Audits of Less Complex Entities
Q2 (b.1) Underlining causes of the challenges with ISAs

Q2 (b.1) Length and volume

3. National Audit Standards Setters

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

ICAI has converged all its Standards on Auditing (SAs) with ISAs except ISA 600. Presently, these SAs apply to audits of all entities in India irrespective of nature, size, structure of the entity. In case of non-compliance with SAs, auditors are liable to strict disciplinary action under the Chartered Accountants Act 1949. At present, auditors conducting audits of smaller entities are facing many difficulties in implementing SAs in their audits due to following reasons:

- Large number of requirements in ISAs particularly with respect to documentation, internal control & risk assessment and disclosures.
- Increasing complexities in ISAs
- Voluminous text of ISAs particularly of those ISAs issued in last few years e.g. ISA 720(Revised), ISA 540(Revised)
- Frequent revisions to ISAs in last few years (ISAs 610, 315, 700, 705, 706, 720, 260, 570, 250, 800, 805, 810).

Australian Auditing and Assurance Standards Board - 73

Growing length of the standards (ISA 315, ISA 540, ISQM 1)

The auditing standards are long and voluminous (81% of respondents);

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

Language and Length of the Standards

The ISAs are currently written in complex language and are too lengthy.

The ISAs should be drafted considering these basic principles:

- Avoid redundancies with other standards
- Implementing the Building-Block-Approach by drafting basic requirements applicable especially for LCE audits and any additional procedures required for other than LCE audits if applicable and relevant
- Minimal requirements and additional requirements should be clearly separated from each other

We share all of the concerns and challenges within the scope of the IAASB’s work and want to comment on some of them without prioritization:

CNCC & CSOEC - 61

the length of the standards;

The volume of requirements: ISAs are a set of standards with too many requirements, i.e. around 1700.
Korean Auditing and Assurance Standards Board (KAASB) - 23

Premise on entities subject to the ISAs

The ISAs are basically based on large entities containing characteristics of being generally subject to IFRS, operating internal control system in accordance with COSO’s Framework and putting those charged with governance that are relatively more robust than their smaller counterparts. Reflecting these complex audit circumstances, the ISAs have developed requirements and application materials, thereby ending up with the ISAs being more voluminous and complex.

As a result, auditors face challenges and spend lots of time and energy on clarifying which one is subject to the ISAs and which one is not, as for audits on non-large entities (quantitatively the majority of audits).

We believe the DP sufficiently deals with most of the challenges related to applying the ISAs in audits of LCEs. Among them, we would like to share our challenges considered most significant and their root cause as follow:

The Japanese Institute of Certified Public Accountants - 41

We believe that the underlying cause of these challenges is that standards are getting very long and complex, resulting in difficulties in understanding the purpose of requirements, and in understanding which parts are relevant in each audit engagement.

4. Accounting Firms

HLB International - 57

As noted in the challenges within scope in section II of the DP, the ISAs can be difficult to navigate, are increasing in length, and documentation requirements are extensive and increasing.

PwC - 84

The increased level of prescription in requirements and shift to focus more on process rather than on outcomes has, in our view, been the main underlying cause. Over time, there has been a trend that has seen a perceived need for more definitions, more specific requirements and extensive additional guidance to seek to explain what is expected of the auditor, driving more of a compliance mindset and a focus on documenting compliance, rather than focusing on the objective of the auditor’s procedures and the key concepts in auditing.

The matters identified by the IAASB in section II of the DP are a fair summary of the challenges most frequently raised with respect to applying the ISAs to audits of LCEs.

In addition to practical challenges in the application of aspects of some ISAs, there is a perception challenge that also needs to be addressed. The length and complexity of recent new and revised standards has been a clear factor in increasing the level of concern about the understandability and scalable application of the standards.

RSM International Limited - 65

The challenges set out in Section II are a fair summary of those that we see in practice. The length, complexity of language and verbosity of the current ISAs are challenging and there is a perception that they have moved away from being principles based and lack scalability.
6. Member Bodies and Other Professional Organizations

Accountancy Europe - 83

Language and length of standards
A lot of the difficulty and challenge in applying the ISAs is linked to the complex, imprecise and sometimes ambiguous language used and also to the length of the standards. This undermines the understandability of the ISAs and also makes the translation process burdensome and time consuming.

The possible root causes of such developments are as follows:

Lack of use of plain English which might be a result of the lack of writing guidelines or rules applied when drafting or revising the ISAs over the years

Lack of clarity of thought that has translated into a lack of clarity in the drafted text, e.g. objectives in the ISAs are just a list of requirements

Duplications and overlapping requirements as a result of ad hoc requirements added over time

All of these root causes link back to the way the IAASB responds to calls for more clarity / less room for interpretation in the ISAs. In all projects undertaken, instead of using concise, precise and understandable language, the IAASB adds more prescriptive details not only in requirements, but also in contextual information that represents a methodology and should not be included in the standards themselves. The focus of the recent projects has also been on PIE/listed entities’ audits.

All of this has led to the ISAs becoming longer and longer, but also less principles-based, which makes their application more difficult and heavier for less complex circumstances. We refer to our recent comment letters, especially the ones commenting on ISA 540, ISA 315 and the quality management standards. As these standards have not been implemented yet, the practical problems associated with their application would need to be considered further as well.

Although difficulties with applying the ISAs are more prominent in audits of LCEs, they are not unique to LCEs and are encountered in audits of other entities too. Therefore, tackling these issues should have a positive impact on all ISA audits.

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

Length of the standards
As mentioned in the discussion paper, the ISAs are voluminous which can make them difficult to read and determine what needs to be done. A better presentation combining the requirements and the related application material could facilitate their reading and understanding.

Additionally, a list of the key subjects covered in the application material would allow the professional to better focus on the issues that are relevant to him.

We also observe that by trying to clarify the standards, the IAASB added more and more details, reducing the room for interpretation but also making the standards, and specifically the application material, more complex to read and their core principles more difficult to identify. We believe this concern is not limited to the issue of less complex entities but should be addressed in all ISAs.

California Society of CPAs - 14

To some extent, the length of current standards is viewed as daunting and intimidating but this could be alleviated with the development of more and better guidance for auditors of LCE’s.
Chartered Accountants Australia and New Zealand (CA ANZ) and ACCA - 51

Length and language of standards

As noted in a number of our submissions to recent IAASB consultations (such as the exposure drafts on proposed ISA 315, proposed ISA 540, and the quality management suite of standards), the length of the standards and their application material is becoming daunting to read and absorb particularly for SMPs. This is, indeed, noted in the DP itself.

The complexity of the language also impacts the length of the standards. Standards that are too long deter the practitioners from reading and understanding the material.

CPA Australia - 67

We agree with the challenges identified in the DP. Overall the sheer length of many of the standards and their verbose style can make it difficult to grasp their practical application.

CPA Ireland - 70

The underlying causes of these challenges in our view are as follows;

Use of complex terminology and language that do not apply to the internal systems and processes of an LCE

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

While some ISAs and some requirements pose greater problems than others there are more pervasive problems. Many of these problems are well articulated in the DP in the section ‘Challenges within the Scope of the IAASB’s Work on Audits of LCEs’. These big picture problems deserve the IAASB’s attention rather than the detail that is best addressed once a course of action is agreed.

The ISAs require that the auditor read and understand the entire body of the ISAs and then determine what is relevant in the circumstances. For SMPs auditing simple SMEs this represents an enormous burden. It is hard to deconstruct this problem and solve it simply by fixing some difficult ISAs.

The ISAs are voluminous including many long, complex sentences and sophisticated language. Whatever the outcome of this project we urge the IAASB to use simpler language and sentence construction and make effort needs to scale-back the length of the standards, leaving only the essential and the likes of explanatory material in separate non-authoritative guidance.

The ISAs have over the years steadily accumulated requirements, many in isolation seemingly of low burden but collectively a substantial burden. The Clarity project provided much needed clarity to the ISAs but resulted in a significant increase in requirements as much present tense was elevated. On reflection perhaps this could have been avoided by tightening the criteria used to determine when to m raising the criteria this. Since the Clarified ISAs were launched, we have witnessed a steady increase in the number and specificity of the requirements rendering the ISAs increasingly prescriptive and in so doing leaving little room for professional judgment in their application.

Federación Argentina de Consejos Profesionales (FACPCE) - 76

2. Based on what is described in answer 2.a above, the challenges for drafting standards for less complex entities should include:

1. Clear and concise rules based on principles and objectives.
2. They should not have large volume.
3. Assume the quality of the previous knowledge required to carry out an audit.
4. Documentation requirements must not be extensive or burdensome.
5. No unnecessary procedures should be required.

**IFAC SMPC - 77**

The ISAs are considered too long and complex and the size continues to increase in the IAASB’s recent proposals to revise the standards. The most recently revised or proposed revisions to standards (e.g., ISA 540 (Revised), ISA 315 (Revised), ISQM 1) are not yet applicable but are expected to be challenging in LCE/ SME audit market.

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

Finally, as stated in our opening comments, the overall length of the most recently exposed and revised ISAs, along with the degree of prescriptive language included and overlapping requirements, present difficulties in the application of the ISAs in audits of LCEs. We recognise that the IAASB is in a difficult position, trying to balance requests from some stakeholders for more prescription to avoid future regulatory challenge, against those performing audits of LCEs seeking shorter and more principles-based standards.

We believe that the adoption of a different language convention might be helpful in tackling this difficulty. The use of more easily translated and understandable terminology, which is less likely to be interpreted differently by different audiences, would be beneficial.

**Nordic Federation of Public Accountants - 58**

In our opinion, there are some major challenges with applying the ISAs to audits of LCEs. We agree with the challenges already mentioned in the discussion paper.

We believe that the overall challenges relate to the structure, drafting style and the volume of the ISAs. Length and complexity are key issues that run through the entire ISAs. The language used in the standards is complex and the sentences are long, which, among other things, causes translation difficulties.

Also, the standards themselves are getting longer and more complex. This is a consequence of the top-down approach, but also because of an increase in numerous and detailed requirements.

**South African Institute of Chartered Accountants (SAICA) - 63**

“The ISAs are long and voluminous;”

It is suggested to consider the length and the complexity of the standards, in particular core standards, for example the recently-revised/proposed revisions to standards such as ISA 540 (Revised), ISA 315 (Revised) and ISQM 1.

The ISAs are long and voluminous;”

The length and complexity of the standards, together with the fast pace of change, present challenges to comply with the requirement of an experienced auditor to have a reasonable understanding of the various elements of an audit.

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

In general, the vast majority of ISAs are extremely lengthy. The way they are structured is to provide the reader with virtually every single alternative so as to address as many scenarios as possible in a world-wide
audience. The problem is that given the fast pace of business and even we accountants fall prey to information overload and as such, if we are not able to capture the significant salient points of a standard in a timely fashion, what ends up happening is we tend to gloss over the standards and sometimes do not even get to the basic important aspects of the standards.

In generally, the complete reading of the standard is the most difficult. Our suggestion to address this would be to suggest that auditors read the summary, purpose and objective of any particular standard then decide to read further to get more detail if by this stage in their judgment the standard is deemed directly and materially necessary for their various engagements.

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

Although some ISAs are particularly harder to interpret and implement, especially for SMPs who are the main audit service providers to SMEs, the real difficulty is the aggregate application of standards all together. ISAs pose an ever growing volume, complexity, language, cross references and documentation requirements. We understand that in response to the recent and future developments in business environment as well as stakeholders’ demands regarding audit quality, this trend in standards is inevitable under the current standard making approach. This approach results in standards that are inclining towards being rules based rather than principles.

Q2 (b.1) Scalability issues and approach to standards

1. Monitoring Group
IFIAR - 88

Scalability vs. proportionality

14. In order to address the requests for “scalability” and/or “proportionality” in the standards, it will be useful to clarify the differences, interrelationships and connections between these two concepts in the frame of the project.

2. Regulators and Audit Oversight Authorities
Committee of European Auditing Oversight Bodies - 90

In order to respond appropriately to the request for “scalability” and “proportionality” in the standards, it will be necessary to clarify the differences, interrelationships and connections between those two concepts.

Irish Auditing and Accounting Supervisory Authority (IAASA) - 36

In order to respond appropriately to the request for “scalability” and “proportionality” in the standards, it will be necessary to clarify the differences, interrelationships and connections between these two concepts.

3. National Audit Standards Setters
American Institute of Certified Public Accountants (AICPA) - 27

As previously noted, the overall body of ISAs has grown substantially and some of the more recently adopted and proposed standards are voluminous and complex. Recent attempts to address scalability have been useful, but the effort is still being evaluated. The auditor of an LCE has to read all of the requirements and application paragraphs to determine and document what is not applicable and how to scale the standards based on specific circumstances.
Auditing and Assurance Standards Board of the Institute of Chartered Accountants of India - 12

Limited scalability of ISAs in audits of smaller entities

Many ISAs do not contain paragraphs dealing with “Considerations Specific to Smaller entities”

Some ISAs contain paragraphs dealing with “Considerations Specific to Smaller entities”. However, this para does not sufficiently cover this aspect.

Australian Auditing and Assurance Standards Board - 73

Impact on scalability (ISA 315, ISA 540)

There is insufficient application or inadequate application material in the auditing standards addressing scalability and proportionality considerations (84% of respondents);

Canadian Auditing and Assurance Standards Board - 81

Our observations about the underlying causes of the challenges identified in Q2a have been grouped below into three categories.

Readability and scalability of the ISAs

The challenges in applying the ISAs are influenced by the practitioners' understanding of the extent of work and documentation that is required to comply with the ISAs. The reasons that practitioners struggle with the ISAs are twofold.

First, the ISAs are perceived by some practitioners as too long, overly detailed and difficult to navigate. As an example, proposed ISA 315 (Revised) contains over 40,000 words, and a significant increase in the number of requirement and application paragraphs compared to the extant standard. This includes more than 100 application paragraphs dealing with internal controls components and IT issues, an area of the audit that is particularly difficult to scale for the less complex elements of an entity's operations and financial statements.

Second, many stakeholders including practitioners, audit tool and methodology developers and practice reviewers have difficulty scaling the ISAs for the less complex elements of an entity's operations and financial statements. These stakeholders indicted that the ISAs do not clearly address when scalability is permitted and how it can be achieved. They feel that it is hard to justify not applying a requirement when, in the specific circumstances of the audit, the procedure required would be ineffective or does not apply.

Further, practitioners indicated that they spend unnecessary time and effort documenting what they have not done and why this was an appropriate course of action. They do so in order to avoid being challenged by practice reviewers about the application of professional judgment when determining that a requirement is ineffective or does not apply.

We believe that a lack of clarity about scalability in the standards may be causing inappropriate interpretations. ISA 200.22(b) states that the auditor shall comply with each requirement of the ISAs unless, in the circumstances of the audit, the requirement is not relevant because it is conditional, and the condition does not exist. It is unclear how to interpret this requirement. Is conditionality a matter of professional judgment (i.e. the practitioner determines that the procedure would be ineffective and therefore the requirement is not relevant), or is conditionality required to be explicitly defined in the requirement (as in ISA 220.21 where the requirement is conditional for listed entities)? We believe that clarification is needed on how to interpret ISA 200.22(b).
Other factors that strongly motivate practitioners to use tools, such as checklists, are consistency of service delivery, practice review, training, and compliance with regulatory requirements.

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

The main issue in addition to those addressed in Section II of the paper is the fact that the ISAs are not written in a “think small first” format, which forces auditors to apply scalability in a “top-down” approach (consider the relevance of every requirement) rather than a “bottom-up” approach (apply the requirements applicable to all entities plus consider whether the circumstances causing a condition requirement to become relevant exist). Auditors of financial statements of LCEs are confronted by the entire suite of ISAs with all of their requirements and must then decide which requirements are not relevant pursuant to paragraph 22 (b) by then “scaling down” what they need to do. Furthermore, auditors are often then asked to justify to their audit regulators as to why the auditors considered a particular requirement not to be relevant, which can be an onerous exercise fraught with regulatory risk for the auditor.

In a “think small first” approach, only those requirements that apply to “all” audits (that is – including tiny dormant companies) ought to be required for all audits in the first instance. Requirements in addition to those that apply to all audits ought to be written as conditional requirements so that these only apply when the condition exists. It may be helpful to actually physically separate those requirements that apply to all audits from those that are conditional to further aid scalability. This would allow auditors to engage in “bottom-up” scalability by adding requirements to those that need to be fulfilled as conditions are identified as existing that cause them to be relevant. It would also ease the burden of auditors versus audit regulators because the onus would be on the regulator to demonstrate that the requirement is relevant by asserting that the condition leading to the relevance of the requirement exists, as opposed to having the onus on the auditor to demonstrate that a requirement is not relevant because the condition does not exist.

Korean Auditing and Assurance Standards Board (KAASB) - 23

The ISAs have been developed into being scalable and proportionate, but deciding whether they are applicable to certain requirements or not and how they can be applied is never easy. Especially at a time when auditors’ legal liability and regulatory scrutiny have gradually increased, it is difficult for auditors to exercise professional judgments as much as they could and apply certain requirements of the ISAs, in a scalable, proportionate manner, tailored to the context of individual audit circumstances.

We believe the difficulties stem from the ISAs focusing on engagements necessary for audits of large, complex entities and sticking to the principle-based approach to apply the ISAs to entities with a wide variety of nature and circumstances, thereby leaving the nature and extent of the required work unclear.

4. Accounting Firms

Adrian & Partners AB - 26

2 a. The general difficulty with present ISAs we believe is all iterations, over-detailed text and top-down approach. The length in itself should normally not be a major worry, it is the lack of the possibility of reliance on the professional judgment we feel is mostly missed. For PIES and other big organisations, the more rule-based and lengthy standards do not seem to carry the same problems that they do for SMEs/LCEs. This can be addressed by "special considerations for SMEs" ensuring that these considerations are as straightforward as possible. It is important to reduce the over-documentation that today’s standard demand.

BDO International - 60

To this point, we raise the following additional comments:
• In recent years the strategy for ISAs has been to scale them up but not scale them down. For example, ISA 540 has been scaled up to deal with IFRS 9 Financial Instruments, and that scaling up to deal with the accounting complexity has made it difficult to practically apply the standard to simpler estimates. To date there is little evidence of ISAs being scaled down for LCEs because the IAASB has continued to apply the guiding principle that the requirements apply to all audits. Further, the standards seem to be driven by regulatory considerations which can lead to overly long and complicated standards that are difficult to apply to LCEs and in many cases may lack relevance.

• With specific reference to ED 315, we believe the increased length of ED 315 alone is a potential barrier to its understanding and application to LCEs. It could be argued that the ED (and other auditing standards such as ISA 540 (Revised)) was drafted for larger, complex entities with guidance added on for scalability to LCEs. While we support IAASB efforts to continue focus on scalability as part of the revisions, it would appear that, as all requirements apply to all entity audits (with no deduction for LCEs), the standard setting model has an inherent bias towards the most complex entities.

Therefore, we believe that the time required to perform a less complex audit engagement and to comply with the full body of ISAs is still very significant.

Duncan & Toplis Limited - 15

The underlying cause of the issues relates to the need for complex considerations (and therefore complex audit requirements) for more complex entities. The same considerations not being required for LCEs. We have not identified any additional broad challenges.

KPMG IFRG Limited - 72

ISAs that Present Particular Challenges

We share the IAASB’s concerns that specific aspects of certain ISAs, in particular, may present challenges in terms of their understandability. We believe that, in essence, these involve a lack of clarity as to the IAASB’s intentions in establishing certain requirements, and therefore an auditor faces difficulty in understanding why they are required to perform certain procedures, and how this assists them in obtaining sufficient, appropriate audit evidence or contributes to audit quality. As a result auditors face challenges in determining how to properly perform such procedures across different entity types and engagement circumstances. Auditors of LCEs may face particular challenges in terms of determining whether and how they may scale such requirements, and may be driven to perform unnecessary work, with the aim of complying with such requirements.

These challenges exist across the spectrum of size and complexity of the entity subject to audit, and therefore we believe that the optimal solution(s) will assist all auditors in addressing these important issues. However, we recognise that scalability challenges may disproportionately impact the work effort of LCE auditors, in particular.

MNP LLP - 8

In our view the main underlying cause of these issues is that practitioners do not view the ISAs to be scalable for LCEs, which results in performing work in an inefficient or unnecessary manner. In our opinion scalability in the ISAs and guidance on how to apply that scalability would be beneficial to practitioners who perform audits of LCEs.
6. Member Bodies and Other Professional Organizations

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

The underlying cause is the top-down concept is the ISAs and the fact that SMEs and SMPs are not being represented enough in the standard setting boards and are as such not enough involved in the standard setting process.

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

Finally, we recognize the IAASB’s best intentions in introducing ‘Considerations Specific to Smaller Entities’. However, the existence of these considerations, which are unfortunately of limited use, just like text explaining scalability, paradoxically demonstrate that the ISAs are written with more complex / larger entities first in mind. Afterall, if the ISAs were truly scalable one would more likely see ‘Considerations Specific to Larger / More Complex Entities’ and scalability would be self-evident.

**Nature of ISAs**

While the ISAs are intended for broad application, by all size of practice in the audit of all size and type of company, they are nevertheless voluminous, complex and prescriptive. While the ISAs are technically robust, expertly written and presented, we have serious reservations as to their scalability and usability by SMPs due to their highly prescriptive and detailed composition. We inevitably conclude that they are more suited to the audit of larger more complex PIE by larger practices. Repeatedly saying that the standards are scalable does not make them scalable. SMPs auditing simple SMEs face the enormous burden of having to read and understand the entire body of ISAs and then determine what is relevant to their clients. This burden could be largely if not wholly eliminated by either a fundamental restructuring of the ISAs or the introduction of a new separate auditing standard for LCEs.

We therefore urge the IAASB to either reengineer the ISAs in a fundamental Clarity II style endeavour to simplify them and make them scalable from the bottom-up or develop a separate auditing standard for audits of LCEs based on the same principles as the ISAs. While we welcome either course of action, we prefer the development of a separate standard for the reasons given below.

**EXPERTsuisse - 50**

“Think Small First” Approach in Standard-Setting

In our observation the difficulties in applying the existing ISAs in less complex situations and in the SME area have to do with the fact that these standards are not developed under the overriding ‘think small first’ principle. Instead – as per our observation – ISAs are developed on the basis of what is expected in complex and international audits of financial statements of listed entities or public interest entities.

We assume that developing standards under the ‘think small first’ principle would require a different composition of the responsible standard-setting board with a more diverse background of its members having a greater emphasis on SME particularities. Considering the current discussion about the future of standard-setting (the Monitoring Group issue) we are not very convinced that developing an LCE audit standard or even revising the ISAs following a ‘think small first’ principle with clear and unambiguous language” will be an achievable goal in the near future or the medium term. We fear that an intensified involvement in the standard-setting process of stakeholder groups represented by the Monitoring Group would lead to an increased focus on complex multinational audits of PIEs combined with a lack of focus on SME particularities, thus the issue of unsatisfactory scalability of the standards as we have already experienced with the existing ISAs.
IFAC SMPC - 77

The ISAs have been developed primarily with large/ listed/ public interest entities in mind and from a “top down” rather than “bottom up”/ simple approach.

The scalability in the requirements (e.g. what exactly is not applicable in an LCE audit) is not made clear enough. This could be remedied, for example, through conditionality (e.g. applicable to listed entities) or signposting in the standard (e.g. considerations specific to LCEs). This has led to some firms wanting a clearer ‘prescriptive/ check list approach’.

Institute of Certified Public Accountants of Uganda - 55

Most of the ISAs are framed to be applied in large well-structured organizations with big volumes of transactions which is not the case with LCEs. Therefore applying the ISAs for the audit of LCEs becomes unrealistic.

Institute of Chartered Accountants of Sri Lanka - 92

Current ISA standards have been written in a way presuming that entities have proper controls and strong governance structures. In the case of LCEs, most of them have vulnerable controls and governing structures that are not based on best-practices. Therefore, complying with each aspect of ISA as currently written, is difficult as there is no scalability of ISAs evident clearly for LCEs.

Malaysian Institute of Public Accountants (MICPA) - 10

The underlying cause of these challenges can be attributed to the use of a common set of auditing standards for the audit of all entities, including LCEs. By using a “one size fit all” audit approach, auditors may be required to perform extensive work which however does not necessarily result in additional value to the audit of a LCE.

Nordic Federation of Public Accountants - 58

Visible and clear scalability options are fundamental when trying to maintain one set of global standards that fits all audits and using a top down structure approach. We do not think that the ISAs have accomplished these objectives. It is quite obvious that the standards are not written with audits of LCEs in mind. A lot of time needs to be spent on understanding the scalability options. In addition to issues with visibility and clarity, we also believe that the scalability options are too limited. For example, there are situations when scalability does not seem to be applicable, so the auditor has to comply with requirements regardless of whether this might lead to effective or efficient audits.

South African Institute of Chartered Accountants (SAICA) - 63

A more appropriate approach is for a “bottom up” or “building-block” approach to be applied. Here the ISAs will include the minimum requirements that auditors must apply in the performance of an audit and only when certain other circumstances are present, will the other more onerous and complex requirements apply.

The scalability of requirements contained in the standards is not always clear in terms of assisting practitioners on what is applicable in an LCE audit and what not. It is suggested to include signposting and specific examples throughout all the standards. We do commend the IAASB where this is already contained in standards, but do believe that there should be more.
7. Academics

Hunter College - 68

We also believe that IASB should emphasize the importance of scalability of Audits for LCEs. We think that as an LCE grows from less complex to more complex, the audit considerations too will change. Therefore, the scalability of an ISA is less important. Deemphasizing the scalability component of ISAs will also help alleviate driving auditors towards a more ‘compliance with the standards’ approach rather than an approach that encourages the use of professional judgment in determining the most appropriate audit procedures for the specific circumstances.

Q2 (b.1) Language

1. Monitoring Group

IFIAR - 88

Language

7. For instance, many regulators hear comments on the increasing complexity of the standards. We believe that the use of complex language may contribute to the perception that the standards are overly complex. Applying and building on the drafting principles developed as part of the IAASB’s clarity project, with additional focus from the IAASB on the understandability of the proposed standards, may enhance the ability of auditors to understand how the standards can be scalable to different situations.

2. Regulators and Audit Oversight Authorities

Committee of European Auditing Oversight Bodies - 90

We think that more focus on clear language and understandability can contribute to auditors better being able to apply the standards in differing situations. We suggest the IAASB develops clear criteria for language in drafting standards, such as limiting the length of sentences. The criteria that have been developed as part of the IAASB’s Clarity project could serve as a starting point.

Irish Auditing and Accounting Supervisory Authority (IAASA) - 36

We think that there needs to be more focus on how clear language and understandability can contribute to auditors better being able to apply the standards in differing situations. We suggest the IAASB develops clear criteria for language in drafting standards, such as limiting the length of sentences. The criteria that have been developed as part of the IAASB’s clarity project could serve as a starting point.

3. National Audit Standards Setters

Australian Auditing and Assurance Standards Board - 73

Increasing complexity of the standards, leading to diminished understandability (ISA 315, ISQM 1);

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

Language and Length of the Standards

The ISAs are currently written in complex language and are too lengthy. Difficult language leads to ambiguity and misunderstanding and makes translations burdensome. As an example take characteristic (b)(i) of a LCE: “straightforward” and “uncomplicated” have nearly the same meaning. The minor differences
are potentially unknown to non-native speakers and even hard to be translated by experts into local language.

The IAASB has not set any guidelines or rules for drafting or revising standards in plain English and precise language. Therefore, we recommend formulating such guidelines and/or rules.

CNCC & CSOEC - 61

the complexity of the language used in the standards;

Royal Netherlands Institute of Chartered Accountants (NBA) - 85

But our most important issue is that the current set of ISA’s is written so complex. All involved: auditors standard setters, inspectors and stakeholders have a problem understanding the ISA’s. In many situations we need to read a sentence three or four times to be able to understand the full meaning of the sentence. Thereby scaling down is more difficult than scaling up. A better approach would be to explain what every auditor must do and then elaborate the requirements as the size and complexity of the audited entity increases. It is important that standards have a simple basis from which they can build up, rather than starting with complex issues and expecting auditors of less complex entities to work out what to remove. It would make it easier for the auditor of a less-complex entity to find the specific requirements that apply to their situation, instead of having to distil complicated standards into more basic procedures.

4. Accounting Firms

Crowe Global - 86

As an overall observation, when working in an environment where qualitative factors equate to the proposed definition of an LCE, the ISAs are regarded as having too many requirements that are difficult to understand. There are concerns about the understanding of the standards by non-native English speakers and the quality and interpretation of the translations into other languages. This does not help when trying to interpret the standards in a less complex environment. We encourage IAASB to develop its own protocols for use of both the English language in the original standards and for the process of translation into other languages.

NEXIA International - 52

We comment later on the cumbersome language used in the ISAs, which makes them difficult to absorb and understand even for technical specialists, and also note some structural issues where a standard doesn’t clearly separate requirements relating to more complex issues from those relevant to all audits.

PwC - 84

Challenges in applying the ISAs, such as the complexity and clarity of language used, understandability, and length of the standards are not necessarily unique to audits of LCEs. The ISAs, as a body, are also becoming more challenging to apply for non-LCE audits. These issues need to be addressed holistically as a priority.

6. Member Bodies and Other Professional Organizations

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

We believe that the Board needs to revisit its drafting approach and come up with an approach that addresses:

The language used in the standards, which our members find to be overly complicated, making the standards hard to follow.
Length and language of standards

Standards should be drafted so far as possible in plain English. Care should be taken with areas such as definitions, where recently we have noted examples of terms being described as equivalent when in plain English they would not necessarily be. An example is paragraph 16(h) of ED-315 which states that ‘reasonable possibility’ means the same as ‘more than remote’ likelihood. Overly complex language also creates challenges in translation, with a higher risk of varying interpretation, and a higher likelihood of divergence in practice in those jurisdictions that rely on translations.

The need to refocus on the clarity approach (or adopt a similar new approach) which focuses on principles-based standards that establish the base requirements for auditors of LCEs and then move to additional requirements to address layers of complexity.

ACCA’s thought leadership report ‘Thinking Small First: Towards better auditing standards for the audits of less-complex entities’ argues that simplifying the language of auditing standards is a better approach. More specifically, the report suggests an approach to developing and drafting standards that:

Explains clearly what every auditor must do and scales up as complexity increases

Uses specialist drafting teams which allows less drafting to be done at Board meetings. This will allow the Board to focus on its strategic role.

The main benefits identified by using this approach are as follows:

Simpler language and structure will be beneficial for all auditors, including those who deal with larger and more complex audits as the requirements will be straightforward. This will allow auditors to focus on the riskier and more judgemental areas of the audit and improve audit quality.

Simpler auditing standards would benefit audit regulators and other stakeholders as it would make it easier to understand a standard’s expectations of an auditor and find that applicable requirements of that standard applicable to a specific situation.

Simpler auditing standards would benefit the public as it would allow a wider range of users to understand them, and therefore help to narrow the expectation gap.

**CPA Australia - 67**

The challenges identified regarding the overly complex language used in the standards, as well as the level of prescription with which principles are outlined, stem from efforts to be exacting and precise in meaning. The underlying cause of length, complexity and prescription may also be due to attempts to cover all possible situations within the standards. For example, ISA 540 contains requirements not necessarily relevant for LCEs. In contrast, the “building block” approach would provide the core requirements applicable to all circumstances and then allow for scaling up for greater complexity This approach would not seek to address all circumstances in the core requirements.

The length and number of audit standards, along this their verbose style, makes them laborious to navigate. We suggest that the cause is the failure to embrace more contemporary communication styles and tools. Consequently, we agree that the language and terms used in the standards need to be simplified, the length of the more voluminous standards needs to be reduced, and procedures and guidance need to be set out in plain English.
Instituto de Censores Jurados de Cuentas de España - 22

It’s not easy to enumerate all the particular aspects of ISAs that are difficult to apply, therefore, we enumerate below general challenges in relation to audits of LCEs. It also should be noted that some of these issues are applicable to all audits, despite the complexity of the audited entity.

Length of the standards and language: Sometimes it is difficult to understand even the wording of the standard. This also makes their translation difficult. Although we agree that any legislation should be open to interpretation, some paragraphs are impossible to translate without a prior interpretation of what IAASB wants to say. Having a clear writing manual, avoiding duplications and using technologies to cross reference texts could help with this.

South African Institute of Chartered Accountants (SAICA) - 63

“The language is complex and difficult to understand;”

SAICA survey respondents had a somewhat different view, and rated the top four most significant issues as:

Three of the four significant issues identified by both survey respondents are similar. The only discrepancy lies in what the two groups’ rate as the most significant issue.

South African Institute of Professional Accountants (SAIPA) - 56

The clarity project made a significant contribution in trying to simplify the ISAs and making them more concise. This however was short-lived as the amendments and new standards that are often necessitated by some crisis that has come up takes the standards back to being complex and cumbersome particularly for the SME sector. The DP has articulated the challenges that the SMPs are experiencing in using the ISAs for audits.

7. Academics

Hunter College - 68

Language and Basic Approach to all Standards

We believe there should be an emphasis on qualitative and quantitative measures used in language to describe the characteristics of all standards. A financial metric that signals financial effect of the entity that will enhance the classification of the entity. For less complex entity standards specifying the proper amount of documentation necessary to fulfil the audit purpose is necessary. It’s understandable that an LCE should require less documentation but the question is to what extent? Due to the complexity of an LCE being less extensive ISA should provide guidelines of what documentation provides assurance and increases audit quality. Applying the ISA standards used for complex entity can lead to over documentation that overall will fail to provide clarity and assurance. We acknowledge that this will take up time and need additional support from key players in the audit industry to make these changes to the standards.

8. Individuals and Others

Vera Massarygina - 48

Sometimes translations of ISAs into other languages are not accurate enough and misrepresent there meaning.
Q2 (b.1) Overdocumentation

3. National Audit Standards Setters

American Institute of Certified Public Accountants (AICPA) - 27

We note an additional challenge is the effort required to add the documentation as discussed in 2a. Such documentation does not add to the quality of the audit but, rather, just poses onerous requirements on the auditor with little to no value. In fact, the focus on creating documentation that adds little or no value can detract from the audit and reduce quality.

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

Numerous documentation requirements in ISAs

Besides ISA 230, various ISAs contain specific documentation requirements.

These numerous documentation requirements are suitable/justified in audit of large entities.

However, these requirements are cumbersome and impractical in audit of smaller entities.

Australian Auditing and Assurance Standards Board - 73

Documentation requirements are extensive and onerous (83% of respondents);

There is a lack of clarity and different interpretations as to what, and how, certain matters are documented (84% of respondents);

4. Accounting Firms

Deloitte Touche Tohmatsu Limited - 46

Documentation

DTTL agrees with the IAASB that the documentation requirements are becoming more onerous and in some circumstances are more than what would be appropriate for auditing LCEs. DTTL believes there is potential for improvement, especially with regard to the point of overdocumentation and documenting what has not been performed.

HLB International - 57

As noted in the challenges within scope in section II of the DP, the ISAs can be difficult to navigate, are increasing in length, and documentation requirements are extensive and increasing.

6. Member Bodies and Other Professional Organizations

Accountancy Europe - 83

Documentation and Lack of clarity as to what needs to be done and why

Compliance approach leads to over documentation

Auditors perceive the need to document why they have not carried out an audit procedure linked to a specific requirement within the ISAs as excessively onerous in an LCE audit. The practice of documenting the reasons why a specific requirement does not apply has created a compliance approach for ISA audits. This is not a desirable development as it draws the auditor’s focus away from applying professional judgement and from the ultimate objective of evaluating the true and fair view of the financial statements.
In addition, in many jurisdictions, the lack of clarity leads to variations in regulators’ expectations and demands when it comes to audit procedures and documentation. These expectations and demands seem to be disproportionate, especially for LCE audits. However, to avoid receiving negative regulatory feedback, auditors often end up documenting more than necessary. Such an approach to documentation not only adds costs and inefficiencies, but is not seen as adding value, which makes the audit a less attractive service to stakeholders.

The issue of the compliance approach associated with ISA audits and over documentation has been a key factor in driving some jurisdictions to reject the ISAs for the audit of smaller entities. As further explained below, some countries have developed national solutions for such audits or raised audit thresholds to exempt smaller entities from the statutory audit requirement. We provide more detail on this in our response to Question 4 and 5 and in Appendix 1 and 2.

To avoid such unnecessary documentation, it would be helpful to clearly state in the ISAs that where the auditor has evaluated a requirement not to be applicable in a particular audit, the auditor does not have to document every such assessment. Instead, the auditor should apply professional judgement and document, if deemed necessary, in the particular circumstances. This could be stated, for example, in ISA 200 as well as ISA 230. Currently, paragraph 22 and 23 of ISA 200 state that the auditor has to comply with each ISA requirement unless it is conditional; this would need to be revised. In addition, it would be helpful to add a general statement in ISA 230 clarifying what has to be and what does not have to be documented. More generally, and drawing on the root causes explained above, there is a need for the IAASB to review the documentation requirements and rationalise what the auditor has to document or not.

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

According to a survey conducted Accountancy Europe among its members, 76% think that the documentation requirements are too demanding, including non-applicable items, 62% have difficulty in determining the extent of work required, 49% are of the opinion that there is insufficient consideration of the small entity environment and 46% have difficulty in determining whether the requirements are applicable in the circumstances.

ITAA agrees with this analysis, but nevertheless wishes to emphasize that it are not individual factors but their combination that makes the application of the ISAs difficult. The length, often unclear language and prescriptive details aggravate the situation.

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

Overdocumentation

As mentioned in the discussion paper, documentation requirements throughout the ISAs are extensive and, in many cases, due to the length of the application material, there is a lack of clarity as to what needs to be documented, and the extent thereof, in particular, when auditing LCEs. This might have the unwanted consequence of documenting circumstances that do not exist and developing long and often unnecessary checklists. Therefore, we suggest to revise ISA 230 to clarify what needs to be documented, irrespective of the topic of this discussion paper.

IFAC SMPC - 77

The documentation for LCE audits is a significant challenge, including interpretation/ judgement by inspectors and regulators on the requirements and work undertaken. For example, there is a fear that inspectors will report that the standard is not being followed if a requirement is merely documented as not
done because it is not applicable to an LCE audit. If the inspectors’ driving force for auditors results in undue focus on compliance and documentation, the quality of audit will not be enhanced.

Institute of Certified Public Accountants of Uganda - 55

Burdensome documentation of transactions which makes application of procedures recommended by the different ISAs difficult. Significant time is thus spent documenting and supporting which standards and requirements are not relevant to an audit engagement.

Instituto de Censores Jurados de Cuentas de España - 22

Documentation. Auditors perceive that they spend a lot of resources documenting what they have or have not done and why. In addition, the lack of clarity in this issue, has led regulators to expect the maximum documentation from the auditor and to apply a compliance approach to their inspections. This is especially costly in LCE audits. Reviewing documentation requirements and clearly stating in each ISA that if the auditor has already documented the inapplicability of a requirement, documentation of non-application of the related procedures is not necessary, could help with this.

Nordic Federation of Public Accountants - 58

The standards also include extensive documentation requirements, which are often related to complying with the standards rather than to the audit itself. The top-down approach with the scalability options has caused a “comply or explain” approach to documentation, which have resulted in over documentation.

South African Institute of Chartered Accountants (SAICA) - 63

“Documentation requirements are extensive and onerous;”

“Documentation requirements are extensive and onerous;”

IFAC survey respondents rated the top four most significant issues that make ISAs a challenge to apply as:

Q2 (b.1) Diminishing professional judgement and checklist approach to audits

2. Regulators and Audit Oversight Authorities

Canadian Public Accountability Board - 5

In CPAB’s experience the challenge often relates to attempts to use checklists or other mechanisms that cover every possible scenario, rather than clearly excluding items which are truly not applicable. Further, auditors sometimes have difficulty documenting their thought process when developing an audit strategy and, in particular, documenting why they have chosen not to perform certain work.

3. National Audit Standards Setters

Australian Auditing and Assurance Standards Board - 73

Requirements which result in procedures being performed solely to comply with auditing standard requirements with no additional assurance or measurable increase in audit quality (90% of respondents);

The Japanese Institute of Certified Public Accountants - 41

However, this is not a problem specific to audits of LCEs. For all auditors, it becomes difficult to apply ISAs to varying degrees. Over the years, requirements have accumulated in the ISAs and supporting application materials also become voluminous. Many auditors seem to literally follow these requirements and
application materials. There is a risk that the achievement of "thinking audits" advocated in the Clarity Project will be hindered, and that the audits will become a compliance-oriented task that follows the standards only superficially. In order to facilitate the appropriate exercise of professional skepticism, we believe that ISAs should clarify the principles underlying the risk-based approach in auditing and leave room for professional judgment; it does not make sense to merely explain in the ISAs the importance of exercising professional judgment during the audit. To foster appropriate audit behavior such as "thinking audits" and the appropriate exercise of professional skepticism, it is time for the IAASB to consider the restructuring of ISAs. We believe that the challenges faced in audits of LCEs provide a good opportunity for such a consideration (see our Comment on questions 4).

4. Accounting Firms

Adrian & Partners AB - 26

b. Most audit programs of today strengthens the problems with over-documentation and bypasses the professional judgment. We have developed a strategy which demands both professional judgment and understanding of the audit process in a way that no "tick-in the-box" can beat. It requires more collaboration and tutorial work but we have found this line of work more stimulating in a way that enhances the interest of what our staff is actually doing.

HLB International - 57

This fact may in turn lead practitioners, particularly SMPs, to become increasingly reliant on checklists in order to avoid reportable deficiencies noted by regulators. It may also lead to SMPs deciding to no longer provide audit services or actively encouraging clients to downgrade engagements (i.e. to a review or compilation) as many stakeholders do not perceive an audit engagement provides significant additional value. Such results, even if provoked inadvertently because the original intention is undoubtedly to increase transparency and develop standards which lead to an improvement in audit quality, will arguably not be in the public interest.

We greatly appreciate that standard setters are trying to act in the interest of practitioners by including scalability, but feedback from our member firms shows that they find it complex to apply in practice through checklists. This can pose particular difficulties for SMPs as they may be more reliant on checklists to implement the ISAs than their counterparts in larger organisations.

We also appreciate that standard setters are trying their utmost to act in the public interest, particularly as far as the enhanced exercise of professional scepticism by practitioners is concerned. However, the longer and more complex the ISAs, the more there is scope for potential application difficulties. We fear that very important goals like enhancing the exercise of professional scepticism might easily be lost in checklists and concerns about local regulatory compliance, which in turn would not be in the public interest or in the interest of increasing audit quality.

PKF South Africa - 82

The auditing profession is under constant scrutinization as stakeholders become more involved in entities in which they have an interest/stake in. Accordingly, to a certain extent, audits are becoming more compliance-based and less risk-based. Auditors are trying to tick boxes instead of relying on their judgement as to where the real risks lie in any audit and appropriately responding to those risks.

To try and apply the full ISAs to the audit of a less complex entity, will potentially result in the auditor focusing on the wrong areas of an entity and risk not identifying those areas where special auditor's attention must be given.
6. Member Bodies and Other Professional Organizations

Institute of Chartered Accountants of Sri Lanka - 92

In addition, we believe, current ISAs use the words such as ‘professional judgement’ and ‘judgment’ excessively in the explanatory material as well as in the body of the ISAs. The Proposed LCE Standard should include clearly worded guidance on how to apply professional judgement instead of being silent on its application of ‘professional judgement’ and ‘judgment’.

Institute of Public Accountants of Australia (IPA) - 91

The standards covering the planning of the audit ISA 300 “Planning an Audit of a Financial Report”, ISA 315 “Identifying and Assessing the Risk of Material Misstatement through Understanding the Entity and Its Environment” and ISA 330 “The Auditor’s Response to Assessed Risks” are not well integrated and while they purport to have the objective of producing an overall audit plan the actual output is never well enunciated. This results in a checklist approach to the planning of the audit which is inappropriate in the best circumstances and time consuming and inefficient in the context of an LCE audit. This is exacerbated by the auditor’s assumption that they will be undertaking a substantive based audit and the planning requirements of the ISAs have little value add.

The IPA believes that planning should be output based with the objective of producing an overall planning document which sets out: industry and company background, key information systems subject to audit; the governance structure; internal control if any; fraud risks; materiality; regulatory requirements and risks; and financial statement risk by assertion with audit response.

Institute of Singapore Chartered Accountants - 54

To help deal with the lengthy requirements of the ISAs, it is common to hear auditors adopting a ‘checklist approach’. On one hand, many lament the need for such an approach as lengthy checklists coupled with time pressure result in little in-depth considerations and lack of critical thinking. On the other hand, auditors are concerned that, without checklists, audit teams may miss out on certain procedures or requirements. Another concern is that it may be challenging for auditors to demonstrate that they have considered all the requirements of the standards without such checklists.

Nordic Federation of Public Accountants - 58

We believe that the extensive number of requirements at the cost of having a truly principles-based approach causes confusion and has led to several negative consequences. Because of the length of the standards and all the requirements, it has become a challenge to understand and follow “the big picture” and it encourages a check-list behavior/audit. This way of drafting also reduces the possibility to use professional judgment.

South African Institute of Chartered Accountants (SAICA) - 63

“Requirements result in certain procedures being performed solely to comply with the ISA requirements, with no additional assurance or measurable increase in audit quality;”

8. Individuals and Others

Adele Driscoll - 2

I strongly agree with the comments on page 6 of the discussion paper regarding the fact that there is increasing focus on compliance and less focus on using professional judgement, and that there is increased documentation on audit files with no perceived commensurate benefit. We spend so much time ensuring
that all the relevant boxes have been ticked that we lose sight of the bigger picture. We need to simplify, refocus on the basics and then build from there - hence my support of the “building-blocks” approach

**Q2 (b.1) Lack of financial reporting sophistication of preparers**

3. **National Audit Standards Setters**

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

Ability of management to successfully apply accounting standards and prepare reliable financial information

The challenges in applying the ISAs are influenced by the increasing complexity of accounting standards and the quality of information prepared by management. For example, the requirements of ISA 540, Auditing Accounting Estimates and Related Disclosures, are predicated on an expectation that an entity’s management team has the necessary skills and knowledge in accounting necessary to make accounting estimates. Also, there is a presumption that management has the necessary processes in place to provide the auditor with supporting documentation for audit purposes. When this is not the case, it can be difficult for the auditor to determine the nature and extent of audit procedures to perform and the evidence that needs to be obtained to be able to form a conclusion.

**Korean Auditing and Assurance Standards Board (KAASB) - 23**

LCEs have inherited limits on human resources to perform financial reporting procedures and segregate duties, but the ISAs don’t have sufficient practical guidance on separate considerations for audits of LCEs in response to such limits.

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

Complex requirements of accounting standards such as fair value measurement also cause challenges to the audit of LCEs as many smaller businesses do not necessarily benefit from complying with complex accounting requirements.

4. **Accounting Firms**

**BDO International - 60**

In spite of all efforts to set meaningful standards for audits, one of the underlying causes to the challenges raised is often the lack of financial reporting sophistication of the preparers of financial information. This lack of sophistication impacts both an entity’s ability to create a strong control environment, to apply the relevant accounting framework and to provide auditable support for assertions made in the preparation of financial statements. As the IAASB continues to deliberate possible options to address the challenges in applying the ISAs, standards should be based on this assumption and addressed accordingly.

**KPMG IFRG Limited - 72**

Other Matters – Management Preparedness for an Audit

The DP focuses on issues regarding the ISAs themselves that cause challenges in performing audits of LCEs. We note that a significant challenge to many LCE auditors lies, however, not in applying the ISAs per se but in applying them at an entity where management may have relatively limited knowledge and experience of preparation of financial statements as well as limited knowledge as to what an audit constitutes and the information and explanations that the auditor will require. Such lack of preparedness inevitably leads to additional work for the auditor, with associated costs that may be difficult to recover.
We highlight that ISA 210.6 sets out the preconditions that are required to be present in order to perform an audit, which include acknowledgement by management of its responsibility for the preparation of the financial statements; for such internal control that is necessary to enable the proper preparation of the financial statements, and to provide the auditor with access to information, as well as persons within the entity, that the auditor believes necessary in order to obtain sufficient, appropriate audit evidence.

We suggest, therefore, in order to support entities in ensuring that the preconditions for an audit are present in terms of being able to understand and acknowledge their responsibilities regarding an audit, that as part of the suite of solutions the IAASB considers, it would be helpful to explore material that is directed at management of such entities, helping them to better understand the concept of an audit, the work involved, and the information required, to enable them to better prepare for an audit.

Please also refer to our comments regarding liaising with standard setters regarding financial reporting frameworks and scalability solutions in terms of the requirements of these standards.

6. Member Bodies and Other Professional Organizations

California Society of CPAs - 14

Clients lack of understanding of the accounting standards and failing to document controls making it more difficult to assess and document risks.

Cayman Islands Institute of Professional Accountants (CIIPA) - 9

2.b. The cause of the above is usually due to the client having limited resources and/or not being familiar with new accounting pronouncements. This has been managed by issuing control weakness letters to those charged with governance which, more often than not, upsets the client because it is due to their resource constraints (especially where control weakness letters are required to be submitted to the regulators along with the audited financial statements).

Q2 (b.1) Regulatory inspections

3. National Audit Standards Setters

American Institute of Certified Public Accountants (AICPA) - 27

We believe that one of the underlying causes over the past several years is the focus on regulatory inspections and the key topics noted in those findings. While efforts to enhance audit quality in those areas is of critical importance to listed entities in particular, developing new standards for audits of all entities based on those findings does create challenges in scalability and relevance.

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

We refer to the body of our letter, which explains how regulatory considerations have caused the challenges mentioned in Section II. In the past, as a national standard setter and body of professional accountants, the IDW had sought to address these issues by means of implementation guidance, such as our quality control handbook. However, our practitioners are still faced with the challenges identified in Section II of the paper and in 2 a) above. For this reason, the IDW has approved, and will soon commence, a project to seek to design auditing standards that are based on the ISAs, but that are customized to the nature of the entity whose financial statements are being audited, so that auditors can use a bottom-up approach to determining the relevance of requirements. However, the issuance of ISA 540 (Revised) and the looming issuance of ISA 315 (Revised) show the limits on scalability that can be achieved through our project
without fundamentally changing the ISAs to reflect a “think small first” approach or setting a separate standard or standards for other than regulatory audits.

4. Accounting Firms

Crowe Global - 86

The underlying cause is probably that the ISAs have been developed to meet the needs of stakeholders who are relying on reports on audits of public interest entities in environments that are heavily regulated. Stakeholders, such as oversight bodies, have influenced the development of Auditing Standards, in a way that is important for public interest audits, but not necessarily relevant for other audits.

Audits of LCEs involve presenting reports that are likely to be relied upon by a narrow community of owners (in many cases involved in the business) and indirectly by other parties, who often also might have relationships with the business that mean that the audit report can be regarded as complementing their understanding. The audit report is valued, but the process for preparing the report does not have to be the same as that for a public interest entity.

Grant Thornton International Limited - 62

External inspections are driving how requirements are being implemented in practice. Regulators can have a different interpretation of the requirements, and also often treat application material as ‘de facto’ requirements, thus causing either additional procedures or additional documentation that arguably are unnecessary, but which auditors perform to ‘pass’ the external inspection.

PwC - 84

Other challenges

Section I of the DP describes the evolving business environment and the effect that is having on the ISAs. Specifically, within this section the IAASB identifies that the increased robustness of regulatory and oversight body inspections has resulted in calls for more specificity in the requirements against which audits can be inspected.

This “environmental” factor is not directly addressed in the analysis of challenges in section II. There is a need to directly acknowledge that the expectations of regulatory and oversight bodies, who are primarily focused on audits of PIEs, including listed entities, and expectations of those stakeholders representing SMEs and SMPs are increasingly divergent.

A direct consequence of a drive to increased specificity in requirements is, as section II highlights, a shift towards a more prescriptive, compliance-driven, approach and longer standards, which has fuelled concerns about scalability.

In contemplating the possible actions set out in section III, specifically Actions A and C (i.e., actions other than developing a separate standard for audits of LCEs), this inherent tension is worthy of consideration. For example, is it possible to revise the ISAs and meet the expectations of all stakeholders? Some actions, such as increased use of conditional requirements, and potentially exploring an alternative structure for the standards, as suggested in our cover letter, may create a framework making this possible.

The IAASB is already aware of the need to revise several ISAs to better address the use of technology. While this too is not a challenge exclusive to audits of LCEs, and perhaps less of a challenge compared to audits of much larger entities, there are aspects of the ISAs that are viewed as increasingly dated/onersous/redundant in light of advancements in technology tools available for use in performing an
audit. The cumulative effect of such perceptions, combined with the concerns around scalability and prescription in standards, adds to the weight of concern around the application of the ISAs to audits of LCEs. Progressing the IAASB’s work on ISA 500 and technology is one element in the overall approach to addressing those broader issues we describe in response to part (a).

6. Member Bodies and Other Professional Organizations

South African Institute of Chartered Accountants (SAICA) - 63

It appears that the ISAs have been developed primarily with the larger/listed/public interest entities in mind. The approach followed in drafting the ISAs is predominantly a “top down” approach, covering all possible scenarios. This has resulted in the auditor documenting why certain requirements contained in the ISAs are not applicable, making complying with the ISAs onerous and unnecessarily time consuming.

South African Institute of Professional Accountants (SAIPA) - 56

It is our view that ISA’s are written for entities that are high public interest. These in the main are big corporates and public companies. The standards are cumbersome and for the LECs/SMEs do not or provides little benefit compared to the costs involved. A number of the LECs do not meet the full requirements of the ISAs but are still expected to comply with all irrespective of the benefits thereof. Even where scalability is permitted we still find the full ISAs not fit for the purpose.

Q2 (b.1) Limited guidance and implementation resources

3. National Audit Standards Setters

Australian Auditing and Assurance Standards Board - 73

There is a lack of separate implementation support/guidance in respect of the application of the auditing to the audit of LCEs (83% of respondents).

CNCC & CSOEC - 61

the lack of support tools to assist the practitioners, especially in less complex entities context;

4. Accounting Firms

Deloitte Touche Tohmatsu Limited - 46

Lack of Clarity as to What Needs to be Done and Why

This is not a challenge isolated to audits of LCEs, however, the challenge when performing audits of LCEs tends to relate to unnecessary procedures being performed for less-riskier areas, potentially resulting in the riskier areas not receiving proportionately more focus.

Not Enough Guidance Within/Outside of the ISAs

DTTL agrees with the IAASB that currently there is not enough Guidance and Examples to support auditors performing audits of LCEs and for the Guidance and Examples that do exist, they are not always sufficient in demonstrating the scalability of the practical application of the ISA requirement(s) and the resultant levels of documentation.

This results in various interpretations and guidance being issued by stakeholders such as large firms and regulatory bodies, potentially leading to inconsistencies and misapplication of some standards.
It is DTTL’s view that the underlying causes of the identified challenges are pervasive across the problematic ISAs, although for certain ISAs, some causes are more prominent than others.

DTTL believes that the main underlying causes of the challenges are related to ‘Documentation,’ ‘Lack of Clarity as to What Needs to be Done and Why,’ and ‘Not Enough Guidance Within/Outside of the ISAs.’

It is DTTL’s view that the challenge related to Documentation, and the challenge on Lack of Clarity as to What Needs to be Done and Why are closely related, and that both challenges may be addressed through an adequate response to the last challenge, related to Not Enough Guidance Within/Outside of the ISAs. However, DTTL also believes that Guidance and Examples are not sufficient in the long-term as the only responses to these challenges. As stated in Question 4, DTTL believes that the long-term solution should include revising the ISAs.

Ernst & Young Global Limited - 25

Overall, we believe that the limited guidance available within the ISAs, or in the form of supporting non-authoritative guidance, that specifically addresses the application of the requirements to audits of LCEs is an underlying cause of the challenges noted. Auditors are meant to apply professional judgment in determining how to apply the principles in the ISAs. However, a lack of guidance can result in inconsistency in how the principles are applied and coupled with the documentation challenges noted in (a) above, we believe many auditors tend to perform more extensive procedures, as well as prepare more extensive documentation, than may be required. In some cases, this is driven by the fact that regulators continue to challenge the use of professional judgment and documentation.

6. Member Bodies and Other Professional Organizations

CPA Ireland - 70

Lack of guidance in the area of audit documentation

Institute of Public Accountants of Australia (IPA) - 91

Guidance is often not useful – many ISA do not have definitive guidance best characterised by a variation on of “…consider the impact on the nature and extent of audit procedures” or “… consider the impact on the audit report/the auditor’s opinion”. Such guidance should be replaced by equivocal guidance which clearly articulates the recommended response.

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

It is necessary to note that in México for more than 30 years, tax regulations required the filing of a tax report which was prepared as part of a financial statements audit. This requirement resulted in many small and/or not complex entities needing to audit their financial statements only to comply with this tax regulation. This originated the need of complying with audit requirements, either Mexican audit standards and/or International audit standards. If such law would not require the audits, many entities would have not requested assurance services.

An additional aspect that we consider is important for some Firms and Practitioners, is the lack of guidance on how to apply the concepts included in the ISA’s for planning, execution and documentation of the audit. Some Firms may develop different strategies, software and systems to comply with ISAs; however, big difference result from these in terms of how each audit practice conclude about the topics mentioned above. In addition, other small and medium size firms do not have access to software and/or guidance in how to apply the ISAs effectively as a whole and efficiently.
South African Institute of Chartered Accountants (SAICA) - 63

“There is a lack of separate implementation support/guidance in respect of the application of the ISAs to the audit of LCEs.”

“...Lack of separate implementation support/guidance in respect of the application of the ISAs to the audit of LCEs.”

Q2 (b.1) Limited resources

4. Accounting Firms

HLB International - 57

Practitioners have limitations on the amount of time which can be devoted to reading, comprehending and implementing new and revised standards. One might argue that this fact inherently places SMPs at a disadvantage as they have fewer staff members who they can assign these responsibilities to.

6. Member Bodies and Other Professional Organizations

Institute of Certified Public Accountants of Uganda - 55

The extent to which these challenges are managed depends on the resources available to an individual accounting firm. Small and medium practices (SMPs) continue to have serious challenges in the audits of LCEs since they have not found lasting solutions to the challenges above.

South African Institute of Chartered Accountants (SAICA) - 63

Where limited resources exist within a firm, the levels of knowledge, training, education and (lack of) understanding all contribute to the challenges of applying the ISAs to LCE audits.

South African Institute of Professional Accountants (SAIPA) - 56

The LECs/SMEs are mainly audited by Small and Medium sized Practitioners (SMPs) who are adequately qualified on all audit standards and requirements, however due to the size of their firms/practices they tend to find difficulty in applying and complying with all the ISAs of non public interest entities. Whilst the standards have the scalability up or down they are still cumbersome, proportionality attempts to reduce but it is still a huge challenge.

Q2 (b.1) Increased prescriptiveness

3. National Audit Standards Setters

Australian Auditing and Assurance Standards Board - 73

Moving away from being principles based and increased prescriptiveness (ISA 315 and ISA 540).

4. Accounting Firms

BDO International - 60

As we have noted in previous comment letters, developing a body of ISAs that are now so prescriptive (covering the ‘what’ and ‘how to’ apply the ISAs) has caused the standards to move away from being a
principles-based set of requirements and has encouraged users (auditors, regulators, etc.,) to adopt a checklist approach to auditing. This has also led to an increased disconnect from users’ needs with respect to audits of LCEs that has been so well articulated in the IAASB’s discussion paper.

HW Fisher - 17

The majority of the entities which we audit would be classed as less complex entities. Our general experience of applying the ISAs (in our case the UK versions developed by the FRC) is that many of their requirements are difficult to apply in the context of such entities because the standards assume a level of record keeping that such entities have no reason to apply.

In addition to this, we agree with the suggestion in the second bullet point at the top of page 6 of the Discussion Paper that the ISAs as currently presented can result in “a ‘checklist approach’, with a greater focus on compliance rather than using professional judgement”. In the UK, there has been much criticism of auditors recently. We believe that a significant cause of audit failure is that auditing is increasingly seen as the application of a process rather than the exercise of professional judgement. Auditors, and also audit regulators and oversight bodies, place too much emphasis on the completion of the process. Both auditors and regulators should focus on whether the judgements made are/were reasonable at the time they were made (crucially this will include determining whether sufficient evidence has been obtained to support judgements made in circumstances where there may be limitations on the level of evidence available).

Both issues would be addressed by recasting the ISAs as a smaller number of key principles, supplemented by guidance on how these could be applied in the different contexts of complex and less complex entities.

6. Member Bodies and Other Professional Organizations

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

The underlying causes of these challenges include the lack of a framework for drafting referred to elsewhere in this response. We note in our main points above the failure of the clarity project to clearly separate requirements that are in fact applicable in virtually all cases, from those that are not, or to produce meaningful objectives. IAASB itself acknowledges the increasing levels of prescription in ISAs and we urge it to consider the development of a simple framework for drafting ISAs both in the short and long term.

While we are encouraged by the consideration of the ‘what, why and how’ approach being used on an experimental basis in ISA 315, we do not think that this approach has had anything like the rigour needed in its development to represent a long-term structural solution. It needs careful, detailed consideration and some experimentation to refine it before it is adopted more widely. A lack of understanding of the clarity principles, and a lack of depth therein, contributed to the limited success of the clarity project. Taking time to plan the long-term structural changes that are needed now will pay dividends in the future.

Institute of Public Accountants of Australia (IPA) - 91

The IPA believes the following aspects of ISA are problematic particularly in the context of the audit of LCEs.

Too many mandatory procedures – the IPA believes the ISAs need to be streamlined and more principled based with more emphasis on principles. The IPA is of the view that the large number of mandatory procedures lead to a checklist approach to audit which is neither efficient or effective and costly in an LCE environment. The IPA would like to see the auditing standards based on principles with defined and clear outcomes.

South African Institute of Chartered Accountants (SAICA) - 63
Over the past few years the tendency seems to have been that the standards are moving away from being truly principle-based, to being longer and more rules-based. This adds to the complexity and amount of detail contained in the standards that would inherently not be suitable in the application of SME audits.

**Q2 (b.1) Other causes**

3. National Audit Standards Setters

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

As part of its AUASB International Strategy, the AUASB reviews and discusses IAASB standards over the course of their development and provides comments to the IAASB through feedback to IAASB members, IAASB Task Forces and formal submissions. Drawing on the most recent submissions the AUASB has provided to the IAASB, the key recurring themes have been:

- Increasing complexity of the standards, leading to diminished understandability (ISA 315, ISQM 1);
- Growing length of the standards (ISA 315, ISA 540, ISQM 1);
- Impact on scalability (ISA 315, ISA 540);
- Moving away from being principles based and increased prescriptiveness (ISA 315 and ISA 540).

Overall, over 60% of respondents to the Australian survey considered that all the possible underlying causes listed in Section II of the Discussion Paper were significant contributors to the challenges with the auditing standards. Specifically, Australian stakeholders viewed that the most significant contributors were:

Some respondents to the Australian survey (15%) also raised that challenges were largely being driven by increasing complexity in the accounting standards and auditors finding it difficult to appropriately satisfy the auditing standards requirements in conjunction with them.

**CNCC & CSOEC - 61**

In our view, the underlying causes of these challenges are mainly coming from:

- the absence of a “stable platform” for the standards;
- the lack of accessibility of the standards. We therefore welcome the commitment of the IAASB to convert the IAASB’s Handbook into an electronic format (we refer to the footnote 12 of the discussion paper).

One of the root causes leading to difficulties to apply the ISAs is their continuous process of revision since the clarity project. Without a “stable platform”, the situation became more and more complex for the practitioners. This required considerable efforts from them to update their knowledge and methodologies.

Another root cause is the way the standards were revised. Instead of being more precise and principles based, the IAASB went into greater and greater level of detail (sometimes to deal with particular situations), and so kept adding requirements and also unnecessary contextual information. The standards have become very heavy to read, sometimes “indigestible”, difficult to understand and more rules-based than principles-based.

Moreover, we consider that even if difficulties with application of the ISAs are more prominent in an audit of LCEs, they are also encountered in audits of other entities too. Therefore, tackling these issues should have a positive impact on all ISA audits.
Malaysian Institute of Accountants (MIA) - 30

We believe that the main underlying cause of these challenges is due to the cost-benefit of the audit procedures performed on LCEs as perceived by the management of the entity. The owners of LCEs may believe that periodic financial reporting and audit are compliance in nature and does not directly provide value to the management of the entity. This perception imposes hurdles to practitioners’ work in performing the audit. In addition, the management of LCEs usually hire non-qualified accountants to prepare the accounts of the LCEs. Additional requirements such as cash flow forecast to support fair value may not be prepared as it is deemed as incurring additional cost with no clear benefits.

In many occasions, written representations as required by ISA 580 appear to be used as an alternative on non-cost beneficial item that may not be of importance to the LCEs. Besides, the management of LCEs are also often reminded and informed on the relevance and importance of the audit procedures performed.

4. Accounting Firms

Baker Tilly International - 43

As set out in our earlier comments, we believe that the underlying cause of the challenges with applying auditing standards to the audits of LCEs is the ever-increasing complexity and additional burden of standards which are really only required/applicable to Listed/PIE and more complex entities.

We believe that simplification of the requirements for LCE, via either a building blocks approach, separate audit requirements or a new form of assurance (including modular assurance) is required for LCE assurance.

Dailamipour and Co. - 31

Business environment, economic rants, lack of transparency, hyperinflation and currency causing corruption, money laundering, corrupted business environment, lack of business moral and ethics, superior social and political groups have the power to influence on audits and subordinate auditor opinion.

Grant Thornton International Limited - 62

We generally agree with the challenges that have been identified in the Discussion Paper. In particular, we highlight the following matters:

A move away from the clarity drafting principles established by the IAASB’s 2008 Clarity Project, including:

Requirements are being drafted in a manner that includes guidance on how to perform the requirement rather than just what is required;

Application material is becoming more voluminous and is not always necessary to assist the auditor in understanding or applying specific requirements in the respective ISAs;

The language is becoming increasingly complex through a combination of terminology, sentence structure and length, which is particularly problematic for translation of the ISAs.

Introductory sections of the standards are becoming increasingly lengthy.

Less conditionality is being included in the requirements.

Examples provided in the application material are generally those at the extreme ends of the spectrum, making them less useful because they are not reflective of the most common scenario.
HLB International - 57

There is not one specific ISA which we regard as problematic in the audit of an LCE; rather the current body of the ISAs as a whole may pose certain difficulties.

KPMG IFRG Limited - 72

We believe the IAASB has appropriately identified the primary drivers of challenge in applying the ISAs to audits of LCEs, in particular, in the table on page 13 of the DP. We also set out additional comments regarding these, and other challenges, above, in our response to Question 2a).

It is difficult to parse the underlying causes of these challenges, as many of these are interrelated. We would encourage the IAASB to exercise caution in attempting to respond to challenges individually, e.g. by attempting to make the ISAs shorter in order to address the length, as we believe such an approach to be overly simplistic and unlikely to be useful, as we highlight in our response to Question 4a).

We consider that, at their core, the challenges relate to LCE auditor lack of understanding of certain aspects of the ISAs, in terms of the IAASB’s intention underlying certain requirements, and therefore how to appropriately comply with such requirements in a manner that is relevant to the audit, and avoids inefficiencies.

As we describe in our overarching comments, we believe that an approach involving a range of complementary solutions would be optimal, which, with regard to the ISAs themselves, would be targeted at specific areas of challenge, with a view to providing clarity to an auditor as to what the underlying intention is behind certain requirements, how to perform these required procedures, and how they assist in obtaining sufficient appropriate audit evidence.

Examples of how we manage these challenges include the development of a scalable methodology; industry sector focus by professionals; audit training, and on-the-job, real-time coaching as challenges arise, and national professional practice support.

We suggest that the IAASB provide appropriate support to LCE auditors by way of clarifying certain aspects of the ISAs that present the most challenge, and also by liaising with others e.g. NSS, IAESB, the IFAC SMP Committee and others to encourage them to provide appropriate training and support to LCE auditors.

MGI Worldwide - 18

We recognise the challenges outlined in section II, particularly agreeing with the feedback points on page 13. As a global network, one of the primary challenges faced by member firms is the language used within the existing standards and the length / complexity of the standards themselves. This is an issue for firms in both English-speaking nations as well as others.

Feedback from Small and Medium-sized Practices (SMPs) within our membership and beyond agrees with the comments that “increases in the length and detail of the International Standards on Auditing (ISAs) can…..lead to increased documentation in audit files, with no perceived commensurate benefit.” The results of our network’s own Quality Assurance review process has also shown that the understanding of the ISAs is patchy, often due to the length of the requirements and the language used within the standards themselves. Although the Application Material in the ISAs is useful in many cases, it is not clear that many member firms are fully aware of it or how to apply the ISAs appropriately to each client, tailored for size and complexity.

Feedback from SMPs frequently focuses on the frustration of having to “check the box” on all the ISA requirements, even though some are less relevant given the nature of the entity being audited. This focus
on completing audit programs can lead to a lack of challenge and scepticism amongst the audit teams as firms train staff who can complete the program, rather than engage in the audit. There is also great frustration at the need to follow the same standards on a small and LCE client, as that applied to a listed or public interest entity, especially when the SMPs suffer from the negative feedback / reputation to the profession caused by the bigger firm’s failings on such audits.

**Moore Global - 78**

In our view, the issue is not that ISAs are necessarily inherently difficult to apply as such. They can be, and are being, applied by auditors of entities of low complexity all over the world. The issues are more that:

Documentation requirements are both confusing for some and also in some cases onerous. For any potential solution to the issue of the audit of entities of low complexity, the provision of practical guidance and examples relating to documentation will be vital. We believe that the fee pressure experienced in many jurisdictions relating to this type of audit can give rise to significant quality risks relating to documentation, as a result of the confusion (and actual disagreement) around how much documentation is enough, and what constitutes appropriate documentation. As things stand there is a clear risk that auditors could easily fall into the trap of both over and under documenting and this situation does not promote audit quality.

There is in some standards a ‘think complex’ mentality which in some cases leads auditors to believe that they need to justify why they are not doing something which would be overkill in an audit of a non-complex entity.

The language in some more recent standards is neither clear nor straightforward and does not necessarily translate well.

The manner in which the ISAs are set out (see our comments on the paper paradigm above) and the duplication that this sometimes gives rise to makes the whole task of understanding what must be done and how it should be done more difficult to grasp than it should be.

**NEXIA International - 52**

As noted earlier, a common characteristic of an LCE is a system of internal control that is informal with limited documentation and the most important control is the control environment created by the involvement and oversight of the owner/manager. The ISAs as currently drafted do not start from this point.

**PKF International Limited - 69**

Another broad challenge includes the demotivational effect on audit practitioners who struggle to comply with the specific requirements of ISAs (particularly those relating to planning and risk assessment activities) on smaller entity and LCE engagements for which the client does not have a sophisticated control environment. It is our view that practitioners can feel undervalued, frustrated and disillusioned with their career because their efforts may ultimately seem pointless in those situations where the client clearly does not have the type of formalized and strong financial control environment which the ISAs can be perceived as assuming all audit clients should have.

While we acknowledge the ISAs do feature some concessions and some related application guidance in this regard, in our view they do not go far enough in scaling the requirements to smaller, LCE engagements. We believe that our view on the demotivational impact of overly complex ISAs on smaller, LCE engagements is a real problem to the profession as a whole which, in part, contributes to the high staff attrition rates of many firms. Consequently we see the LCE discussion paper as an opportunity to promote a more relevant set of audit requirements, which are more appropriately aligned to the circumstances of a smaller, LCE entity and
which will, in turn, promote a better and more satisfying work experience for those practitioners involved in audits of this nature, while still focusing on achieving a high level of audit quality.

**PwC - 84**

We suggest bifurcating this question between: (i) aspects of the ISAs that are generally seen as challenging to apply (and which, potentially, may be viewed even more so in the context of an audit of an LCE); and (ii) aspects of requirements of the ISAs that respondents do not believe are always relevant/necessary in the audit of an LCE.

The latter needs to be addressed, but we would encourage the Board to focus initially on the first category of challenges. Taking appropriate action to address these broader challenges in applying the ISA requirements may also help to alleviate some of the concerns that are identified as challenges for audits of LCEs. We have provided further views on this matter in our response to question 4 in relation to the possible actions the IAASB may take.

Within that context, we include in Appendix 2 aspects of the ISAs that we suggest be given further consideration by the IAASB, because we believe they either: (i) lack clarity as to what is required, leading to questions as to how the requirement can be scaled; or (ii) can be seen as unduly onerous when applied to an audit of an LCE.

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

**Accountancy Europe - 83**

The IAASB has to acknowledge that, more than individual factors, it is rather their combination that makes the application of the ISAs difficult, in particular to LCE audits (but not only).

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

According to a survey conducted Accountancy Europe among its members, 76% think that the documentation requirements are too demanding, including non-applicable items, 62% have difficulty in determining the extent of work required, 49% are of the opinion that there is insufficient consideration of the small entity environment and 46% have difficulty in determining whether the requirements are applicable in the circumstances.

ITAA agrees with this analysis, but nevertheless wishes to emphasize that it are not individual factors but their combination that makes the application of the ISAs difficult. The length, often unclear language and prescriptive details aggravate the situation.

IAB-IEC (currently ITAA) has commented on the paper from the Monitoring Group ‘Reforms to The Global Audit Standard-Setting Process’ to discuss this issue. Any solution for the problem concerning audit of less complex entities may depend on the outcome of the Monitoring Group’s reform of the standard setting environment.

**California Society of CPAs - 14**

“Familiarity” has caused auditors to take a “SALY” approach to auditing and lack of documentation. While we have focused on the performance of nonattest services which, in my mind, have yet to be proven to result in audit failures, as a contributing factor to poor audit quality, familiarity is a much greater threat.

Fee pressure by clients. While not within its control, the IAASB could address the fee pressure by guiding that the auditor should not accept an engagement that can’t be satisfactorily completed in the amount of time the client is willing to pay for.
Inadequate training of auditors.

As noted above, fee pressure on auditors is an issue as are independence issues, a shortage of staff auditors and inadequate investment in training and education. Again, while some of this is not within the IAASB’s control, the response to the issue is in its purview.

Auditors lack of understanding of the auditing standards.

IFAC SMPC - 77

Knowledge, training, education and a lack of understanding all contribute to the challenges in applying the ISAs in LCE audits and may be associated with a lack of resources in SMPs. Thus, the increasing length and complexity of standards coupled with an increasing pace of change is even more challenging to such firms.

Risk assessment and identification is always a challenge and needs clarity in the standards e.g. where to spend the right amount of time. Some SMPs may be cautious and adopt a substantive approach to an audit rather than fully relying on applying a risk-based approach.

The skills and experience of the employees at the company being audited and their knowledge of financial reporting are very important.

The availability and affordability of audit software is a factor for many SMPs.

An acknowledgment that each jurisdictions laws and requirements for which entities require an audit is not within the control of the IAASB.

Audit fee pressure and competition are key factors – some of the costs of undertaking an audit can be viewed as in the public interest and for stakeholders, but certain procedures are not seen to be adding value to audit clients or enhancing audit quality.

Institute of Certified Public Accountants of Uganda - 55

From interactions with practicing accountants in Uganda, ICPAU suggests the following as the underlying causes of the challenges mentioned in 2(a) above:

ISAs are complicated to interpret and apply in a logical and sequential order of a risk based audit.

LCEs offer low audit fees making the performance of all procedures required by the different ISAs impossible and or uneconomical.

Owners do not separate business transactions from personal transactions making it hard to trace each and every transaction.

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

The DP covers the issues well. However, the overall impression given is that while IAASB is genuinely concerned about LCE audits, it has not really understood the strength of feeling in some quarters, and believes that the problem may in fact lie somewhere other than in its standards.

Institute of Chartered Accountants of Pakistan - 64

With regard to above, the main challenges are but not limited to the:

Application of extensive and complex audit procedures and standards requirements (in terms of documentation) on less complex entities.
Lack of or weakness in the internal control environment in LCEs requires more guidance application material for applying the ISAs.

Other factors/matters as discussed in our response to 2a above.

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

The issues that already exist in the current ISAs, such as complexity and length, also affect the LCE audits. The main challenge is the evaluation of internal controls - assessing design and implementation of controls when the auditor plans substantive procedures and does not intend to rely on controls, which is quite often for LCEs.

**Inter-American Accounting Association (IAA) - 47**

There is no doubt that one of the underlying causes of the difficulties indicated in 2a corresponds to the complexity of the ISAs, which were originally intended to address the distrust of users of public accountant reports and for large companies. Another of the possible causes, always in our opinion, is the cost required by the LCE to have an adequate internal control structure, with periodic and appropriate segregation of functions and monitoring by controls, which in the majority of cases the LCE does not poses, therefore, apply NIA to an audit of financial statements in an entity that has a poor or weak internal control structure makes the appropriate application of most ISAs, in particular 315, 330 and 570, almost impossible. Cited in 2 a.

**South African Institute of Professional Accountants (SAIPA) - 56**

In some jurisdictions all companies irrespective of size require an audit, this put tremendous pressure on the LEC/SMEs that are to comply with the jurisdiction’s requirements since there is one set of Auditing standards which are meant to fit all entities. South Africa in trying to reduce this burden distinguished by providing an option for Private Companies that have a Public Interest Score (PIS) below the set threshold to only have their Annual Financial Statements (AFS) Independently Reviewed rather than audited. There are still shortcomings in this option since public companies do not have this option. They are required to have their AFS audited without taking into consideration the size/complexity of the entity.

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

The underlying cause is the absence of a clear and easy mechanism to interpret the main and basic relevance of the standard to the audit process and if it is directly relevant to your audit of an LCE. Most auditors are educated and skilled enough to apply the standards once they ascertain/determine that this is relevant to the audit.

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

An important result and challenge introduced by the above mentioned difficulties, that are encountered by SMPs in complying with ISAs, is the undersupply of non mandatory audit services to SMEs. This is both due to reluctance of SMPs to engage in a more onerous service, and also higher cost of service reflected to the SME. Meanwhile, the number of PIEs (PIEs by definition, otherwise we believe that SMEs also bear significant public interest) are decreasing with the global trend of increasing audit thresholds. These together are likely to increase the already existing concentration in audit market in favour of large firms. Concentration both increases the audit fees and decreases competition, and also impedes audit sector capacity development that will occur with more SMPs engaging in ISA audits, which inturn would have positive impact on audit quality.
8. Individuals and Others

Audit Assistant Limited - 33

As part of my research and reflection I reviewed the pre-ISA New Zealand Codified Auditing Standards and Audit Guidance Standards (November 1998) and also the older New Zealand Auditing Standards and Guidelines (March 1996).

The 1996 standards (AS 1-11 and AG 1-23) had been in development since 1973 and were an attempt to set some basic markers and guidance for audit work in New Zealand based on best auditing practice applied to our context. In my opinion they actually read very well in many respects, explaining concisely the key issues of risk-based auditing.

The 1998 Codified Standards were the first attempt to move towards full ISAs. In trying to bridge auditors over they had some improvements but I think they also lost some of the clarity of the earlier work.

The obvious observation after reading through these older standards was (as noted in the paper) the sheer bulk of the ISAs (approximately 1200 pages) compared to the 1998 codified standards (330 pages), and the 1996 standards (265 pages including guidance).

I was surprised how clear the 1996 standards were and imagined how easy and useful it would be just to go back to those for New Zealand LCEs (with some appropriate updates of course for the changing business environment since the 1990s).

It seems that much of that which was changed between these original standards to the ISAs was to address issues that have arisen out of the complexities of globalism and the subsequent impact of the Global Financial Crisis of 2008. Although these international issues had little direct effect or relevance to LCEs in New Zealand the flow on effect was a crippling audit fee increase for LCEs without any real quality gain.

From the perspective of LCE auditors, in the process of trying to create internationally applicable standards in the context of globalism and the GFC the ISAs have become more broadly vague and wordy without any real clear prescriptive guidance on how to actually do the audit work.

Instead they make prescriptive requirements in terms of reporting, risk assessment, fraud and estimates that are not actually helpful to LCE auditors or the users of their reports.

As a result in New Zealand we have had many provincial firms that carried out perfectly adequate audit work at a scale appropriate to LCEs drop out of auditing because they do not have the time, staff or resources to carry out compliant ISA audits.

In turn the entities they previously audited have had to either pay much higher fees to large city firms, stop being audited voluntarily (if under the threshold for compulsory audit) or potentially close because they are already financially pressed and dependant on overstressed volunteers.

So the social cost of inappropriate audit standards may well be an overlooked factor in this discussion. At a social level it is critical that small charities and clubs and not-for-profits remain viable and accountable, as these entities create a disproportionate amount of social cohesion which flows down into all sorts of positive social outcomes.
Q2 (b.1) None

2. Regulators and Audit Oversight Authorities
   Czech Republic Public Audit Oversight Board - 89
   Independent Regulatory Board for Auditors (IRBA) - 35

Question 2(b): No particular issues to raise of relevance to this consultation, other than the above;

3. National Audit Standards Setters
   Brazilian Federal Accounting Council (CFC) - 44
   Hong Kong Institute of Certified Public Accountants - 74
   Korean Auditing and Assurance Standards Board (KAASB) - 23
   New Zealand Auditing and Assurance Standards Board - 53

4. Accounting Firms
   GGI Practice Group of Auditing Reporting and Compliance - 29
   Pitcher Partners - 7
   RSM International Limited - 65
   Rymand&co - 87
   Shahedan and Co - 80
   SRA - 21

5. Public Sector Organizations
   U.S. Government Accountability Office (GAO) - 45
   Wales Audit Office - 40

6. Member Bodies and Other Professional Organizations
   ASSIREVI - 3
   Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili - 34
   IFAC - 4
   Institute of Chartered Accountants of Nigeria - 6
   Institute of Chartered Accountants of Scotland (ICAS) - 28
   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
   Alla Ejova - 42
   Chartered Accountants Academy - 66