Audits of Less Complex Entities

Q4 (a.1) Option A - Possible action - Views on revising the ISA

Q4 (a.1) Option A - Agree

3. National Audit Standards Setters

Korean Auditing and Assurance Standards Board (KAASB) - 23

The KAASB went thorough review on the possible actions, and came into conclusion that the IAASB needs to take dramatic steps, differentiated from the previous ones, to substantially address LCEs’ audit-related challenges. The KAASB believes that maintaining the status quo ISAs with revising some parts of them and developing additional guidance is not enough to address current challenges, faced by auditors of LCEs. Instead, the KAASB supports the so-called “building-blocks approach” that restructures the current standards into more critical, simpler formats. The KAASB expects the “basic standards,” developed from the “building-blocks approach,” to serve as separate standards for audits of LCEs.

With this way, the IAASB will still be able to maintain the status quo of a single set of standards, continuing to hold the merits of ISAs’ long-time principle and purpose. In addition, the “basic standards” will satisfy needs of separate standards for audits of LCEs, while laying a groundwork for ISAs to be applied in a manner that is scalable and proportionate to the size and complexity of an entity.

4. Accounting Firms

Adrian & Partners AB - 26

We prefer revising the ISAs in which focus should be on less documentation demands, easier and strict language with less repeats.

Deloitte Touche Tohmatsu Limited - 46

Revising the ISAs

DTTL is in favor of working on a solution of revising the current ISAs, mainly focused on the ones identified in Question 2a. DTTL suggests working towards a building block approach of starting out with requirements for audits of LCEs with additional and incremental requirements as complexity increases. This results in auditors’ ability to follow a common set of standard and to identify the incremental requirements applicable as complexity increases.

A building block approach would also allow audits of entities that are considered less complex, but with one or two complex aspects, to still be defined as an LCE. For that one or two more complex areas, auditors can add in the “next step(s)” in the ISAs to cover the complex aspect(s) and not have to then ‘move’ to an entirely different set of standards.

For example, an audit of an entity that owns one property, with one (or few) tenants, would probably by all accounts be considered as an audit of an LCE, except for the fact that the entity may account for the property at fair value. If there were a separate set of ISAs for audits of LCEs, which does not deal with complex accounting estimates, this entity would have to apply the ISAs for more complex entities. Whereas by introducing a building block approach, this one isolated complex aspect of an otherwise less complex
entity could be dealt with by the auditor through “stepping up” in the building blocks of ISA 540 in this specific example.

Furthermore, in the above example, by continuously operating with only one set of ISAs, it limits the risks of auditors not being fully aware of the other set of standards, and therefore not knowing exactly when to apply one set of standards over the other.

**Ernst & Young Global Limited - 25**

Revising the ISAs

If revising the ISAs is deemed to be the way forward, we recommend that the ISAs be revised in order of priority (as opposed to undertaking a project to revise all ISAs at once). We believe this would result in more timely and effective relief for audits of LCEs. If the IAASB prioritizes revising all its standards in a new format, we believe there is merit to the “building blocks” approach that would set out the base audit requirements for all audits, then expanding as needed to address audits of complex entities. This approach would be grounded in principles-based requirements and result in the same ISAs being applied to all audits, supplemented with conditional requirements for audits of complex entities, as applicable.

If this approach is adopted, we are of the view that it should be done on a phased basis (i.e., focusing on ISAs specifically identified to require scalability enhancements such as ISA 540 (Revised)) Additionally, we believe that, as a short-term solution until all the ISAs can be revised, the IAASB should create an ‘LCE perspective’ publication (i.e., implementation guidance on how to approach certain ISAs from an LCE perspective) for those standards that are intended to be revised for audits of LCEs at a future point in time. This short-term solution could create a blueprint as to how the standards would look once they are revised.

The benefits we see to this approach are as follows:

- The use of simpler language and structure in the ISAs would improve the overall flow of the standards for all audits and would allow requirements for audits non-LCEs to be separated, as applicable.
- Auditors would need to be knowledgeable about only one set of auditing standards within which the flexibility to apply those standards to audits of varying complexity would be provided, mitigating the risk of fragmenting the standards and the profession.
- Retain consistency in the audit opinion between LCEs and non-LCEs (i.e., both are in accordance with the ISAs versus an opinion for an LCE audit that is in accordance with a separate standard, which may be viewed to be a “lesser” opinion).

The drawbacks we see to this approach are as follows:

- A full project to revise the ISAs would take a long time when action is needed quickly. To address this drawback, development of implementation guidance for particular standards that have been identified as challenging for audits of LCEs would need to be a prioritized effort by the IAASB.

We strongly believe that a single set of ISAs that contain clear and explicit principles-based requirements, and that can be applied to the audit of any entity, is the direction that is in the public interest. We believe it is equally important that the requirements of the ISAs can be ‘scaled-up’ or ‘scaled-down’ by auditors depending on the nature and circumstances of the entity, including its complexity and risks of material misstatement. Supporting guidance on scalability, in our view, is absolutely necessary to achieving appropriate application of the ISAs to all audits.
We believe the intent of the clarity project in 2009 was to achieve the goal of principles-based standards capable of application to an audit of any entity, but over time the revisions to the ISAs have made them lengthier and have been designed with audits of larger entities front of mind. This Discussion Paper and project of the IAASB provide an important opportunity for stakeholders to challenge the current direction of the ISAs and provide critical input into the IAASB’s development of a go-forward strategy for standards development that achieves the needs of stakeholders of all entities, as well as serves the public interest.

**HLB International - 57**

Revising the ISAs

This possible action would address key challenges with the ISAs, including those noted in the comments to question 2. In particular,

the building blocks approach could help to make the ISAs more accessible to SMPs. Revising the ISAs on a rolling or phased basis would provide more timely relief to SMPs, help them adopt the standards in practice in a measured fashion, and allow them to provide feedback to improve the revisions to future standards.

**KPMG IFRG Limited - 72**

ISAs as a Single Set of Standards

The ISAs have been developed based on a fundamental premise that there is a single set of standards, which are applied holistically, are scalable across entities of different sizes and types, and which support a principles-based audit that is focused on the risks that are specific to the entity, in the particular engagement circumstances.

The standards as a whole are anchored to the IESBA Code of Ethics for Professional Accountants (the “Code”) and a critical aspect of the value of an audit performed in accordance with the ISAs is that auditors are bound by the ethical requirements set out in the Code, including independence and professional competence and due care.

An audit has intrinsic value as a result of these core features, and application of the ISAs on a consistent basis, across jurisdictions, is significantly in the public interest, with holistic application of the ISAs driving audit quality.

In accordance with their development as a single set of standards, the ISAs are inherently self-scaling. ISA 200.22 states that “the auditor shall comply with each requirement of an ISA, unless, in the circumstances of the audit: a) the entire ISA is not relevant; or b) the requirement is not relevant because it is conditional and the condition does not exist.”

When examining the implications of this statement for audits of LCEs, we note that several ISAs likely would be determined not to be applicable in their entirety, whilst the auditor would likely determine that specific aspects of other ISAs are not applicable, for example:

- ISA 600, Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors); ISA 610, Using the Work of Internal Auditors; ISA 620, Using the Work Of An Auditor’s Expert, and ISA 720, The Auditor’s Responsibilities Relating to Other Information would be unlikely to be relevant;

- Similarly, ISA 701, Communicating Key Audit Matters In The Independent Auditor’s Report, and specific aspects of the new Quality Management standards, including ISQM 2, Engagement Quality
Reviews, would likely not be relevant, as these are directed principally at listed entities, or other "higher risk" entities with a similar profile;

- ISA 500, Audit Evidence, paragraph 8, is unlikely to be applicable, as we would not expect that management at an LCE has used a management’s expert. Similarly, much of the context of ISA 540, Auditing Accounting Estimates, Including Fair Value Accounting Estimates, And Related Disclosures relates to auditing of complex estimates, and is unlikely to be applicable to an LCE audit, (although, as we note earlier, further clarity would be helpful regarding the scaling of the standard to very simple estimates and, in particular, we would welcome a broader range of examples of simple estimates in the application material to the standard);

- Requirements throughout the standards regarding communication with those charged with governance would not be applicable, or would be adapted to the LCE circumstances, to focus on management.

Furthermore, we believe that the requirements of many ISAs are relatively straightforward to apply, as much of the content of those standards is intended to address specific, complex situations which are less likely to be relevant in a "typical" LCE audit.

We recognise the challenges of applying the ISAs to an LCE audit, as we state elsewhere in this letter. However, as a result of the above, we consider it critical that any proposed solution(s) retain the fundamental principle of a single set of ISAs, and accordingly we would not support development of a separate standard/set of standards that purport to be based on the ISAs. We believe a separate standard, based on the ISAs, for LCEs, may have unintended consequences, including giving rise to confusion in practice as to the scope of an ISA audit and the impact on the auditor’s report, and we would also be concerned that such an approach may de-value ISA audits as well as, potentially, the wider range of assurance and related services currently provided based on IAASB standards.

Also, as outline above, we do not consider such an approach to be necessary and instead we recommend solutions in which the IAASB provides greater support to LCE auditors in summarising which ISAs/aspects of the ISAs would usually apply to an audit of LCEs, and provides further guidance as to how to execute the requirements in an appropriately scaled manner.

Solutions to Address Challenges in Applying the ISAs

We address each of the potential possible actions set out in Section III of the DP, in turn, below.

Revising the ISAs

As the DP states, revision of the ISAs could take various forms ranging from a whole-scale, holistic re-write, to more targeted amendments to particular ISAs/ specific aspects of ISAs that are acknowledged to be more challenging.

We would be supportive of actions in this area, in particular, because a key benefit to this approach would be the retention of a single set of ISAs, applicable across all entities, which we believe to be a key driver of audit quality, and to be in the public interest.

We also note that this solution would have broad applicability since, although we recognise the particular challenges faced by auditors of LCEs, we also note that issues such as understanding particular aspects of the ISAs and therefore considering how to scale certain requirements are a challenge for many practitioners, including those at medium-sized/ somewhat more complex entities.
We suggest that the IAASB target areas of specific challenge, as we note that a full-scale re-write of the ISAs would be very time-consuming and therefore would not respond quickly to LCE auditor needs and concerns. It would also require significant use of IAASB resources and may detract from other (higher priority) projects.

As we note in our overarching comments, it is important to properly parse the underlying reasons for the challenges in applying the ISAs, and to recognise, in developing solutions, that aspects of challenges may be 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 concerns regarding their length, as we believe such an approach to be overly simplistic and unlikely to be useful.

The ISAs are principles-based, with significant interrelationship between different standards and therefore we believe that to properly apply the ISAs, an auditor needs to read and understand all their content/related material. Accordingly, we do not believe that revisions such as removal of application material to instead address matters such as scalability in accompanying guidance, to be helpful, and such changes in placement may interrupt the flow of the ISAs, as well as making it more difficult to find important information, which may increase issues around understandability and ease of use for practitioners.

We recommend that the IAASB take a “building-blocks” approach in developing/ revising ISAs, such that requirements/application material are clearly linked to the overarching objectives of the standard, begin with those that are applicable to all audits, include LCE audits, and build from there, through those that are applicable as entities become larger/more complex, to those that apply only to listed entities, which we consider should be clearly separated.

We note that this approach is already being taken in several areas, for example, in updating the reporting suite of standards, requirements and guidance relating to KAMs, which are required only for listed entities, were clearly delineated. Similarly, in developing the new Quality Management standards, requirements in respect of EQ (C) Reviews have been clearly separated.

We suggest that this approach be applied going forward for new ISAs and revisions to ISAs, including those in development such as ISA 315 (Revised) and the Quality Management standards (ISQM 1 and ISQM 2), and that it also be applied retrospectively to extant ISAs in a targeted fashion to address particular areas of concern, e.g. documentation requirements and communication with management and those charged with governance.

We also recommend that the IAASB explore IT-enabled interactive solutions regarding the ability to facilitate end-user interface with the standards, including search and research capabilities.

Challenges in Applying the ISAs as A Single Set of Standards

As we set out in our overarching comments and elsewhere in this letter, we believe it critical that the ISAs are retained as a single set of standards, which are applied holistically, are scalable across entities of different sizes and types, and which support a principles-based audit that is focused on the risks that are specific to the entity, in the particular engagement circumstances.

The standards as a whole are anchored to the IESBA Code of Ethics for Professional Accountants (the “Code”) and a critical aspect of the value of an audit performed in accordance with the ISAs is that auditors are bound by the ethical requirements set out in the Code, including independence and professional competence and due care.
We recognise that the holistic application of the standards in an appropriately scaled manner may present particular challenges for auditors of LCEs. We suggest the IAASB actively reach out to small practitioners to obtain a better understanding of their concerns to help explore potential solutions to address such circumstances. We would refer the IAASB to the Canadian CPA Paper, Anatomy Of A 12-Hour Audit Of Micro-Entities Using ISAs, which addresses and generally concurs with many of the observations we make in this letter, and provides further information as to how to customise the ISAs and ways to read and understand them.

**MNP LLP - 8**

Revising the ISAs

In our opinion, revising the ISAs will most appropriately address the identified challenges.

Introducing scalability into the standards and providing guidance in the appendices of the ISAs on how to implement that scalability will increase audit efficiency and consistency among audit practitioners. The ISAs and their appendices are the main source of guidance referred to by practitioners, therefore, we believe the additional guidance on how to apply the scalability should be included in the ISAs themselves. Providing practitioners with a single, authoritative, source of guidance will be the most efficient way to implement the changes.

**Moore Global - 78**

Option A

This would be our preferred option in an ideal world. We would like to see a full rewrite of all ISAs using a building block approach, thinking low complexity first, reforming the use of language to ensure that objectives and requirements are clearly and understandably articulated and freeing the approach from the paper paradigm which still persists and which can no longer usefully be applied to auditing given its iterative nature.

We accept that this is not an ideal world and Option A is not a feasible short- or medium-term solution. We would however like to see Option A explored for the medium to long term. As part of this, we believe it is absolutely vital for IAASB to move beyond the paper paradigm and explore the extent to which modern, innovative electronic methods/processes for standard setting, communication and publication can be used to better reflect the iterative nature of auditing and to make a suite of standards constructed bottom up, which are more easy to use and understand.

**Pitcher Partners - 7**

Revising the ISAs

Revising the ISAs, the idea of a “building blocks” approach would seem to address the issues of scalability if the intent is that an audit always provides reasonable assurance then there logically is a minimum, level of procedures to generate evidence to support that outcome. Additional evidence would be required where certain criteria or circumstance exist, which would allow reasonable assurance to still be provided. Hence the suggestion in 1 that the Board focus on defining when additional procedures are required for example for listed entities rather than seeking to define what LCE is.

How this could be achieved? There are a number of individually identifiable standards which urgently need revision such as ISA 500. However, the interconnectivity of the standards and the evidence of the initial exposure draft of ED540. ED 540 contained proposals which would have had substantial issues with alignment to other standards. This is an example that if a truly impactful and substantive revision is
Audit of Less Complex Entities—Nvivo Report Q4 (a) (i-iii)
IAASB Main Agenda (December 2019)

proposed it needs to be as part of a comprehensive re-write from the ground up to reflect changed auditing landscape, addressing in its thinking the changing technology environment, litigation environment, auditing in a public/listed environment as opposed to a private/non-public environment and expectation gap.

PwC - 84

Maintaining a single set of auditing standards applicable to all audits is important

In addressing these overarching issues, our preference is to do so under an overall objective of maintaining a single set of auditing standards applicable to all audits. Such standards should set clear principles of what is to be achieved, use clear and unambiguous language and avoid complex sentence structures.

Standards should avoid excessive prescription and only include application material when it is deemed necessary to the appropriate understanding of the requirement (i.e., removing extraneous “educational” and unnecessary contextual information, as well as avoiding circumstances when it is included because of a lack of clarity in the requirement itself).

We are not convinced that efforts to date, including in the proposed revision of ISA 315, sufficiently address the various challenges that have been identified.

We suggest that the Board further explore an alternative structure for the standards. There are potentially a number of options that could be considered. For example:

More clearly setting out what requirements apply in all cases and what requirements may apply in certain circumstances, such as when specific conditions exist or in the case of listed entity audits (often referred to as the “building blocks” approach). Greater use of conditional requirements, based on the characteristics of an entity and circumstances that may exist, may help in this regard.

Including within each standard a new appendix or separate section setting out specific guidance on how the requirements in that standard may typically be expected to apply in the context of an LCE audit. This guidance would be able to also indicate any requirements that may not be expected to apply. We believe this would be more effective than interspersing guidance on "scalability" throughout the application material, as that is fragmented and doesn’t provide an overall picture of how the standard can be applied in a scalable manner in less complex circumstances.

Relocating all requirements that are applicable to listed entity audits into a new “special considerations” standard, adopting a similar principle to that of ISA 600, which could facilitate shortening the foundational ISAs (helping to address the length and perception challenge) and encouraging a stronger focus on the base principles of the audit and what is necessary to provide a sufficient basis for obtaining sufficient appropriate audit evidence in all circumstances (helping to address the complexity and scalability challenge).

We believe one, or a combination, of the options above, would facilitate maintaining a single set of robust, yet scalable, standards that support the performance of consistent audits across the globe. Exploring these options would assist the Board in focusing on better articulating what work is core to all audits and distinguishing detailed requirements that stakeholders, in particular regulators, believe are appropriate for public interest entity (PIE) audits, including listed entities. Clear differentiation in the required documentation, communication and reporting requirements for PIEs and LCEs could be made too.

We believe that seeking a solution that retains one set of standards applicable to all audits is preferable for several reasons, which we describe in detail in our response to question 4 in appendix 1 of this letter. Although a separate standard for audits of LCEs could be developed (and may even be seen as preferable
in some jurisdictions), that approach may give rise to some new challenges and could possibly adversely affect audit quality, or the perception of it, more broadly. In particular, we see a risk in creating a perception that “audits” of smaller entities provide less assurance than audits of PIEs. It is difficult to argue that both are a basis for “reasonable assurance” if the expectations of the work to be performed and evidence obtained is fundamentally different (as opposed to the scalable application of the same set of standards).

If options to revise a single set of standards cannot be found on which all stakeholders can agree, the Board would need to explore the option of a separate standard for audits of LCEs, as we do not believe the status quo can be sustained. However, we encourage the IAASB to first explore using a revised structure for the content of an ISA, and to engage with stakeholders to get feedback, before committing to the less preferable approach of developing an entirely separate standard for audits of LCEs.

Adopting a phased approach to revision

It is clear that the resources and capacity needed to conduct one large project to effect the level of change being called for would be significant, as would the option of developing a separate standard for audits of LCEs. Difficult choices regarding relative priorities vis-a-vis the Board’s current and planned projects will be necessary, for which not all stakeholders may agree. For example, a concerted focus on audits of LCEs for an extended period may reduce time available for priorities that others see as more important, for example, in relation to audits of listed entities. There will be significant strategic decisions that would need to be made, taking into account the views and priorities of all stakeholders, and it is important that all key stakeholders accept the final proposed plan.

A rolling or phased revision of the ISAs, based on one or a combination of the options we describe above, may also present similar resource and capacity challenges and be seen as not sufficiently timely in responding to the concerns being expressed now. However, we believe this to be the most appropriate path for the Board to take and would allow other projects that are seen to be of priority to also progress concurrently. Based on the feedback to this DP, the IAASB may identify ISAs that are seen as most challenging and that, consequently, should be prioritised for revision.

Developing a prioritised rolling program in this manner may address those challenges that stakeholders are most concerned by such that it would be acceptable that other, lesser, concerns be addressed over time. Even under such an approach, the Board may wish to consider whether temporary guidance that could be developed and issued on an expedited basis would help, pending revision of all priority ISAs, in addressing the most significant areas of challenge identified by respondents.

Addressing specific challenges

In our view, the challenges identified relating to specific ISAs need to be bifurcated between 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 aspects of requirements of the ISAs that respondents do not believe are relevant/necessary in the audit of an LCE. Similar to the overarching issues we refer to above, addressing those aspects of the ISAs that are generally seen as challenging would further address some of the concerns applicable to audits of LCEs.

We support retaining a single set of auditing standards applicable to all audits that set clear principles of what is to be achieved, are scalable to audits of varying circumstances, use clear and unambiguous language and avoid complex sentence structures. This view is based on our analysis of the pros and cons of the actions described by the IAASB in the DP, which we comment on below.
We believe standards should avoid excessive prescription and only include application material that is deemed necessary to the appropriate understanding of the requirement (i.e., removing extraneous “educational” and unnecessary contextual information, as well as avoiding circumstances when it is included because of a lack of clarity in the requirement itself).

We suggest that the Board further explore an alternative structure for the standards. There are potentially a number of options that could be considered. For example:

More clearly setting out what requirements apply in all cases and what requirements may apply in certain circumstances, such as when specific circumstances apply or in the case of listed audits (often referred to as the “building blocks” approach). Greater use of conditional requirements, based on the characteristics of an entity and circumstances that may exist, may help in this regard.

Including within each standard a new appendix or separate section setting out specific guidance on how the requirements in that standard may typically be expected to apply in the context of an LCE audit. This guidance would be able to also indicate any requirements that typically may not be expected to apply. We believe this would be more effective than interspersing guidance on “scalability” throughout the application material, as that is fragmented and doesn’t provide an overall picture of how the standard can be applied in a scalable manner in less complex circumstances.

Relocating all requirements that are applicable to listed entity audits into a new “special considerations” standard, adopting a similar principle to that in ISA 600, which could facilitate shortening the foundational ISAs (helping to address the length and perception challenge) and encouraging a stronger focus on the base principles of the audit and what is necessary to provide a sufficient basis for obtaining sufficient appropriate audit evidence in all circumstances (helping to address the complexity and scalability challenge).

Action A

We believe one, or a combination, of the options above, would facilitate maintaining a single set of robust, yet scalable, standards that support the performance of consistent audits across the globe. Exploring these options would assist the Board in focusing on better articulating what work is core to all audits and distinguishing detailed requirements that stakeholders, in particular regulators, believe are appropriate for audits of PIEs, included listed entities. Clear differentiation in the required documentation, communication and reporting requirements for PIEs and LCEs could be made too.

As we discuss in our response to question 2, there are also actions we believe the IAASB should prioritise. Those actions, several of which are encompassed within Action A on revising the ISAs, should address the broad challenges relating to the complexity and clarity of language used, and the length of standards.

With respect to revising the broader suite of ISAs, while perhaps representing the “perfect world” scenario, it is clear that the resources and capacity needed to conduct one large project to effect the level of change being called for would be significant. Difficult choices regarding relative priorities vis-a-vis the Board’s current and planned projects will be necessary, for which not all stakeholders may agree. For example, a concerted focus on audits of LCEs for an extended period may reduce time available for priorities that others see as more important, for example, in relation to audits of listed entities. There will be significant strategic decisions that would need to be made, taking into account the views and priorities of all stakeholders, and it is important that all key stakeholders accept the final proposed plan.

A rolling or phased revision of the ISAs, based on one or a combination of the options we describe above, may also face similar resource and capacity challenges as well as being seen as not sufficiently timely in
responding to the concerns being expressed now. However, we believe this to be the most appropriate path for the Board to take and would allow other projects that are seen to be of priority to also progress concurrently. Based on the feedback to this DP, the IAASB may identify ISAs seen as most challenging that should be prioritised for revision.

Developing a prioritised rolling program in this manner may address those challenges that stakeholders are most concerned by such that it would be acceptable that other, lesser, concerns be addressed over time. Even under such an approach, the Board may wish to consider temporary guidance that could be developed and issued on an expedited basis that would, pending revision of all priority ISAs, help with addressing the most significant areas of challenge identified by respondents.

**SRA - 21**

Section III of the Discussion Paper contains, in our view, the most important issues. We believe, based on an intensive discussion within SRA, that in improving audit standards with a focus on LCE’s the following crucial starting points should be taken into account:

It should be avoided that different sets of audit standards can be regarded by interested parties as leading to an audit of a different status, increasing the expectation gap: an A-audit and a B-audit. The starting point should be: an audit is an audit. This should avoid misunderstanding with all interested parties;

The principles underlying an audit should be based on a uniform framework, ie the present ISA’s, which audit includes amongst others the features, mentioned on page 19 of the Discussion Paper. The ISA framework secures consistent audit quality;

From an educational perspective it is best to have one set of standards, based on one framework

The new standards should clearly point out the requirements, applicable to audits of LCE’s and to all other audits. As the standards will be incorporated in legal requirements it is vital to clearly describe requirements and the scope thereof.

The SRA internal discussion led to the conclusion that, based on these starting points, the best approach would be to make a distinction within the present standards between requirements, applicable to all audits (including LCE’s) and other requirements which one selects based on professional judgement, taking the complexity of the company, the individual items in the financial statements and the relevant assertion in mind.

Adoption of this customized approach would lead to one robust set of standards, based on the present ISA’s, resulting in a clear set of standards, applicable to LCE’s. The requirements, applicable to audits of CE’s (Complex Entities) and LCE’s, could then be described as key requirements.

The alternative, a separate set of standards for audits of LCE’s, would not be more clear for practitioners and would have the disadvantage that the status of such a set could lead to misunderstanding with interested parties.

The approach described could be introduced step by step for each of the standards, for example giving priority to standards 200, 315 and 540. Such an approach could be implemented rather soon, which we consider a major advantage thereof.
5. Public Sector Organizations

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

We believe that the ISAs have become more prescriptive, particularly in the application guidance and newer standards. We suggest that the drafting of new standards move to a more principles-based focus and eliminate the prescriptiveness that has been added to the standards. We believe that this approach can help address some of the challenges identified in section II, such as the concerns about the complexity of standards. This project can be approached on a standard-by-standard basis, rather than all at once.

6. Member Bodies and Other Professional Organizations

California Society of CPAs - 14

It seems clear from our discussions that there will be a significant learning curve for auditors whichever alternatives are adopted, and that there will be tremendous confusion if there is a different auditor’s report for LCE.

Majority view - ISAs need to be revised to be more focused on meeting the objectives rather than detailing requirements. This would make the ISAs more scalable.

Cayman Islands Institute of Professional Accountants (CIIPA) - 9

4. a. i. Yes, for all 3 actions

CPA Australia - 67

Revising the ISAs: We recommend that this should be the long-term goal as we believe that revising ISA Standards could bring them into closer alignment with LCE-specific needs. While being our favoured outcome we recognise this is not achievable in the short term. Current ISAs are predominantly focused on audits of large entities, but we recognise that the IAASB should, to a certain extent, shift its focus towards LCEs. To achieve Standards applicable to audits of all entities, we suggest that the IAASB determine which core requirements clearly apply to any entity regardless of size. The requirements can then be scaled up for more complex entities or accounts, which the DP refers to as the “building-block” approach. The IAASB could make the core requirements more concise than the existing ISAs and easier to identify, even if the overall length of the standards was not reduced.

Navigability within and between standards and readability of those standards would need to be addressed in these revisions. As mentioned above, diagrams, flowcharts, tables or other tools to depict the core requirements and their relationship to more detailed requirements for complex circumstances, to relevant application material and to other standards would be important features in revised standards, to enhance their navigability. Plain English and a clear contemporary communication style would also be welcomed. However, as this process would be very involved and time-consuming we suggest this is the long-term goal.

Therefore, we support the development of guidance for auditors of LCEs in the short to medium term to meet the immediate need of LCE auditors.

Instituto de Censores Jurados de Cuentas de España - 22

As stated in our general comments we see pros and cons in every proposed way forward. However, we consider that revising the ISAs to ensure scalability using the think small first approach and make their application easier to every audit is the best solution. This would benefit all audits and would be easier to be accepted by all jurisdictions. While we admit that this can take long time and efforts to develop, it does not have the negative impacts that we see in the other proposed solutions.
In line with that stated above we would also support a building blocks approach, setting out the minimum requirements and expanding them as needed in the circumstances of the entity, but we see that this is a more complex option and would take more time.

_Instituto Mexicano de Contadores Públicos, A.C._ · 37

As a fundamental principle, ISAs have been developed as a single, integrate and scalable set of standards, which are to be adjusted and adaptable on the type of entities (sizes and types).

Based on the risks that are specific to the entity in the particular engagement circumstances, the application of ISA’s on a consistent basis, drives audit quality and it is significant for the public interest. Therefore, it is critical that any proposed solution(s) should retain the fundamental principle of a single set of ISA’s and accordingly it is difficult to support the development of a separate approach. Instead, it is necessary to provide support to LCE auditors in guiding which ISAs specific aspects and requirements would usually apply to an audit of LCE’s.

Examples of some ISAs that could not be fully applicable to LCE are the following:

ISA 402 “Audit Considerations Relating to an Entity Using a Service Organization.

ISA 610 “ Using the Work of Internal Auditors”

ISA 620 “ Using the Work of An Auditor’s Expert

ISA 701 “Communicating Key Audit Matters in The Independent Auditor’s Report”

ISA 720 “The Auditor’s Responsibilities Relating to Other Information

We consider that revising the suite of ISA’s (instead of the other proposed IAASB actions) would have the following positive consequences:

Would facilitate a universal application of the international audit standards worldwide.

Would avoid the use of subjective criteria over the definition of LCE.

Consistency with an increase in the rules requested by international and internal regulators.

Avoid possible uncertainty of the users of the financial information over the application by auditors of more simple set of international standards, in regards to the levels of assurance.

Summarizing, the main benefit of this action (and not other actions) is the retention of a single set of ISA’s which are applicable all entities maintaining a standardized audit quality and public interest expectations.

However, it is to note, that one of the main challenges faced by auditor of LCEs is how to scale certain requirements and the revision of the ISAs could be time-consuming which may not respond to the LCE auditor needs and concerns.

In order to properly apply the ISA’s, an auditor needs to understand all context of such, therefore, it can be recommended to take a scalability approach in developing and revising ISA’s. In this sense, the requirements and applications material can begin with those that are applicable to all audits, including LCE audits, and go from a less complex entity approach to a complex entity approach (listed and regulated entities)
Q4 (a.1) Option A - Agree but with further comments

3. National Audit Standards Setters

American Institute of Certified Public Accountants (AICPA) - 27

Each of the three possible actions suggested in the discussion paper could help address the issues, each with its own pros and cons. We believe a combination of two of the three suggested approaches may provide more timely relief to auditors of LCEs, while also providing a long-term solution.

Perhaps the most effective long-term approach would be to first develop a framework for determining when there might be justifiable differences for LCEs versus other entities and apply that framework to all of the existing standards. However, we understand that this approach likely would take years and many deliberations to develop and would involve revisiting all of the standards in their entirety which is likely not a feasible solution for the short term.

The most practical version of this approach would be to identify the two or three sections of the standards that offer the greatest opportunity for meaningful relief and focus on revising just those sections. Then, as other sections of the standards are undergoing revisions in the normal course of time, a review of how those standards measure up to the framework and whether LCEs should be afforded some relief or additional clarifying implementation guidance can be applied at that point.

Australian Auditing and Assurance Standards Board - 73

Australian stakeholders considered that if the standards were to be revised, that a ‘building-block’ approach should be pursued (41%). This was supported by comments that a ‘building-block’ approach which starts out with the base requirements and builds in complexity for more complex audits may result in greater compliance with the standards throughout all audits. These stakeholders viewed that developing a separate framework would be counterproductive as it increases complexity through creating different frameworks for different entities.

Respondents to the AUASB survey were split on whether revising the standards or developing a separate standard should be explored, although respondents rated both options as highly important to pursue (greater than 75%).

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

Revising the ISAs

Revising the ISAs would be the preferred approach ensuring scalability and proportionality. However, it would take a long time and therefore may not be a feasible solution in the short term.

Brazilian Federal Accounting Council (CFC) - 44

Revising the ISAs. We agree in part. We understand that the review would need to be carried out gradually, accompanied by in-depth study and extensive public consultation. At this moment, the standard under review could include sections that summarize basic and further audit procedures in complexity environmental situations, risk, or specific accounting assertiveness.

Canadian Auditing and Assurance Standards Board - 81

Making targeted changes when an ISA is being revised
We support the IAASB incorporating scalability and proportionality into the ISAs as they are revised or new ISAs are developed, using an approach that is proven to be effective based on input from stakeholders that includes field testing or other similar techniques.

We recognize that incorporating scalability and proportionality in the ISAs is challenging. Therefore, we believe that the IAASB should seek stakeholders’ input on the approach to be followed. For example, the proposed ISA 315 (Revised) has been drafted to address scalability and proportionality through the content and structure of the requirements and application material. Before applying the same approach to other standards, it is important to ask stakeholders whether such content and structure is effective in addressing scalability and proportionality.

If the approach taken in proposed ISA 315 (Revised) is accepted by stakeholders as effective, it could form the basis for the IAASB to develop a framework for addressing scalability and proportionality in the ISAs. Conducting appropriate consultations at the outset will reduce the risk that a flawed approach is repeated on future standards and that the challenges in applying the ISAs to the less complex elements of an entity’s operations and financial statements remain unresolved.

Revising all of the ISAs as part of one substantial project

We do not support revising all existing ISAs as part of one substantial project. In our consultations with stakeholders, we have not identified any compelling reasons to suggest that revising the full suite of ISAs is necessary. Our stakeholders generally thought that the ISAs are already sufficiently principle-based and should apply to all audits.

Revising the ISAs

Revising the ISAs on a rolling or phased basis

We support revising ISAs where challenges have been identified in scaling the requirements to the less complex elements of an entity’s operations and financial statements.

However, before undertaking this task, we believe that the IAASB should conduct appropriate research into the areas within the ISAs that have been identified as difficult to scale. Although our stakeholders have identified several such areas, as described in Question 2a, we believe that more research is needed to better understand whether the identified issues should be addressed within the ISAs or in implementation guidance.

Some practitioners have stated that a “building blocks” approach is an attractive concept, where the ISAs start with the most basic requirements and build up based on increasing complexity. They felt that this approach to drafting the ISAs may improve practitioners’ ability to more easily identify the requirements that apply to their specific situation.

However, we do not believe that a wholesale revision of the ISAs, even using the building blocks approach is practical, nor would it be a timely response to the pressing concerns of stakeholders. The effort to revise each of the ISAs following the IAASB’s due process would likely require many years to complete.

Revising the ISA

Ideally, revising all the ISAs to make the auditor’s work effort clearer to benefit all audits, and in particular audits where the circumstances and characteristics of the entity are less complex, would be the most
relevant solution. However, in practice, it would take a long time and might come too late into the market to be useful.

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

Revising ISAs

Revising ISAs was supported by the majority of the participants of our outreach activities as this is the most appropriate long-term action to address the challenges identified. The building-blocks approach would eliminate ambiguity on what is required in ALL audits including LCEs and also cater for entities with more complex circumstances.

This action may be the most time consuming and costly approach to be adopted by the IAASB as it would involve detailed work in relation to the requirements in each ISA. This approach may also cause the auditing standards to be lengthier and affect the readability of the standards.

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

Therefore to us the answer to the LCE problem is:

- one set of standards for all entities including LCE’s;
- ISA’s developed on the concept of think small first;
- using plain English;
- taking full advantage of technology and develop Standards not necessarily for book-format, but for electronic format.

This is the most important project for the next coming years.

We fully accept that such a project will be challenging and difficult to fit within the current workplan of the IAASB. To us this should be a parallel project involving a project team with a clear direction and mandate of the board.

This project team might be sourced by National standard setters, since they will directly benefit from the outcomes. In principle the project should be based on the concept of system replacement. Nevertheless the project will lead to questions that will need to be answered by the board.

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

We recognize that this approach will take a lot of time; it is necessary to allow sufficient time to discuss what core requirements are. However, there is a need to seek a global solution that is appropriate for all stakeholders, and such solution requires innovative thinking. We believe that this approach is the only appropriate solution for all stakeholders and that the IAASB, as a global auditing standards setter, should therefore seek this approach. By clarifying the core requirements to achieve the objectives of the ISAs, this approach will benefit all stakeholders, including not only for audits of LCEs but also audits of complex listed entities. We believe that clarification of the core requirements applicable to all audits would enable all auditors to sufficiently understand the principles and their intents underlying the risk-based audit approach, which would help improve the quality of audits over the long term.

We believe that the building-blocks approach in A. Revising the ISAs (“adopting an approach of revising the standard by setting out the basic requirements for all audits, then expanding as needed to address more complex circumstances”) is the most appropriate action. Specifically, we suggest changing the structure of ISAs by making two categories of requirements: core requirements for all audits, and other requirements
that are applicable depending on the circumstances. The latter category includes requirements that are applicable to audits of listed entities or PIEs, as well as requirements that are applicable in certain circumstances. According to this approach, the core requirements will correspond to “Separate Auditing Standard Based on the Existing ISAs” in B. Developing a Separate Auditing Standard for Audits of LCEs.

4. Accounting Firms

Baker Tilly International - 43

A – Revising the ISAs

In the Discussion Paper the IAASB sets out alternative approaches to revising the ISAs. We do not support the addition of further application material to be applied in the context of LCEs, including more material on scalability and proportionality. One of the criticisms of the ISAs for use in LCE audits is the length and complexity of the extant ISAs and, by adding yet further material, we believe this will merely further increase the length and complexity of the ISAs. Further, the IAASB needs to be cognizant of the impact of guidance included in application material which is, often, taken as a requirement by regulators and others.

Of the options for revising the ISAs, the option which we would support is a “building blocks approach”, setting out the basic requirements for all audits with additional requirements for more complex situations (e.g. Listed entities etc.). This is clearly, in our view the best of the alternatives provided. However, we consider that using a building blocks approach would enable auditors to understand a single set of auditing standards which could be applied in all circumstances.

With respect to the ways in which a revision of the ISAs could be undertaken, the most appropriate means of changing the ISAs would be to revise all of the ISAs as a single project, to incorporate the building blocks approach. However, we accept the scale and complexity of this task would be significant (reflecting the scale and complexity of the ISAs themselves) and so it may be more appropriate to focus on a rolling plan of individual standards, tackling those with the greatest impact first (e.g. ISA315).

BDO International - 60

Also, considering the maturity of the ISAs and the fact that they were recently clarified to make them easier to understand, we recognise that this may not be a realistic option. Given the IAASB already tries in each standard to write requirements that are clear and principles-based, it may not be possible to make significant improvements to the requirements. Further, if the application guidance needs to cover LCEs and more complex entities, there is the risk that the application guidance would become even longer than it is now, which doesn’t solve the problem of lengthy standards.

Option A – Revising the ISAs

Rewriting the ISAs using simpler language and a simpler structure would greatly benefit LCE auditors and would make it easier for these auditors to find the specific requirements that apply to their situation. This will also help auditors of other types of entities. This is in contrast to the existing method of having to distil complicated, lengthy standards into more basic procedures. We can therefore see a number of advantages of revising the ISAs to a ‘think small first’ or ‘building blocks’ approach whereby complexities can be added to each ISA depending on facts and circumstances linked to the audit of a certain entity. By adopting this approach it may also encourage practitioners (and regulators) to adopt a more thoughtful consideration of what is required for the purposes of each audit (moving their thinking from a checklist/compliance approach to a more tailored judgment-based approach).
We acknowledge that this would be a very lengthy and costly exercise in terms of usage of the IAASB’s resources.

HW Fisher - 17

As set out in our covering letter, we believe that the best approach is a rewrite of the ISAs in a more principles-based format. The existing detail can be retained, but with clear indications of where this can usefully be applied and with an indication of simpler alternatives which may be an appropriate way of meeting the principles in different circumstances. This would result in longer standards, but with appropriate headings and structure they could be made much more usable.

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.

The guidance should set out possible approaches in a number of circumstances, there would not only be the two (i.e. complex and less complex) basic scenarios.

Although the effectiveness of the audit should be judged primarily with reference to the quality of the judgements made, compliance with the ISAs would be determined with reference to whether the auditor had:

- applied appropriate procedures to meet each relevant principle; and
- justified a conclusion that other particular issues were not relevant in the particular circumstance.

Such an approach would remove the need to establish a threshold for the application of a simpler standard, and would avoid any suggestion that in such cases a lesser standard of auditing is being applied. We do not think that voluntary audits should be carried out to a lower standard than statutory audits. All audits should be completed to the same standard, but the circumstances of the particular audit would determine the level of work involved in each case.

The Discussion Paper sets out various options for change, we believe that the approach outlined above would give the best solution to the issues raised. A revision of the ISAs to enable them to be more readily applied to entities of different types, and with different circumstances, would, as well as facilitating the audit of less complex entities, also address the separate issue that in the audit of more complex entities the application of an audit process has diminished the role of judgement. While additional guidance will always be welcome, we do not think that guidance alone will address the issues raised.

NEXIA International - 52

We believe a combination of approaches may provide more timely relief to auditors of LCEs, while also providing a long-term solution. While our preferred approach would be to revisit the ISAs building from a “ground-up” approach whereby the requirements for LCEs are a starting point as addressed earlier in this letter, we understand that this approach would likely take years and many deliberations to develop.

PKF International Limited - 69

Possible action: Revising the ISAs

Do the possible action address the challenges: Partially

Implications or consequences:

In revising the ISAs, this approach could address the language used in the ISAs but will not address the length and documentation requirements of the ISAs.
Although this approach may involve a greater focus on clearly setting out what the auditor needs to do, the additional application material to support the requirements increases the length of the standard and the auditor’s understanding of the ISAs.

The “building block approach” does not support the concepts of scalability and a risk-based approach to performing an audit.

Providing more examples contrasting the application for scalability and proportionality considerations would be very beneficial.

If this possible action was used, we would recommend either revising all of the ISAs as one substantial project or revising the ISAs on a rolling or phased basis.

**RSM International Limited - 65**

Revising the ISAs: This would, in our view, be the ideal long-term solution so that the IAASB could retain just one common set of standards. If the ISAs were to be re-written it would need to be on a ‘building blocks’ basis, starting with the LCEs and adding on extra requirements for larger and listed entities.

As a quicker alternative, we recommend that the ISAs noted in the Discussion Paper as most problematic for LCEs should be revised as a standalone exercise.

However, we recognise that there are significant challenges in this approach, including the length of time that is required under the current standard setting process to ensure that appropriate research and consultation takes place before a standard is issued. If this approach is adopted, thought is needed to determine how the change process could be streamlined. This would need a thorough re-examination of the standard setting process and timeline.

6. Member Bodies and Other Professional Organizations

**Accountancy Europe - 83**

Revising the ISAs

Rewriting the ISAs to ensure scalability would in theory be the most desirable solution. However, this proposal would take a long time and would encounter the challenges identified in our response to Question 2. Therefore, this option may not be a feasible solution in the short term as it might come too late to satisfy the demand for a timely solution.

**ASSIREVI - 3**

Consistently with our response to question 2. above, we mostly support IAASB’s ongoing efforts regarding scalability and proportionality in the application of ISAs.

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

Revising the ISAs to deal with complex language will not be sufficient. Over the last ten years the ISAs have already been clarified and revised.

Only a total revision applying a ‘think small first’ approach will suffice. This is, however, time consuming.

As Accountancy Europe had already analyzed, there are 3 different options built within the ISAs.

Develop more guidance.

Revise the ISAs to deal with complex language.
Revise the ISAs applying a ‘think small first’ approach.

The ISAs could be adopted in the EU, SMEs would choose more voluntary audits and audit thresholds can be lowered. This will help support growth, tax recovery, financial crime deterrence

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

In theory, we believe that revising the ISAs would be the most desirable option and should be one of the actions to be pursued by the IAASB. To ease the application of the ISAs, in relation to LCE audits and for the benefit of all audits, this revision should follow a ‘think simple first / building block’ principle. This means that the core of the ISAs would consist only of the most fundamental requirements applicable in all audits. The ISAs would then be expanded ‘in blocks’ as needed to address more complex audit areas and circumstances.

However, this is more an action on the longer term as it will take a lot of time and, therefore, might not be perceived as the most adequate solution for the issues that are now being raised.

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

**Action**

Whilst revision of the suite of ISAs was the most desirable amongst the options for our members, most of them are concerned with the time frame this would take place over, particularly when considering the experience with the development and implementation of the Clarity suite of standards. Furthermore, looking at the amendments made to the ISAs post-Clarity, it is questionable if that was successful and hard to argue that by repeating the exercise it will make a sufficient difference. However, as ACCA’s thought leadership report Thinking small first: Towards better auditing standards for audits of less-complex entities argues, in practice it is still possible to apply this approach on a prospective basis to new standards and to revisions of existing standards. Over time, this could deliver the benefits of simpler standards without imposing a large one-off cost. As discussed above, we encourage the Board to review and refine the drafting approach to the ISAs with a view to simple, clear standards that set out basic requirements before addressing additional layers of complexity, even if a separate LCE standard is developed.

Furthermore, ACCA’s above mentioned report also refers to the lessons that should be learned from ISA 315. More specifically, referring to the Key Concepts section of the proposed ISA 315 (Revised), written using simpler English which is much more accessible to users than the rest of the proposed standard. This allows users to understand the overall flow of the rest of the standard more quickly. We therefore suggest using this as an example if the way forward is the revision of the ISAs.

**Revising the ISAs**

**Arguments in favour**

Revising the ISAs to be scalable by thinking small first (i.e. start simple and scale up based on complexity) and by using simpler language will help all auditors (not just those auditing LCEs), improve audit quality as well as help regulators.

As noted in our response to 2b) above, if the IAASB engages with drafting specialists to assist in redrafting the standards that will give the Board extra capacity to be more strategic and focus on getting the principles right rather than spending time on detailed drafting.

Revising ISAs using simpler language will also allow the wider public to better understand what auditors are required to do and how audits work, helping to narrow the expectation gap.
Arguments against

The main concern raised in relation to taking this approach is that it will take too long to revise the full set of ISAs at a time where the audit profession has a more pressing need for a solution on how to deal with audits of LCEs.

It is also questionable whether this approach would move sufficiently away from the current ISAs to really make a difference, given the professed desire already of the IAASB to be mindful of drafting to meet scalability needs.

**CPA Ireland - 70**

Revising the ISAs

We believe that the revision of the ISAs would provide a suitable opportunity to improve the scalability of the standards, and therefore address the challenges identified.

We believe that a building block or “think small first” approach to the setting of standards would be most beneficial and again would deliver improved scalability, i.e. identify the absolute requirements for an LCE with add on requirements for more complex entities and public interest entities.

At present there is insufficient consideration of scalability within the standards.

However, we do understand that this approach may require a lengthy timeframe, whether this is achieved either by revising on a standard by standard basis or revising all the standards in one go. It may therefore take a considerably long time to reap the benefits of this approach.

However, we would encourage those revising the standards in the future to follow this approach whatever the outcome of this consultation is.

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

How might one revise the ISAs to achieve truly scalable standards? One would need to think small / simple first. We suggest the adoption of a modular building blocks format comprising a core set of general requirements, either in one place or for each ISA, applicable to every audit no matter how small or simple and additional requirements for entities that are larger, more complex, have a fiduciary role, and are public interest. In this way the standards would be written, as Accountancy Europe coined the phrase in the context of corporate reporting, on a ‘core and more’ basis. In aggregate the ‘core’ requirements would constitute a small minority of the total requirements. SMPs auditing SMEs would normally not need to look beyond the core, it in effect being an SME standard integrated into the ISAs. In effect most requirements would be conditional: on size, complexity, fiduciary status, public interest etc. Considerations specific to smaller entities would drop out. The revised standards might be reordered to align with the chronological sequence of a typical audit. One might move application material and guidance to a separate non-authoritative document(s).

Despite its merits a reworking of the ISAs will prove time consuming and highly disruptive, impacting the audits of all entities, and likely to meet resistance and intransigence from regulators, such that the end result risks amounting to limited revision, in effect ‘a rearranging of the deckchairs on the Titanic’. The revision of ISA 315 demonstrates how immense and difficult a task the infusion of scalability can be. And the current draft marks an improvement on the extant for large entity audits it fails to meet our vision of a truly scalable standard.
Re-engineering the ISAs is conceptually and intuitively the best approach not least since we would retain one set of standards. Such a revision would best be done as one large project in a similar fashion to the Clarity project to avoid years of incremental change: a past IFAC SMP Global Survey cited constant change as the single biggest source challenge of keeping up with standards.

Revising the ISAs

**Federación Argentina de Consejos Profesionales (FACPCE) - 76**

We understand that an adequate comprehensive review of ISAs could address the challenges identified in terms of audits of financial statements of LCEs. For this purpose to be achieved, the NIA set should establish the basic requirements of any audit, whether to examine the financial statements of a low complexity entity such as those of a more complex entity.

Another advantage of this approach would be to allow the same set of basic rules to be applied in cases where an entity is expanding and presenting situations of greater complexity that the auditor of its financial statements should consider. But this solution would surely take years, as the “Clarity” project has taken, and the profession needs a faster solution.

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

61% of the respondents to ICPAU’s survey were supportive of either developing a separate auditing standard for audits of LCEs or developing guidance for auditors of LCEs. 20% of the respondents supported the idea of revising the existing ISAs to cater for audits of LCEs. A similar proportion of survey respondents were in support of having a separate standard for audits of LCEs, but believed this standard would be complimentary to the existing framework.

The respondents who supported the idea of revising the existing ISAs and were against having a separate standard explained that:

- It would be difficult for audit practitioners to keep abreast with changes to two sets of auditing standards;
- It may cause challenges to differentiate when to apply the auditing standard for LCEs and when to apply the ISAs; and most importantly that
- A separate auditing standard for LCEs may be perceived by the public as either an inferior standard or one that results into a lower audit quality than an audit conduct in accordance with ISAs.

Whereas the survey respondents seemed deadlocked between the two alternatives described above, ICPAU suggests that the review of existing standards as well as development of guidance material for auditors of LCEs would be the most appropriate approach.

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

In view of the likely misunderstanding that may arise from having different sets of auditing standards for audits of LCEs for the same audit firm auditing LCEs and other entities not classified as LCEs, we recommend that the Board should:

- Consider revising the ISAs;
- Developing guidance for Auditors of LCEs; and
- Publish Basis for Conclusions to accompany each of the auditing standards.
Institute of Public Accountants of Australia (IPA) - 91

A movement to more outcomes based requirements were the result of the standard(s) is represented by a clearly articulated result including the appropriate documentation;

An emphasis on the planning standards (ISA 300, ISA 315 and ISA 330 plus ISA 240 and ISA 250 “Consideration of Laws and Regulations in an Audit of a Financial Report”). As noted above the IPA believes the current format of the standards is cumbersome and not outcome based and as such is seen as burdensome to auditors of LCEs. The IPA would like to see the emphasis of the planning standards on the production of document summaries the key aspects of the engagement (i.e. industry, regulations, financial reporting related system, risk areas [including risk of fraud] and audit response to identified risks).

More equivocal guidance that addresses increasing complexity and risk with incremental processes and procedures.

IPA response

The IPA supports a revision of the existing ISA to streamline the audit process and the adoption of a “building-block” approach to guidance reflecting appropriate responses to increasing complexity and risk. In particular the IPA would like to see the revision of the ISAs addressing the following matters:

Nordic Federation of Public Accountants - 58

Revising the ISAs

Revising the ISAs would have the benefit of maintaining one set of global standards that would be fit for purpose for all audits, regardless of complexity or size.

Taking into account the challenges noted above with the current ISAs, we believe that the ISAs would need to be drafted and structured differently, most likely by having a bottom-up/building block structure in order to achieve the desired effect, i.e. starting by setting out the basic requirements that should be applicable on all audits and then adding necessary regulations to address more complex circumstances.

Making such necessary changes could be a very time and resource consuming exercise, considering, among other things, the time spent on the Clarity-project. There are also uncertainties related to the outcome of the Monitoring Group’s ongoing review.

South African Institute of Chartered Accountants (SAICA) - 63

It is suggested that a bottom-up/“building block” approach is used, to start with a simple yet effective way of complying with the ISAs. ISA 315 (Revised) was mentioned numerous times by members, with concern expressed about the complexity of the proposed revised standard. We urge the IAASB to take this in consideration when finalising the standard.

From the limited number of respondents to both the IFAC and SAICA surveys that selected to revise the ISAs, the majority were in favour of the approach of setting out the basic requirements for all audits, then expanding as needed to address more complex circumstances (building-block approach).

Revising the ISAs

For the other standards, a rolling approach is suggested, starting with the core standards. It was also noted that some standards will not need to be revised, due to the type of entity lending it to be an LCE as per the definition.
Although revising the ISAs will not bring immediate relief, we do encourage the IAASB to consider the most relevant standards first, referred to in paragraph 21 of this document, if this approach is selected. This would have the biggest impact.

From SAICA’s point of view, revising the ISAs would be the “ideal” solution, maintaining the concept of an “audit is an audit” and not creating further confusion in the market.

Shorter, clearer sentences are encouraged to ensure consistent application and not leaving meanings open for interpretation.

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

We believe that in standard setting the basis should be small and simple, and blocks should be built upon this base structure as size and complexity requires. This approach is also essential in developing standards that are principles rather than rules based.

**8. Individuals and Others**

**Adele Driscoll - 2**

I believe that if the ISAs are revised, this should be done as one substantial project and not on a rolling or phased basis. Each time there is a change in the ISAs auditors will have to train staff and change templates and educators will need to revise textbooks and exam papers – all of which is very time consuming and expensive. Using a phased approach will result in many changes at great effort and cost for those implementing the changes. Rather make one big change and implement it in one go.

Possible actions to be explored – revising the ISAs

I strongly agree with the following approach:

Adopting an approach of revising the standards by setting out the basic requirements for all audits, then expanding as needed to address more complex circumstances (the so-called “building-blocks approach”).

I believe there will be great benefit in doing the following:

Greater focus on more clearly setting out what the auditor needs to do (i.e., focusing on the way the requirements have been articulated using clearer and understandable language), with appropriate application material to support applying the requirements effectively and efficiently.

**Alla Ejova - 42**

In this sense, it would be more efficient to include separate provisions on the LCE in the text of each revised standard.

**Chartered Accountants Academy - 66**

Revising the ISAs - This could be a long process however it could lead to a well thought outcome which will be scalable and proportionate in application to the different types of entities especially if it is done by way of making targeted changes when an ISA is being revised. Better signposting within the application material about how to apply the requirements that are relevant to audits of LCEs would make it clearer in application and could be as the Code of Professional Conduct is presented in as far as requirements are different for Public Interest Entities are concerned. This could appropriately address the challenges that have been identified.
Cristian Munarriz - 93

I think revising ISAs would be the best approach but may not be timely, so it should be considered as a medium-long term initiative.

Q4 (a.1) Option A - Neither agree or disagree and with further comments

2. Regulators and Audit Oversight Authorities

Irish Auditing and Accounting Supervisory Authority (IAASA) - 36

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

In addition, the time taken to revise all the ISAs will be too long and it is not able to address the challenges currently faced by the auditors of LCEs in a reasonable timeframe.

One of the identified challenges is the increasing length of the standards, revising the ISAs by adopting the “building–blocks approach” will probably add to complexity and volume of the standards.

Revising the ISAs

We noted that the IAASB had increased the focus on scalability in the recent projects on ISA 540 (Revised) and ISA 315 (Revised). However, we believe that the challenges would not be addressed appropriately and in a timely manner by revising the ISAs.

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

Doing this piecemeal ISA by ISA is not likely to work because of the many connections between the ISAs. However, given the experience of the IAASB with regulatory influence on its auditing standard setting in the last four years, we are not convinced that this option is likely to be practicable.

1. Revising the ISAs

In principle we are in favor of revising the ISAs so that they apply a “think small approach” as we describe in our response to 2 a) so that auditors are able to apply a “bottom-up” rather than “top-down” approach to scalability. However, the immense nature of the work, the long time period it would involve, and the low likelihood that the regulatory community will accept a re-orientation of the IAASB’s work program and of the content of the ISAs means that this option is not likely to be practicable.

New Zealand Auditing and Assurance Standards Board - 53

Possible action - Revising the ISAs
Potential positive attributes
Less confusion for the market.
Cross border harmonisation.
The public interest is likely to be best served if audit is undertaken to the highest standard possible
Adopting the “building block” approach as explored in the discussion paper can enhance scalability of the standards.
Auditors will continue to work on one suite of auditing standards that is beneficial for education and training of the work force.

Potential negative attributes
May not address the identified challenges to the required extent.
Would take time.

4. Accounting Firms
Crowe Global - 86
Revising the ISAs
There are merits in revising the ISAs, but as the only practical way that this can be achieved is in conjunction with projects to develop new ISAs or revise existing ISAs this could take a long time and be disjointed.

Dailamipour and Co. - 31
Developing a comprehensive audit guide with the cooperation of national audit standard setting body in each jurisdiction would be more efficient and useful, having knowledge of the local business entities and possible ways of manipulating information and documents, providing to auditor. In my view due to lack of transparency in business environment in my jurisdiction, it should be required to apply all related and applicable ISAs with sufficient amount of skepticism to reduce audit risks. Eliminating of any applicable standards in audit procedures will result in misleading the audit report.

Yes, but the problems arise when the fabrication of information misleads the auditor, for example third party confirmations, which in most cases reduces reliability of audit documentation and in fact it should be considered as a limitation in auditing, or settling related party accounts. In other circumstances, using local certified assessors’ determined fair values are not reliable in many cases.

Duncan & Toplis Limited - 15
Revising the ISAs
This would be considered to be the weakest option. Revising the ISAs would likely create confusion across auditors, entities and local audit regulatory bodies.

Revision of the ISAs to enable differences in auditing for LCEs would likely add to the size and complexities of the standards as a whole. Being cautious, many auditors and regulatory authorities would be more likely to lean towards the full implementation of ISAs still. Conversely, revising ISAs could lead to the under-auditing of more complex entities.

Grant Thornton International Limited - 62
We set out below our views on each of the options presented in the Discussion Paper. The key considerations in formulating these views included:

Timeliness of the outcome – stakeholders are asking for change now and national auditing standard setters have already started working on projects.

Disruption to the practice – the more fundamental the changes, the more complex they will be to implement by auditors, resulting in increased audit costs.

Confusion to users of financial information – changing what an audit is would create confusion.

We also support the IAASB exploring the possibility of undertaking a comprehensive project to make targeted changes to those ISAs, or aspects of the ISAs, that have been identified as particularly problematic.

Option A – Revising the ISAs

As outlined in more detail in our attached response, we are of the view that a timely response to scalability issues is critical, not only to address the immediate issues identified in the Discussion Paper, but also to keep the ISAs relevant in the longer term for the audits of both listed and non-listed entities. If the IAASB does not address the scalability issues specific to the audits of less complex entities in a timely manner, local jurisdictions may go down a path of developing their own solutions. A situation where local jurisdictions revert to developing their own standards without, at a minimum, a strategy of converging with the ISAs will not promote consistent, high-quality audits across the globe.

To fully evaluate this option, additional explanation would be needed on what the revision would encompass and the expected timeline to completion. However, based on the information provided in the Discussion Paper, we are of the view that there is the potential that this option may lead to requirements that become broader in nature, resulting in increased inconsistency of interpretation and therefore not addressing the needs expressed. The impact to firms is also a consideration. For example, would the cost of updating methodologies either by using internal resources or through sourcing from external service providers be proportionate to any potential benefit from a wholesale revision of the ISAs? Further, a key point to consider is that the demand is for changes to the ISAs now. A project of this potential magnitude would take a long time to complete and would therefore not be responsive to this demand and may lead to individual jurisdictions developing their own responses in the intervening period. Inconsistent jurisdictional auditing standards would not be an optimal outcome.

Similarly, the proposed targeted approach to changes when an ISA is being revised as part of the IAASB’s existing Strategy and Work Plan is not an optimal solution. Revising ISAs on a rolling basis, only when they form part of the IAASB’s Strategy and Work Plan, could result in an extended timeline before issues in relation to LCEs are addressed. Such a piecemeal approach is also more likely to result in inconsistencies across the ISAs as they are being updated. We believe that the IAASB undertaking a discrete, separate project to address problematic ISAs or aspects of the ISAs that have been identified through this Discussion Paper and through other research, would be preferable. See our response to part b. below for an alternative type of targeted approach to updating the ISAs.

MGI Worldwide - 18

If the decision was made to revise the existing standards then ideally this should be done as a major project as some sort of LCE audit pack would need to be produced and this would be difficult to do if the standards were updated piecemeal. Also practitioners are more likely to actively consider a substantial change, whereas, a creeping change might be lost in the ‘background noise’.
Revising the existing standards to promote either a “building block” approach to the audit or to include additional guidance specifically for LCE audits will not necessarily address the issue with the standard’s length or perceived complexity.

**PKF South Africa - 82**

Our response addresses all the sub-questions in question 4.

The ISAs may become more complex/longer if separate sections dealing with audits of less complex entities are inserted.

**5. Public Sector Organizations**

**Wales Audit Office - 40**

As we explain in response to question 1, the definition of an LCE and the audit response to risks are not mutually exclusive.

One option to dealing with this would be for the ISAs to start by setting out what is expected for low-risk / low-complexity bodies and to then provide guidance on what is expected of auditors as size, complexity and risk increase.

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

**IFAC SMPC - 77**

Revising the ISAs

Revising the ISAs would be the “ideal” solution from a theoretical/consistency perspective, maintaining the concept of “an audit is an audit” and less potential confusion or misplaced incentives in the marketplace. For example, it should be avoided that audit clients might seek to choose whether they should be classified as LCE or not, which may be driven from a cost perspective and may ensue if the market were to perceive a difference in quality between the ISAs and whatever alternative a separate standard might offer.

It would need a “building blocks” approach to start simple to be effective – the new approach to ISA 315 (Revised) could be an option for other ISAs being revised on a rolling basis, but an acceptance that this would take too long and there is an urgent need to deliver results.

Despite the Board’s best intentions, it could be unrealistic to believe that the current standard setting model and approach will lead to the development of shorter, more scalable and less complex standards, so the problems might remain unresolved. The expected timeframe to revise the ISAs would also not bring a solution fast enough.

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

**Option A**

Most commentators believe that the proper way to write auditing standards is (and always was) to adopt a ‘building blocks’ approach starting with basic requirements, ring-fencing them and adding more for more complex audits. In an ideal world, this should be IAASB’s approach but we do not believe that it has the appetite or resources to do this on a retrospective basis.

Clarification in 2010 was supposed to do something like this but a very conservative approach was taken, leading to many - too many – ‘present tense’ statements that had to be divided into requirements and application material - being included in the 'virtually all cases' bucket, i.e. as requirements, rather than as application material.
By its own admission, IAASB's standards have become even more prescriptive since then. IAASB needs to try again with this. Re-clarification is needed.

It should not be attempted for the entire corpus of ISAs in one go, retrospectively, as it was in 2010, but rather on a prospective basis, as new ISAs are developed and existing ISAs are revised. Dealing with a system accommodating different styles of drafting for a few years is not beyond IAASB, practitioners, or regulators. If IAASB decides to issue a separate standard for the audit of LCEs, that might be used as a starting point for a 'building blocks' approach to the revision of other standards.

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.

Long-term structural changes to ISAs are needed

We do not believe that there is any realistic prospect in the short or medium term of rewriting the ISAs on a retrospective, principles, 'building blocks', 'think less complex first' or similar basis, although in an ideal world, that would clearly be the best way forward. IAASB does, however, need to change the way it writes standards going forward. The changes that need to be made are structural and deep. A new framework for drafting will take time to develop and implement if changes are to be credible and lasting. The clarity project in 2010 was a bold attempt at structural change but the timescale for the project was, for reasons beyond IAASB's control, shortened from 7+ years to three years. There was value in the changes that were made but many of the issues arising now are a direct result of that foreshortening.

Among the structural changes that need to be addressed in a framework for drafting is greater clarity about the proper home for documentation requirements, and the nature and extent of documentation required for judgemental matters and thought processes. A somewhat haphazard mix of requirements in standards generally, and in ISA 230 in particular, has developed over time and caused confusion among practitioners and regulators alike, and unnecessary conflict between them. This is an issue in audits of all sizes but it affects LCE audits disproportionately. Regardless of ISA requirements, many LCE auditors believe that they have no choice but to spend unnecessary time documenting why they have not done things, simply to avoid regulatory censure, where the reason is obvious and should not require documentation.

Greater clarity is also needed about the nature of objectives, how they differ from requirements, and how auditors are supposed to demonstrate that they have been achieved, other than by complying with the requirements. Too many are simply summaries of requirements. There are also inconsistencies in the
regulatory approach to the status of requirements and application material, as well as a lack of a clear demarcation of substance between the two, despite the clarity project.

IAASB is aware of these issues, which are not unusual or unique 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. They will take time to resolve. 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 to date had anything like the rigour needed in its development to represent a long-term structural solution. It needs more detailed consideration 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 and taking time to plan the long-term structural changes that are needed now will pay dividends later.

Needed sooner: changes to the way IAASB uses language and the exploration of an auditing standard for LCEs

In the short term, to retain its position as the standard-setter for all audits, and to prevent fragmentation in standard-setting, IAASB needs to do two things: it needs to address its use of language in ISAs and it needs to explore the development of a standard, or standards, for the audit of LCEs.

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.

Systematic consideration also needs to be given to the manner in which IAASB deals with the increasingly iterative nature of all elements of the audit - driven in many respects by technology. The linearity of ISAs, particularly in the absence of an electronically linked version, seems increasingly outmoded and disconnected from ‘real’ audits and we are therefore encouraged to note a digitisation project in IAASB’s draft work program. In theory, this should only affect how auditors access and navigate the ISAs. In practice, it may lead to drafting and other structural improvements arising from the elimination of repetition, for example.

We believe that better, more skilful use of clear English by IAASB for an international audience would result in enhanced clarity of thought among working groups, better standards, better translations, less confusion and conflict among and between auditors and regulators and improved audit quality. But there are many non-technical aspects of IAASB’s use of language that could be addressed in the short term and the benefits to auditors of LCEs would be particularly marked.

Unnecessarily cumbersome drafting could be addressed by dealing with simple issues, such as guidelines for words counts within sentences and paragraphs, guidelines for the use of passive and active
constructions, and the use of abbreviations rather than the endless repetition of lengthy phrases, just for the avoidance of doubt. Other issues include the need for guidelines on the avoidance of duplication and overlap with other standards more generally during the drafting process, and the need for the systematic involvement of skilled translators, also during the drafting process, and not, as at present, on an ad hoc basis when individual IAASB members raise a particular translation issue. IAASB should give strong consideration to employing experts in this field.

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

However, we do believe that it might be possible to undertake a targeted update of some of the key ISAs, for example ISA 200; ISA 230; ISA 315; ISA 500 and ISA 540, based on a ‘think simple first’ or ‘building blocks’ approach. This could then form the basis for a review of the remainder of the ISAs once this targeted update had been completed.

**Revising the ISAs**

We are not convinced that this potential solution will be successful in achieving its objective within an acceptable timescale. Given the importance of this issue, and the discussions that are taking place within individual jurisdictions, the need for some urgency is evident. We do not believe that a full-scale revision of the entire suite of ISAs will be possible in a short enough timescale to meet the need, or appetite, for a short-term solution.

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

If additional material is developed, there is a risk that standard becomes very long and complex which hinders its usefulness for practitioners.

It will create instability in the ISAs which will keep on changing.

**Challenge to be addressed** - There is insufficient supporting material to aid the effective application of the ISAs.

**Way forward Action** - Revising the ISAs - Better signposting within the application material about how to apply the requirements that are relevant to audits of LCEs. This could be done, for example, by enhancing the considerations specific to audits of LCEs (previously included in the standards as considerations specific to smaller entities) in a separate section within each ISA.

This will be a time consuming task.

**Response**

**Implication** - Revising the ISAs

**Why significant:**

This might lead to the redrafting of all the ISAs, and there will be a tendency to become complex. Languages written will not satisfy requirement of SMPs.

**Challenge to be addressed** - The detailed requirements entailed in the process may result in moving away from principle-based requirements.

**Way forward Action** - Revising the ISAs - Adopting an approach of revising the standards by setting out the basic requirements for all audits and then expanding as needed in order to address more complex circumstances.
Challenge to be addressed - Unnecessary procedures are being performed because when an auditor is faced with a specific set of circumstances, the standards are not clear about the nature and extent of the work required.

Way forward Action - Revising the ISAs - Greater focus on more clearly setting out what the auditor needs to do (i.e., focusing on the way the requirements have been articulated using clearer and understandable language), with appropriate application material to support applying the requirements effectively and efficiently.

Challenge to be addressed - Paragraphs detailing considerations specific to smaller entities, where they are presented within the ISAs, which are not helpful in all cases to understand scalability and proportionality of the requirements.

Way forward Action - Revising the ISAs - Considering how the application material could feature more scalability and proportionality considerations, e.g., providing examples of both simple and complex circumstances in order to contrast the differences.

Challenge to be addressed - Significant materials are added through recent revision processes of the core ISAs, in particular, to add application material as the ISAs become more complex;

Way forward Action - Revising the ISAs - Better signposting within the application material about how to apply the requirements that are relevant to audits of LCEs. This could be done, for example, by enhancing the considerations specific to audits of LCEs (previously included in the standards as considerations specific to smaller entities) in a separate section within each ISA.

Challenge to be addressed - ISAs are voluminous, which can make them difficult to read and determine what needs to be done, and which has the potential to discourage some auditors from reading all the relevant and necessary material.

Way forward Action - Revising the ISAs - Adopting an approach of revising the standards by setting out the basic requirements that are common for all audits, then expanding as needed to address more complex circumstances.

Challenge to be addressed - Direct the auditors towards more of a ‘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.

Way forward Action - Revising the ISAs - Not addressed.

Challenge to be addressed - Difficult to navigate as they break the continuous audit process into discrete elements, and have been written in a linear way, but the audit process is iterative in nature.

Way forward Action - Revising the ISAs - Not addressed.

Challenge to be addressed - Clarity of the principles have diminished with the language becoming more complex and therefore more difficult to comprehend.

Way forward Action - Revising the ISAs - Greater focus on more clearly setting out what the auditor needs to do (i.e., focusing on the way the requirements have been articulated using clear and understandable language) with appropriate application material to support such requirements effectively and efficiently.
Institute of Independent Auditors of Brazil (IBRACON) - 75

However, as this would be very lengthy and costly, we would rather prefer Option C - Developing guidance for auditors of LCEs or other related actions, which is a quick solution and aligned with the other IAASB’s projects.

We acknowledge a number of advantages in Option A of revising the ISAs to a ‘think small first’ or ‘building blocks’ approach whereby complexities can be added to each ISA depending on facts and circumstances of a certain entity.

Institute of Singapore Chartered Accountants - 54

While this approach may appear viable, it is unclear, however, if this option will result in any meaningful impact in terms of driving efficiency of LCE audits. Many take the view that ‘an audit is an audit’ and as such, it may be challenging to significantly reduce the requirements for a baseline audit. This approach may not address the challenges faced by auditors in obtaining sufficient appropriate audit evidence in audits of owner-managed entities with weak control environment and relatively high risk of management override of controls (as highlighted in our response to Question 2).

There will also be a need for clarity or guidance over what is expected of auditors in dealing with the incremental requirements which they find are not applicable in LCE audits. If this is unclear, auditors will find themselves back in a similar position of having to consider all requirements and document their justifications on why the incremental requirements do not apply.

Although the gap in public expectations is scoped out of this DP’s exploratory activities, we think that, with little differentiation in the end product (i.e. a true and fair view/reasonable assurance under ISA 700), this approach may not be effective in narrowing the expectation gap which exists with the wider public. It would be unlikely that the wider public would readily appreciate or empathise with the differing levels of requirements within the ISAs when the end product appears to be largely similar between audits of LCEs and non-LCEs.

Revising the ISAs

We find the building-blocks approach (where the standards are revised by setting out the basic requirements for all audits and expanded as needed to address more complex circumstances) to be a possibly viable option in addressing many of the challenges laid out in the DP. This approach will improve the scalability of the ISAs and auditors may scale-up or scale-down depending on the complexity of the audit. The cost of training for audit firms will be also be relatively lesser with this option as compared to the introduction of a separate standard for LCE audits.

8. Individuals and Others

Gabriel Yepez - 13

In this sense, the first alternative to review the NIAs, as a whole or by blocks, i.e. making specific changes to certain NIAs, would be much more drastic and will likely take time to exercise such a company.

Vera Massarygina - 48

As the problems of LCE audits concern only several ISAs there may be irrational to revise all of the ISAs as a substantial project. Using so-called building-block approach would not help in making the ISAs clearer. It would only increase their length and make them more voluminous.
Q4 (a.1) Option A - Disagree

6. Member Bodies and Other Professional Organizations

Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili - 34

Action 1: Revising the ISAs

The process of revising all ISAs in order to encompass peculiarities and specific guidance addressed to LCEs appears to be time consuming and inefficient. The current version of the ISAs already provides specific inputs for smaller entities, in compliance with the “scalability” principle, but without setting rigid parameters that would contrast with the general scalability principle.

The modified ISAs would consist in complex and extensive documents, difficult to navigate and apply.

Institute of Chartered Accountants of Pakistan - 64

Incorporating provisions for LCE’s could add to the volume of the existing standards and hence make it even more voluminous for the SMP’s or other LCE auditors to read. Further, the risk of achieving a balance between putting in all the requirements and meeting stakeholder’s expectations would be a challenge. If not carefully drafted, the revised standards could make it even more difficult to differentiate the provisions between LCEs and non-LCEs.

Possible Action 1: Revising auditing standards

While this approach offers the obvious and important benefit of having single set of auditing standards, however, in consideration of existing structure and drafting of ISAs we note following challenges:

The revision of existing ISAs to bring in LCE related scalability while maintaining the clarity and understandability would be a challenge.

This action will involve extensive resources. The current standard-setting approach relies upon drafting and redrafting actual standards for review in working groups and board meetings.

This action would also require extensive time for completion.

South African Institute of Professional Accountants (SAIPA) - 56

It is our view that revising the ISAs in favour of the LCEs will be to the detriment of the bigger corporates and public interest entities. It will dilute and cause confusion to the users of the audited financial statements.

The unintended consequences could be PIE being let of the hook because of the standard trying to accommodate the LCE/SME. The opposite is also possible where the SME will be burdened with long and complex standard requirement where the view has been to keep the standard at a level relevant for the large entity.

The Institute of Chartered Accountants of Ghana - 71

We do not believe revising the ISAs is fruitful as we will now have two sets of standards that could confuse the auditor, and as voluminous as they will be, will open the door for contradictory messages.

Revising the ISAs – Revising the ISAs will not appropriately address the challenges that have been identified as this could lead to a more detailed and voluminous standard that becomes difficult to read or navigate. Moreover, there could be difficulties in interpreting standard’s requirements for LCEs if clear distinctions are not appropriately set in the revised ISAs. Auditors may then end up performing procedures irrelevant to LCEs or even perform procedures that do not meet the minimum requirements for LCEs.
Q4 (a.1) Option A - None

1. Monitoring Group
IFIAR - 88

2. Regulators and Audit Oversight Authorities
Canadian Public Accountability Board - 5

These questions are covered in our introductory comments.

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

3. National Audit Standards Setters
Auditing and Assurance Standards Board of the Institute of Chartered Accountants of India - 12

4. Accounting Firms
GGI Practice Group of Auditing Reporting and Compliance - 29
Rymand&co - 87
Shahedan and Co - 80

6. Member Bodies and Other Professional Organizations
EXPERTsuisse - 50
IFAC - 4
Instituto Mexicano de Contadores Públicos A.C. (Audit and Assurance Standards Commission) - 39
Inter-American Accounting Association (IAA) - 47
Malaysian Institute of Public Accountants (MICPA) - 10

7. Academics
Hunter College - 68

8. Individuals and Others
Ali Sarehraz - 32
Audit Assistant Limited - 33
Gary Young - 19
Michel Maher - 16
SAMantilla - 1