Audits of Less Complex Entities

Q5 Other matters for IAASB consideration

Q5 Globally coordinated solution

1. Monitoring Group

IFIAR - 88

Support an international approach

5. Alongside multinational/global companies for which regulation at a global level is particularly relevant, smaller and less complex entities play a critical role at the local level in most jurisdictions and hence provide a major contribution to the global economy. As a global organisation, IFIAR believes that it would be preferable that the issues and challenges of developing standards for audits of less complex entities be addressed at the international level rather than only locally. An approach involving a variety of different local solutions would drive inconsistency and result in confusion for users of such entities’ audited financial statements.

2. Regulators and Audit Oversight Authorities

Committee of European Auditing Oversight Bodies - 90

We strongly encourage the IAASB to ensure that the underlying issues are further analyzed and agreed upon by stakeholders globally, before proposing measures to address them.

Independent Regulatory Board for Auditors (IRBA) - 35

Global approach: The Discussion Paper describes the patch work of developments taking place in local and regional jurisdictions around the world, on this topic. Past experience with standard setting has shown us that as far as possible, the global coordination of activities produces credible results. Such results are usually robust and this can lead to rapid global adoption by stakeholders. For this reason, we support the need for any action on the topic of audits of less complex entities to be coordinated globally and we suggest that the IAASB maintain its global leadership role in accordance with its mandate.

Irish Auditing and Accounting Supervisory Authority (IAASA) - 36

We strongly encourage the IAASB to ensure that the underlying issues are further analysed and agreed upon by stakeholders globally, before proposing measures to address them.

3. National Audit Standards Setters

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.
4. Accounting Firms

Grant Thornton International Limited - 62

A situation where local jurisdictions revert to developing their own standards without, at a minimum, a strategy of converging with the ISAs will not promote consistent, high-quality audits across the globe.

6. Member Bodies and Other Professional Organizations

Accountancy Europe - 83

We support the work launched by the IAASB on the topic of the audit of less complex entities (LCE), and we urge the IAASB to come up with a solution for such audits as soon as possible. The trend of increasing audit thresholds together with the fact that countries have started developing solutions for LCE audits at national or regional levels demonstrate that the IAASB has to act promptly and deliver a solution in the short term.

The IAASB has to find a solution for LCE audits which will be internationally accepted. This solution should satisfy stakeholders’ demands and put a stop to the development of solutions at a national level. Furthermore, in order to ensure adoption by different markets, this solution has to be principles-based.

CPA Ireland - 70

In summary we see merit in all the proposed actions outlined in the consultation. It is essential that the solution that is ultimately delivered enhances the value and future of the audit.

We also believe that it is vitally important that the outcome of the process is one that can achieve consistency in application globally. Without such consistency it is a concern that the value of the audit process could be threatened.

Instituto de Censores Jurados de Cuentas de España - 22

Involvement of the appropriate stakeholders in the project to know how the proposed solution would be accepted by the market, regulators, etc..

South African Institute of Chartered Accountants (SAICA) - 63

SAICA recognises that in order to achieve the consistent application of audit practice throughout the world, enhance quality, and strengthen public confidence in the global auditing and assurance profession, the IAASB develops and maintains one set of auditing standards. With the challenge faced by practitioners in applying the ISAs, we commend the IAASB on this initiative to consider the situation holistically and to determine the best way forward.

Q5 Collaborating with others

3. National Audit Standards Setters

American Institute of Certified Public Accountants (AICPA) - 27

At this time, we do not have other actions to propose that would be in addition to those posed in the discussion paper and in this letter. We believe the IAASB outreach including regular interaction with National Standard Setters is important to understand actions being contemplated or adopted in jurisdictions to address the complexity and costs of LCE audits and the AICPA stands ready to assist in these efforts.

Hong Kong Institute of Certified Public Accountants - 74
In preparing the feedback to Question 2 above, we have also discussed with our Quality Assurance Department which is responsible for practice reviews. We therefore suggest the IAASB should work with the relevant regulators who perform practice reviews and inspect the audit documentation of the practitioners as the IAASB deliberates on the way forward. These regulators should have certain expectations on audit documentation and can provide some insights to the IAASB in relation to audits of LCEs.

4. Accounting Firms

BDO International - 60

If not already done, it would be considered very helpful to understand the feedback from the various jurisdictions that have already adopted the approach of a separate LCE auditing standard (e.g. France, Belgium, Norway and Sri Lanka) in order that decisions about the future direction of the IAASB standards for LCEs would learn from their experiences. We would also strongly support further engagement with other standard setters, regulators and stakeholders, including LCE entity owners and/or management, in order to develop a targeted approach to resolving issues associated with audits of LCEs.

Grant Thornton International Limited - 62

The IAASB should work with the national auditing standard setters to determine whether changes contemplated based on the responses to this Discussion Paper will work in the jurisdictions in which the ISAs are adopted. It would be unfortunate if some jurisdictions, currently committed to adopt the ISAs, change their views as a result of the IAASB’s approach to the audits of LCEs.

The IAASB would also need to confirm that the changes contemplated can be operationalised by firms and by audit software providers. For example, if a separate auditing standard for LCEs is a preferred option based on the feedback to this Discussion Paper, firms may need to develop two separate methodologies, one for the audits of LCEs and one for the audits of all other entities. Many firms have developed ‘audit tools’ that integrate methodologies and documentation of audit procedures performed. It is possible that these audit tools will not have the capability to allow for the simultaneous operation of two audit methodologies. As such, the IAASB will need to consider the impact to firms of a separate standard as part of its further exploration.

KPMG IFRG Limited - 72

We highlight the actions that have already been taken and/or are on the horizon by a number of NSS, regulators and other bodies to develop their own solutions in response to increasing local pressure to address such concerns, including the development of separate auditing standards for LCEs and the raising of audit threshold levels. We recommend that the IAASB reach out to such bodies to understand and evaluate their actions, including how these have been received and experienced in practice, to help inform the IAASB’s project, as well as to liaise with these bodies to encourage the development and implementation of a truly global set of solutions.

Additionally, it would be helpful to understand how actions such as raising audit thresholds have affected user groups, and whether alternative solutions such as review engagements, agreed-upon procedures engagements, compilation engagements, and other engagements, including combination engagements such as a review engagement with agreed-upon-procedures in respect of certain key areas, performed in accordance with IAASB standards, may help meet user needs, recognising the value of such engagements since they are performed in accordance with IAASB standards, based on key principles, as relevant, including ethical requirements.
Moore Global - 78

Going forward we would like to see greater representation from SMPs on the relevant working party.

We believe that a key aspect of whatever is done will be an appropriate amount of research and outreach to relevant stakeholders to try and arrive at the best possible articulation of what is meant by low complexity. It is inevitable that some jurisdictions will seek to add their own spin to any definition which is finally coined but the less this happens the better since divergent definitions will of course lead to further inconsistency which, as we have said above, is not in the public interest.

Finally, we would also like to stress once again to IAASB that this is an opportunity which, if not grasped, may not be presented again. Not least because if IAASB does not grasp the opportunity it seems likely that others will.

PwC - 84

The IAASB should consider how the IFAC SMP Committee could be more effectively engaged in its standard-setting projects and whether more direct outreach with other SMP stakeholders could address perceptions that there is insufficient input or representation of this sector in the board’s work. See also our response to question 3 on exploring alternative forms of engagement.

RSM International Limited - 65

Working with the IASB to develop accounting standards appropriate to LCEs, ie a “micro-gaap” as an alternative to the existing IFRS for SMEs. This could simplify the audit process for LCEs by removing some of the more judgmental accounting decisions and hence reduce the level of work required by the auditor.

6. Member Bodies and Other Professional Organizations

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

If a new set of LCE audit standards is to be issued, we consider special consideration is to be given for regulators or investment bankers in regards to their possible requirements to re-audit previous years audit when an entity operations changes from a year to another, from a LCE to a non LCE entity.

In recent years reports from International Forum of Independent Audit Regulators (IFIAR), have been more closely followed and monitored by various regulators and stakeholders; given this situation it may be needed to engage in communications with this entity so, in the event a new set of LCE audit standards is issued, is not perceived as an audit with less quality and assurance

Q5 Urgency of actions

3. National Audit Standards Setters

American Institute of Certified Public Accountants (AICPA) - 27

We note that there is a sense of urgency on the part of stakeholders around which this consultation has been published and, therefore, urge a timely response. As stated previously, the AICPA is happy to assist with any outreach our consultation efforts.

4. Accounting Firms

Baker Tilly International - 43

Urgency of action
We believe that the revision of auditing standards, or other forms of assurance, for LCEs is of the utmost importance. As noted during the LCE discussion meeting held in June 2019, 46% of jurisdictions are already looking at what can be done in relating to audits of LCEs. If we wish to maintain international standards for these entities, which are critical to many jurisdictions, it is imperative that the IAASB and others take timely action as a matter of priority in this area.

We believe that the IAASB needs, as a matter of urgency, to reach a conclusion on the preferred way forward and then consult as soon as possible on its proposals. At this stage it is too early to say what the priorities would be given the range of options on the table. However, reducing the length of the ISA’s themselves would likely be required.

Grant Thornton International Limited - 62

As outlined in more detail in our attached response, we are of the view that a timely response to scalability issues is critical, not only to address the immediate issues identified in the Discussion Paper, but also to keep the ISAs relevant in the longer term for the audits of both listed and non-listed entities. If the IAASB does not address the scalability issues specific to the audits of less complex entities in a timely manner, local jurisdictions may go down a path of developing their own solutions.

MGI Worldwide - 18

The timeliness of the decision-making process is key. The Discussion Paper indicates that option B above, if the potential new standard were not based on existing ISAs, would take significant time and effort to develop. Our member firms need to see that action is being taken in this area within a reasonable timeframe.

6. Member Bodies and Other Professional Organizations

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

Timely and Robust Action

This project is the most important project of the IAASB since the Clarity project. It is critical to the future of the SME audit and raises fundamental questions about the form and nature of international standards. We therefore strongly support the IAASB’s efforts and applaud it both for its intent as well as the highly consultative process.

SMPs continue to struggle to apply ISAs despite extensive efforts by the IAASB, IFAC, PAOs, software producers, commercial publishers of guidance and others. There is now an urgent need for leadership and robust action by the IAASB. The time for further research to help determine the way forward has passed. There is already more than enough evidence to prove that the status quo is not an option and to justify timely and robust action.

We do not see the status quo as an option. While our members are not unanimous in their views as to the preferred solution – revise the ISAs or developing a separate auditing standard for audits of LCEs – they are unanimous in the need for urgent action and for the IAASB to signal as soon as possible its intended way forward.

SMPs continue to struggle to apply ISAs despite extensive efforts by the IAASB, IFAC, PAOs, software producers, commercial publishers of guidance and others. There is now an urgent need for leadership and robust action by the IAASB. The time for further research to help determine the way forward has passed. There is already more than enough evidence to prove that the status quo is not an option and to justify timely and robust action.
Instituto de Censores Jurados de Cuentas de España - 22

Priority of the project in the IAASB agenda

Nordic Federation of Public Accountants - 58

With regard to global developments and the associated risks of a fragmented audit market and IAASB losing relevance, we would like to stress the importance of prioritizing this project, i.e. when this outreach phase is completed, the IAASB should immediately transfer this into a regular project.

8. Individuals and Others

Alla Ejova - 42

Consideration should be given to how material useful to the audit of the ISA can be obtained by auditors most expeditiously. Revision of the standard takes several years, the same period of release of Guides or IAPN. This, of course, ensures the quality of the material, but such a period is very long in an ever-changing reality. Perhaps the release of any unauthorized material in a shorter time frame would be useful.

Q5 Further scalability considerations

2. Regulators and Audit Oversight Authorities

Canadian Public Accountability Board - 5

CPAB believes that continuing to try to be principles based and scalable is contributing to an ever-increasing expectations gap and is detrimental to the role of CPAs in protecting the investing public.

3. National Audit Standards Setters

Korean Auditing and Assurance Standards Board (KAASB) - 23

Many of the KAASB believe that aside from possible actions above, the focus should be on the below matters to address challenges of audits of LCEs, and suggests that the IAASB take into account this.

The ISAs designed to enable auditors to easily identify which requirements can be applied in a scalable and proportionate manner (i.e. which requirements can be decreased)

The ISAs designed to provide specified and clear explanations on how relevant requirements can be applied in a scalable and proportionate manner, thereby making it possible for auditors to apply them without burdens.

4. Accounting Firms

MNP LLP - 8

In our view, it would be beneficial to apply the work on audits of LCEs to include the scope of less complex situations for a complex entity audit. As mentioned above, we do not believe adopting a separate standard is appropriate for LCEs, and there are instances where complex audits have simplistic sections and could benefit from applying the same guidance for those sections only. Including scalability in the ISAs for both LCEs and less complex situations will result in increased efficiency and effective application of the ISAs.

Pitcher Partners - 7

Given the underlying statement from the Chairman’s foreword that “Smaller entities make a critical contribution to the economy, and quantitatively the majority of audits globally are audits of smaller entities”
building the standards to address smaller or LCE entities and having addendums for public or more complex entities would appear to be a more sustainable method of creating standards. Further those auditing public or more complex entities have more time and resources to meet the enhanced requirements rather than the LCE auditor attempting to scale or interpret the standards for the LCE space. Building from the ground up would also be potentially beneficial in explaining how reasonable assurance is always achieved from compliance with the auditing standards.

This may prove more palatable than the current suggestion that “LCE” do less to obtain reasonable assurance, set the minimum requirements as the base and listed or other “special” types of entity do more with specific guidance for those types of entities to provide reasonable assurance aligning more coherently with expectations of the audit.

PKF International Limited - 69

Although we envisage that revisions to existing standards will expound the elements of scalability and proportionality, the inherent complexity of standards like ISA315, ISA402 and ISA 540, will continue to make the application of these standards to the audit of a LCE very onerous, especially if the auditor is required to justify the relevancy of the audit procedures required or not for a LCE for the purposes of meeting the documentation requirements. From the perspective of our U.S. practitioners that do not apply the ISAs, the IAASB is reminded to consider whether the possible action taken will have flexibility to accommodate other auditing standards frameworks.

The overall priority would be to reduce the complexity of the audit process and the burden on the auditor. In the current economic environment, the auditor has to provide reasonable assurances on areas that are critically important to stakeholders, but more importantly, to provide these assurances in a timeous manner. With technology advancing exponentially, the “old way” of performing an audit will soon be outdated and antiquated. For an LCE engagement, the auditor ultimately relies of the samples selected, inquiries with management and professional judgement.

Q5 Engagements other than audit

6. Member Bodies and Other Professional Organizations

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

We also recognise that the discussion paper scoped out ‘engagements other than audit’ of the explanatory activity. However, we think that that the Board should reconsider if those should be scoped out. Feedback received from our members mentioned that the solution may be a hybrid level of assurance such as a combination of assurance and agreed-upon procedures that might better meet the needs of users.

The IAASB should take into consideration that certain jurisdictions have very low audit exemption thresholds with some of them having no exemption at all. As a result, a very large number of audits taking place in these jurisdictions relates to dormant or other micro-entities. It is therefore important for the Board to understand whether the action chosen as the way forward in such jurisdictions, is driven because of their experience with such audits or whether they would have chosen a different action if their audit exemption thresholds were higher.

CPA Australia - 67

We acknowledge that the DP has explicitly limited its discussion to audits, but nevertheless we recommend that the IAASB explores the value of other forms of assurance for LCEs. For example, this could lead to
development of more comprehensive standards for the conduct of review engagements, to better articulate the work effort and to explore a clearer expression of conclusion, perhaps in a positive form, which may be better understood by users. Review standards which are clearer about the work effort and outcomes of the engagement may encourage their use more widely by policy makers, in place of audits for LCEs. Alternatively, another kind of assurance service could be developed to better meet the needs of LCEs, including micro entities.

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

The DP is based on the presumption that the only alternatives are limited assurance or audit. There is a significant gulf between the two and we believe that some consideration might be given to the practice in an increasing number of jurisdictions of providing limited assurance, largely based on analytical procedures, and a number of additional, sometimes codified, agreed-upon procedures or limited assurance activities in areas such as receivables and inventory. These practices have developed because of market demand and IAASB should not ignore these trends.

South African Institute of Professional Accountants (SAIPA) - 56

As the profession we are encouraged by this project as it is an important area that has been neglected for considerable time. We appreciate that the IAASB is realizing that the concept of “an audit, is an audit” does not hold much value. As the matters of size and complexity of the entity are equally important in determining the form of assurance necessary for the entity.

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

The way forward for LCE audits may change the standard making approach of IAASB. There are important and evolving areas such as assurance, other engagements or extended external reporting. LCE audit exercise can also provide valuable guidance and input in the way forward of these areas with regard to a more agile and stakeholder/implementer comprehensive approach to standard making.

It should be prioritized the simplifier structuring in the work sheets and the control of auditor’s expert.

Q5 Auditor reporting

4. Accounting Firms

Baker Tilly International - 43

Response: Enhancing transparency of auditor reporting We believe that it is also timely to consider the form of auditor reporting upon completion of all audits, regardless of whether Listed/PIE or LCE. We believe that greater transparency in the audit report of the work actually performed and the findings of that work would lead to more focused audit reports, relevant to the entity being audited and thereby add much greater value to users of the financial statements. We believe that Key Audit Matters are a step in the right direction, but greater clarity of the work performed during the audit may also assist in addressing the expectation gap.

For example, many users may expect that an auditor would undertake testing of controls during an audit. However, in reality for LCEs (and indeed many larger, more complex entities) most auditors do not undertake tests of operating effectiveness of controls. If the audit report stated whether or not the auditor had undertaken tests of controls, and the results thereof, this would give a much stronger indication of the controls in place at the entity. On the other hand, if the auditor does not test controls and includes this in the audit report, along with an explanation of why not (e.g. the auditor chose not to, or the entities controls are
not sufficiently strong) this would also give an indication of the effectiveness of the controls in place at the entity which may be of interest to the user.

6. Member Bodies and Other Professional Organizations
Instituto Mexicano de Contadores Públicos, A.C. - 37

It is not clear if a different audit report is to be issued, if it is resolved that a LCE audit standards are to be issued, whereas if this is the case, there would be the need of informing audit report users, stakeholders and auditors the differences in the degree of assurance and quality between a regular audit report and a LCE audit report.

Malaysian Institute of Public Accountants (MICPA) - 10

MICPA would like the IAASB to work on the proposed wording of the audit reports for LCEs together with the development of the separate standard for the audits of LCEs and not at a later stage.

Q5 Capacity and resources

2. Regulators and Audit Oversight Authorities
Independent Regulatory Board for Auditors (IRBA) - 35

Capacity: The IAASB has many projects of significant public interest currently underway. These projects will be relevant to all audits (whether complex or less complex, or whether of large or small entities), and will occupy the attention of standard setters, regulators and practitioners for the foreseeable future. As the IAASB has already determined the projects which it will prioritise (viz. the three Quality Management standards, ISA 315 (Revised), ISA 600 (Revised), and its planned projects on audit evidence and technology), it will be important to determine whether it has capacity to embark on a further project which could potentially require substantial resources. The priority projects have a more direct relevance to current deficiencies in the audit market-place and address more directly the public expectations of auditors; they are therefore responsive to public needs and not what could be perceived as auditors’ needs.

4. Accounting Firms
Grant Thornton International Limited - 62

Finally, we recommend that the IAASB give careful consideration to the resources that the options presented will require and the availability of such resources to successfully complete the chosen route.

7. Academics
Hunter College - 68

Rewriting of the standard for LCEs will be time consuming and may take a lot of time to fine tune the process. It will require a lot of volunteer hours from industry experts. In the long run this will ensure more effectiveness and efficiency in the practice.
Q5 Role of IAASB in promoting the value of audit

3. National Audit Standards Setters

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.

6. Member Bodies and Other Professional Organizations

Accountancy Europe - 83

Italy: Audit helps prevent business insolvency

Italy has recently significantly lowered the audit exemption thresholds as part of a business insolvency legislation reform. The main issue that led to this change was the recognition that smaller companies which were not subject to any audit or control system were the first to become insolvent. It was also acknowledged that a certain level of controls and early-warning mechanisms could be useful to avoid business failure. The new thresholds apply since June 2019.

Sweden: Audit prevents accounting errors and helps tackle financial crime

In Sweden, the impact of its 2010 reform that raised the audit exemption thresholds has recently been evaluated, concluding that the reform was unsuccessful as its costs to society outweigh the benefits. This is demonstrated in the report Abolition of audit obligation for small limited companies – a reform where costs outweigh benefits published by the National Audit Office, an independent body of the Swedish Parliament, in December 2017. The report questions the benefits of the raised audit exemption thresholds. Through an impact assessment, it demonstrates that the audit of small entities is valuable not only to the small entities themselves, but also to the public good. Based on this evidence, the Swedish Government has decided not to further raise the thresholds.

This Swedish impact assessment outlines numerous downsides of abolishing the audit obligation for small limited companies and shows that in Sweden, the companies’ competitiveness and growth have not been enhanced by the 2010 reform. On the contrary, without audit, companies show weaker subsequent growth, both in net sales and staff numbers and have lower earnings. These companies also have more accounting errors in their annual reports.

In addition, exempting small entities from audit may have unintended consequences for the economy, in particular increased risk of tax evasion, money laundering and other forms of economic crime. Audit serves as a deterrent to such fraudulent and criminal behaviour. Without audit, overall transparency is reduced, and authorities have less information to exercise control and enforcement in these areas.

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.

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.

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

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.

**Q5 Impact of technology on LCE audits**

3. National Audit Standards Setters

The Japanese Institute of Certified Public Accountants - 41

We believe that technological advances will also affect LCEs. Therefore, it is necessary to closely monitor the impact of technological developments on audits of LCEs in the process of seeking possible actions.

6. Member Bodies and Other Professional Organizations

Institute of Chartered Accountants of Nigeria - 6

The Board should also conduct further research work on the application of data analytics in executing audits of both LCEs and Non-LCEs.

**Q5 Adequate SMP representation**

4. Accounting Firms

Moore Global - 78

Going forward we would like to see greater representation from SMPs on the relevant working party.

We believe that a key aspect of whatever is done will be an appropriate amount of research and outreach to relevant stakeholders to try and arrive at the best possible articulation of what is meant by low complexity. It is inevitable that some jurisdictions will seek to add their own spin to any definition which is finally coined but the less this happens the better since divergent definitions will of course lead to further inconsistency which, as we have said above, is not in the public interest.

Finally, we would also like to stress once again to IAASB that this is an opportunity which, if not grasped, may not be presented again. Not least because if IAASB does not grasp the opportunity it seems likely that others will.
PwC - 84

The IAASB should consider how the IFAC SMP Committee could be more effectively engaged in its standard-setting projects and whether more direct outreach with other SMP stakeholders could address perceptions that there is insufficient input or representation of this sector in the board’s work. See also our response to question 3 on exploring alternative forms of engagement.

6. Member Bodies and Other Professional Organizations

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

Going forward, IAASB should consider carefully the composition of any working group exploring the possibility of a standard for LCE audits. That group should have, and be seen to have, adequate SMP representation. Any perception, however erroneous, of inadequate SMP representation risks compromising the credibility of IAASB itself, and not just this project.

On the face of it, there appears to be very little SMP representation either on the Board or on its working parties which makes it difficult for the Board to understand the issues faced by SMPs. IAASB needs to address this perception - regardless of whether it believes it is true or not - if it is to have credibility with SMPs. Given the economic significance of the SMEs globally we believe that the interests of the SMPs who serve them can and should be better reflected in the standard-setting process. LCE audits are a public interest issue, and it is in the public interest that IAASB continues to set auditing standards globally for LCE audits.

Q5 Other matters

3. National Audit Standards Setters

Malaysian Institute of Accountants (MIA) - 30

We would like to highlight that currently, the accounting standards: only provide a definition of Small and Medium Size Entities (SMEs) rather than LCEs. IFRS for SMEs defines SMEs as entities that do not have public accountability and publish general purpose financial statements for external users. It would be beneficial for the IAASB to consider harmonising the definition of LCEs with the IASB to avoid confusion in terminology and allow effective implementation of audit of LCEs.

4. Accounting Firms

Crowe Global - 86

The appendix to the Discussion Paper lists literature relevant to the theme of SME / less complex audits. We comment on two sources on this subject.

We regard the Guide to applying ISAs for SME Audits that has been prepared by the IFAC SMP Committee to be unhelpful and unnecessarily long. There is a perception that the guide is probably as long as the standards themselves and the guide takes unusual approaches such as applying tests of controls to transactions cycles of SMEs. It is important that the IAASB takes ownership of support materials for the results of the LCEs project and that the role of other IFAC related bodies is consultation only.

The now withdrawn UK Practice Note 26 was a very practical guide to applying the then body of standards of SME audits. Some of the content of Practice Note 26 could be appropriate to be revisited in the IAASB’s LCE project.
Dailamipour and Co. - 31

No, IAASB has considered all respective issues in auditing of LCEs. As I have already mentioned in my jurisdiction, the majority of entities are less complex, but the main issues arise from lack of transparency, corruption, recognition of audit by the business community, not only in fulfilling legal mandates, but giving value to audit to insure all stakeholders in business entities.

Duncan & Toplis Limited - 15

R5: There is another underlying issue here that must be considered alongside the audit of LCEs. That issue relates to financial reporting standards. Perhaps different financial reporting standards are required, in addition to those currently in existence, specifically covering smaller entities. Of course, there are standards in certain jurisdictions that offer reduced disclosure for smaller entities, but investigations should be made into looking at significantly different accounting treatments of certain items for LCEs (and not just based on size criteria).

Ernst & Young Global Limited - 25

As indicated in our overall comments, we believe that if the decision is made to develop a separate standard for audits of LCEs, this could have significant negative implications to the profession and its stakeholders. This decision needs to be carefully deliberated by the IAASB and should not be taken lightly.

Grant Thornton International Limited - 62

We also recommend consideration of the current due process required for standards and guidance to be issued by the IAASB. We are of the view that there is opportunity for a more expedited due process particularly in the area of non-authoritative and implementation guidance.

NEXIA International - 52

Performing outreach to the users of LCE financial statements might help guide the path forward to ensure that, no matter which path is taken, users do not feel that what they are getting is something less than the typical audit of which they have become accustomed.

On the other hand, we do not believe the IAASB should ignore possible market demands on what the users of LCE financial statements might desire in the future. Considering the enormous difference between a limited assurance engagement and an audit, this might bring to light a focus on limited assurance engagements, largely based on analytical procedures, and a number of additional, sometimes codified, agreed-upon procedures or limited assurance activities in areas such as receivables and inventory.

PKF South Africa - 82

When developing the separate standard (as per our recommendation in question 4), cognisance must be taken of the qualitative characteristics of less complex entities, such as the internal control environment. These types of entities tend to not have formal internal controls in place, which makes it difficult to accurately and completely assess it in order to assess the risks of the entity.

PwC - 84

Given the nature and complexity of the revisions to ISA 540 and ISA 315, the IAASB should closely monitor the implementation of these standards and stand ready to address potential concerns in a timely manner. A formal post-implementation review of these standards, in particular focusing on how the standards are being applied in audits of LCEs, would also be useful to determine whether the revisions have achieved the IAASB’s intended objectives.
RSM International Limited - 65
The IAASB could consider the following:
Without diluting the underlying purpose of an audit, further clarifying the definition of an audit so that it is clearer for the general public.

SRA - 21
We feel that audit requirements relating to fraud, corruption and continuity should not be different for audits of LCE’s and audits of other entities.

6. Member Bodies and Other Professional Organizations
Accountancy Europe - 83
SMEs / LCEs are key stakeholders
SMEs / LCEs are the backbone of the economy and it is therefore in the public interest to find an efficient way to deal with audits of these entities.

At a global level, an increasingly complex regulatory environment has resulted in very detailed ISAs dealing with regulatory issues related predominantly to listed and public interest entities (PIEs). As a result, the ISAs have become over-engineered for smaller entities and/or LCEs.

In countries where the ISAs are used for all statutory audits, some argue that the current requirements of the ISAs are excessively burdensome in audits of smaller entities / LCEs, especially when it comes to the disproportionate amount of documentation required. As a result, the benefit of the current ISA approach for an LCE audit is not always obvious or clear and this forms the basis of the argument for exempting smaller entities / LCEs from the full ISA audit requirement. Given that audit brings trust and can have a positive impact on the economy as well as on a particular entity, this is not a desirable outcome.

When looking across Europe, we note that the audit thresholds have increased in 20 countries in the last decade. In the shorter term, we have also noticed that changes in the audit thresholds in the last three years clearly demonstrate an upward trend (see Appendix 1 for more detailed information on audit thresholds and their recent changes in Europe).

We urge the IAASB to take these regulatory developments into account when deciding on the way forward. The current trend of further increasing audit thresholds, together with the fact that countries have started developing their own solutions for LCE audits at a national level, demonstrate that the IAASB has to act promptly and deliver a solution shortly.

Belgium Institute for Tax Advisors and Accountants (ITAA) - 59
ITAA refers to the above preliminary observations.

Preliminary observations
Although these observations could have been placed under question 5, the consequence of putting them in the last question would be that the answers of the Belgian Institute for Tax Advisors and Accountants (ITAA) regarding questions 1-4 would not be fully understood until question 5.

This discussion paper makes several assumptions that ITAA either contests or wishes to adjust. Therefore, before answering the following questions, it is necessary that ITAA first states its general observations concerning the audits of so called ‘less complex entities’.
In the discussion paper, following assumptions are made:

The global community attaches an increasing importance to the ISAs;

The ISAs in their present form are scalable because they are designed to be applied to a wide range of entities of all sizes and with varying complexity in a manner that is proportionate to the size and complexity of an entity;

Differences in legal culture have no significant effect on the design and application of the ISAs;

The IAASB states that, at present, 129 jurisdictions use or are committed to using the ISAs and that this is an increase from some 90 countries in the mid-2000’s. According to the discussion paper, this increase proves the importance the global community attaches to the ISAs.

However, a few side notes should be made, concerning the non-adoptions of the ISAs by the European Union (EU). Even though the Commission of the EU had the possibility to adopt the ISAs from the entry into force of the Directive 2006/43/EC of the European Parliament and of the Council of 17 May 2006 on statutory audits of annual accounts and consolidated accounts, amending Council Directives 78/660/EEC and 83/349/EEC and repealing Council Directive 84/253/EEC (hereafter: Audit directive), it did not yet do so.

There are two main reasons, that are linked, that can explain this.

The first cause has to do with the European legal culture. The following findings will at the same time invalidate the allegation that differences in legal culture have had no significant effect on the design and application of the ISAs.

The basis for the ISAs lies in the American standards on audit. The goal of these American standards is a normalization based on the most complex situations (‘Think big first’). Regulation is justified because a company is listed. This leads to a top-down concept, where standards are designed to suit PIE’s, listed and large companies and need to be simplified, by carve-outs, SME-packages, guidelines, Q&A’s, technical note’s or other means to meet the needs of SME’s. Although these trends may have evolved during the last decade, they are still a distinctive feature of the US auditing standards.

In the American tradition, it is preferred to enter into the details of the procedures to be implemented, even if it means reducing the domain of the auditor’s judgment, without wanting to eliminate it. The fact of limiting the professional judgment could lead to a box-ticking approach. This is caused by the basic principle ‘what is not written is not done’, that leads to detailed checklists, where the audit documentation serves more as evidence against any accountability or legal responsibility than as a record of the basis for the auditor’s report. This is reinforced by the pyramidal model of large audit firms, i.e. a model for large companies that are organized internationally and that contain many requirements.

Opposite of this American tradition is the European-continental tradition, that is based upon the principle ‘Think small first’. The EU and its Member States should design rules according to the “Think Small First” principle by taking into account SMEs’ characteristics when designing legislation, and simplify the existing regulatory environment.

Because of this, the EU has published a green paper ‘Audit Policy: Lessons from the Crisis’:

“Wealth SMEs get value from an audit in terms of enhanced credibility of financial information, statutory audits have also been identified as a potential source of administrative burden. Serious efforts should be made to create a specific environment for the audit of SMEs. These could imply:

– Discouraging the statutory audit of SMEs.
Alternatively, where Member States want to maintain some form of assurance, introducing a new type of statutory service adapted to the needs of SMEs such as a "limited audit" or a "statutory review" where auditors would perform limited procedures so as to detect misstatements due to error or fraud. The approach of mandating a limited review for small companies has been followed by Estonia, and is being considered by Denmark. Switzerland also follows such an approach; limited reviews are generally accepted in the USA.”

The Parliament of the EU considered that the existing accounting rules are often very burdensome for small and medium-sized companies, and in particular for micro-entities.

The European Commission had previously uttered similar considerations.

SME’s make up 99.8% of entities in the EU in the non-financial sector, 57% of value added / Gross Domestic Product (GDP) and 67% of employment in the Europe Union. To serve public interest, the standards must take SME’s into account. To achieve that goal, some form of SME test could be used, such as the EU’s SME test. The SME Test analyses the possible effects of EU legislative proposals on SMEs. By assessing the costs and benefits of policy options, it helps implement the ‘Think Small Principle’ and improve the business environment.

In this European tradition, a system based on generally applicable principles is developed, that will highlight the principles from which it is appropriate to implement a professional judgment (‘principles-based approach’). The European legal tradition is more focused on principles and controls through sampling without collecting significant amounts of documentation.

For this reason, a bottom-up concept is required. It is about starting with requirements designed for small and simple entities and then adding requirements for larger, more complex entities, such as PIEs. Preferably, the more complex standards would be built or based on the less complex ones.

The second cause is a more legal-technical argument. Although the ISAs aren’t drafted from a legislative point of view, by adopting them they will become part of the European legal system. The ISAs cannot be adopted in their entirety (‘en bloc’). Every ISA needs to be adopted separately. The quality test of article 26, 3° of the Audit directive must be passed and a cost-benefit analysis must be carried out for each separate standard.

These are the main reasons for explaining that 13 years after the adoption of the Audit Directive 2006/43/EC of 17 May 2006 (as amended by the Directive 2014/56/EU), and despite the clarification and revision of the ISAs, SME-packages, guidelines, Q&A’s, technical note’s or other means, the ISAs aren’t adopted yet by the EU.


Consequently, in 2016 eleven countries had already increased their thresholds and only one country had decreased its thresholds. By 2019, another two countries increased their thresholds.

Four countries lowered theirs, however, only Italy did so significantly. Estonia only lowered the threshold for the number of employees from 60 to 50 (which is standard). Romania lowered the threshold for balance sheet total from € 3.650.000 tot € 3.500.000 and for net turnover from € 7.300.000 tot € 7.000.000. In Cyprus there wasn’t any change in practice because, despite of the audit thresholds, the Cyprus tax laws
still required audited financial statements. Therefore, the abolition of these thresholds only eliminated discrepancies in Cypriot law.

Interestingly, despite recent studies concerning the consequences of the abolition of audit obligation for SMEs in Sweden and Denmark, Denmark nevertheless decided to increase their thresholds and Sweden decided to not raise them any further. Neither country lowered its thresholds.

Another strategy that is being used by different countries, together with increasing audit thresholds, is the drafting of standalone standards (such as the Nordic SASE, the Belgian Common Standard on SMEs and the Sri Lanka SLAuS) and the emergence of alternative assurance engagements (e.g. the extended review in Denmark and the presentation engagement NP 2300 in France).

The development of these standards cannot be viewed separately from the continuing increase of the audit thresholds. SMEs still need assurance engagements, either audit or other. For example, when Denmark increased its audit thresholds, it set lower standards for a mandatory extended review. Exempting SMEs from audit, does not mean exempting SMEs from assurance engagements.

Indeed, an audit has benefits for an SME. But SMEs need to be convinced of its benefits. Therefore, we need standards that are tailored for SMEs. Most SMEs are not required to have an audit and choose not to have one, opting instead for some other assurance or related service provided by an accounting firm. It is becoming increasingly difficult to set the same standards for listed/PIEs and consequently more complex entity audits as for non-listed and less complex entity audits. It seems necessary to consider whether there is a need for different requirements for listed/PIE audits as compared to unlisted/less complex audits to address the issues of complexity and the difficulties of scalability.

While ITAA in principle agrees with the idea of a single set of standards applicable to all entities no matter their size or complexity, it has doubts as to whether the currently existing standards are suitable for SME audits. These doubts rest on the apparent lack of inherent scalability of these standards. Scalability is a critical ingredient for standards to be suitable for SMEs and for the principle of cost effectiveness.

It is impossible to summarize this problem and its only plausible solution more coherently then the Chartered Accountants of Australia and New Zealand have done:

“A fundamental change in standard setting mind-set and approach. That is, to start drafting standards for the simplest situations, and then providing additional detail for more complex situations when these apply. Currently ISAs are written to apply to all situations and hence tend to mean that an SMP/SME auditor needs to wade through a lot of detail. On top of this there is additional guidance for SMPs in applying to SMEs so, ironically, the auditors of a small entity may actually have to read more of the standard than those of a large entity.”

Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili - 34

When performing an audit on LCEs, bookkeeping and accounting services of the audited company are often outsourced to accounting professionals or Firms. In this scenario, it would be appropriate to document the interaction between the audited company and the external provider of the bookkeeping and accounting services in the written representation letter, where respective responsibilities can be assessed and confirmed.

In addition, in the planning and performance phases the auditor needs to carefully evaluate timing and extension of the audit procedures in accordance with the availability of resources (time and personnel) by the bookkeeping/accounting service provider.
European Federation of Accountants and Auditors for SMEs (EFEAA) - 38

IAASB Strategy and Work Plan

In our response to the IAASB’s strategy consultation we questioned whether it would make sense for the IAASB to defer completion of ISA315, given how central it is and may need revising again, until clear as to direction of travel of LCE project. We urge the Board to postpone completion of ISA 315, using the project simply as a test bed for what reengineered standards might look like, until it is decided which course of action to pursue.

Institute of Certified Public Accountants of Uganda - 55

Small and medium sized practices mostly deal with SMEs and LCE clients. Efforts should be focused to empower them by providing due support mechanism. This could be done through such initiatives like creating “Practice Support Centers and or “Practitioners Foras” taking care of basic needs of SMPs in terms of technical, regular training, technology and resources at minimal cost or no charge at all. Professional Accountancy Organizations should closely interact with SMPs within their jurisdictions to ensure continued support overtime.

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

IAASB should consider particularly carefully the applicability of ISQM 1 and 2, and the interaction with the IESBA Code of Ethics, to auditors applying any new standard for LCE audits.

Institute of Chartered Accountants of Pakistan - 64

The approach suggested above could result in challenges like:

Ensuring completeness of all necessary requirements of ISAs in the separate standalone standard;

Dealing with the possible issue of stakeholders’ perception on the level of assurance provided by an auditor’s report based on separate (condensed) standards;

Consideration of the possible level of costs and resources needed to develop / draft a separate standard that is all inclusive, comprehensive and robust.

Institute of Chartered Accountants of Scotland (ICAS) - 28

We believe that the IAASB should remain mindful of some of the criticisms and debate around the future of audit that are currently taking place at a global level, most notably in the UK and the Netherlands. Whatever the outcome of these discussions and debates, there are likely to be global consequences and implications.

Therefore, we would encourage the IAASB to continue to keep a watching brief over these international developments and attempts to re-establish audit as a force for public good in order that any proposed solutions can be incorporated into the IAASB strategy, and work plan, to ensure that future projects reflect the direction of travel.

Institute of Public Accountants of Australia (IPA) - 91

IPA response

The IPA has a number of concerns in relation to proposals for the audits of LCEs:

Less Complex does not equal Low Risk – the IPA is concerned that the CP gives the impression that LCEs are low risk because they are less complex. The IPA believes such a conclusion is inappropriate for a number of reasons:
There is often poor segregation of duties and a high degree of management overrides which increase the risk of misstatement due to error or fraud;

There is lack of financial reporting expertise increasing the risk of misapplication of accounting standards and the consequent risk of material misstatement;

Poor Governance – TCWG often lack the skills in risk and finance to provide adequate oversight;

The systems are often rudimentary without adequate exception reporting and/or those capable of addressing the matters raised by such reporting;

The LCE has limited sources of funding and may have significant debt funding with limited recourse to alternative sources of finance; and

The LCE may be dependent on a small number of customers or a government entity for its cash flow with the resultant risk of financial disruption in the event of loss of a customer or government funds

The IPA is of view that the impacts of such risk are often understated by auditors when planning the audit including determining the nature and extent of audit procedures. The IPA believes that the current guidance in the ISA does not adequately address these issues and their impact on the audit process.

Undue Reliance on Owner/TCWG oversight – The IPA believes that auditors tend to place undue reliance on Owner or TCWG oversight to offset poor segregation of duties and unsophisticated systems. The IPA believes such reliance is often unwarranted due to:

Lack of financial and risk knowledge of the Owner/TCWG;

Inappropriate assumption that the Owner/TCWG are close to the operations

The lack of appropriate reporting Owner/TCWG to enable them to exercise effective oversight

The IPA is concerned that the current guidance in the ISAs reinforces this misconception and that this should be addressed in any revision of the ISAs.

Risk of Fraud – the IPA believes the risk of fraud is often poorly addressed by auditors. There appears to be a disconnect between the poor segregation of duties, management override and lack of effective oversight by Owners/TCWG and the risk of fraud. As such the IPA believes the risk of fraud in LCEs is often underestimated. Furthermore the IPA believes there insufficient consideration that the owner could be the source of fraud and the auditors responsibilities under laws and regulations. This issue should be addressed in any revision of the ISAs.

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

We consider that, as part of this deliberation process the IAASB is currently analyzing, the following matters, should be taken into consideration, depending on the actions that are to be elected and resolved in regards to the LCE audits:

Comprehensive review of other regulations that could be affect LCE audits such as Quality Management or Ethics regulations, given that if a new framework is required or developed it should be in accordance with these other regulations.

It is to be acknowledged that the expectations of the practitioners and stakeholders to some extend would be that audits could be more efficient and/or less time consuming and this could generate expectations of the economics of the audits; therefore guidance or clear communications to international and local business communities or professional accounting associations could be required.
Inter-American Accounting Association (IAA) - 47

We are sure that other issues will arise to consider as the investigation progresses in relation to the audits of the LCE, for that reason, it is our opinion, to leave open the possibility of extending the comments in the future, especially to those who have issued its comments on this occasion, this proposal could enrich the debate and significantly expand the contribution in ideas for the IAASB.

The translation of the rules and documents must be ensured and that they are available to accounting professionals.

South African Institute of Chartered Accountants (SAICA) - 63

A final question raised by the SAICA task group was whether a scenario would exist where only certain ISAs require LCE application: that, on transaction level, audit standards are applied rather than the type of entity. For example, hedging could possibly be seen as a characteristic of a complex entity. Even if an entity performed only one such transaction in a year, this could mean that the entity is considered to be a complex entity. However, this might not be a true reflection of the situation. If this is possible, what would be the impact if a separate standard is developed for LCE audits? Then revising the ISAs would probably be the better solution.

The Institute of Chartered Accountants of Ghana - 71

 Provision of illustrative examples under different and complex scenarios will be ideal for proper understanding of the standards. This will help the practitioners to execute their work well and form the right opinion on the audit assignment executed.

Q5 None

2. Regulators and Audit Oversight Authorities

Czech Republic Public Audit Oversight Board - 89

3. National Audit Standards Setters

Auditing and Assurance Standards Board of the Institute of Chartered Accountants of India - 12

Australian Auditing and Assurance Standards Board - 73

No further matters to raise.

Brazilian Federal Accounting Council (CFC) - 44

Canadian Auditing and Assurance Standards Board - 81

No other matters identified.

CNCC & CSOEC - 61

No

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

In our view, there are no other matters that would need to be considered by the IAASB when it deliberates on the way forward in relation to LCE audits.

New Zealand Auditing and Assurance Standards Board - 53
The NZAuASB does not have any further comments.

**Royal Netherlands Institute of Chartered Accountants (NBA) - 85**

4. Accounting Firms

Adrian & Partners AB - 26

No.

BDO International - 60

We have no further comments.

Deloitte Touche Tohmatsu Limited - 46

DTTL did not identify any other matters

GGI Practice Group of Auditing Reporting and Compliance - 29

HLB International - 57

No further items to note.

HW Fisher - 17

We have no further comment at this stage.

Rymand&co - 87

Shahedan and Co - 80

5. Public Sector Organizations

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

We do not have any additional matters that should be considered beyond those covered above.

Wales Audit Office - 40

No

6. Member Bodies and Other Professional Organizations

ASSIREVI - 3

California Society of CPAs - 14

No.

Cayman Islands Institute of Professional Accountants (CIIPA) - 9

5. None identified.

EXPERTsuisse - 50

Federación Argentina de Consejos Profesionales (FACPCE) - 76

5. We consider that related to the audit of LCE the issues that we can detect are raised.

IFAC - 4

IFAC SMPC - 77
Institute of Chartered Accountants of Sri Lanka - 92
Response
No.

Institute of Independent Auditors of Brazil (IBRACON) - 75
We have no further comments.

Institute of Singapore Chartered Accountants - 54

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

8. Individuals and Others
Adele Driscoll - 2
Ali Sarehraz - 32
Audit Assistant Limited - 33
All covered above.

Chartered Accountants Academy - 66
Cristian Munarriz - 93
No.
Gabriel Yepez - 13
Gary Young - 19
Michel Maher - 16
SAMantilla - 1
Vera Massarygina - 48