Audits of Less Complex Entities
Q2 (b.2) Addressing the challenges with ISAs

Q2 (b.2) Methodology

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.

KPMG IFRG Limited - 72

Examples of how we manage these challenges include the development of a scalable methodology; industry sector focus by professionals;

PKF International Limited - 69

At a network wide level, it is difficult to identify the systemic cause for the challenges noted above. Tailored training programs and methodology guidance have proved to have some success in assisting engagement teams in managing the extent of audit work for smaller entities. Reinforcing the need to direction, supervision and review by the engagement partner has added some benefit. We use the management letter as a means of informing the client of weaknesses and gaps in the control environment with the expectation that it has a positive impact on the subsequent audits. From a commercial perspective, we have encouraged our practitioners to deliver quality audits that add value.

RSM International Limited - 65

ISA 315: LCEs often have a lack of a documented and robust control environment because, by their nature, these businesses are run on a more informal basis than larger enterprises. Auditors can easily default to a substantive approach and sometimes do not see the relevance of assessing an informal internal control system as a risk assessment procedure.

We have addressed this by providing simplified documentation for auditors of LCEs in this area, but this is not seen as a full response to the challenge that the work required provides little comfort.

8. Individuals and Others

Audit Assistant Limited - 33

Some of our users have (in the worst cases) responded by:

Deliberately cutting corners – using out of date but simpler engagement letters and reports, ignoring detailed risk assessment and analysis, skimping on planning and documentation of work done.

They do this to try to make the engagement economically viable (when in many cases they are already doing the work at cost for the social benefit to the community anyway).
This response is understandable but of course the work is sadly not complaint with the standards.

To respond to the challenges outlined, we (Audit Assistant) have:

Designed workpapers that address all the prescriptive requirements of the standards, plus provided model reports and letters that meet the requirements.

Unfortunately the quantity of these requirements has made the “checklist-approach” (p6 of the paper) unavoidable. Instead of actually focussing on the obvious issues the auditor is distracted from the task by overly complex requirements.

As a result audit quality and usefulness to stakeholders is reduced, and cost is increased.

Q2 (b.2) Technology

1. Monitoring Group

IFIAR - 88

Use of technology

10. As pointed out in the IAASB’s Discussion Paper, we believe that the use of new technology and automated tools could, to a certain extent, facilitate the effective implementation of ISAs in the audits of less complex entities. However, consideration should also be given by the IAASB to the potential risks associated with the use of such technologies, and the importance of firms having effective controls around the acquisition or development and use of such tools.

3. National Audit Standards Setters

Canadian Auditing and Assurance Standards Board - 81

Use of emerging technology

Stakeholders have told us that it would be helpful to have access to more ‘smart’ tools which embrace advances in technology. Such tools could include application software to:

- better link and facilitate the interconnectivity and the scalability of the ISAs,
- assist with information gathering and analyzing audit evidence, and
- support a more consistent platform for documentation and communication.

Technology-based tools and methodologies that may help with the application of ISAs is identified in the Discussion Paper as a factor that is not within the control of the IAASB. However, we encourage the IAASB to consider the use of technology in addressing the challenges in applying the ISAs to the less complex elements of an entity’s operations and financial statements. For example, standards are currently developed in a format to be published in paper books or in an electronic form. However, standards developed for use with smart technology may be more accessible to practitioners, as well as developers of tools and methodologies. In addition, technology-leveraged tools and methodologies may help alleviate the challenges in applying the ISAs to the less complex elements of an entity’s operations and financial statements.
6. Member Bodies and Other Professional Organizations

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

Technology / Methodology

As mentioned in the discussion paper, a helpful global solution, developing or promoting technology tools or methodologies is not part of the remit of the IAASB as a standard-setter. However, we are convinced that the initiative “Guide to Using ISAs in the Audits of Small and Medium-Sized entities” could be continued and developed. Many tools already exist. The IAASB could draw more attention of the auditors to the existing tools and facilitate their worldwide distribution amongst the auditors.

CPA Australia - 67

However, as ISAs have been redrafted for broad application, irrespective of the size of the entity, we have not identified any specific amendments to the standards. Nevertheless, we agree that the usability of the Standards need to be improved to make them more scalable for audits of LCEs. More precisely, the detailed composition of the individual standards does not necessarily bear relevance for LCEs and should therefore be brought into simpler form. We suggest that including comprehension aids such as flowcharts and diagrams or even tables, that clearly set out the requirements and help to visualise the linkages between those requirements, would assist auditors of LCEs. Moreover, the inclusion of hyperlinks that help with navigating within and between standards would assist in the usability of the standards. The underlying cause of these issues is the overall way the standards are presented. In essence, it is a communication issue. This is further elaborated in Question 4.

Institute of Chartered Accountants of Sri Lanka - 92

Technology/ Methodology

In Sri Lanka, mostly LCE audits are carried out by Small and Medium-sized Practitioners (SMPs). Almost 75% of practitioners in Sri Lanka are sole practitioners. Most SMPs have limited ability to access the technology and methodologies, as they are costly when compared with audit fees.

CA Sri Lanka developed Small- and Medium-Sized Entity Audit Templates (SMET) referring the manual issued by IFAC for SME audits to support SMPs to document audit work that provide a sufficient and appropriate record of the basis for the auditor’s report; and evidence that the audit was planned and performed in accordance with the Sri Lanka Auditing Standards and applicable legal and regulatory requirements. Several case study based training programs have been conducted focusing on the practical application of revised ISAs for SME audits.

In addition, CA Sri Lanka is in the process of developing an automated tool kit for SMP audits.

This will help to comply with the regulatory requirements such as mandatory compliance along with relevant accounting and auditing standard frameworks in order to enhance the quality of the audits and the transparency of financial reporting, to gear up the SMPs to the next level of development in order to compete in the market, to ensure better documentation in order to safeguard practitioners through quality audit and to facilitate training requirements of the staff of firms to attract and retain talented staff.
Q2 (b.2) Guidance and examples

3. National Audit Standards Setters

Korean Auditing and Assurance Standards Board (KAASB) - 23

In order to address above challenges, the KICPA offers below supports to help SMPs, auditing LCEs, understand the ISAs and apply them in practice.

Audit Manual designed to support the understanding of the ISAs and application in practice

Working paper sample

Examples on how to prepare working papers

Examples on how to prepare audit reports

Introduction of the IFAC Guide

4. Accounting Firms

Ernst & Young Global Limited - 25

Some specific areas to highlight where we have tried to address these challenges consist of the following:

Development of guidance for auditors to understand the extent of management oversight of financial reporting and the effects on the audit– We have created guidance specific to understanding entity-level controls in an LCE that is an approach to achieving the requirements of the ISAs for an entity that has the following criteria level:

Has frequent interaction with and oversight of staff, including knowledge of employee compensation

Has direct contact with principal customers and major vendors

Performs periodic reviews of key financial measures or financial performance

Reviews documentation prepared by others (e.g., monthly financial statements, reconciliations, payroll registers)

Communicates roles and responsibilities clearly

Authorizes significant transactions

Under our approach, when audit hours are below a certain threshold, we have streamlined the documentation and explained how management involvement in an LCE affects our identification and assessment of risks of material misstatement at the assertion level.

Level of Documentation – Based on our experience we have found it necessary to develop specific enablement (e.g., forms and documentation guidance) to help auditors of LCEs properly scale the ISAs. As a result, we recommend that guidance on how to scale the documentation requirements in the ISAs be a specific focus of the IAASB.

PwC - 84

Listed below are key areas we have identified where common challenges occur in applying ISA requirements and guidance on LCE audits. Our Network has developed additional guidance in these areas to assist our engagement teams with effective application.
In order to overcome some of the challenges described in Appendix 2 our Network has developed practical materials to help engagement teams meet the requirements of the standards. For example:

Guidance regarding the identification of internal controls within business processes, including a list of commonly applicable controls for various business processes;

A standard testing plan to be executed when off-the-shelf IT systems are used by the entity; and

A practice aid that includes common (“less-complex”) accounting estimates to help identify appropriate financial reporting framework requirements, methods, assumptions and data used to develop those accounting estimates as well as common internal controls that management might put in place to address the business risks related to the accounting estimates.

**Q2 (b.2) Training**

4. Accounting Firms

**KPMG IFRG Limited - 72**

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.

**PKF International Limited - 69**

At a network wide level, it is difficult to identify the systemic cause for the challenges noted above. Tailored training programs and methodology guidance have proved to have some success in assisting engagement teams in managing the extent of audit work for smaller entities. Reinforcing the need to direction, supervision and review by the engagement partner has added some benefit. We use the management letter as a means of informing the client of weaknesses and gaps in the control environment with the expectation that it has a positive impact on the subsequent audits. From a commercial perspective, we have encouraged our practitioners to deliver quality audits that add value.

6. Member Bodies and Other Professional Organizations

**CPA Ireland - 70**

CPA Ireland has attempted to address these challenges through the provision of relevant training and workshops for its members. The CPA Ireland audit work programmes have also been designed with these challenges in mind and they seek to ensure that all the necessary requirements are set out in a user-friendly manner. Additional guidance is provided at various points through the audit process as necessary. The programmes have been designed with the vital input of the auditors of LCEs and CPA Ireland’s Quality Assurance staff.
Q2 (b.2) Developing jurisdictional approaches for SME audits

3. National Audit Standards Setters

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

Decision taken to develop separate auditing standard for audits of smaller and less complex entities

Considering the aforesaid difficulties in implementing SAs (which are based on ISAs) in audits of smaller entities, the Auditing and Assurance Standard Board (the Board) of ICAI has decided to develop separate auditing standard for audits of smaller and less complex entities. This decision was taken by the Board after considering the pros and cons of this option vis-à-vis the other option of revising the existing SAs. This separate auditing standard for audits of smaller and less complex entities will have following broad features:

It will be written in form of a single comprehensive standard which will be divided in different chapters to cover different topics.

It will be written in simple language.

It will not be based on Framework used in ISAs. Instead of separate sections i.e. Introduction, Definitions, Requirements, Application in ISAs, it will have continuous running text. Further, it will have small paragraphs and short sentences.

Considering the fact that development of this Standard will take some time, the Board has also decided to develop non-authoritative guidance regarding practical application of SAs in audit of smaller entities. In the year 2008, the Board had published a publication “Practitioner Guide to Audit of Small Entities”. The Board has started the process of revising this publication. This publication provides a practical approach for implementation of SAs in audits of smaller entities.

CNCC & CSOEC - 61

In France, we have already issued two specific and standalone standards for the audit of small entities, i.e. NEP 911 – Standard for engagements when auditor has been engaged for a period of three years as defined in article L. 823-12-1 of the French commercial code and NEP 912 – Standard for engagement when auditor has been engaged for a period of six years.

Small entities are defined by the French law that retains criteria of size (thresholds) and not of complexity. Under French law, a small entity is a person or an entity that does not exceed, at year-end, two of the three following criteria: 4 million € total balance sheet, 8 million € total revenue, 50 employees.

“NEP 911” applies to the following cases, i.e.

in situations where there is no legal requirement to appoint a statutory auditor, a company that meets the criteria of “small entity” may voluntarily appoint an auditor;

a “parent” company that is not required to publish consolidated accounts, but that is not a public interest entity, or that is not controlled by another person or entity that appointed an auditor, and constitutes, along with the companies it controls, a group that meets at least two of the three criteria of the small entity;

small companies that are controlled by a parent company when these companies meet two of the following criteria at year-end: 2 million € total balance sheet, 4 million € total revenue, 25 employees.

NEP 912 is simply an adaptation of the NEP 911 for a 6 years engagement.

The objective of such standards is to define a proportionate audit approach and to set only the basic, principles based, requirements which are necessary in an audit of a SE. The standards are short, i.e. only
10 pages and standalone, i.e. with no reference to other standards. They use the same notion and lead to the same final product as the “traditional” audit, i.e. reasonable assurance, sufficient appropriate audit evidence, professional skepticism, professional judgment, full compliance with the Code of Ethics.

In addition to the audit report which is aimed primarily at the shareholders but which is aimed more widely at the Public as a whole, like in a traditional audit, the NEP 911 also requires an annual auditor’s supplemental report to Management on the risks of the entity (“financial, accounting and management risks”) and includes some simplifications in terms of other legal requirements, compared to a “traditional” audit in France, to simplify the “legal compliance” dimension of the audit.

As in any “traditional” audits, these standards include the following concepts:

- Engagement letter;
- Materiality threshold(s)
- Notion of clearly inconsequential errors;
- Risks analysis of material misstatements;
- Audit planning;
- Audit requirements in response to risks analysis;
- Going concern;
- Management representation letter;
- Probing sampling, …

but are adapted to small entities with, in particular, the following principles:

- Importance of the implication of the engagement partner as the principal and privileged interlocutor of the manager of the entity;
- Importance of considering professional ethics and behavior of the manager of the entity as part of the risk approach;
- No “assertions” defined or mentioned in the standard since in fact they are embedded in the financial reporting framework;
- No setting of performance materiality required, considered not necessary (and too complicated as regard the size of the entity) to plan the audit;
- Substantive analytical procedures presented as the primary audit procedures;
- No “useless” audit documentation (professional judgment);
- As it is supposed that audit is operated later after closing date, external confirmations may not be necessary;
- Overall an audit which values professional competence, judgment and partner’s involvement.

The audit reports will refer to the audit having been conducted according with the specific standard.
4. Accounting Firms

BDO International - 60

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

6. Member Bodies and Other Professional Organizations

Accountancy Europe - 83

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.

There is an urgent need for a solution for LCE audits. It is demonstrated by recent developments in several European countries which have created their own national or regional solutions – see table below and Appendix 2 for more details.

Table: European countries with national solutions for smaller entity / LCE audits

| Countries with a separate standard for audits of small entities or LCEs (5, Belgium, Bulgaria, Denmark, France, Switzerland) |
| Countries with national guidance on proportionate application of the ISAs (8, Austria, Belgium, Bulgaria, Germany, Hungary, Italy, Slovak Republic, Switzerland) |
| Countries with IT tool for audits of small entities or LCEs (13, Belgium, Bulgaria, Denmark, Estonia, Finland, France, Germany, Greece, Iceland, Latvia, Netherlands, Norway, Switzerland) |

To make sure that audit remains harmonised across all entities, and of equally recognised quality at a global level, we call on the IAASB to set as its main priority the development of a separate standard for LCE audits.

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

Finally, IAB-IEC (currently ITAA) and the Belgian Institute of Auditors (IBR-IRE) have developed a common SME audit standard together, which was published in the Belgian Official Gazette on the 12th of March 2019.

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

While less intuitively appealing than revising the ISAs, we see the development of a separate auditing standard for audits of LCEs, based on the same principles as the ISAs, a more feasible, timely and pragmatic solution. Some jurisdictions, perhaps most notably Belgium with its audit standard for contractual (voluntary) SME audits developed by EFEAA member Institut des Experts-comptables et des Conseils Fiscaux – Instituut Van de Accountants en de Belastingconsulenten (IEC-IAB) and Instituut van de Bedrijfsrevisoren - Institut des Réviseurs d'Entrepriseshave (IBR-IRE), already developed SME audit standards.
**EXPERTsuisse - 50**

Swiss Audit Regime as a Stimulation for Further Discussions

In Switzerland a customized audit regime is in place based on different levels of assurance and a differentiation between listed entities on the one hand side and larger entities and SMEs (categorised by quantitative thresholds) on the other side.

Accepting fundamental differences between SMEs and PIEs, especially regarding differing expectations amongst their stakeholder base and foremost the varying number of stakeholders with an interest in audit, has led the Swiss legislator to change the audit regime with effect from 1 January 2008.

Since then we differentiate between full scope audits (with internal control attestation) in the segment of listed entities and larger corporations and statutory limited examinations in the SME segment. Whereas the first mentioned audit is a reasonable assurance engagement, the latter one is a limited assurance engagement tailored to the needs of SMEs and their respective stakeholders. Of course, the fact that we introduced two sets of standards has fostered the creation of a two-tier auditing profession and we see the risk that having the “full” ISAs and additionally a new LCE audit standard would also increase the risk of establishing two tiers in other jurisdictions. Nonetheless, the differentiation in Switzerland has led to increased stakeholder satisfaction and a more focused and risk-oriented approach in the SME audit segment.

We thus ask you to consider whether an SME-standard with limited assurance would also be a suggestion for an (additional) alternative assurance regime as an option for jurisdictions with a high proportion of SMEs. Switzerland has gone this route with the “statutory limited examination” and – as said before – it is widely accepted in Switzerland.

Nonetheless, the Swiss profession still performs innumerable (full scope) audits of (less complex) entities exceeding the quantitative thresholds, in which application of the existing ISAs (adopted as Swiss Auditing Standards, SAS) is difficult. Thus, developing an LCE audit standard as a new option, would also be beneficial for the Swiss profession and the various stakeholders. Ultimately, we could imagine that the application of full ISAs would only be required for PIEs.

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

Response

Legal and Other Requirements for an Audit

In Sri Lanka, all companies must prepare audited financial statements as per the Companies Act. Further, as per the Inland Revenue Act, all the sole proprietors and partnerships have to prepare financial statements for taxation purpose. Therefore, in Sri Lanka there is no specific audit exemption threshold applicable.

Sri Lanka has two auditing standards; Sri Lanka Auditing Standards (SLAuS) and Sri Lanka Auditing Standard for the Audits of Non-Specified Business Enterprises (SLAuS for Non-SBEs). The SLAuS for Non-SBEs can be applied for audits of general-purpose financial statements published by small and medium sized entities which do not have public accountability and are Non-Specified Business Entities that follow the cost model for measurement of assets and liabilities.

Education and People

As mentioned in the discussion paper, qualifications of the auditors are not prescribed in the SLAuSs.
However, as per the Companies Act No. 7 of 2007 in Sri Lanka, qualifications of auditors are recognized as member of the Institute of Chartered Accountants of Sri Lanka; or is a registered auditor.

The Inland Revenue Act 24 of 2017 requires that, a person engaged in business or investment activity shall have accounts prepared by an approved accountant and the form by which an approved accountant shall attest to the accuracy and completeness of the accounts prepared shall be prescribed by regulations.

As per the Act of Incorporation and Regulations of The Institute of Chartered Accountants of Sri Lanka, no person who is a member of the Institute or is a partner of any such firm of accountants shall practice as an Accountant unless he is the holder of a certificate to practice which is for the time being in force. Further, CA Sri Lanka members are expected to cover the requirements of CPD, i.e. a minimum of 20 CPD hours every year and a minimum of 120 CPD hours in every rolling 3- years period of which 60 hours or equivalent learning units should be verifiable.

Commercial Considerations Relating to an Audit

As auditing standards do not address audit fees, Sri Lanka follow the requirements laid down from Code of Ethics in consideration of the fees. In addition, CA Sri Lanka has issued the “Guidelines on Minimum Recommended Scale of Fees in Audit Services provided by the Practicing Chartered Accountants in Sri Lanka”.


Challenges within the scope of IAASB’s work on Audits of LCEs

language and basic approach to the standards
length of the standards
documentation
lack of clarity as to what needs to be done or why
not enough guidance within/ outside of the ISAs
ISAs noted as particularly problematic expectations

How CA Sri Lanka mitigates those challenges?

Principle based nature and the limited guidance available within ISAs for the application of the requirements to smaller/noncomplex entities are the key limitations. CA Sri Lanka has developed a standard for the audits of Non Specified Business Enterprises. This standard is a 60 page document that has 6 chapters with following simplifications.

Relies more on Substantive audit procedures
Simple benchmarks on materiality for the financial statements as a whole
Less stringent Quality Control requirements and responsibility towards detecting frauds & NOCLAR
Simplification over the planning sections
Simplification on the reporting section
SLAuS for Non SBEs can be applied for audits of general-purpose financial statements published by small and medium sized entities that do not have public accountability which are Non-Specified Business Entities that follow the cost model for measurement of assets and liabilities. The financial reporting frameworks that could be applied for the purpose of this Standard are either Sri Lanka Accounting Standard for Small and Medium-Sized Entities (SLFRS for SMEs) or SLFRS for Smaller Entities.

Q2 (b.2) Implementing a new drafting framework

3. National Audit Standards Setters

American Institute of Certified Public Accountants (AICPA) - 27

We recommend that the first priority should be developing a framework to guide the adaptation of ISAs for LCEs. For example, in the U.S., the FASB has developed a PCDMF that includes considerations for differences in accounting and financial reporting for private companies versus public business entities. Every time the Private Company Council reviews an issue, this framework is referenced to see if considering differences can be supported by the PCDMF. Perhaps the IAASB could develop a similar decision-making framework for audits of LCEs as a starting point for this project.

The framework should be specific as to the expected outcome and methods to achieve true scalability. That framework can then be used in the development of new ISAs, guidance material, and revision of existing ISAs in order to achieve consistency, expedite the necessary actions, and assure that the effort to adapt ISAs for LCEs is successful.

6. Member Bodies and Other Professional Organizations

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

Changing the way IAASB uses language in the ISAs: some of the structural issues referred to above relate to the use of language and need to be addressed in a framework for drafting. IAASB’s drafting style and conventions have not changed for many years. They were designed for a much smaller body of standards and systematic consideration of how language is used within the standards for a technical, international audience is, of itself, long overdue. Even native English speakers with the relevant specialist expertise have struggled to understand some recent exposure drafts. Consideration should be given to a style of writing that is different to the current somewhat one-dimensional prose style used for objectives, requirements and application material including, potentially, the use of summaries - such as executive summaries that could be comprehensively linked to the objectives and requirements. The style of wording currently used has quasi-legalistic and methodological aspects, it lacks accessibility and user-friendliness and begs for summarisation in the manner commonly used in slide presentations on training courses - i.e. executive summarisation. Comprehensive links to objectives and requirements would ensure that the risk of the summary being read in isolation would be reduced.

Drafting going forward needs to be based on a new framework of deep structural changes

Among other things, structural changes need to address:

the holistic and iterative nature of modern audits;

clarity regarding nature of audit evidence, the proper home for documentation requirements, and the nature and extent of documentation required, particularly for judgemental areas and thought processes;
a clear understanding of what an objective is supposed to be, how it differs from the requirements, and how auditors are supposed to demonstrate that it has been achieved, other than by complying with the requirements;

a much clearer demarcation between requirements and application material, clearly identifying requirements for LCEs and requirements for more complex entities.

IAASB is aware of these issues which are not unusual for a mature standard-setting body. While they were once of technical interest only, their magnitude and impact is now such that IAASB should not delay further in addressing them.

**Q2 (b.2) Other actions**

1. **Monitoring Group**

   **IFIAR - 88**

   Providing further tools to facilitate implementation

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

2. **Regulators and Audit Oversight Authorities**

   **Committee of European Auditing Oversight Bodies - 90**

   The adaptation of the audit approach to the size of entities and the complexity of their operations is already embedded in the international auditing standards’ framework. However, how the audit standards are to be adapted in practice could be further clarified and explained, as suggested in the IAASB initiative.

3. **National Audit Standards Setters**

   **Hong Kong Institute of Certified Public Accountants - 74**

   How the challenges were managed or addressed - A considerable amount of time is consumed by the auditors to understand the accounting standards and design the audit procedures.

   How the challenges were managed or addressed - Given LCEs generally have less transactions or account balances, some of the auditors of LCEs simply perform 100% audit testing and identify all the audit adjustments rather than documenting and applying the basis for determining the relevant materiality.

   How the challenges were managed or addressed - Sometimes this challenge cannot be fully addressed and the auditors need to place some reliance on the LCEs' internal projections which are estimates based on past experience and expectations about future which can never be fully verifiable at the time they are made.

   How the challenges were managed or addressed: Extensive documentation is a key challenge for auditors of LCEs. In order to address the challenges, more time were spent on planning stage and documentation of the risk assessment and audit procedures.
How the challenges were managed or addressed: Some auditors developed two sets of planning templates, one for general audits and one for small audits. The small audit templates basically adopted the same audit methodology as the general templates but with simplified questions and less documentation.

Royal Netherlands Institute of Chartered Accountants (NBA) - 85

Our stakeholders in the Netherlands have experienced the same problem with our own regulation. We have learned that in most cases these issues can be solved by writing short sentences, using plain language and where relevant, taking a ‘think small first’ approach.

We have experienced that trying to write standards and guidance in this way leads to questions about what we really want to achieve. Questions that need to be answered before leading to clearer and better standards. This might even help to bridge the expectation gap a bit.

4. Accounting Firms

Baker Tilly International - 43

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.

HW Fisher - 17

Our general approach has been to interpret how the requirements of the standards can best be met in the context of the majority of our audits, but our resulting procedures still include requirements (derived from the ISAs) which do not seem entirely necessary in many cases.

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

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.

Institute of Chartered Accountants of Nigeria - 6

We believe that the basis for conclusion for each of the ISA topics should be provided to assist the practitioners.

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.

In relation to the lack of reliance capable of being placed by the auditor on the internal control environment of an LCE, we would suggest that it should be made possible for the current risk-based approach under ISA 315, along with the excessive documentation requirements, to be bypassed in such audits where there are few, if any, internal controls in existence. The auditor could be asked to document in the planning memorandum, details of the substantive approach adopted to the audit and the justification for that approach based on his/her professional judgement.

With regard to 2a above, in response to the excessive documentation requirements in audits of LCEs, we believe that it would be helpful to establish a minimum documentation level, which could be augmented according to the nature of the engagement, to demonstrate the minimum quantity expected, in terms of documentation, for audits of the smallest and simplest of entities. This could incorporate minimum requirements over documentation of the internal control environment and the rationale for the absence of reliance being placed on internal controls.

Q2 (b.2) None

2. Regulators and Audit Oversight Authorities
   Canadian Public Accountability Board - 5
   Czech Republic Public Audit Oversight Board - 89
   Independent Regulatory Board for Auditors (IRBA) - 35
   Irish Auditing and Accounting Supervisory Authority (IAASA) - 36

3. National Audit Standards Setters
   Australian Auditing and Assurance Standards Board - 73
   Austrian Chamber of Tax Advisors and Public Accountants (KSW) - 20
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