Audits of Less Complex Entities

Q4 (a.2) Option B - Possible action - Views on separate auditing LCE standard

Q4 (a.2) Option B - Agree

4. Accounting Firms

Duncan & Toplis Limited - 15

Developing a separate auditing standard

Yes, this could appropriately address the challenges raised.

This would give the opportunity to clearly differentiate between what is required in the audit of LCEs compared to other entities. We believe that this would be the strongest solution. However, this would be dependent upon the definition / requirement of what a LCE is to be clear.

MGI Worldwide - 18

Given that the audit teams for LCE clients are often small and the timescale from planning to completion shorter, we welcome the idea to consider “mirroring the risk-based approach of the ISAs but be presented in a way that follows the work flow of an audit.” This would help audit teams to better understand how the auditing standards affect the practical audit from start to finish.

Feedback from member firms on the increasing focus on documentation also means that we would welcome further guidance on the documentation standard that would be sufficient for LCEs, especially at the planning and completion stages.

We feel that a separate auditing standard for audits of LCEs would be most easily adopted by our members. Such a standard would be a clear source of the relevant guidance and requirements for such an audit and would help to negate some of the issues regarding the complexity and length of the existing standards.

We recognise that having a “two-tier” audit approach for LCE and other clients may result in some firms using the wrong set of standards and in the need to teach students and existing auditors two standards, but this is analogous with the accounting situation in many territories where the financial statements of a small company can look significantly different (and less complex) than those of a large or listed entity. This can be addressed through clear messaging on when the new LCE standard can be used, continued training and robust regulatory reviews to ensure that the appropriate standards are being adhered to at all sizes of firms.

PKF International Limited - 69

Possible action: Developing a separate auditing standard for audits of LCEs

Do the possible action address the challenges: Yes

Implications or consequences:

We favor the development of a separate auditing standard based on the existing ISAs. A separate stand-alone standard would allow for simpler and less complex requirements without diluting the robustness of the standard.

Prepared by: IAASB Staff (November 2019)
This approach would allow the current ISAs to remain principle-based, without cluttering the application guidance with voluminous small entity guidance.

A separate standard allows for the practitioner to justify the application of professional judgement once in determining the ISAs relevant to the engagement.

In most cases, internal controls are not relevant for smaller entities. A stand-alone will address the realities of the engagement, i.e. a more substantive approach. Attempting to address this approach through guidance in the extant ISAs would add to the complexity already experienced by the auditor.

The comment that the “ISA does not prescribe how auditor are trained” is true to a point, however there is an expectation that auditors have the necessary education and background, proper supervision and review. This is an on-the-job training that is experienced by most new auditors while working with experienced auditors. We do believe the ISA can require one to have specialized training in the “building block approach” or the “separate ISAs” for LCEs.

**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.

We are of the opinion that a separate standard must be developed dealing with the audit requirements of less complex entities. We do not believe that guidance alone will be sufficient (possible action 3) but reference can be made to other ISAs, where appropriate, such as quality control at engagement level etc. The main focus of the audit of less complex entities should be the most efficient and effective manner in which to complete the audit (and the resultant documentation). We believe the overall objective should be to reduce the onerous documentation requirements of some of the ISAs but still maintaining the level of quality expected from an audit.

**Rymand&co - 87**

It is quite useful to have a different standard for not-complicated entities audit in Iran.

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

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

In the meantime, audit thresholds can be raised further and a standalone standard can be developed, together with new forms of assurance engagements and other engagements, to bridge the gap between the current situation and the adapted ISAs.

This standalone standard will not be outside the ISAs but will be based on the ISAs. The only current examples of a standalone standard (the Nordic SASE, the Belgian Common Standard on SMEs and the Sri Lanka SLAuS) are all based on the ISAs.

The drafting of a global standalone standard based on the same principles as the ISAs will be less time consuming than redrafting the entire ISAs. This standalone standard for SMEs would become the core standard of the ‘new ISAs’, which would take a building block approach, adding blocks with additional requirements for larger and more complex entities, that will only have to be applied when applicable.

**Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili - 34**

Action 2: Develop separate auditing standards for the audits of LCEs
The most appropriate solution would be the issuance of one separate audit standard encompassing peculiarities of LCEs and providing specific guidance for the performance of the related audits. The standard should encompass all basic steps of an audit performed on LCEs, from preliminary activities to issuance of the opinion.

The new standard focused only on the audit of LCEs would provide a practical and exhaustive document for all auditors involved in the performance of audit on LCEs.

**CPA Ireland - 70**

Developing a Separate Auditing Standard for Audits of LCEs

We believe that such an approach would deliver a faster solution to the issue and it is the most favoured proposal by the respondents to our survey.

We also believe that it could deliver a harmonised approach to the audit of LCEs globally.

There is concern that the individual development of different LCE standards at national level dilutes the global advantages of an ISA compliant audit. We believe that any perceived differences in standards weakens the audits global value.

In developing such a standard, it would be vital that the framework and overall thrust of the ISAs be used to build the standard, in particular the focus on risk and professional scepticism. This would be necessary to ensure that the “audit product” for entities of all sizes would have a common understanding by all stakeholders. The desired result must be the delivery of a proportionate solution at the same standard as that which is applied to non LCEs.

It would also ensure that auditors who are trained within SMP firms and with LCE audit clients, have an adequate understanding and knowledge of the ISA approach to statutory audit.

**EXPERTsuisse - 50**

We are in favour of developing a separate auditing standard for audits of less complex entities (LCEs) in order to address the current challenges of applying the “full” ISAs in SMP/SME situations.

An LCE audit standard must be principles-based, should focus on the main aspects of an audit and – above all – must be developed from a “think small first”-standpoint. On that basis the audit report should include a reasonable assurance opinion.

Support for a Separate LCE Audit Standard

EXPERTsuisse is in favour of the idea of developing a separate auditing standard for LCEs besides the existing ISAs, as the current standards have become overly complex and are very hard to digest and apply, especially by small and medium-sized audit practices (SMPs) in SME audits. The difficult language combined with the length of the standards have made it very ambitious to understand and follow the requirements. The “essence” of the standards is very often not apparent, as we realise that standards include a greater and greater level of detail, while not only requirements are added to the standards, but also contextual information that should be part of a methodology and not of the standards themselves. As a professional accountancy organisation in a country of several official languages, we also experience burdensome and time-consuming translation efforts.

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

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

Nonetheless, we think the IAASB should utilise the momentum and should immediately start a project to develop a separate standard for audits of LCEs. This new LCE audit standard should be entirely principles-based and drafted using the “building block approach”. The “core” of the separate LCE audit standard should consist of the most fundamental requirements applicable for all audits, e.g. risk assessment, substantive audit procedures, reporting and communication with those charged with governance. On top of these fundamental requirements, additional requirements for more complex entities and PIEs could be added (in case the strategy would be to start with a new LCE audit standard, from which on new and fully revised ISAs would be developed).

Based on the risk assessment, further audit procedures could be planned, taking into account the role of the internal control system and testing of the same. If the auditor does not rely on the internal controls testing, a fully substantive approach could be chosen and - under the condition that certain criteria are fulfilled - the need for the auditor to document the argumentation why a fully substantive approach is chosen, could be omitted or at least facilitated. Depending on the results of the risk assessment, the audit procedures for single items in the financial statements could be more or less detailed or could be limited to analytical audit procedures for items with a lower risk. Following such an approach, the audit could be performed more efficiently.

We also encourage the IAASB to reflect on the scope of fraud examination in the audit of LCEs. Although we know that fraud is not limited to public interest entities, we would like to see the IAASB – considering the fundamental differences between PIEs and LCEs - discuss a differentiation in the scope of work in relation to fraud.

Scalability of the standards is crucial in this regard and – although always been stressed by the IAASB – has not been (fully) achieved in the current ISAs.

**Malaysian Institute of Public Accountants (MICPA) - 10**

Of the three (3) potential possible actions identified, the Institute believes IAASB should prioritise on the development of a separate auditing standard for the audit of LCEs. This separate standard should be based on the existing ISAs and written in sufficient clarity so as to afford a clear understanding of its requirements.

**Nordic Federation of Public Accountants - 58**

Conclusion
In this discussion paper, the IAASB is asking stakeholders for directions on what option to explore further. With regard to the urgency to take actions to find a global solution and, by that, trying to inhibit further national solutions, it is our view that the IAASB should explore the development of a separate standard.

In our view, a separate standard must be based on the ISA framework and accomplish the same high-level objectives in order to avoid creating a two-tier profession. We believe this is fundamental in order not to create different, or the perception of different, audits, but also for the auditors not having to learn two different approaches/frameworks in order to audit both LCEs and larger entities. Also, if developed within the ISA framework it would better fit with the methodologies developed by the firms or software providers, and would therefore not be forcing two completely different sets of methodologies.

The standard would have to be robust, since applying it should result in a statement with the same level of assurance as in an ISA audit. It should have a principles-based approach combined with an encouragement to use professional judgment.

Separate standard

Considering the challenges with the current ISAs as listed above (length, complexity, top down approach, onerous documentation requirements and the amount of detailed requirements), we believe that a separate standard focusing on audits of LCEs, would address these issues. A separate standard for audits of LCEs would have the advantage of being shorter and more direct. The auditors would not have to start the audit by scaling down the requirements and documenting why certain requirements are not required for this audit. We believe that it would have positive implications on documentation requirements and provide room for auditors to apply professional judgment.

South African Institute of Chartered Accountants (SAICA) - 63

Developing a Separate Auditing Standard for Audits of LCE

As stated in paragraph 8 of this document, the definition of an LCE is key, even more so when considering the application of a separate standard to ensure consistent application thereof across jurisdictions and audits.

One of the risks of a separate LCE standard is the perception of audit quality under a separate LCE standard compared to the audit of financial statements under the “full ISAs” and the potential impact of a two-tier audit marketplace.

Although “Public Expectations” are scoped out of the exploratory activities related to the audits of LCEs, a separate auditing standard could increase the expectation gap between what the auditors are required to do and what stakeholders expect auditors to do, due to multiple definitions of what is considered as reasonable assurance.

Many smaller practitioners do opt for a separate standard due to the perception that a separate standard can be developed in a timelier manner than revising all the ISAs. The question, however, still remains if this is the best solution. The mere fact that this can be done “quicker” might not mean that it is the best solution.

It should be highlighted that to maintain a separate standard as the ISAs change will take additional time and resources from the IAASB to update the standard when the ISAs are revised. It should be determined if these amendments, although fewer, will be done as a separate project or part of the ISA that is being revised. In this regard, reference can be made to the International Financial Reporting Standards (IFRS) for SMEs and full IFRS.
Respondents to both the IFAC and SAICA surveys who selected a separate standards option were roughly 60:40 divided in support of basing the separate standard on the existing ISAs. This is interesting, as no clear indication was provided in the Discussion Paper about what the IAASB forsee another framework, if pursued, would be.

Responses from the IFAC survey respondents can be summarised by the graph below:

The majority of IFAC survey respondents, similar to the SAICA survey respondents, indicated that developing a separate auditing standard for audit of less complex entities should be the action pursued as a priority by the IAASB.

A similar view was expressed by members during our outreach. However, the main reason for selecting a separate standard was due to the perception that “revising the ISAs” will take too long, and developing a separate standard would be much quicker to implement.

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

We believe that a standard dedicated to the LECs/SMEs is more ideal to achieve the objective of this project. This will ensure that the standard is completely tailor made for this sector and will not cause any ambiguity. The standard will also be fit for the SMPs and they will in our view enhance the completeness and set at the level of the sector.

**B. Developing a separate Auditing Standard for Audits of LECs**

Developing a new standard altogether will take time and effort. But we believe that this will be compensated by the cost benefit of the standard that is fit for purpose.

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

Developing a separate auditing standard for audit of LCEs – This would be a better approach to addressing the challenges. A separate standard for LCEs will provide a clearer, less voluminous, and easy to navigate auditing standards. The approach will better mitigate challenges such as ISAs noted as problematic (e.g ISA 240, ISA 315, ISA 540), lack of clarity, level of documentation, language and basic approach and the length of the standards. For instance, the development of IFRS for SMEs from the main IFRSs to a large extent has helped provide a clearer view and application requirements of the IFRS standards for small entities. A similar approach for the ISAs may be appropriate.

The development of a separate auditing standard for LCEs in our opinion would be a good idea but it should be large enough to anticipate all scenarios and not to create any deficiencies.

**7. Academics**

**Hunter College - 68**

Developing a separate auditing standard for audits of LCE’s

We believe that separate auditing standard for Audits of LCEs should be used. Further, we would need to consider how to evaluate and clearly define the one that applies most to the entity. However, we recognize that a separate standard would provide auditors with specific guiding principles to apply directly to LCEs. This would be written specifically for LCEs in mind and appreciate the value and guidance this would bring to the Audit of LCEs. Planning, Documentation and Risk are standards that should be redirected in the case of LCEs. Audit Documentation requirements should be clearer to lead to consistency in compiling the appropriate amount and adequate documentation to reduce the performance of unnecessary procedures and prevent the omission of some that are necessary. Streamlining specific procedures that enables
reasonable assurance of a LCEs audit will promote robustness already accomplished within audits of more complex audits without the extensive performance of procedures. Establishing testing threshold and the documentation required based on specified set parameters would provide guidance and set permanent basis that would enable auditors to foresee the extensiveness of the documentation. Internal control testing can be most likely omitted for software that maintain assets with minimal change such as fixed asset of LCE’s.

8. Individuals and Others
Vera Massarygina - 48

So developing a separate auditing standard for audits of LCEs may appear the most reasonable variant. As to my mind it concerns mostly such section as ISAs 300-499 and several others it may appear rational to develop a separate auditing standard complementing this very section of the ISAs.

Q4 (a.2) Option B - Agree but with further comments

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

Developing separate auditing standards for audits of LCEs also could be a viable solution, provided the alternate standards require the auditor to obtain reasonable assurance and the audit is not perceived by users as a ‘lesser audit.’ The advantage to this solution is a very clear, shorter, less complex set of standards. It could result in certain requirements and guidance related to complex risk assessment procedures, auditing estimates, and requirements related to those charged with governance being modified or removed and, therefore, less documentation requirements for items that are not applicable or do not result in a change to the audit approach. However, there is a risk with this approach that it may be perceived as something less than reasonable assurance. An additional concern with this option is that the criteria to determine if the auditor should use the separate standard(s) will be much more challenging to apply. Overall, many auditees could be considered less complex but have one area or transaction that is more complex. For example, one year an LCE goes through a complex derivatives transaction that perhaps causes them to “fall out of” the scope of the LCE standard, while other areas of the operations could be more akin to those of an LCE. The “all or nothing” approach may not afford these entities any relief.

Australian Auditing and Assurance Standards Board - 73

48% of Australian stakeholders considered that if separate LCE standards were developed it should be based on the existing risk-based framework, whilst 42% considered it should be based on a different framework.

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%).

Canadian Auditing and Assurance Standards Board - 81

Determining whether an entity is complex versus one that is less complex is difficult and somewhat arbitrary because complexity cannot be defined at an entity level – an entity may have both complex and less-complex elements. Also, it will be difficult to develop a description of an LCE that is compatible with the
national characteristics and requirements of the almost 130 jurisdictions that have adopted or are adopting the ISAs as national standards.

Increased cost, time and resources will be required for practitioners to develop methodologies and tools, train staff and keep current on two sets of auditing standards;

Developing a Separate Auditing Standard for LCEs

We are not opposed to exploring the development of a separate standard but believe that it must be based on a separate standard outside the ISAs that provides a different level of assurance. This separate standard would need to be clearly distinguished from the ISAs in the practitioner’s report in order to avoid any confusion with an ISA based audit.

While some of our stakeholders were open to exploring the idea of a separate auditing standard for LCEs based on the ISAs, the majority expressed significant concerns. The concerns of our stakeholders, shared by us, are as follows:

Where the LCE auditing standard has been used to perform the audit, there is a risk of insufficient audit work on the complex elements of the entity.

Where the ISAs have been used to perform an audit of an entity that is defined as complex, the existing challenges of applying the requirements to the simple elements of an entity will continue to exist.

Stakeholders may be confused as to the differences between an audit performed under the ISAs and an audit performed under a separate auditing standard for LCEs, which will widen the expectation gap.

Transitioning from one set of auditing standards to another as an entity qualifies or no longer qualifies as an LCE introduces many challenges and issues, including stakeholder confusion.

Developing a separate auditing standard will be a complicated and difficult project that will likely not provide a timely solution.

CNCC & CSOEC - 61

Developing a separate auditing standard for audits of LCEs

From previous outreach undertaken to date, it is clear that the level of assurance for the audit opinion issued in accordance with any separate standard should be the same as the ISAs (i.e. reasonable assurance). The separate standard for audits of LCEs should retain a similar robustness as the ISAs.

In this context, the challenge for the IAASB will be to avoid the pitfall of generating two sets of standards and creating a two-tier auditing profession. The solution should also be acceptable to all auditors, regardless of the size of the audit firm.

The French institutes fully support the option that consists in developing a separate and standalone auditing standard for audits of LCEs.

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

Small entities are defined by the French law that retains criteria of size (thresholds) and not of complexity. Under French law, a small entity is a person or an entity that does not exceed, at year-end, two of the three following criteria: 4 million € total balance sheet, 8 million € total revenue, 50 employees.
“NEP 911” applies to the following cases, i.e.

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

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

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

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

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

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

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

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

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

- Importance of the implication of the engagement partner as the principal and privileged interlocutor of the manager of the entity;
- Importance of considering professional ethics and behavior of the manager of the entity as part of the risk approach;
- No “assertions” defined or mentioned in the standard since in fact they are embedded in the financial reporting framework;
No setting of performance materiality required, considered not necessary (and too complicated as regard the size of the entity) to plan the audit;

Substantive analytical procedures presented as the primary audit procedures;

No “useless” audit documentation (professional judgment);

As it is supposed that audit is operated later after closing date, external confirmations may not be necessary;

Overall an audit which values professional competence, judgment and partner's involvement.

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

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

2. Developing a Separate Auditing Standard for Audits of LCEs

Although, in principle, we favor revising the ISAs so that they apply a “think small approach” in the first instance, as a practical matter, given the experience of the IAASB with regulatory influence on its auditing standard setting in the last four years and the work effort and time that would be needed, developing a separate auditing standard or set of auditing standards based on the ISAs for audits other than regulatory audits may be the only practicable option that addresses the challenges identified. We note that one implication of this approach is to recognize that what reasonable assurance means in the circumstances varies by context.

We do not believe that developing a separate auditing standard based on a different framework would meet the challenges identified or be politically acceptable.

2. Developing a Separate Auditing Standard for Audits of LCEs

We believe that developing a separate auditing standard or standards for other than regulatory audits where that auditing standard is based on the ISAs would help address the challenges that have been identified.

We do not believe that developing a separate auditing standard based on a different framework would meet the challenges identified or be politically acceptable: using a completely different framework would call into question whether the type of engagement represented in this standard really ought to be branded as an "audit" and would lack political support from users of audit reports.

New Zealand Auditing and Assurance Standards Board - 53

The NZAuASB believes that the most promising option seems to be a separate standard(s) for LCE audits. Would take time.

May increase the expectation gap

Will it provide the same quality as an audit in accordance with ISAs?

Possible action - Developing a Separate Auditing Standard for Audits of LCEs

Potential positive attributes

Have the potential to address the identified challenges

Potential negative attributes
How different a separate standard based on the existing conceptual framework that underpins ISAs can be to the ISAs?

It will be a challenge to develop a conceptual framework other than the existing one that can accommodate reasonable assurance.

Difficult to define easy to apply criteria to determine LCEs

Creates additional burden for auditors’ education and training.

4. Accounting Firms

BDO International - 60

Irrespective of the mechanism for publishing the LCE standard discussed above, we believe there are two options for developing separate auditing standards for LCEs: • Option B1 – developing separate auditing standards based on existing ISAs • Option B2 – developing separate auditing standards based on a different framework. Option B1(i.e. separate auditing standards based on existing ISAs) has a lot of appeal as it can be built from the ground up to specifically address the audits of LCEs, may provide the same level of assurance and be without the length and complexities of the existing ISAs. However, further questions would need to be answered such as:

Whether the requirements would be the same as the ISAs, or more principles-based / less prescriptive

Whether it would be possible to obtain the same level of reasonable assurance if the requirements are different, or whether there are gradations of reasonable assurance. At some point, the differences in the levels of reasonable assurance may require different wording in the auditor’s report to communicate a different level of reasonable assurance. This concept would need to be discussed with users of the audited financial statements to determine if such a report would meet their needs.

Whether the application guidance in the LCE standard should be detailed (while still being relevant only to LCEs) or whether it should also be principles-based, with detailed guidance being included in non-authoritative sources outside the ISAs.

Whether reduced documentation requirements for LCEs would be feasible.

Whether the separate standard sits within or outside the body of ISAs. We believe that consideration of these questions would be a worthwhile exercise.

Regarding option B1, we also suggest that there should be some flexibility allowed here to apply a ‘full’ ISA when appropriate (i.e. a truly scalable approach). For example, depending on the final characteristics/criteria of an LCE, there may be circumstances where most of the audit meets the definition of an LCE audit but there is one specific area that is considered complex. A mechanism could be made available to allow the auditor to apply the separate auditing standards for LCEs and to use professional judgment in applying the full ISA for this one complex area.

The definition of an LCE will be important if this scalable option is adopted and may be challenging to differentiate when such a standalone LCE standard is applied or when full ISA application is appropriate.

It is also worth noting that regulators would likely need to be involved in discussing such a solution as a standard with fewer requirements may be more challenging for regulators to enforce, or they may not be
willing to accept more principles-based standards that are less prescriptive. Therefore, a consequence may be that regulated entities may not be allowed to use the LCE standards.

Option B – Developing a separate auditing standard for audits of LCEs

There are a number of obvious advantages to having a separate standard that might overcome the challenges outlined in Option A. A separate standard would ultimately provide a solution that allows for quicker responses to the issues of applying the ISAs to the audits of LCEs as opposed to the time needed to redraft or revise all the ISAs. In addition, it would enable users to find all the requirements and LCE definition in one place rather than having to read across the suite of ISA standards.

However, more clarity is needed on whether this option means developing a single standard for audits of LCEs which include all simplified requirements and application guidance applicable to LCEs (i.e., there is only one all-encompassing standard), or whether the IAASB means a separate suite of LCE auditing standards that are simplified (i.e., for each topic, there is a separate LCE standard). The former would be a very long standard that would be quite unwieldy. We believe the latter would be better for auditors as each standard would be short enough to be understandable, and the listing of standards would be similar to what they are used to now.

Regarding option B2 (separate LCE auditing standards based on a different framework), we believe that such a standard would not be able to provide a reasonable assurance opinion as it would potentially vary significantly from the scope and nature of work done in an ISA audit. There would also need to be some consideration on whether the fundamental principles would be the same as the ISAs (i.e. a risk-based approach and evidence gathering procedures using professional judgment and applying professional scepticism). While this option should not be ruled out, it would need to be discussed with users of audited financial statements and law makers as it would probably not be an audit level of assurance, but rather something between an audit and a review. This is a much longer term option that would not meet short-term objectives.

Crowe Global - 86

Developing a Separate Auditing Standard for Audit of LCEs

The development of a separate standard is a potential solution that can be seen as being audit’s parallel to IFRS for SME. This solution does potentially give rise to the risk of creating a two-tier audit profession as well as confusion with stakeholders. These concerns can be overcome provided that the full standards and the LCE standard share common core principles and the objective of the new standard is clearly articulated.

From a practical point of view the process of developing such a standard could be lengthy, meaning that a separate standard might not be available for several years. Other more immediate solutions would therefore also be needed.

GGI Practice Group of Auditing Reporting and Compliance - 29

Question 4: Possible actions by IAASB

Guidance is always welcome, but in view of the expectation gap having grown between the audit firms and the regulatory / supervisory authorities, a solution offering legal certainty should be quickly implemented.

With this aim, the development of a separate auditing standard based on the existing ISAs appears to be the best choice. It can be developed quickly and will not jeopardize the added value of the audit risk approach of modern audit. Indeed, on the contrary, it will make it more practical for the best profit of the SMEs world — a world that is creating value, innovation, and jobs.
HLB International - 57

Developing a Separate Auditing Standard for Audits of LCEs

This possible action could address the identified challenges. However, a separate standard could lead to the perception that it is a lower quality audit. There could also be issues encountered when an entity no longer qualifies to utilize the separate auditing standard and has to have its audit transitioned to the full ISAs. This possible action would likely take a long time to implement and require the knowledge of two

Distinct sets of auditing standards which would in turn potentially increase the burden on SMPs.

Moore Global - 78

Option B

We support option B with the following provisos:

The new standard should not simply be a hastily written compendium of ISAs ‘minus’.

The new standard should be written from the ground up, taking as its base all relevant existing ISA objectives and then articulating in very simple and easily understandable terms the manner in which those objectives should or could be achieved in an audit where there is low complexity. It is not unreasonable to expect that key audit objectives would be easier to achieve, requiring less work effort and therefore attracting simpler requirements for that work effort, in an audit of an entity with low complexity.

The new standard should, in addition to maintaining a link with existing ISA objectives, feature ‘off ramps’ which would make it easier – and the sensible thing to do – for auditors to refer to extant ISAs where specific issues arose which needed a more nuanced approach.

The new standard should make good use of simple language, bullet points, diagrams (e.g. flowcharts) and should focus primarily on ‘what/how’. ‘Why’ could be addressed in application guidance or other accompanying material. The drafting process should be done with operationalisation in mind.

NEXIA International - 52

Developing a separate auditing standard for audits of LCEs would be a good solution, as long as the resulting auditor’s report provides the same level of assurance as any other audit report. The standards could be written in a very clear, shorter, less complex manner and easy for auditors of LCEs to follow. Focusing on improving complex risk assessment procedures and auditing estimates would be helpful.

There is also a belief among others that the profession is already divided, that many of the issues noted above are not new, that the SMP sector is healthy, that the introduction of the IFRS for SMEs did not result in these barriers appearing (also feared at the time), and that the obvious solution to increasing levels of over-engineering in standards, despite the reservations noted above, is a separate standard or standards for LCE audits.

While we believe that a new set of standards should be closely tied to the ISAs, it is critical that the approach to the standard is based on principles, and starts with what is required, rather than going through each of the existing standards to consider what can be removed. This circles back to our overall comment: We believe a focus should be made on what procedures should be required in an LCE audit to obtain reasonable assurance.
6. Member Bodies and Other Professional Organizations

Accountancy Europe - 83

Developing a separate auditing standard for audits of LCEs (based on a different framework / existing ISAs)
The main challenge with pursuing this option is to make sure that we do not end up with two different audit approaches which would create a two-tier auditing profession and decrease the mobility of auditors between the two tiers.

This is why the IAASB should base the potential separate auditing standard for LCEs on the current framework of the ISAs, having the same level of assurance and the same objectives as the ISAs. By sticking with the ISA framework, we avoid developing two different audit approaches, and ultimately a two-tier profession.

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

As mentioned in our introduction, we believe an international initiative is necessary and urgent. The IAASB always strived for a harmonised and of equally recognised quality of an audit at global level, ensuring the trust users can place in the audit. Avoiding further development of national initiatives would undoubtedly contribute to this. Therefore, a separate standard developed by the IAASB seems to be a more appropriate solution in the short term.

This separate auditing standard should remain based on the existing ISAs with the aim of achieving the same objective and encompassing all the relevant requirements for an audit of an LCE, including compliance with ISQC 1 (or the IAASB’s new proposed quality management standards) and relevant ethical requirements. This standard should remain principles-based. To ensure the trust users can place in the audit and in the auditor’s report, we emphasize that the report resulting from the audit, whether it is in the context of a large entity or a less complex entity, should remain the same.

However, we point out that it is important to leave it up to the auditor, his firm or his network, to decide whether this separate standard is appropriate in the circumstances and to preserve the opportunity to keep on applying the ISAs, even if the entity, or the audit, is considered to be non-complex. Many firms have already developed a methodology based on the ISAs for the audit of less-complex entities and it would not be efficient to oblige them to depart from it or to develop a new one. In addition, their experience could also be used to achieve short-term results.

Cayman Islands Institute of Professional Accountants (CIIPA) - 9

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

4. a. ii. The cost of Action B (developing a Separate Auditing Standard for LCEs) will probably exceed the benefit.

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

Action

The feedback received from our members is that although this option has a number of arguments against it, it is perceived in practice to be the most realistic one. That is mainly because revising the ISAs is perceived to be too time-consuming and there is a more pressing need for a solution on how to deal with the audits of LCEs.

Developing a separate Auditing Standard for Audits of LCEs
Arguments in favour
The perception is that this would be a less time-consuming option than the revision of ISAs, though the complexity of coming up with an appropriate standard should not be underestimated.

Firms are already using their own versions of LCE standards by developing internal templates for audits of LCEs building on their audit methodologies. Therefore the development of such a standard would promote greater consistency in LCE audits. This can also apply in the case of development of guidance.

In the absence of a global separate standard there is a risk that national standards setters may develop single LCE standards to meet the needs of their local jurisdictions. This may lead to there being multiple versions of LCE standards which reduces the comparability of audits.

Arguments against
Many jurisdictions operate with both ISAs and PCAOB standards so developing a third standard will only make it even more complex for anyone to be accredited or maintain their professional skills across multiple sets of standards.

There is a risk that national standard setters may further ‘customize’ a single LCE standard to meet the needs of their jurisdictions. This may lead to there being multiple version of the global separate LCE standard which would again have a negative impact on the comparability of audits.

If the standard is not developed based on the existing ISAs then it will be hard to argue that the same assurance level is provided. Similarly, if the single standard becomes overly simplified, will the engagement still provide reasonable assurance?

It will be difficult to find the right degree of detail and to determine how the single standard may interact with the full suite of ISAs. For example, will practitioners be expected to refer to the ISAs for additional procedures etc. if they encounter an issue in an LCE not addressed in the single standard and how will transitional requirements for audits that may move from being LCEs to more complex over time be addressed? How will the single standard evolve over time (i.e. if ISAs are revised, will it be revised at the same time or will it be reviewed on a set schedule e.g. every three years)?

The development of a new standard would require investment in training resources (at IAASB, local standard setters, professional body, and firm levels), investment in new methodology development and in additional technology solutions or new modules of technology solutions as well as ongoing investment in maintaining professional skill sets. Furthermore, it will require revisiting the existing suite of ISAs with some of those requiring revision before developing a separate standard, and how would that interact with the full set of ISAs. It is therefore questionable if this action will be indeed less time-consuming than the option of revising the existing ISAs.

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

Separate Audit Standard for Audit of LCEs
While re-engineering the ISAs on a think simple / small first basis is conceptually and intuitively the best approach we believe this the less feasible, timely and pragmatic solution. A fundamental reworking of the ISAs will prove time consuming and highly disruptive, impacting the audits of all entities, and likely to meet resistance 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 while the latest working draft ED-ISA 315 marks an improvement on the extant for large entity audits it fails to meet our vision of a truly scalable standard. We
therefore urge the Board to consider, as a matter of urgency, developing a separate stand-alone SME auditing standard for less-complex entities, based on the same principles as the ISAs, could be developed in a much shorter timeframe rather than trying to reengineer the ISAs.

If the IAASB decides to pursue this course of action, then it is vital that the communications around the new separate standard stress that this standard supports an audit of equivalent quality to an audit performed using the ISAs. Every effort needs to be taken to avoid giving the impression that the standard is less rigorous than the ISAs, rather it is a standard tailored to fit different types of entity.

Developing a Separate Auditing Standard for Audits of LCEs

We see this as the preferred course of action.

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

How might one revise the ISAs to achieve truly scalable standards? First, we would prefer such a standard be based on the existing ISAs. This would leverage the existing knowledge of auditors conversant with the ISAs and risk-based audits, and as such ease the burden of knowing two sets of standards. There are parallels with IFRS for SMEs. However, while the IFRS for SMEs was developed by simplifying the IFRS we recommend that as far as possible the new standard be developed from first principles, looking only to the conceptual underpinnings of the ISAs, and that the ultimate objective be a considerably shorter and simpler standard than full ISAs. Cross-referencing from the new standard to the ISAs, as is the case with IFRS for SMEs, is best avoided or at least minimized, to ensure the standard is truly standalone.

A separate standard has other valuable advantages over revising the ISAs. First, it provides the opportunity for the LCE audit to be different in some ways from that of larger more complex entities. As our research revealed on the value of SME audit there may be merit in allowing for certain types of advice to be rendered as part of the audit. Second, a separate standard would be less disruptive to the audits of larger more complex entities as they would continue to use the ISAs. If the IAASB's resources allow one might wish to develop a separate standard first and then revise the ISAs to make them simpler and easier to apply for all audits.

Finally, the IAASB’s communications around the new separate standard will need to stress that this standard supports an audit of equivalent quality to an audit performed using the ISAs. Every effort needs to be taken to avoid giving the impression that the standard is less rigorous than the ISAs, rather it is a standard tailored to fit different types of entity. Indeed, the IAASB might wish to reinforce this point, and simultaneously ease the burden of those that are fully conversant with using and have methodologies supporting the ISAs for audits of LCEs, by recommending that auditors have the option to use the new standard or the ISAs for audits of LCEs.

Federación Argentina de Consejos Profesionales (FACPCE) - 76

Of the three alternatives, action B seems more appropriate. We suggest that the new standard has its own wording, with a specific focus on the LCEs, and is not merely a summary of the ISAs.
In our opinion, the new standard should be independent of the ISAs and, if there are untreated issues, for its solution the professional auditor can consult sources of recognized hierarchy that in his opinion are appropriate, but without the full ISAs being considered a set of additional rules that the professional auditor should consult in a mandatory way.

B. Development of a separate audit standard for audits of LCEs.

The advantage of this option is that a new set of rules specifically applicable for LCEs would be drafted, which would consider their particular needs and expectations. In many cases, the paragraphs presented by some ISAs for applying certain standards to small entities (“Considerations Specific to Smaller Entities”) are neither adequate nor sufficient to achieve the purpose they pursue. Having a separate set of standards for audits of LCEs would overcome this limitation.

It will be necessary to carry out an adequate dissemination task so that the audits carried out with NIAs and with separate standards for LCEs are not perceived by the users as two different orders, when both would pursue the same purpose: provide reasonable security on the audited financial information.

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

Exploring an auditing standard for LCEs: Option B has given some commentators pause for thought. Faced with the real prospect of a separate standard for LCE audits and all that entails, some have reconsidered their previous support for a separate standard. In their view, if any separate standard is not tightly linked to ISAs, firms with only a few PIE audits - and there are many such firms - may wonder whether they still want to be in that market. There are also implications for the training, methodology and software providers who service them, for mobility within the profession, its attractiveness more widely, and the attractiveness of SMPs to small but ambitious start-ups. These issues point to the need for any new standard to be closely tied to the ISAs.

However, in the minds of others, we already have a two-tier profession given the gulf between larger firms and others. Furthermore, the obvious solution to increasing levels of over-engineering in standards for many, despite the reservations noted above, is a separate standard or standards for LCE audits. Some who have opposed a separate standard in the past have also changed their minds, and have come to believe that ISAs can no longer realistically be expected to cover audits at both ends of the spectrum. Not all of these commentators are from smaller firms who have few, if any, PIE audits or audits that can realistically be described as complex, and some are from larger firms. They note that similar fears were expressed when the IFRS for SMEs was first mooted and that few would now claim that much damage has been caused by that standard.

Option B

We note in our main points above that this option has given some commentators pause for thought. Faced with the real prospect of a separate standard for LCE audits and all that entails, some have reconsidered their previous support for a separate standard. They believe that if a separate standard is not tightly linked to ISAs, firms with only a few PIE audits - and there are many such firms - may wonder whether they still want to be in the market for PIE audits. Firms may find dealing with two parallel methodologies to be cumbersome and administratively awkward. Firms, governments, PAOs and audit regulators would also need to reconsider the training requirements for those with little or no exposure to larger, PIE or more complex audits.

One result of a separate standard might be barriers to mobility within the profession, which could have a knock-on effect on the ability of firms to attract talent, and to compete. A lack of competition and choice is an
important issue in many jurisdictions, including the UK, and IAASB must not be seen to be exacerbating the problem. SMPs are concerned that trainees given a choice between a firm that performs 'real' audits and a firm that only performs a 'truncated' version may lead them to losing the best candidates to larger firms. They also note increasing difficulties with the transition from senior manager to 'Responsible Individual'. All of these concerns, and concerns about the level of assurance provided and the potential for creating other, 'experience and knowledge' gaps, should be considered. They also point to the need for any new standard to be closely tied to the ISAs.

However, we also note in our main points above a belief among other commentators that the profession is already divided, that many of the issues noted above are not new, that the SMP sector is healthy, that similar fears relating to the introduction of the IFRS for SMEs turned out to be unfounded, and that the obvious solution to increasing levels of over-engineering in standards, despite the reservations noted above, is a separate standard or standards for LCE audits.

Some who have resisted the idea of a separate standard in the past have also changed their minds, and have come to believe that ISAs can no longer realistically be expected to cover audits at both ends of the spectrum. Not all of these commentators are from smaller firms who have few if any PIE audits or audits that can realistically be described as complex. Some are from larger firms.

On a short term basis, we believe that IAASB should explore a separate standard or standards for the audit of LCEs because, on balance, we believe that this is the better option. A well-understood global standard for the audit of LCEs, based on ISAs, even if applied to different categories of smaller audits in different jurisdictions would be better than the alternative, which is a fragmented, ad-hoc set of dissimilar national standards for the audit of LCEs, with varying, hard-to-measure degrees of linkage to the ISAs. The latter is the likely long term outcome if IAASB does not develop a separate standard.

The use of any new standard should of course be optional.

We do not believe that IAASB has much choice in this issue if it wishes to continue to claim credibly that its standards facilitate high quality, efficient and effective audits for entities of all sizes. IAASB has no copyright over the words 'audit', or 'auditing standards' and if it passes this opportunity over, national standard-setters will regard the opportunity as lost for a generation and will go their own way.

We strongly suggest that IAASB works with those national standard-setters who already use a separate standard or are in the process of developing one. IAASB should also engage with training, software and methodology providers both within firms, and those who operate as independent commercial organisations.

We do not believe that there is any alternative to any such standard being closely aligned with the ISAs, but we do not agree with the implication in the DP that a risk-based and a fully substantive audit approach are mutually exclusive. Such an approach is one that IAASB should explore.

While we believe a separate standard should be closely aligned with the ISAs, it is critical that the approach starts with what is required, with some better quality objectives of universal application, rather than going through each of the existing standards to consider what can be removed.

We also believe that IAASB should address the easier short term drafting issues, as set out in our main points above. IAASB’s drafting style has not changed for many years and was designed for a smaller body of standards. Systematic consideration of how language is used within the standards for a technical, international audience is overdue. Better, more skillful use of clear English by IAASB for an international audience would result in enhanced clarity of thought within working groups, better standards, better translations, less confusion and conflict among and between auditors and regulators and improved audit
Audit of Less Complex Entities—Nvivo Report Q4 (a) (i-iii)
IAASB Main Agenda (December 2019)

quality. Consideration should be given to the use of summaries, as well as the prose style currently used in blanket fashion for objectives, requirements and application material. Executive summaries could be comprehensively linked to the objectives and requirements. The style of wording currently used lacks accessibility and begs for summarisation in the manner commonly used in slide presentations on training courses. Comprehensive links to objectives and requirements would ensure that the risk of the summary being read in isolation would be reduced. The benefits to auditors of LCEs would be particularly marked.

Unnecessarily cumbersome drafting could be addressed in the short term by dealing with simple issues, such as:

- guidelines for words counts within sentences and paragraphs;
- guidelines for the use of passive and active constructions;
- 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. They include 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.

Standards of drafting have a direct impact on option B: on the one hand it will be hard to write a high quality and effective standard for the audit of LCEs if the standards on which it is based are poorly drafted. However, this is also an argument in support of option B, to the extent that attempts to develop a standard for LCE audits tied to the ISAs may well show up fault lines currently masked by poor drafting.

IAASB should seek to engage with the training, software and methodology providers on any new standard both within firms and those operating as independent commercial organisations. Firstly, the quality of a methodology has a profound impact on the implementation of the ISAs and perceptions of their effectiveness. IAASB therefore has an interest, at the very least, in understanding those aspects of the ISAs that create particular implementation problems in software and methodologies. Secondly, by engaging with providers in this way, IAASB may be able to experiment with different alternative approaches to a separate standard for LCEs. Software and methodology providers would have to operationalise any new standard and they are clear that it would need to be aligned with the ISAs to avoid the need to rewrite methodologies. But they are positive about the opportunity a new standard provides for eliminating the burden of unnecessary documentation on LCE audits. Finally, working with providers will help overcome any fears about potential difficulties associated with working with two parallel methodologies, and barriers to mobility within the profession.

Institute of Chartered Accountants of Pakistan - 64

The auditing profession is committed to safeguard the public interest. Fundamentally, any action on the development of an auditing framework for LCEs should be centered on this principle. The audit of all entities should be based on similar principles, approach and standards, therefore ensuring same vigor, audit quality and safeguard of public interest.

We believe that the prospect of development of a separate standalone auditing standard for LCEs appears to be more practicable, scalable and understandable approach, in comparison to other possible actions. We would like to highlight that it would be of foremost importance that the principle of safeguarding public interest while following this approach should be considered, and in this context any actual or perceived risk
of public perception about auditing under LCEs should be considered and resolved at the onset of the project.

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

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

As mentioned above, the option of developing a separate auditing standard for audit of LCE could be explored. However, it could expose auditing profession to a differential assurance levels.

Nevertheless, we believe that the stipulated advantages of this particular option are far more than that of the other two options.

Possible Action 2: Developing Separate Auditing Standard for Audit of LCEs

We believe that the option of developing a separate auditing standard for audit of LCEs could be considered. The auditors of LCE’s would not be required to go through the voluminous complete set of ISAs, instead there would be a shorter standalone standard designed just for the needs of the audits of LCEs.

The new standalone standard could take into account the digitalization aspect also, which is currently missing in the ISAs. However, the ‘fundamental principles’ of an audit will remain the same that is: following a risk-based approach, assessment of the environment, evidence gathering with the application of professional judgement and exercise of professional skepticism at all times. A standalone standard could bring these fundamental principles together and help practitioners focus on the relevant aspects of the audit of small or non-complex entities while emphasizing the need for professional judgement.

However, if the option of developing a separate standard for LCE is explored, it could expose auditing profession to differential assurance levels. Quality of Audits conducted as per ISAs may be considered as better compared to audits performed under a specific standalone LCE auditing standard. Therefore, stakeholder/ users notion could be similar to the perception of financial statements prepared under the full IFRS and IFRS for SMEs.

The approach suggested above could result in challenges like:

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

Institute of Chartered Accountants of Scotland (ICAS) - 28

Developing a separate auditing standard for audits of LCEs

There are concerns that the development of a separate standard for auditors of LCEs might lead to a two-tier audit system thereby increasing the risk of creating confusion in the marketplace and the impression that an LCE audit is of lesser quality and value.

However, we believe that this could be avoided if the starting point for any separate auditing standard is the existing requirements and objectives within the current suite of ISAs tailored to the audit of an LCE. In order to avoid the creation of a two-tier audit environment, the overall objectives and assurance provided on the application of a separate standard for audits of LCEs would need to be consistent with those in a full ISA audit.

We also believe that, during this process, lessons and good practice might emerge that could be adopted in the development of future ISAs as part of a building blocks/think simple first approach.
Whilst a stand-alone standard would include all the key requirements of the ISAs, if further application guidance was required, the auditor would be directed to the text of the full standard for further reference. An example of this type of approach can be found in the International Financial Reporting Standard for Small and Medium-Sized Entities (IFRS for SMEs) which appears to work successfully in practice and is available for any jurisdiction to adopt, whether or not it has adopted full IFRS Standards. It is down to each jurisdiction to determine which entities should use the Standard.

We believe that a similar simplified approach to that adopted in the IFRS for SMEs could be incorporated within a separate audit standard for LCEs. The types of simplification adopted in the IFRS for SMEs from full IFRS standards could be adapted for an audit standard for LCEs. These simplifications could include:

- The omission of some topics contained within the ISAs because they are not relevant to LCEs;
- Simplification or removal of many of the risk requirements and procedures to develop a less onerous methodology in an audit of an LCE;
- Substantially less documentation required for an audit of an LCE;
- Redrafting of the ISAs in ‘plain English’ for easier understandability and translation.

Additionally, the UK has used the IFRS for SMEs as the basis for its main financial reporting standard, FRS 102, which can be used by all types and sizes of entities other than those which are required to apply IFRS. This illustrates that it is possible to tailor similar provisions to different sizes of entity whilst still maintaining a similar output that meets the needs of its constituent community.

Therefore, we believe that the preferred starting point for the working group should be the development of a separate auditing standard for audits of LCEs. We would also advise that the need to have sufficient and appropriate input from LCE practitioners and stakeholders would be essential in this regard.

Institute of Chartered Accountants of Sri Lanka - 92

Way forward Action- Developing a Separate Auditing Standard for Audits of LCEs - More appropriately focused on being outcomes-based in the circumstances of LCEs and refraining from including specific procedures and processes.

Way forward Action- Developing a Separate Auditing Standard for Audits of LCEs - Mirroring the risk-based approach of the ISAs but be presented in a way that follows the work flow of an audit.

Way forward Action- Developing a Separate Auditing Standard for Audits of LCEs - Not applicable.

Way forward Action- Developing a Separate Auditing Standard for Audits of LCEs - As the standard would be based on the ISAs, it may not require to have a complete set of specific application material and supporting guidance.

Way forward Action- Developing a Separate Auditing Standard for Audits of LCEs - Retaining principle-based requirements appropriate for audits of LCEs that allow the auditor to use their professional judgment in focusing on the achievement of the objectives developed based on the existing ISAs where relevant for LCEs.

Way forward Action- Developing a Separate Auditing Standard for Audits of LCEs - Standalone standard encompasses all the relevant requirement for an audit of an LCE.

Way forward Action- Developing a Separate Auditing Standard for Audits of LCEs - This can be addressed as the new standard can be written in simple language.
Way forward Action: Developing a Separate Auditing Standard for Audits of LCEs - Not applicable.

Implication - Developing a Separate Auditing Standard for Audits of LCEs

Why significant

Practitioners have become confused by different requirements and an apparent difference of rigor, both leading to the same audit comfort. Though it has identified the scope of application, it may be challenging to differentiate when such a standalone standard can be applied and when the application of the full ISA is necessary.

A set of standards that contains fewer requirements may be more challenging for audit regulators to enforce. Regulators would need to be involved in discussing possible solutions.

Awareness for all stakeholders.

Way forward Action: Developing a Separate Auditing Standard for Audits of LCEs - Retaining principle-based requirements appropriate for audits of LCEs that allow the auditor to use their professional judgment to focus on the objectives to be achieved by the auditor developed based on the existing ISAs where relevant for LCEs.

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

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

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;

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.

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.

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.

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.

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.

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

Institute of Singapore Chartered Accountants - 54

While we are cognisant of the challenges and potential confusion which may come with a separate auditing standard based on a different framework, we find merits in this course of action. For one, this would lead to
product differentiation and this may spur awareness and appreciation of the differences between audits of different complexities. Users are able to make a choice based on their needs and this may help in narrowing the expectation gap.

At the moment, there appears to be only two possibilities for LCEs in many jurisdictions; either audit exemption or audit in accordance with the ISA framework (or its local equivalent). There may be a need in the market for a separate auditing framework which falls in between these two. There are small businesses which are exempted from audit but which see the value of getting an audit performed (or some form of independent check). An audit under the ISA framework which is intended to give a high level of assurance, however, may not be seen as always necessary in the case of certain LCEs. There have been questions over the cost-benefits of an audit in accordance with the ISA framework for LCEs. Perhaps more can be understood on whether audits in accordance with the ISA framework are really necessary for all entities. The existence of two tiers of audits may even encourage certain LCEs to strive to improve in order to be ready for an audit in accordance with the ISA framework.

Another merit of this option is that auditors will be able to refer to a concise set of standards under a separate auditing framework which is tailored to be applicable for LCE audits. This improves the distinction between audits of LCEs and non-LCEs and leads to better audit efficiency.

We also hear concerns that the introduction of a ‘second-grade’ audit may lead to two tiers of auditors as there may be audit firms which focus largely on these audits. While this may not appear desirable at first glance, we think that this course of action may be worth exploring in the longer horizon. In the current environment, resource constraint is an issue/challenge leading to concerns over audit quality. A separate auditing framework with tailored and scaled-down requirements for LCE audits may help lighten this burden. Auditors may also find themselves assuming relatively lesser liability under such framework.

Developing a Separate Auditing Standard for Audits of LCEs

There are many challenges which can be foreseen with this course of action – it would be a time-consuming exercise for the standard-setters, it may lead to an audit of lower perceived quality and it may cause confusion in the market, particularly where the standard is developed based on a different auditing framework.

As we head into the next industrial wave, challenges faced by the audit profession in attracting and retaining talents are unlikely to go away. Public expectations of the audit profession are also unlikely to reduce over time. As such, this option should not be ignored.

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

Therefore, we first urge IAASB to rapidly develop a separate set of standards for LCE, based on current ISAs, to address the immediate demand and need, and to prevent duality of international and national standard setting that is now taking place. As the second step, these newly developed standards shall be converged with ISAs, building upon the simpler standards as suggested above, and attain a more resilient new set of ISAs.

8. Individuals and Others

Chartered Accountants Academy - 66

Developing a Separate Auditing Standard for Audits of LCEs – Depending on whether the separate standard is developed on the existing framework or a completely new framework, the timing could be rather very long. Setting a separate standard based on the current ISAs framework could be the better of the two
options of achieving this, as it would be building on the work and extensive research and input already done by the IAASB and its stakeholders on the ISAs. Coming up with a new framework could possibly take too long in the meanwhile problems identified could take too long to be addressed and even so it is not possible to determine whether the completely new separate standard would address appropriately the challenges being identified. However, if the separate standard is developed on the existing framework it would likely appropriately address the challenges identified, possibly the process might take fairly long.

Gabriel Yepez - 13

Instead, the development of a new standard can lead to retaining the basic requirements and principles of the NIA, and from that we develop the new standard, which means for example, it can be developed in short chapters: planning, materiality, sampling, audit documentation; and in other cases such as the NIA report 700, 705, and 706, its structure can be maintained in its entirety, so that in the new standard, you can refer to the use of the full NIA 700 to rule an audit, and this rule would not bring updating.

Probably in creating this new standard for LCE, one should think carefully about the approach of these audits, that is, would it be strictly substantive? Or it can be a risk assessment (NIA 315), with simplified wording and fewer requirements, or definitely eliminate the scope and procedures required by this NIA.

By combining the second alternative (development of a new standard), with the development of guides, the latter, in our opinion can be incorporated even at the end of the same NIA for LCE, taking into account even some of the texts developed as guides by IFAC, which is currently two doses. Minimum substantive and analytical procedures could also be addressed within the implementation guides.

It is also necessary that the new standard can bring with it a reduction of impractical procedures for medium and small size audit firms, such as the requirements established for ISQC 1 quality control, i.e. the implementation guide you can set the minimum that an audit of an LCE is required, and this can be addressed by a second partner, or part of the Staff Manager or Senior who did not directly conduct the audit.

Michel Maher - 16

In conclusion, I would propose the development of audit standards tailored specifically to LCEs including both foundations and private civil law or common law trusts:

- Alongside these auditing standards, I would propose the development of IFRS accounting standards specific to high-net-worth individuals (or structured transactions), as well as private trusts for which individuals are annuitants or beneficiaries; and

- I will also propose an adaptation of the standards for the presentation, measurement and recognition of financial information to those adapted to public entities while considering that the foundations of existing standards have been designed for years or the means of collecting, processing and sharing of information was out of proportion to what the internet and the digital revolution.

Q4 (a.2) Option B - Neither agree or disagree and with further comments

1. Monitoring Group

IFIAR - 88

Risks in developing a separate auditing standard for audits of less complex entities
9. We are concerned about the risk of an increase in the expectation gap that may arise from developing separate standard(s) for audits of less complex entities. Two different auditing regimes (regular vs. less complex entities audits), could lead to further confusion about audit quality, especially for external stakeholders, including, potentially, a perception that audits of less complex entities are of lesser quality. This risk should be carefully addressed by the IAASB.

2. Regulators and Audit Oversight Authorities

Canadian Public Accountability Board - 5

As we have reflected on this topic, CPAB has become increasingly convinced that it is very difficult to develop auditing standards that are scalable enough to apply both to the audit of a very small entity, and also be fit-for-purpose for the audits of large or complex organizations. The audit deficiencies and risks that we observe through our inspections lead us to believe that there are areas where auditors are calling out for more guidance. In many instances the variety of approaches used and the demonstrated lack of understanding of appropriate audit techniques creates a void, with a very real risk to performance and ultimately to stakeholders that rely on the audit. And, unfortunately, guidance that is optional sometimes results in circumstances where practitioners choose for efficiency reasons to not follow the guidance. Guidance must quickly become standards, recognizing that for emerging issues a fulsome assessment of the audit approach is required.

It is not unlike trying to create one manual that will cover the maintenance of every kind of airplane – from the paper variety to the complex, technology-driven jet. We would expect that the jet would have detailed procedures that the specialist will be required to follow. At the same time, the paper airplane technician would not require hundreds of pages of standards.

CPAB has also found that the time required to consult, assess and write standards that are principles-based and scalable has become unacceptable, resulting in years of lack of guidance in an environment where technology and industries are moving at an ever-increasing pace. We encourage an approach that provides for the timely development of auditing standards and guidance that serves the public interest.

These questions are covered in our introductory comments.

Committee of European Auditing Oversight Bodies - 90

We would warn the IAASB regarding the risks and challenges that would arise in relation to a separate standard for the audit of LCEs based on a different framework. Such an approach may widen the expectation gap and would present practical challenges for auditor as entities evolve over time to become more complex necessitating a change in audit approach when the "full" ISAs become applicable.

Independent Regulatory Board for Auditors (IRBA) - 35

Potential risks: We are alert to the risks of developing a separate standard for audits of less complex entities (whether the standard developed is in or outside of the ISAs). In light of global priorities regarding the crisis the auditing profession faces and the full workload of the IAASB, we caution the IAASB about pursuing any substantial changes to the current ISAs relating to audits of less complex entities. Some of the risks that may arise include:

Widening the expectation gap of users of financial statements;

Fragmentation of the market where two types of audits may be available; and

Confusion amongst users of the financial statements.
Irish Auditing and Accounting Supervisory Authority (IAASA) - 36

We would warn the IAASB regarding the risks and challenges that would arise in relation to a separate standard for the audit of LCEs based on a different framework. Such an approach may widen the expectation gap and would present practical challenges for auditors as entities evolve over time to become more complex, necessitating a change in audit approach when the ‘full’ ISAs become applicable.

3. National Audit Standards Setters

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

Developing a Separate Auditing Standard for Audits of LCEs

While this seems to be the appropriate solution for a quick fix in the near future, we want to draw your attention to a couple of impediments of this approach. Firstly, this option could lead to two sets of standards, which would create a two-tier auditing profession and raise questions with regard to the assurance level based on the LCE standard. Two set of standards would also create difficulties with respect to audit methodology, training and audit software for audit firms.

Hong Kong Institute of Certified Public Accountants - 74

Developing a Separate Auditing Standard for Audits of LCEs

From our outreach activities, most of the local stakeholders were in favour of this option and considered that it is desirable to have a small auditing standard for entities which apply small accounting standard. The separate auditing standard should be based on the existing ISAs and scale down for LCEs.

On the other hand, the local stakeholders are concerned about the timing factor of this option. Considerable time may be required for the IAASB to develop a separate standard. An alternative option to speed up the process is to adopt or build on those standards already developed by other jurisdictions.

As a standard setter, we have concerns on the development of a separate standard for auditing LCEs. With two sets of auditing standards, i.e. ISAs and a separate auditing standard for LCEs, which aim to achieve the same level of assurance for the audit opinion, it would be difficult for users of audit reports to understand how two different sets of auditing standards could achieve the same level of assurance and the separate standard is of similar robustness as the ISAs.

Another concern is the length of the separate standard and how comprehensive should the content be. Although some of the ISAs are complex and lengthy but the requirements are relevant for all entities. It may not be easy to decide on the scope of the separate auditing standard.

Korean Auditing and Assurance Standards Board (KAASB) - 23

The KAASB have minority opinions that separate standards for audits of LCEs need to be established to drastically address challenges and, going further, application of a different framework and development of standards based on it, instead of the risk-based approach, would be appropriate. The opinions are based on the assumption that public expectation on audits of LCEs is not high, thereby having no need for providing the same level of assurance with the ISAs, and maintenance of principle-based approach would make difficult for current challenges related to audits of LCEs to be solved.

Malaysian Institute of Accountants (MIA) - 30

Developing a separate auditing standard for audits of LCEs
The benefits of this approach is that it may provide clarity in terms of what is specifically required from audits of LCEs.

However, a separate auditing standard may bring confusion not only to practitioners but also to users of financial statements. This approach may also cause dual perception on value of audit where standards applicable for non-LCEs may be perceived as superior in comparison to standards applicable for LCEs. This will lead to worsening of fee pressure for audits of LCEs as LCEs may not be willing to pay for audits that are considered as less complex.

Furthermore, in the event that the audit opinion/report issued under separate auditing standards differs, it may create more confusion among the users of the audit report.

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

Based on our understanding the need for a short single standard in certain countries results from the fact that in these countries a statutory audit is needed for (almost) all limited liability companies. In the Netherlands, for smaller and/or less complex entities mainly compilation engagements are performed. These engagements are valued by banks, investors and fiscal authorities. Only for medium sized or large companies, using the maximum thresholds from the EU, statutory audits are obliged. There are voluntary audits for smaller entities, but these entities make a conscious choice for an audit together with their stakeholders. Therefore the need for a single standard is not felt as much in the Netherlands.

At the same time we doubt whether the market will except a separate standard, with the intention to provide the same level of assurance, but with less clarity on the sound basis for the auditor’s opinion. Based on our understanding, applying a short standard could only be done successfully by an experienced auditor, with a sound knowledge of the ISA’s. To us it is not clear how the auditors performing this knowledge would gain this experience.

**4. Accounting Firms**

**Adrian & Partners AB - 26**

A new and separate standard might create confusion for stakeholders, is one audit better than another, why have they chosen this and not that standard etc. If the definition of SME/LCE is based on judgment, the uncertainty will be even bigger.

**Baker Tilly International - 43**

B – Developing a separate auditing standard for audits of LCEs

Although concerns have previously been expressed regarding development of a separate set of standards, it would appear that we may be reaching a tipping point where such an approach may now be more acceptable. Many in the profession have resisted the temptation of different sets of standards for different types of entities but it is clear that standard setters in many jurisdictions are considering how best to address the assurance needs of LCEs.

Whilst there is logic in having separate standard to some extent, we believe that a more appropriate means of achieving the IAASB’s aims, within the context of all entities requiring an audit as currently defined, would be to develop the “building blocks approach” set out in the Discussion Paper. A building blocks approach would ensure more consistency in approach and methodology for those firms which provide audits to both LCEs and more complex entities enabling them to simply add on the requirements for more complex situations. If a separate standard, taking a separate approach as outlined in the Discussion Paper, were
adopted then audit firms and individual engagement teams may need to understand two different approaches/methodologies which may lead to confusion and a consequential negative impact on audit quality.

As set out in our overall comments we believe that it may be appropriate to consider more broadly the type of assurance required and, as a result, to consider a completely new type of assurance for LCE audits rather than simply develop a new set of standards for a traditional audit.

Dailamipour and Co. - 31

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.

6. Member Bodies and Other Professional Organizations

California Society of CPAs - 14

Minority view - The best choice is a separate set of standards which would include a different auditor’s report.

IFAC SMPC - 77

Developing a Separate Auditing Standard for Audits of LCEs

A global separate standard could reduce the risk of further fragmenting the profession and contribute to harmonization.

A separate standard could be developed in a timelier manner than revising all the ISAs.

Challenges with the length, complexity, documentation requirements and the top-down approach of the ISAs could be reduced by having a truly principles-based separate standard.

There is support for the approach of developing a separate standard based on the existing ISAs.

There is a lack of understanding/ clarity on what the approach to develop a separate auditing standard based on a different framework means as there is limited detail in the DP.

IFRS for SMEs is seen as successful, so an assumption this could be the same in International Standards on Auditing. The IAASB could connect with the IFRS Foundation.

The legal environment is a key consideration and whether a separate LCE standard will be adopted/accepted by legislators. There will be different implications in different jurisdictions and that other financial statement service engagements (e.g. review, compilation, agreed-upon procedures) may be appropriate alternatives where an audit is not required or needed.

One of the risks is the perception of audit quality under a separate LCE standard compared to the audit of financial statements under the “full ISAs” and the potential impact of a two-tier audit marketplace. For example, where firms may promote their “higher quality” through applying the full ISAs. However, some consider that overall audit quality could improve by having a separate standard as the auditor would be able to spend more time on important audit matters rather than requirements to perform certain procedures solely to comply with ISA requirements with no additional assurance and there could be potential cost savings.
A concern it could lead to multiple definitions of what is considered as reasonable assurance and may result in an increased expectation gap between what the auditor is required to do and what some stakeholders expect the auditor to do.

Time will be needed to maintain the separate standard as ISAs change, although this would likely need less amendments. 

Institute of Certified Public Accountants of Uganda - 55

ICPAU believes that developing a separate auditing standard for the audits of LCEs may create a perception gap and may be viewed by the public as either an inferior standard or one that results into a lower audit quality than an audit conducted under the ISAs.

**Q4 (a.2) Option B - Disagree**

2. Regulators and Audit Oversight Authorities

Czech Republic Public Audit Oversight Board - 89

Our preference, however, would be to stick to the same set of international standards on auditing for all entities. The main reasons for this conclusion are as follows:

We believe that having individual entities in a group audited according to different standards might not simplify the situation, on contrary, it could cause confusion for all involved parties. Questions may arise regarding the assurance obtained from the audit or the audit quality.

Most auditors audit both less complex and other companies. For them it would mean the necessity to learn two sets of standards. This will create more space for error and omissions.

ISAs are flexible enough to enable sensible application to less complex entities. Rare cases where this is not entirely true should be investigated to identify the main issues and propose potential amendments of the current standards.

We believe that IIASB will assess properly the necessity to introduce a second set of standards

3. National Audit Standards Setters

Brazilian Federal Accounting Council (CFC) - 44

Nevertheless, issuing a specific standard could turn it difficult to update since every equivalent ISA upgrade would have to upgrade the specific one and also Separate Auditing Standard. In addition, there is the inspection cost, firms training and staff segregation to perform the work. All this indicates that it will be an extremely complex and costly process. As an example, we have the IFRS for SMEs which was last updated in 2015 showing significant differences from IFRS.

The CFC, as an I&D body, foresees a difficulty in adopting and training costs for inspectors/supervisors.

We understand that for the process of proper use of the standard there should be greater consultation with the professional accounting. However, it is not clear what will be their consequences, whether positive or negative. The issuance of standards for LCEs may have an adverse consequence of the perceived loss of audit value for such entities to the market and users of the financial statements, including investors and credit agents.
In our point of view, the IAASB should be cautious of dismissed specific audit requirements for LCEs and should also insert further audit procedures in exceptional cases and more complex situations.

By chance, if there is a distinction between current ISAs and specific one for LCEs, could have a segregation as a consequence in the labor market. As a result, the market may understand that a standard simplification will impact in the audit work quality. Any changes, as stated, need to be made only after an in-depth impacts evaluation of issuing LCEs specific standard for auditing.

In conclusion, the CFC understands as follows:

Developing a Separate Auditing Standard for Audits of LCEs. At this moment, we do not support this alternative.

The Japanese Institute of Certified Public Accountants - 41

We believe that just seeking B. Developing a Separate Auditing Standards for Audits of LCEs is not an appropriate solution for all stakeholders. The length and complexity of ISAs, which makes it difficult to understand the purpose of the requirements, is an underlying cause of the challenges not only in audits of LCEs but also in audits of complex entities. It would also not be possible to solve the problem by just seeking C. Developing Guidance for Auditor of LCEs or Other Related Actions. In addition, we believe it is inappropriate to seek to develop separate auditing standards based on the different frameworks as proposed in B. In addition to taking a great deal of time for seeking such an approach, we believe it would be very difficult to ensure the consistency of such a standard with the ISAs, and to explain that it provides the same reasonable assurance as the ISAs.

4. Accounting Firms

Deloitte Touche Tohmatsu Limited - 46

Developing a Separate Auditing Standard for Auditors of LCEs

Developing a separate auditing standard for auditors of LCEs could theoretically be an appropriate response to the identified challenges. However, it is DTTL’s view that the potential consequences of introducing a separate auditing standard for auditors of LCE outweighs the potential benefits. It may actually result in a reduction in audit quality, if misapplied, and as such DTTL does not view this solution as ideal.

Having two sets of standards will require dual maintenance and increased costs of keeping up-to-date for both the IAASB and for the audit firms

It is DTTL’s view that this solution may lead to the following implications and consequences:

How would LCE auditors know when an entity becomes more complex and they should switch standards, and would they then have the necessary expertise to audit the more complex entity?

There is a risk of effectively creating two classes of auditors, one that audits LCEs and one that audits more complex entities, which may also result in reduced public confidence in the profession.

Ernst & Young Global Limited - 25

Practitioners could have difficulty in determining when such a standalone standard would apply (versus application of the full ISAs) creating a risk of inappropriate application of the standalone standard.

Of greater concern, stakeholder perceptions may also evolve that ‘two tiers’ of audits exist, regardless of whether reasonable assurance is required to be obtained under both sets of standards. These perceptions could have the effect of further widening the expectations gap, which would not be in the public interest.
Overall, we strongly encourage the IAASB to take the time to fully understand both shorter-term and longer-term possible consequences for the profession and its stakeholders related to the options under consideration, including through the input received through this consultation. Our specific feedback on the different proposed approaches is described in our response to question 4 below.

If the IAASB were to pursue this option, the drawbacks to this approach are as follows:

A separate standard for LCEs could widen the audit “expectations” gap between audits of complex entities and LCEs as the public may perceive that an LCE audit would be an inferior product to an audit in accordance with the full ISAs.

It may be challenging for practitioners and regulators to understand the differences between the two sets of standards.

We believe that if the decision is made to develop a separate standard for audits of LCEs, this could have significant implications to the profession and its stakeholders. This decision should not be taken lightly by the IAASB. We believe that the existence of a separate LCE standard could negatively affect the competency of auditors in the profession should certain auditors only obtain or retain experience in performing audits under the ‘scaled-back’ standard. These circumstances could create ‘two tiers’ of auditors and limit the mobility of auditors (i.e., moving between smaller firms and larger firms and vice versa will be more difficult) within the profession, and even within the same firm. Additionally, given the pace of change in the current environment with respect to accounting standards, tax laws and other regulations, as well as in terms of technology, the knowledge and training needs for auditors, including auditors of LCEs, are already extensive and complex. Introducing separate auditing requirements for audits of LCEs would increase the time and complexity of continued education requirements for auditors to maintain competency in performing audits under both sets of standards.

If the audit opinion were to change for LCEs, an assessment would be needed to determine whether it would be an acceptable opinion for stakeholders such as investors, banks, or regulators.

Developing a Separate Standard for Audits of LCEs

We believe that developing a separate standard for audits of LCEs would pose quite a challenge for the profession, resulting in risks of fragmentation of the profession and potentially causing the firms that perform audits for complex entities and LCEs to develop two separate audit methodologies. As previously stated in the general comments in the introduction to our letter, we believe a separate auditing standard would create many challenges for both audit firms and stakeholders of the audit, including the users of the financial statements, and do not believe this option should be pursued.

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

If the IAASB were to pursue this option, the benefits we see to this approach are as follows:

It would be a speedier response to address the issues faced when auditing LCEs than revising the ISAs.

A standalone standard could make more use of professional judgment, moving away from an approach that is too focused on compliance and documentation of non-applicable requirements.
A perception will be created that a different or lesser level of assurance will be provided by the standard, irrespective of whether or not the same level of assurance is actually provided by the new standard. This will likely increase confusion amongst the user group and will also risk further decreasing the perceived value of an audit.

Firms may perform audits of entities that are less complex and entities that are not less complex. In these instances, two methodologies would need to be created and implemented and personnel would then either need to be trained and remain up to date on both methodologies or be forced to specialize in either audits of LCEs or audits of entities that are not LCEs.

If application material is developed by national auditing standard setters on a jurisdictional basis, there may be many different interpretations of how to apply the requirements to which the application material pertains.

There is the potential that the underlying ISAs will change as the new separate auditing standard is being developed. This creates an added layer of complexity to finalizing and obtaining approval of a new standard.

A separate standard may achieve the goal of being simple at inception, but similar to how the ISAs have progressed since the Clarity Project, has the potential to become more complex over time as amendments are made to address requests for clarification.

Option B – Developing a Separate Auditing Standard for Audits of LCEs

A separate auditing standard may address some of the challenges to applying ISAs to LCEs. For example, it would provide the opportunity for the ISAs to be drafted using a ‘building blocks’ approach that starts with the minimum requirements and builds in layers of complexity. However, we view the following implications and consequences as outweighing any potential benefits:

We acknowledge that there is a fine balance to drafting standards that are sufficiently robust for complex entities, especially those that are of a public interest, and that are sufficiently scalable for less complex entities (LCEs). However, we do believe that this can be achieved in the existing ISAs without the need to develop a new standard (or set of standards) specific to the audits of LCEs (Option B presented in the Discussion Paper). As outlined in our detailed response, we are of the view that this option would result in adverse consequences that would far outweigh the potential benefits. In particular, we highlight as the most important adverse consequence, the confusion a second set of auditing standards may cause in the marketplace.

We do not think that a completely separate set of less complex entity standards would be helpful. Apart from issues around the suggestion that this might result in a lesser kind of audit, we do not think that in every area there is a clear distinction between the needs of different kinds of entity. An approach that offers a series of different ways of meeting the overall objectives depending on the circumstances of the particular client in each area would give a more effective approach and result in higher quality audits at all levels.

Separate Standard for LCE Audits Based on the Existing ISAs

We would not support a solution that truly involves a “separate standard” for LCE audits that purports to be based on the ISAs, as we describe below:

Clarity of Definition
We highlight that if such an LCE-only solution is developed, premised on the IAASB establishing a means of clearly delineating such entities, the decision regarding implementation of the solution ultimately will reside with National Standard Setters, regulators and other bodies, which may not adopt/endorse the solution for use, or may be inconsistent in their approach, for example, there may be jurisdictional variation in terms of which entities are considered to be LCEs, which would not be a helpful outcome in terms of global consistency.

Additionally, since the definition/description is based on factors that primarily focus on the presence versus absence of certain conditions, there may be inherent subjectivity in application in certain situations, and therefore differing interpretations between practitioners and regulators/other supervisory bodies as to whether and when it would be appropriate to use the standard.

Furthermore, if the standard is perceived to be less stringent, in terms of the work effort required to comply, this may encourage inappropriate designation of certain entities as LCEs.

As a result of the inherent subjectivity of a definition/description of an LCE and therefore its lack of capability of consistent application on a global basis, we consider that any solution developed should be available to all entities, and not restricted only to LCEs, as we describe further below. Accordingly, we do not believe it necessary or appropriate to develop a definition of LCEs.

Separate Standard Based on a Different Framework to the ISAs

As noted in the DP, a potential solution would be the development of a separate standard based on a different framework to the ISAs.

We believe this solution is preferable to one which aims to be closely linked to the ISAs and therefore may cause confusion in the marketplace, as well as being based on an inherently subjective definition. However, we believe there are challenges in such an approach and this may lead to confusion in practice as to how such a solution would contrast to an audit under the ISAs. In order to avoid the lack of clarity described above, we note that this solution would need to satisfy the following conditions:

It would need to provide clarity as to the nature of assurance provided, for example, whether this is reasonable assurance, limited assurance or an intermediate level of assurance;

Practitioners and users of auditor’s reports would need to clearly understand the scope and extent of procedures performed, how these support the assurance provided and how the procedures differ in nature and extent to those performed in accordance with an ISA audit, to avoid any confusion between the two separate offerings;

If a rules-based approach is taken (rather than a principles-based approach), supporting a substantive audit, to reduce scalability concerns and the need for interpretation of requirements, the framework would need to avoid driving a “checklist mentality”, and the IAASB would need to consider whether and how to incorporate ethical requirements as well as pervasive principles such as the concepts of professional scepticism and professional judgement;

The reporting output would need to be clearly different to that of an auditor’s report in accordance with the ISAs, including in terms of the “opinion” provided and the description of the auditor’s responsibilities;

The standard would need to be compatible with financial reporting frameworks in order to support an “assurance” engagement regarding fair presentation/preparation and presentation in accordance with the applicable financial reporting framework.
We believe that the development of such a solution would be challenging, and would represent a fundamental departure from the basis for development of standards to date.

Development of a Separate Standard

Summary of ISA Requirements

In considering the proposal for the development of a separate standard, we highlight that we understand the term “separate standard” to mean a standard (or set of standards) that contains requirements that are restricted/reduced or, simply, different in scope compared to those of the ISAs, such that an engagement performed in accordance with these would have fewer/different requirements in terms of the procedures to be performed and evidence that would be obtained and therefore the level and nature of assurance it would provide.

We contrast this with a solution that aims to assist LCE auditors in determining which requirements of the ISAs they need to comply with in a “typical” LCE audit, as in this scenario the LCE auditor would be performing an audit that is fully compliant with the ISAs. We believe that certain of the “separate standard” solutions developed in various jurisdictions, are more of this nature, e.g. the NEP-911, recently issued in France.

Departure from a Single Set of ISAs

We consider that this proposed solution would depart from the fundamental premise of a single set of ISAs. We consider that a separate standard, with reduced/restricted requirements that are nevertheless described as being derived from the ISAs themselves, would likely result in a product that would lack clarity as to its nature and value as follows:

How such an ISA “audit” would differ from an audit performed in accordance with the “full” ISAs. We do not believe it would be appropriate to identify such a product as an “audit performed in accordance with ISAs”;

If such a solution were to be identified as being linked to the ISAs in any way, e.g. an “audit performed in accordance with X Standard that is based on ISA principles”, we believe this would cause confusion to users as to what such an audit involves, which principles from the ISAs are applied and how they are applied, as well as how exactly this differs to an audit performed in accordance with the “full” ISAs;

If this were to be identified as an audit although more clearly distinguished from an ISA audit, e.g. to state that it is an “audit performed in accordance with X Standard”, we believe this also would not be well understood by users, for example, it would be very unclear as to what the opinion actually provides in terms of assurance;

What is the nature of assurance that is provided, including whether this may still be considered to be reasonable assurance, or whether it is instead limited assurance, or even an intermediate level of assurance. The auditor’s report may clarify that this solution is not a “full-scope” ISA audit, or an audit that provides reasonable assurance.

We highlight that there is currently an “expectation gap” regarding public perception as to what an audit is and what it is not and the introduction of an additional product that is also identified in any way as an ISA “audit” or similar to such an audit, would likely exacerbate the expectation gap, which would not be in the public interest.

There may also be negative implications in terms of the understandability of, and perceived value of a wider range of assurance and assurance-related services, e.g. reviews, other assurance engagements performed
in accordance with the ISAE 3000 (Revised) suite of standards, as well as related services that do not provide assurance, such as agreed-upon-procedures.

Application of Principles-Based Standards

We note that if a separate standard were to be principles-based, in line with the ISAs, including the “spirit” of these, a practitioner would need to be fully conversant with the ISAs to be able to apply such a standard, and would need to ensure their knowledge is updated as new developments emerge. We highlight that the Nordic standard, SASE, explicitly states this is the intention of the standard. This approach is important, as otherwise practitioners would not be able to determine whether it is truly appropriate to perform an “audit” in accordance with such a standard, and omit certain requirements, or adapt others to an LCE, without understanding the full text of the ISAs, their interrelatedness etc.

Accordingly, it is difficult to understand how such a separate standard would achieve the IAASB’s aim of reducing the burden of understanding of the ISAs for LCE auditors.

Additionally, we note that the development of a separate standard, which is based on the principles of the ISAs but does not itself set these principles out in full (i.e. principles based on principles) may give rise to issues in terms of differing interpretation of the requirements, including by regulators and other bodies, as well as by individual users, and greater inconsistency in application, which would seem counterintuitive given the aim of increasing clarity, consistency and ease of use for LCE auditors.

Instead, as we note below, we would prefer alternative solutions, including education of users of an auditor’s report, and other stakeholders, as to other potential engagements that may be performed and how these may better meet the needs of such users.

We acknowledge that other standard-setters have gone down a separate standard route, including global standard setters such as the IASB, which has developed IFRS for SMEs. However, we consider that this solution may be more appropriate for financial reporting standards, which contain more prescriptive requirements and therefore potentially lend themselves to a solution of this type, whereas ISAs are more principles-based and therefore do not. Please refer to our comments elsewhere in this letter regarding liaising with financial reporting standard setters as to solutions to better enable scaling of such standards.

MNP LLP - 8

Developing a Separate Auditing Standard for Audits of LCEs

In our opinion, this does not appropriately address the challenges identified.

We believe it is very difficult to differentiate entities into two categories (non-complex vs. complex). As noted previously in our response, we believe that the status of an entity as an LCE may change over time, non-complex entities may have certain complex elements and vice-versa. Developing separate auditing standards could result in the adoption of new standards at every reporting period where a change in LCE status was determined, and/or make it difficult to apply the respective set of auditing standards to the elements of financial reporting with varying degrees of complexity. Creating separate standards also increases the technical knowledge in which a practitioner must be fluent. This has the potential to create division in the abilities of auditors to perform engagements for LCEs and more complex entities. Therefore, it is our view that developing separate standards would create additional problems that currently do not exist, while not satisfactorily solving the challenges that currently exist.
PwC - 84

Action B

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.

Further to our overarching comments in response to this question, it is not clear to us why many of the “possible features” of a separate standard should not be guiding factors for the development of standards generally, rather than solely for an audit of an LCE. We believe if these features were applied to a revision of the existing standards, as described above, many of the concerns about auditing LCEs could be addressed while retaining a single set of standards.

Dual standards may create resourcing challenges, as mobility of staff and partners between sectors would require processes to ensure appropriate training and experience for those working in each sector and/or moving between the sectors. Behaviours embedded when working primarily in one sector may not translate easily when working in the other sector. This could also have the potential for creating further barriers to entry and concentration of the audit market if some firms made a choice to only participate in one sector.

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.

Building stakeholder consensus for any proposed solution is important. Outcomes that lack support risk a multitude of different, potentially inconsistent, approaches globally, which is an undesirable outcome that may create potentially significant challenges for multinational (group) audits as well as driving a lack of comparability across jurisdictions. In seeking to maintain global consensus and avoid global fragmentation, it is therefore important that the IAASB is able to effectively communicate to national standard-setters and professional bodies that are leading the development of “national” solutions how its actions other than the development of a separate standard are responsive to the challenges identified and are expected to be effective. That is true not just for audits of LCEs but also with respect to addressing the broader challenges identified in applying the ISAs, as described above.

Lastly, we note that we would need more information about the proposal to develop a separate standard based on an entirely different framework before we would feel able to provide meaningful and helpful input. However, for all the reasons set out above, pursuing a separate standard is not our preferred solution. Developing a standard based on a framework other than ISAs may also cause confusion for financial statement users and exacerbate questions about what constitutes an “audit” and how to reconcile the work effort needed to have reasonable assurance under an ISA audit with the work effort prescribed under such a separate standard, whether that be reasonable or some new level of assurance.

We do not discount that having separate standards may enable those standards to be better tailored to the characteristics of the entities for which they are designed and related expectations of respective stakeholders, while also eliminating the inherent tension we describe in our response to question 2(b). However, we are concerned that in trying to develop a separate standard that is based on the ISAs this will:

Challenge the maxim that “an audit is an audit”; and
Risk 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).

**RSM International Limited - 65**

Developing a Separate Auditing Standard for Audits of LCEs: As a short term alternative to revising the ISAs in their entirety, this could be a potential solution, although there are significant disadvantages to this approach. Such a standard would need to be stand alone, clear and precise in its requirements and clearly signposted as an interim measure while the ISAs were being revised. It would, however, still need to contain sufficient guidance to enable auditors of LCEs to perform audits in accordance with that standard.

Development of a specific standard for audits of LCEs, as an interim measure, is an alternative. However, we are concerned that this could lead to confusion in the marketplace if it resulted in a two-tier system with differing levels of assurance and if it were only adopted in certain territories. We are also concerned that a separate standard for audit of LCEs would, in the medium to longer term, create a two-tier profession where some auditors would only conduct audits under the LCE audit standard and would not develop the breadth of experience and expertise that has historically attracted talent into the profession.

We also caution against an LCE Auditing Standard resulting in a two tier level of assurance. There is already a perception that auditors do not do enough work and a separate LCE standard could lead to the conclusion that auditors will do even less work. The fundamentals of the ISAs are sound but it is the application of the requirements that causes issues for auditors of LCEs.

We would not want to see a permanent LCE Auditing Standard as this could result in more confusion in the marketplace, particularly if it were only adopted in certain territories. This would be particularly problematic for group audits where parent and subsidiary entities could be audited under different standards.

**SRA - 21**

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.

**5. Public Sector Organizations**

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

We believe that the possible action to create a separate standard should not be pursued, as it would cause confusion and inconsistency in the profession. There is a risk that a separate standard would create the perception that an LCE audit is less robust and thorough than a non-LCE audit. Also, the separate standard may cause inconsistency in auditors’ application of the audit standards and execution of audits, regardless of the type.

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

**ASSIREVI - 3**

In our view, the development of a specific standard for LCEs is not the appropriate solution. That approach might be viewed as a low level of assurance work thus reducing the reliance placed by stakeholders on the auditor's opinion.
CPA Australia - 67

Developing a Separate Auditing Standard for Audits of LCEs: Developing a separate standard for LCE audits is not our preferred option as there is the risk of divergence in approach over time as revisions to the ISAs or the LCE standard are made. We are of the view that the audit product needs to be consistent between any sized entity. It is only that the procedures necessary in an LCE audit may be simpler and less extensive due to less complexity, but the audit should still result in sufficient appropriate audit evidence so that the auditor can reach reasonable assurance. For this same reason we do not consider that a new framework be developed for LCE audits. We suggest that this would create misunderstanding and confusion for users. If a different product is needed for LCEs then it should not be called an audit.

If a standard for LCE audits was the IAASB's chosen solution, even though it is not our preferred action, we would support it if the existing auditing framework was applied. The outcome in this case would be that an audit under the new standard would be consistent with the ISAs and, as the same approach was being applied, if increased complexity arose over time seamless transition to the ISAs could be effected. We do not support, however, the development of a new framework for LCE audits, as we suggest all audits should be equivalent to ensure that users are not confused or misled.

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 Independent Auditors of Brazil (IBRACON) - 75

We have several concerns regarding Option B - Developing a separate auditing standard for audits of LCEs, such as setting two levels of assurance (a LCE audit could be perceived as less value than a full ISA) and challenges for practitioner and regulators to acknowledge the differences and application of a separate standard.

Institute of Public Accountants of Australia (IPA) - 91

The IPA does not support a separate auditing standard for LCEs. The IPA is concerned such an approach would in effect institute a two-tier audit approach which it believes is problematical. Such an approach may be considered as a “watered-down” audit and cause confusion for users. The IPA is concerned as to the impact on the audit report of the application of standalone ISA for LCEs. The IPA believes many users are already unclear as to the distinction between reasonable assurance and limited assurance engagement, the introduction of another reasonable assurance engagement conduction under a different standard would only aggravate user confusion.

Instituto de Censores Jurados de Cuentas de España - 22

Although a separate standard may be the faster way forward we see significant inconveniences and challenges, including:

Two different levels of audits.
Increase of the expectation gap.
Split of the profession in two levels of professionals.
Reduction of audit fees.
Duplication of methodologies, tools and software.
Education and experience to access the profession.
These implications can be even more onerous if the separate standard is based on a different framework, level of assurance or objectives.

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

As commented in the Discussion Paper a potential IAASB action would be the development of a separate standard based on a different framework to the ISA’s involving a more substantive approach, however, such approach may not consider relevant issues such as ethical requirements, pervasive principles, exercise of professional skepticism and judgment that would therefore limit the use of the auditor’s report.

B. Developing a Separate Auditing Standard for Audits of LCEs.

This action would depart from the fundamental premise of a single set of audit standards, which may result in default the public interest that could result in a product lack of clarity as follows:

- LCE audits may be difficult to identify as an audit performed in accordance with ISA’s
- Could cause confusion to users as to what such a LCE audit involves and differences from a regular audit.
- Would not be clear as to what opinion does a LCE audit actually provides in terms of assurance
- The auditor’s report may clarify that this audit approach may not be a “full-scope” audit or an audit that may provide different assurance.
- Major guidance would be necessary to be provided to users of auditor’s report, and other stakeholders to avoid misunderstandings.
- In addition it is expected that this possible action by the IAASB would result in a long-term project, where major resources are to be used to develop a new set of audit standards for LCE, which would not resolve the needs of LCE auditors and stakeholders on the short or medium term.
- In conclusion, the major disadvantage we conclude exist for this action is the lack of clarity on the level of assurance on what the LCE audits will provide to the audit report users.

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

In our opinion, the possible action presented as B. Development of a separate audit standard for LCE audits would not make much sense. The audit is unique, whether for large corporations, medium or small companies, for highly complex companies or for LCE, therefore, the possible benefit would not compensate for the enormous effort involved in the development of such a standard.

8. Individuals and Others

**Alla Ejoba - 42**

I believe that the creation of a separate standard for the audit of ISAs is unnecessary, since the value of ISA is precisely to meet all the requirements and achieve the objectives of each standard that are applicable to a
particular task. The creation of a separate standard would require the inclusion of virtually all applicable standards, resulting in a very lengthy document. At the same time, the situations would be unclear:

Which of the sets of standards should be applied - General or for the LCE in a particular case, especially in connection with the generalized characteristics of the LCE and what to do if there are contradictions in the sets of standards.

Cristian Munarriz - 93

Issuing a separate standard is not appropriate because:

1) it would create the illusion of lesser quality audits if the standard is significantly shorter than the ISAs (note it is not the case for AICPA and PCAOB standards because, even when both set of standards are different, the content and extent is very similar, in fact AICPA standards are substantially the same as the ISAs);

4) It will be complicated to apply in a group audit environment when the group auditor applies ISAs and the component auditor applies the standard for LCEs.

3) it would be difficult to establish the scope of this standard on a consistent basis. In fact, the complexity of the entity may be a subjective issue and it is not generally not possible to have an idea about the complexity of the entity without having an understanding of the entity before (which is part of the audit itself). For example, an auditor may preliminarily assess the company is not complex but later finds out, after obtaining further understanding of the entity, that the entity has one or more “complexities”, and therefore the standard for LCEs is no longer appropriate. Note it is substantially different to the scope of the IFRS for SMEs because the scope can be objectively assessed before adoption of the standard;

2) it will complicate training and education for audit firms performing audits under both the separate standard and the ISAs, creating further burden for some small audit firms;

Q4 (a.2) Option B - None

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

4. Accounting Firms
Pitcher Partners - 7
Shahedan and Co - 80

5. Public Sector Organizations
Wales Audit Office - 40

6. Member Bodies and Other Professional Organizations
IFAC - 4
Instituto Mexicano de Contadores Públicos A.C. (Audit and Assurance Standards Commission) - 39

8. Individuals and Others
Adele Driscoll - 2