for professional services for LCEs that reflects the cost-benefit realities of performing the required audit procedures.

**Institute of Chartered Accountants of Sri Lanka - 92**

Commercial considerations relating to an audit:

It is advisable to issue further guidance notes on charging fees for the audit and assurance services by the practicing accountants.

**Institute of Public Accountants of Australia (IPA) - 91**

IPA response
The IPA believes there are two related issues not within scope that need to be considered:

Fee Pressure – the IPA believes that fee pressure on LCE segment of the audit spectrum is a major issue driving the pressure for a simplified or two tier audit approach. This has been exacerbated by new accounting standards such as IFRS 15 “Revenue from Customer Contracts” and IFRS 16 “Leases”. An increasing complicated financial reporting framework put pressure on fees particularly for LCE which generally have less sophisticated financial reporting resources and rely on the auditor to address compliance with these requirements. In many cases the auditor is unable to recover costs incurred in providing what amounts to financial reporting assistance.

Furthermore, the audit requirement is seen as a purely compliance requirement. While this is often the case for audit other than LCEs this factor is aggravated by the owners/managers and/or Those Charged with Governance (TCWG) not recognising the existence of other stakeholders in relation to financial reports required to be lodged by LCEs.

Finally, while the IPA believes there is a certain intrinsic scalability to the audit process there is an amount of “overhead” related to undertaking a financial statement audit that is perceived to not be directly related to the work performed but rather relates to the planning of the audit and documentation of conclusions supporting the audit opinion. Where fees are tight these portions of the audit process are considered onerous by auditors and LCE clients are perceived to receive no benefit from these activities.

While this is a significant issue the IPA recognises there is little the IASB can do to effect market pricing other than educating auditors as to the real cost of undertaking audits and the importance of the planning process particular to ensuring an appropriate audit report is issued. That said the IPA does believe the IASB could adjust the structure and output of the planning process to mitigate the associated costs.

South African Institute of Chartered Accountants (SAICA) - 63

Although “commercial considerations relating to an audit” is a factor that is not within the control of the IAASB (as described in the Discussion Paper), audit fee pressure and competition are key factors that should not be excluded when we deliberate on the way forward.

South African Institute of Professional Accountants (SAIPA) - 56

The objective of this project must be to improve the cost-benefit of the SME/LCE audit, and this requires that there is focus on enhancing the benefits not just the cost of performing LCE audits. The LCE audit standards should cover the audit of the main elements of an entity, which if left untouched would pose significant risks to the entity, its stakeholders and the users of its AFS.

The Institute of Chartered Accountants of Ghana - 71

Commercial Considerations Relating to an Audit – Focus should be placed on this as issues relating to audit fees and cost - benefit of performing an audit can lead to auditors finding other ways of performing the audit procedures. Such approaches may not be in line with the requirement of ISAs and the ethical code of conducts.
Q3 Audit exemption thresholds

3. National Audit Standards Setters

Institut der Wirtschaftspruefer in Deutschland e.V. (IDW) - 49

We are not convinced that legal or other (e.g., contractual) requirements for audits are going to be changed any time soon, nor will the IAASB be able change the overall commercial considerations involved for audits of smaller entities.

4. Accounting Firms

Crowe Global - 86

Audit Exemption Thresholds

Audit exemption thresholds vary, whether between European Union Member States, or more widely. It is therefore helpful that the IAASB has encouraged discussion about “less complex” audits rather than SME audits because of the variation both in the setting of thresholds and the voluntary performance of audits of entities that are below the threshold. The IAASB’s approach means that size thresholds are an indirect consideration.

We comment below on some of the challenges.

Duncan & Toplis Limited - 15

R3: We believe that internationally aligning audit thresholds (legal requirement) would be an area of focus. The current state, with widely-varying requirements for an entity to have a statutory audit would be further complicated by specific changes in relation to LCEs. For example, in some jurisdictions there may be no requirement for any entities considered to be LCEs to be audited and therefore this work would only have a limited impact.

An alignment of the audit requirement would enable greater consistency and ease of implementation of standard changes.

KPMG IFRG Limited - 72

Regarding the legal/regulatory requirements for an audit, including the establishment of entity thresholds in relation to whether an audit is required, we agree that the IAASB is unable to establish these, however, we recommend that the IAASB liaise with regulators and other bodies with this responsibility, as the IAASB is able to influence the debate in this area, with the aim of:

Clarifying the value of an audit to help drive consistent requirements;

MGI Worldwide - 18

One of the challenges not within the control of the IAASB noted on page 11 is the continuing fee pressure on LCE audits. This is often linked to the perceived lack of value in the audit as a “box-ticking exercise” which clients refuse to pay an appropriate fee for. Whilst national governments will set audit thresholds and requirements and the IAASB cannot be expected to try and influence this, there must be focus on encouraging the national professional bodies to improve communication on, and perception of, value in the audit. This will also need to include addressing the expectations gap, which we know is a focus in many territories within our network. Press comments on audit are negative, focusing on those few audits that are performed poorly or where a company later collapses and the press / public look for someone to blame.
There is not enough positive press about audit, except when audit thresholds are raised to reduce the “burden” on small businesses.

**NEXIA International - 52**

Encouraging jurisdictions to review and monitor audit exemption thresholds and criteria, as well as considering alternative forms of assurance and related services.

**PwC - 84**

With respect to legal and other requirements for an audit, we agree with the IAASB’s analysis that this is a jurisdictional matter. However, it would be useful for the IAASB to obtain an understanding from jurisdictions whether any such decisions around audit exemption thresholds are driven, in any respect, by the perceived challenges in applying the ISAs.

**6. Member Bodies and Other Professional Organizations**

**California Society of CPAs - 14**

While there was no clear consensus around any suggestions, here are a few that were discussed:

IAASB should focus on encouraging jurisdictions to modify statutory auditing requirements by raising exemption thresholds and substituting a review requirement for entities scoped out of the audit requirement.

**Institute of Chartered Accountants of England and Wales (ICAEW) - 24**

Encouraging jurisdictions to review and monitor audit exemption thresholds and criteria, as well as considering alternative forms of assurance and related services.

**Institute of Public Accountants of Australia (IPA) - 91**

The Audit Requirement – the IPA believes some of the pressure arises from the requirement for LCEs to be subject to audit. While there are often non-regulatory requirement arising from banks and other financiers many LCEs are subject to audit as a result of a regulatory requirement. There are a number of considerations on which the IASB could engage policy maker and regulators:

The policy considerations underlying the audit requirement of LCEs and whether such requirements are set at an appropriate size of entity;

Whether the policy considerations requiring the audit of LCEs could be achieved by other regulatory methods and/or assurance service. For example if an audit requirement is driven by the receipt of government funds an “acquittal” audit may be appropriate; similarly if there are concerns as to employee entitlements the requirement of payment of such amounts into a trust account with associated audit requirements may be appropriate;

Whether the financial reporting framework is appropriate i.e. is compliance with “full” IFRS necessary or would a reduced disclosure regime be appropriate for LCEs. The IPA is generally not in favour of different measurement and recognition criteria being applied in reduced disclosure regimes.

**Nordic Federation of Public Accountants - 58**

We believe that audits of LCEs that are characterized as being of high quality and performed in an efficient and effective manner, will ensure the relevance and value of audit to these entities. Providing auditing standards that enable the audit to meet these objectives is fundamental and might even have an impact on the thresholds for statutory audits, in that if legislators and audit clients appreciate the benefits of audit the incentives for raising the audit thresholds further will decrease.
Parallel to working towards these objectives, we suggest that the IAASB should more actively participate in the public debate and promote the value and relevance of audit and other services provided to LCEs/SMEs.

7. Academics

Hunter College - 68

The focus should be on legal and other requirements for audits. Uniformity across all jurisdictions brings predictability and clarity for auditors and entities. These characteristics allows both parties to operate more efficiently. If jurisdicitional audit exemption thresholds were uniform across all international jurisdictions, the creation and implementation of ISAs for LCEs would be much simpler. With uniform rules, the IAASB can focus on a global solution. Further, uniformity also allows for consistency, comparability and common understanding by all stakeholders. Additionally, annual mandated trainings must occur for auditors across the globe to adapt.

Q3 Other engagements and forms of assurance

3. National Audit Standards Setters

New Zealand Auditing and Assurance Standards Board - 53

We therefore believe that, out of the factors driving challenges that are excluded from this project (either because they are not within the IAASB’s control or scoped out of this project), the following factors should be a focus.

Commercial considerations relating to an audit

Value of an audit

Engagements other than audits

The NZAuASB believes that there is considerable overlap between the above factors and that it might be appropriate to consider these factors using an integrated approach.

The Japanese Institute of Certified Public Accountants - 41

We also recommend that the IAASB raise the awareness of LCE stakeholders about the nature and value of engagements other than the audit, in particular, the review engagement and the agreed-upon procedures engagement. If an audit is not mandated for the entity, a review engagement or an agreed-upon procedures engagement may be more appropriate than an audit in light of intended users’ needs and costs. However, the review engagement and the agreed-upon procedures engagement are currently used only in limited circumstances as there is a lack of understanding of the nature and value of these engagements.

4. Accounting Firms

BDO International - 60

Additionally, although not within the scope of this discussion paper, increasing awareness of the benefits of reviews and other types of assurance engagements to the users of financial statements and the law makers may address some of the concerns regarding the audits of LCEs. If a lesser degree of assurance was acceptable to users, more LCEs could request assurance engagements other than audits. Awareness about the cost and complexity of an audit may also be helpful to users in determining the level of assurance and type of engagement that would meet their needs.
KPMG IFRG Limited - 72

Educating such bodies, as well as certain user groups, e.g. banks, regarding alternative offerings, including review engagements, other assurance engagements in accordance with the ISAE 3000 (Revised) suite of standards to address a specific subject matter, non-assurance engagements such as agreed-upon procedures, or compilations engagements, as well as combinations of these. Such offerings are based on IAASB standards, contain similar concepts and principles as the ISAs, as relevant, and are also anchored to the Code, and therefore may be more suited to the needs of particular users and provide value in a more cost effective fashion;

We note that the IAASB’s research indicates that in jurisdictions in which the audit thresholds were raised to exempt smaller/less complex entities from an audit, this did not appear to confer cost savings to the entities affected; in fact the reverse appeared to happen in many cases. It would be helpful to explore further the reasons for this, e.g. whether an auditor is a trusted advisor and therefore removal of this relationship had negative consequences for such entities; whether the lack of audited financial statements reduced affected entities access to capital, or increased the cost of capital, or other reasons.

We suggest that in several cases, an alternative offering may provide similar “value” as an audit, e.g. a compilation engagement and agreed upon procedures over certain aspects of the financial statements may provide access to capital; a limited assurance engagement (review) may meet user needs although providing a lower level of assurance.

Accordingly, rather than simply exempting such entities from audit, regulators may consider it appropriate to require alternative services.

PwC - 84

Related to the above, the DP focuses solely on addressing challenges in applying the ISAs to audits of LCEs. The IAASB scoped out of its exploratory activities consideration of whether engagements other than audits would more directly benefit the SME sector. Where an audit continues to be mandated, we believe it is important that the IAASB address the challenges described in the DP. However, we also believe there may be demand for some other form of assurance service that is not an audit (and is something more than a limited assurance review). This may be a more robust solution, for example, than the potential for a diluted set of audit procedures in a separate standard that still purports to be an audit that results in a “reasonable assurance” audit opinion. It is important that, whatever action the IAASB chooses to take, the value (“brand”) of an audit must not be diminished. The IAASB could seek views from national standard-setters, IFAC member firms and others about ideas and any initiatives in jurisdictions as to the potential form and characteristics of any such engagement.

5. Public Sector Organizations

U.S. Government Accountability Office (GAO) - 45

We believe that the factors driving challenges that are not within the IAASB’s control outlined in section II should not be scoped out of the process for many of the identified challenges. The effect of decisions made related to LCEs in the audit area will need to be addressed in other types of engagements, particularly what the comparative level of work that goes into an LCE audit versus an attestation or direct engagement and the perceived level of assurance provided by each. In addition, public perception will not be improved by moving toward a separate audit standard for LCEs as it would create additional questions from the public regarding the potential value and perception of what an audit provides.
6. Member Bodies and Other Professional Organizations

**Institute of Chartered Accountants of England and Wales (ICAEW) - 24**

Encouraging jurisdictions to review and monitor audit exemption thresholds and criteria, as well as considering alternative forms of assurance and related services.

**Institute of Chartered Accountants of Sri Lanka - 92**

Engagements other than Audit

This discussion paper excludes the consideration of engagements that are non-audits. But less complex entities are also required services other than audits such as review, compilation and agreed-upon procedures.

**Institute of Independent Auditors of Brazil (IBRACON) - 75**

Audit fees and public expectations of an audit. It is important to increase awareness of the benefits of reviews and other types of assurance engagements to the users of financial statements. Regulators and law makers may address some of the concerns regarding the audits of LCEs, considering that if a lesser degree of assurance is acceptable, more LCEs could request assurance engagements other than audits.

**Instituto Mexicano de Contadores Públicos, A.C. - 37**

Legal and Other Requirements for an Audit

Prepare guidance and/or explanatory material for the entities that require financial statements audits (governments, regulators, financial institutions, etc.), in regards to better understand the scope of a financial statements audits, where in certain situations such audit may not be feasible or necessary to the particular requirements of such regulator or entity. Such guidance may include certain situation where a different report is needed, different from an audit report, such a review report, attestation report, agreed-upon procedures report, audit of a single financial statements, among others.

**Q3 Enhanced accessibility of ISA**

3. National Audit Standards Setters

**Australian Auditing and Assurance Standards Board - 73**

Enhanced accessibility of the ISAs

This should be pursued as a priority by the IAASB. Enhancing the accessibility of the ISAs particularly through the use of technology may be a short-term solution to address some of the challenges related to the size and complexity of the standards.

4. Accounting Firms

**Adrian & Partners AB - 26**

Depending on resources for IAASB we also would like to stress the importance of keeping up with the digitalisation, in this case meaning improvements of the digital access to the ISAs.

**Deloitte Touche Tohmatsu Limited - 46**

Related to the length/volume and the basic approach of the standards, it is DTTL’s recommendation that the IAASB explore leveraging some of the currently available ‘document management’ technologies when
publishing the ISAs so that practitioners can utilize these technologies and are able to focus on those aspects of the standards that are applicable to their engagements. Using existing technologies available, the IAASB could, for example, author the ISAs in a way where an auditor could answer a set of upfront ‘tailoring/profiling’ questions related to the entity and the audit to be performed, and thereby only be presented with the ISAs and/or sections/paragraphs within the ISAs that are relevant to those circumstances.

6. Member Bodies and Other Professional Organizations

Chartered Accountants Australia and New Zealand (CA ANZ) and ACCA - 51

We recognise and support the IAASB initiative to work with IFAC to embrace the use of an electronic format by converting the IAASB’s Handbook as mentioned in footnote 12 of the discussion paper. We believe that it is also highly important to embrace the use of technology beyond the change in format. For example, having the base requirements with links that give practitioners ‘pop up’ or other format access to definitions, application paragraphs or other guidance material that the IAASB has produced (flowcharts etc). This would make the standards more user friendly and easier to understand. This may present challenges in how to also present the standards in hard copy but the value gained would be considerable.

Institute of Chartered Accountants of Sri Lanka - 92

Enhanced Accessibility of the ISAs

NA

Instituto de Censores Jurados de Cuentas de España - 22

IAASB engaging with IT developers at least to have technological solutions adapted to the standards.

The Institute of Chartered Accountants of Ghana - 71

Enhanced accessibility of the ISAs is an easy fix that will have immediate effects. In order to promote and improve higher standard audits, the IAASB needs to take a commanding role in this arena.

7. Academics

Hunter College - 68

This idea goes hand-in-hand with Enhanced Accessibility of the ISAs. It is stated in the table that the IASSB is aware of the inconvenience their handbook poses, but feel as though making the handbook more accessible is “outside of the project on audits of LCEs.” Technically, this handbook is crucial to all audits, including LCEs, because auditors will need standards to refer to in order to properly complete the audit. An auditor or audit team cannot provide “robust” audit services to their highest potential if they are spending large amounts of time trying to find a specific standard. It is the IAASB’s responsibility to provide a more efficient way of presenting the information, perhaps technologically with search methods, in order to allow auditors to easily abide by the rules the IAASB sets forth. This is mentioned as well in the Language and Basic Approach to the Standards row of the table, describing that the standards “. . . are not electronic, so navigating is done manually,” which is not only more difficult for auditors to use, but both a waste of time and resources for the firms following these standards.
Q3 Ongoing outreach with stakeholders

4. Accounting Firms

Ernst & Young Global Limited - 25

We believe that one set of principles-based auditing standards is the direction that is in the public interest. Nevertheless, we fully expect that there will be different views as to the approach that should be taken and the IAASB will need to determine the appropriate way forward. Whatever approach is taken, it will be important that the IAASB’s stakeholders are on board and understand both how the approach addresses the challenges and how it is meant to be implemented. We encourage the IAASB to develop a stakeholder communication and collaboration strategy in conjunction with its project strategy. It will be critically important that auditors, regulators, national standard setters, investors, preparers and those charged with governance all have a common understanding about the approach taken and how it serves the public interest. In particular, auditors and regulators must have a common understanding of execution and documentation requirements.

KPMG IFRG Limited - 72

Liaising with bodies such as IAESB, NSS, the IFAC SMP Committee and other bodies regarding training of auditors, to help improve auditor understanding of the ISAs and support auditors in implementation of these.

Please see our responses to Question 4b) and 5 for further details regarding the above.

6. Member Bodies and Other Professional Organizations

Accountancy Europe - 83

In general, we encourage the IAASB not only to observe the developments in the areas listed as not within the control of the IAASB, but to engage with relevant stakeholders and actively advocate for desirable changes in these areas.

Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili - 34

IAASB needs to interact more at a local level, sharing views and projects with those Entities and Bodies representing the professionals involved in the performance of an audit (CPAs for example) in order to collect the requests and challenges that are commonly shared among the auditors belonging to different jurisdictions.

CPA Ireland - 70

Ongoing outreach with member bodies, national regulators and auditors is vital in this regard.

Q3 Growing complexity of accounting standards

3. National Audit Standards Setters

Australian Auditing and Assurance Standards Board - 73

The AUASB considers that there should be greater focus by the IAASB on the impact the growing complexity of accounting standards has on auditing requirements. The AUASB encourages the IAASB to work with the IASB to clarify the evidentiary requirements and the responsibilities of preparers when it comes to complex accounting standards, which in turn would assist in the implementation of auditing standards and improve audit quality.
Malaysian Institute of Accountants (MIA) - 30
As audit procedures are driven by accounting requirements, the complexity of accounting standards will determine the required auditing procedures. Accordingly, we believe that communication between the IAASB and the International Accounting Standards Board (IASB) on challenges faced in applying complex accounting requirements is important.

4. Accounting Firms

BDO International - 60
We also believe that regardless of actions taken by the IAASB regarding audits of LCEs, no strategy will be completely successful without a re-examination by the International Accounting Standards Board (IASB) of the accounting standards applicable to LCEs. IFRS for SMEs exists already but it would be helpful if the IASB would re-consider if additional amendments are possible to make the accounting standards more relevant to LCEs.

6. Member Bodies and Other Professional Organizations

Chartered Accountants Australia and New Zealand (CA ANZ) and ACCA - 51
It is clear that corporate reporting, in particular, the International Financial Reporting Standards (IFRS), have grown more complex and the fair value accounting that has been adopted requires more judgement on the part of both preparers and auditors. Like the auditing standards, the IASB’s standards have become more difficult for users to understand and apply and financial reports have grown longer with additional levels of disclosure being added. Accounting standard complexity, drafting and disclosures add to the difficulty in delivering audits of LCEs and other entities. We therefore encourage the Board to prompt the IASB to consider whether the current IFRS are meeting the needs of users and whether a move to quality of information over quantity needs to be considered.

Q3 IAASB should not focus on influencing others to act

3. National Audit Standards Setters

Institut der Wirtschaftspruefer in Deutschland e.V. (IDW) - 49
For these reasons, we believe that the IAASB should not focus at all on seeking to influence others, but rather focus on what it needs to do to resolve the situation we identify in the body of our letter: either rewrite the standards applying a “think small first” approach, or failing that, setting a separate auditing standard or set of auditing standards for other than regulatory audits.

6. Member Bodies and Other Professional Organizations

Malaysian Institute of Public Accountants (MICPA) - 10
MICPA opines that IAASB, being a standard setting body, should focus on the challenges within its scope and need not focus on encouraging others to act.
Q3 Other comments

2. Regulators and Audit Oversight Authorities

Canadian Public Accountability Board - 5

If a different level of work effort is determined to be acceptable for less complex entities, serious consideration should be given to better explaining the difference to users of the financial statements. This could include having different reporting that differentiates this from a full scope audit. The absence of this explanation could increase the expectations gap.

3. National Audit Standards Setters

American Institute of Certified Public Accountants (AICPA) - 27

In addition, in the U.S., there are third party providers that develop various additional implementation guidance and examples for practitioners. Perhaps the IAASB could work with other international bodies or groups to develop non-authoritative guidance that would assist auditors in understanding how the standards apply to LCEs, focusing on the key areas of the standards that seem to present more issues for LCEs than others.

While the standards refer to scalability, guidance related to scaling the requirements, and more particularly the documentation required when scaling for an LCE, is limited. However, we do caution that scalability guidance, in and of itself, without meaningful revision of the nature and extent of the requirements for certain standards, will not address the complexity issues for LCE audits. Therefore, in an audit of an LCE, there are considerations and documentation that likely do not add quality or value. While fee pressure shouldn’t be an overriding concern, the lack of effective scalability complicates this matter, causing a much greater proportionate economic impact on smaller, less complex entities.

Austrian Chamber of Tax Advisors and Public Accountants (KSW) - 20

Answer: In general, we encourage the IAASB to focus on ISAs for all audits, notwithstanding a possible discussion about the future of the IAASB based on any findings of the Monitoring Group. We do not need two sets of ISAs, one for the audit of listed entities at the responsibility of the IAASB and one for the audit of LCEs at the responsibility of National Standard Setters. There must be a global solution.

Canadian Auditing and Assurance Standards Board - 81

We agree that the challenges of performing effective and efficient audits may not all be related to standard-setting and that the IAASB is well placed to help encourage other groups to pursue relevant possible actions. We have identified three factors which drive challenges in the auditors’ ability to perform effective and efficient audits. These factors are not unique to LCEs.

CNCC & CSOEC - 61

We consider that we need clearer standards for all audits, i.e. more understandable, that can be used by small and large firms.

We therefore recommend a “sanity check” of the complete set of the standards (for all the requirements, at a first step). This work could be performed jointly with the NSS. The aim would be to check:

the understandability of the requirements;
the clarity of the objectives;
the relevance of each standard;
the need for additional standards.

4. Accounting Firms

Adrian & Partners AB - 26

Finally, IAASB could ask for more research like the one presented in Paris in May 2019 where it was clear that SMEs having an audit grew better, employed more staff and had better profits than SMEs without audit. If this research proves to be a global conclusion it underlines even more the importance of revising the ISAs.

3. What IAASB or perhaps even more IFAC can take on as a challenge, in an area not within their control, is to ensure that all MBs are doing their utmost to help their respective members to understand and comply with present and future standards.

Since the SMPs constitutes 40% or more of our business we believe it is important to bring the real SMPs, or at least a couple of them, into the game. Perhaps future work, both nationally, regionally and globally might better consider the SME and SMP worries if SMPs are invited to the table. Again, bottom-up is normally better than top-down.

Baker Tilly International - 43

• Enhanced requirements of ISQM1 – The IAASB may wish to consider whether the additional requirements of its proposed ISQM1 are appropriate to providers of assurance to LCEs, particularly those small and medium practices which provide assurance to LCE but which may not be members of an international association or network.

Crowe Global - 86

The list of factors that are not within the IAASB’s control in Section II is an interesting presentation. As an overall observation, we encourage the IAASB to respond pro-actively to the challenges that it has identified and build relationships that can mitigate some of these. The IAASB may have to convince some of its existing stakeholders that time and resources have to be devoted to the LCE project rather than projects that are directly related to the audits of public interest entities. Collectively, LCEs are important components of the economy, and the specific characteristics of their audits merits attention.

Dailamipour and Co. - 31

Some technical issues could be done by national standard setting bodies, with promulgating special procedures for LCEs audit, but some problems are out of national standards setting bodies, in some jurisdictions. In some cases the auditor has limitations in detecting fraud, especially in jurisdictions that the auditor is afraid of losing the audit contract.

Shahedan and Co - 80

The ISAs for LCEs (modified or simplified) should encourage the auditors to consider the laws and regulations in the jurisdiction and modify their audit plans to respond to those laws and regulations accordingly.

5. Public Sector Organizations

U.S. Government Accountability Office (GAO) - 45

Also, we believe that the ISAs have become more prescriptive, particularly in the application guidance and newer standards. For example, the revised ISA 540 includes 61 pages of requirements, application
guidance, and appendixes. We suggest that the drafting of new standards move to a more principles-based focus and eliminate the prescriptiveness that has been added to the standards.

6. Member Bodies and Other Professional Organizations

Federación Argentina de Consejos Profesionales (FACPCE) - 76

3. We list below those challenges identified in the discussion paper on which we believe that the IAASB should encourage IFAC Member Organizations to act:
   a. Legal Requirements and Other Requirements for an Audit
   b. Education and People
   c. Improved accessibility of ISAs
   d. Value of an Audit

Institute of Certified Public Accountants of Uganda - 55

Guidance material

The IAASB should develop guidance material that is specific to the audits of LCEs. This will go a long way to ease the work of the practitioners during these audits. This is especially needed in situations of planning, documenting and reporting of these audits.

Institute of Chartered Accountants of Sri Lanka - 92

Response

Purpose of the preparation of financial statements:

In most less complex entities, financial statements are prepared for tax purposes. However, accounting standards are written keeping in mind primary users such as investors and other creditors. Therefore there is a requirement to re-address the general purpose financial statements of a LCE given the absence of all users other than tax authorities.

Inter-American Accounting Association (IAA) - 47

We understand that the four factors presented are of high interest for the audit and for IAASB. The arguments presented are the reason why the IAASB considers them to be challenges that are not under its control; However, this situation of uncontrollability of such factors becomes a new challenge that IAASB must face so that with appropriate strategies it can overcome the barrier that it faces today, as, for example, many jurisdictions limit the application of ISAs in their areas of competence. Out of sheer ignorance, therefore, if IAASB delineated an action plan that involves the approach to the authorities with decisive power in the issuance of regulations, we are convinced that it will break that barrier. Similar action can be taken in other areas, but to answer the requirement, we believe that IAASB should focus its efforts on the “Legal Requirements and Other Requirements for an Audit”.

Additionally, all material developed by the IAASB in relation to professional standards and its support or application material must be promptly translated into other languages, for dissemination in the various jurisdictions in which ISAs are mandatory

South African Institute of Chartered Accountants (SAICA) - 63

When this question was raised to SAICA survey respondents the majority (79%) of respondents indicated that the local regulator should play a key role. This is consistent with the message that was received from
our outreach activities in relation to the possible interpretation gap between the regulator/inspector, the auditors and the standards. Possible reasons provided were:

- The same set of principles applies to all audits, without distinction between small and large, complex and less complex entities; and
- Regulation is necessary; however, overregulation discourages participation.

All of the above directly relates to the audit fee and the value of an audit.

The other two prominent role players identified by SAICA survey respondents were:

- The local Public Accounting Organisation (PAO) - SAICA, and
- Local government.

Reference was made to local legislation (for example the Companies Act) regulating audits of small entities and the need for government to understand the role an audit plays for these smaller entities (the value of an audit). This was also linked to the high cost of an audit, due to the amount of work required for a smaller/less complex entity being equal to that for their larger/complex counterparts.

From the above it is clear that local jurisdictions play a key role in the audit of LCEs to increase the value of an audit among smaller entities, by encouraging audits. However, due to the high compliance cost associated with audits of LCEs, the application of the standards of LCEs lies within the control of the IAASB and local regulators. This will increase the perceived cost benefit of an audit as not being merely a grudge payment to ensure compliance.

This results in undue focus by auditors on compliance and documentation, and not providing a quality audit. This also results in unnecessary costs, where documentation is created to satisfy the inspector/regulator. In applying a “building block approach”, documentation is probably the most significant area for application.

A suggestion was made by the SAICA task group that the IAASB should obtain input from regulators, specifically around what inspectors require to be documented, due to the perceived interpretation gap that may exist.

The survey respondents were requested to rate a list of matters in order of significance of how these impact the audit environment for less complex entities. For both surveys “audit fee pressure” came out as the most significant matter impacting the environment.

IFAC survey respondents indicated that the second challenge was the “expectation gap between what is required of an auditor and what is expected by some stakeholders” and the third was that “users do not value audit as a service”. Interestingly, this was not the same response as that of the SAICA survey respondents. They indicated that “national legislation requires audit for small (less complex) entities” and “audit technology/software tools not available, too expensive, inadequate or not easily scalable” to be the second and third challenges.

During the SAICA task group meeting some time was spent discussing undue pressure from clients impacting the broader profession (both auditors and accountants). As “fees” is included in the International Ethics Standards Board for Accountants (IESBA) project, this should also not be excluded when considering the way forward.

8. Individuals and Others
Adele Driscoll - 2

The South African Companies Act was revised in 2008, removing the audit requirement for entities with a "public interest score" below certain levels. This was a very positive change for LCE’s, however in the subsequent years these levels have not been revised to cater for inflation. With the high inflation rate in South Africa, many LCE’s that should qualify for the lesser assurance options (when viewed in terms of the intention of the introduction of the public interest score) now fall within the audit net as their revenue has grown with inflation whilst the public interest score levels have not increased since the revision of the companies Act in 2008. The public interest score requirements should be revised by the South African DTI on an annual basis to ensure that they are adjusted for inflation.

Alla Ejo - 42

Many difficulties arise when translating ISAS into other languages during the implementation of national programs. Previously, there was an IAASB-based forum for translators initiative that was not fully implemented, and now has completely faded away. We offer to resume communication of ISA translators on the IAASB site or other resource, however, information about the work of such a resource should be publicly available.

Cristian Munarriz - 93

Providing templates and training material. It may be helpful for small audit firms with little internal resources. It would also be helpful to provide guidance (i.e. Q&A) for issues that are not jurisdiction specific.

Q3 None

2. Regulators and Audit Oversight Authorities

Committee of European Auditing Oversight Bodies - 90
Czech Republic Public Audit Oversight Board - 89
Independent Regulatory Board for Auditors (IRBA) - 35

Question 3: We believe that the Discussion Paper has addressed the relevant activities;

Irish Auditing and Accounting Supervisory Authority (IAASA) - 36

3. National Audit Standards Setters

Auditing and Assurance Standards Board of the Institute of Chartered Accountants of India - 12
Brazilian Federal Accounting Council (CFC) - 44
Hong Kong Institute of Certified Public Accountants - 74

We agree with the IAASB on the areas which have been identified as not within IAASB’s control or scoped out and we do not have comment on encouraging others to act.

Royal Netherlands Institute of Chartered Accountants (NBA) - 85

4. Accounting Firms

GGI Practice Group of Auditing Reporting and Compliance - 29
Rymand&co - 87
SRA - 21

We have no comments regarding this question.

5. Public Sector Organizations

Wales Audit Office - 40

No comments.

6. Member Bodies and Other Professional Organizations

EXPERTsuisse - 50

IFAC - 4

IFAC SMPC - 77

Institute of Singapore Chartered Accountants - 54

Instituto Mexicano de Contadores Públicos A.C. (Audit and Assurance Standards Commission) - 39

8. Individuals and Others

Ali Sarehraz - 32

Gabriel Yepez - 13

Gary Young - 19

Michel Maher - 16

SAMantilla - 1

Vera Massarygina - 48