Audits of Less Complex Entities
Q4 (a.3) Option C - Possible action - Views on guidance for audits of LCEs

Q4 (a.3) Option C - Agree

3. National Audit Standards Setters

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

Overwhelmingly, 97% of respondents to the Australian survey considered that guidance needs to be developed for auditors of LCEs.

Whilst the options are not mutually exclusive respondents considered the type of LCE guidance developed should be:

- An enhanced comprehensive guide on applying auditing standards for audits of less complex entities (45%);
- Focused “implementation packs” for new and revised auditing standards specifically for audits of LCEs (26%); or
- Guidance for the application of specific areas within the auditing standards or a specific auditing standard (19%).

**Brazilian Federal Accounting Council (CFC) - 44**

Developing Guidance for Auditors of LCEs. We strongly agree with this proposal, which could be implemented quickly and we believe that should be made efforts in this regard.

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

Developing Targeted Guidance and Tools

We are very supportive of the IAASB being involved in developing targeted guidance and tools that practitioners can use to interpret the ISAs and apply them in a practical way to the less complex elements of an entity’s operations and financial statements. Developing practical guidance should be a priority action performed concurrently with revising the ISAs to address scalability and proportionality.

Benefits to developing targeted guidance include the following:

- Topic or industry-specific guidance can focus on the areas of concern.
- Practical examples can be included to illustrate concepts such as the interrelationship between objectives, requirements, and required documentation of the ISAs.
- Flowcharts can be used to clarify the interrelationships of the ISAs.
- Plain or more relatable language can be used.
- Guidance can be more easily developed and issued in a timelier fashion compared to revising the ISAs.

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

Developing Guidance for Auditors of LCEs or Other Related Actions

Prepared by: IAASB Staff (November 2019)
Developing guidance for auditors of LCEs would address the identified challenges appropriately and should be achievable in a reasonable time. Guidance could be provided for those problematic requirements of specific ISAs which are identified in 2(a) above. For example, guidance can be provided on how to apply the ISAs and what kind of documentation is expected in audits of LCEs. Suggested documentation templates included as part of the guidance would be helpful.

4. Accounting Firms

Crowe Global - 86

Developing Guidance for Auditors of LCEs

There is a strong case for developing guidance, as this can be prepared in the short to medium term. Guidance has to be succinct and focused, and has to be developed and owned by the IAASB (see our observation under question 5 below). The implementation guidance developed by the IAASB for its recently issued standards provides an example for what can be done.

Dailamipour and Co. - 31

Developing a comprehensive audit guide with the cooperation of national audit standard setting body in each jurisdiction would be more efficient and useful, having knowledge of the local business entities and possible ways of manipulating information and documents, providing to auditor.

In my jurisdiction the majority of entities by definition are less complex regardless of being PJS or incorporated and, stakeholders mostly include tax authorities, creditors, social security organizations, and equity owners. Considering these stakeholders I answer the following question.

Duncan & Toplis Limited - 15

Developing guidance for auditors of LCEs

We consider that this could work well.

Presented alongside the current ISAs this could act as a happy medium between a full additional standard and amending the text of the current ISAs. Again, a clear definition of what a LCE is would be required. All entities would use the same standards, but specific interpretative guidance would be available for the auditors of LCEs.

Shahedan and Co - 80

Due to the complexity and time consuming to modify all ISAs to be tailor made for audit of LCEs, it is recommended that a comprehensive guideline to be prepared by IAASB.

6. Member Bodies and Other Professional Organizations

California Society of CPAs - 14

Developing further guidance for auditors of LCEs would be helpful.

Cayman Islands Institute of Professional Accountants (CIIPA) - 9

In our view, Action C (guidance for Auditors of LCEs) seems to be the most sensible approach.

CPA Australia - 67

Developing Guidance for Auditors of LCEs or Other Related Actions: In the short to medium term, CPA Australia favours the development of guidance for auditors undertaking audits of LCEs. This guidance could
be developed more expeditiously to alleviate the current concerns. It could highlight the core requirements relevant to LCE audits and refer the auditor back to the ISAs if matters of increased complexity arose, to allow the auditor to follow the relevant requirements and application material.

Again, we strongly support the inclusion of hyperlinks both within the guidance and to refer to the requirements in the ISAs that auditors must meet when undertaking audits of LCEs, as well as related application material. We also suggest diagrams or flowcharts, that can make relevant requirements more accessible and understandable and the linkages between different standards more comprehensible. While we prioritise the development of guidance for auditors of LCEs, revision of the ISAs can commence in parallel.

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

We acknowledge a number of advantages in Option A of revising the ISAs to a ‘think small first’ or ‘building blocks’ approach whereby complexities can be added to each ISA depending on facts and circumstances of a certain entity. However, as this would be very lengthy and costly, we would rather prefer Option C - Developing guidance for auditors of LCEs or other related actions, which is a quick solution and aligned with the other IAASB’s projects.

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

We believe that it would help strengthen the audit of the LCEs and the auditors who are engaged in this activity in a significant way, particularly if the possible action presented in C. is carried out. Development of the LCE Auditors Guide or Other Related Actions.

We understand that the possible action would adequately address the challenges identified as long as the action undertaken is not complex. We believe, as we present in a.ii, that some of the actions proposed as possible should not be carried out.

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

Guidance for application of standards can then be developed for advanced implementation, instead of trying to scale down voluminous standard; an effort which in itself adds to the volume.

**8. Individuals and Others**

**Cristian Munarriz - 93**

In the short-term, I think the most appropriate approach would be issuing a practice note, with a structure similar to a separate standard (i.e which can be read on its own by including all the most relevant requirements and specific considerations for these entities), while at the same time removing all unnecessary requirements in the ISAs.

**Q4 (a.3) Option C - Agree but with further comments**

**3. National Audit Standards Setters**

**American Institute of Certified Public Accountants (AICPA) - 27**

Also, we note that there already exists extensive guidance for auditors of LCEs issued by IFAC and others which apparently has not satisfied stakeholders on how to scale ISA requirements for audits of LCEs.

Developing additional guidance for auditors of LCEs based on the existing standards may help the auditor in applying the ISAs to an LCE and may be the most expedient method in addressing the issues. However,
there still will be a standard that a reader, or other oversight organization, could interpret as being applicable despite the information in the non-authoritative guidance. In addition, this approach still would have to link back to the existing standards and, therefore, may not result in as much true relief from work efforts as constituents might want.

CNCC & CSOEC - 61

Among the options developed in the discussion paper, we support the issuance of an international auditing practice note (IAPNs) for audits of LCEs as a support to a separate and standalone standard on the audit of LCEs, since it will provide a practical assistance to auditors on specific areas where additional guidance is needed.

We suggest building the guidance step by step, chapter by chapter to become exhaustive at the end. This should be implemented into a support tool easy to use, including many illustrations with practical examples.

Developing guidance for auditors of LCEs or other related actions

Even if, on its own, it is not the answer to the problem because the audit oversights will not recognize any authoritative value to the guidance, we believe that guidance and other support material developed specifically for audits of LCEs would be useful.

Malaysian Institute of Accountants (MIA) - 30

Developing guidance for auditors of LCEs or other related actions

Developing clear and helpful guidance may address the challenges identified for a short-term period. As such, this approach may be used as a stopgap measure.

However, the drawback of this approach is that the guidance materials issued are usually in a non-authoritative form. As such, it may not address the challenges identified in LCE audits as practitioners may choose to apply the guidance materials selectively. There is also the possibility of those practitioners only focusing on the guidance provided rather than the ISAs which have a detrimental effect on audit quality.

4. Accounting Firms

Adrian & Partners AB - 26

We feel that more guidance is useful. Not more hand-books though but guidance, short examples in the ISAs.

Deloitte Touche Tohmatsu Limited - 46

Developing Guidance for Auditors of LCEs or Other Related Actions

In DTTL’s opinion, guidance is a critical part of the solution, but not sufficient on its own. Guidance should also include illustrative examples on what is sufficient and provide specific and adequate examples of documentation on the particular ISAs that are causing challenges.

Ernst & Young Global Limited - 25

We believe that the standards alone cannot provide enough guidance for auditing LCEs through application material or appendices. As indicated in our response to Question 3, we believe that supporting implementation guidance and materials related to performing audits of LCEs is an important component of any approach. Some auditors may benefit from a full Guide such as the existing IFAC Guide to Using International Standards on Auditing in the Audits of Small-and Medium-Sized Entities. However, for our
purposes, we would find guidance and other support materials to apply the ISAs to LCEs to be more useful when targeted to specific problematic areas in the ISAs. For example, developing guidance which enables auditors of LCEs to reduce the burden of documentation or providing guidance on the potential positive effects on the audit for LCEs with good management oversight of the financial statements would be beneficial to auditing an LCE.

Developing Guidance for Auditors of LCEs or Other Related Actions

GGI Practice Group of Auditing Reporting and Compliance - 29

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.

Grant Thornton International Limited - 62

Option C – Developing Guidance for Auditors of LCEs or Other Related Actions

This option would likely be the timeliest potential solution. Whilst arguably guidance currently exists, it does not appear to be satisfying the needs of those auditing LCEs. Collaboration with IFAC to critically evaluate, update and adapt its ‘Guide to Using International Standards on Auditing in the Audits of Small- and Medium-Sized Entities,’ would be beneficial. Consideration could be given to reducing the existing volume of guidance and to incorporating or updating the guidance for the aspects of ISAs that have been identified as particularly problematic.

We are also of the view that the other forms of guidance highlighted in the Discussion Paper should be further explored. For the guidance to be effective, we are of the view that it should be clear and concise and written in simple, straightforward language that is more easily understood and is more easily translated. The guidance should avoid including broad principles, should be practical and include examples that are not just at the extremes of the spectrum, but that are representative of audits of those entities that sit somewhere in the middle.

However, to respond to the demand for solutions now, this guidance would need to be provided in a timely manner. We would therefore recommend that consideration be given as to whether due process principles can be developed to expedite the process of developing and publishing implementation and application guidance.

We support the IAASB exploring further, the provision of targeted practical guidance (Option C presented in the Discussion Paper), including consideration of how best to update the existing IFAC ‘Guide to Using International Standards on Auditing in the Audits of Small- and Medium-Sized Entities’ and through other external guidance. This guidance would be most useful if it includes practical examples that encompass a broad range of less complex entities, in terms of size, complexity and of the industry in which the entity operates.

KPMG IFRG Limited - 72

Development of Guidance

The DP notes that a potential solution may involve the development of non-authoritative guidance, which could take a number of forms, including comprehensive guidance such as the IFAC Guide to Using ISAs in Audit of SMEs, which is intended to explain fundamental principles and provide practical support, or could be more targeted to focus on specific areas, e.g. it could take the form of an IAPN, or be developed to accompany new or revised ISAs on issuance.
We highlight that such an approach would avoid the need for extensive changes to existing ISAs or a more fundamental change in approach, such as a separate standard, and accordingly we would welcome this solution.

We recognise the paradox, described in the DP, that additional guidance may be viewed by practitioners as adding to the already extensive material already available, which is noted as being part of the challenge in applying the ISAs.

We therefore recommend that the IAASB develop guidance to target areas of particular challenge and support practical application. We suggest that the IAASB liaise with IFAC to update the IFAC Guide, or to supplement this with a more succinct summary publication.

**PKF International Limited - 69**

Possible action: Developing guidance for auditors of LCEs or other related actions

Do the possible action address the challenges: Partly

Implications or consequences:

The IFAC guide, although very useful, is non-authoritative in nature. If there are efforts in developing guidance and support materials, it must be authoritative. If practitioners cannot defend the use of the guidance as substitutes for the application guidance already within the ISAs, then this option would not provide the intended relief for the onerous documentation requirements of the ISAs.

**PwC - 84**

Implementation support materials for new ISAs should be a presumption. The need for such materials as well as the nature and extent will vary based on the ISA in question, but these support tools are likely to be useful.

We recognise that a comprehensive guide to applying the ISAs for LCEs, or an IAPN, presents an opportunity to remove content from the underlying ISAs, therefore creating shorter, more readable standards. The trade-off of such an approach is to require auditors of LCEs to consult more than one source for guidance when applying the standards. Questions are also likely to arise as to the authority of such material and whether it is sufficiently clear as to how it addresses the expectations for work effort set by the requirements to which it relates.

**Action C**

Action C is not mutually exclusive to the other actions presented in the DP. Whether supporting a revised and restructured body of ISAs, or a separate standard for the audit of LCEs, there will be some role for additional guidance. On its own, guidance would not, in our view, be an adequate response to the broader challenges identified within the DP. As we describe in our overarching points in response to this question, there are broader drafting and structural issues that the IAASB needs to address across the body of the ISAs.

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

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

At the same time and as already mentioned above, initiatives should be taken to develop complementary tools to provide practical assistance to the auditors especially with regard to the risk assessment and risk response.
Chartered Accountants Australia and New Zealand (CA ANZ) and ACCA - 51

Actions

Although according to our feedback simply developing further guidance for LCEs in isolation was not considered to be a popular option as an action for the way forward, we believe that there is a place for guidance in the short term to address specific issues identified by our responses to this DP while other options such as revision of standards or development of a separate standard are underway. This will require further outreach to obtain a better understanding of the key problem areas for practitioners. We also believe that guidance will be required to supplement the approach that is ultimately adopted in relation to audits of LCEs but that again, the Board will need to be careful to understand how best to develop and present guidance etc. meet the needs of the practitioners.

Additionally, as mentioned above in the arguments in favour of a developing guidance for auditors of LCEs, if the development of guidance took a different approach than the ones explored in the past, it might be worth developing further. For example, the Board may consider using the IFRIC model used by the IASB and set up an equivalent for the ISAs. Although we do recognise that in some respects the IFRIC model does not translate directly across to audit standard-setting, the mode of operation could allow the interpretation of the existing ISA requirements to be developed while leaving the ISAs intact, offering a potentially quicker way for the Board to respond to the challenges faced by practitioners in implementing ISAs. This would help dealing with LCE as well as non-LCE audit challenges.

All ISAs include application materials and many of them have additional appendices, and irrespective if the audit practitioner works for a large or small firm it is unreasonable to expect the audit professional to try and maintain fluency with all standards. Professionals in large firms rely on national offices to maintain an audit methodology to apply the ISAs, and professionals in small firms are already struggling to go through all the material that applies. It is therefore unlikely that additional guidance will be of any more help.

Arguments against

Some members have commented that there is already additional guidance for LCEs (such as the IFAC SMP’s committee guidance material and the application material in the ISAs themselves) and that this does not seem to have addressed the problem to date. Therefore there would need to be further outreach to auditors of SMPs to understand why this guidance has not been utilised and what kinds of guidance—including methods of delivery would be useful.

Developing Guidance for Auditors of LCEs

Arguments in favour

Although additional guidance was not considered one of the favourable options for our members in isolation, it could be helpful to be provided in combination with the other options particularly if a separate standard for audits of LCEs is decided to be developed. This will assist in overcoming some of the points raised in our answer to question 1.

This option could be worth exploring as it is likely to be the action with the quickest turnaround out for the three options, provided that different approaches than the ones explored in the past are considered. For example, the Board may consider referring to the the IFRIC model used by the IASB.

Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili - 34

Action 3: Developing guidance for auditors of LCEs or other related actions
The development of specific guidance on audit of LCEs, which points out the peculiarities of performing an audit on LCEs, might also be a possible solution in the short term. However, in order to face the difficulties and challenges on the performance of audit in LCEs the preferable option remains the issuance of a dedicated audit standard.

The development of a guideline might serve as supporting documentation in combination with a specific auditing standard; perhaps it might be customized at local level in order to address domestic peculiarities.

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

Developing Guidance for Auditors of LCEs or Other Related Actions

While guidance may have a role to play, we do not see them as the primary solution. At best they are a supplementary action.

Guidance, and other tools to facilitate implementation including software and other technological tools, cannot fix shortcomings in the underlying standards. Furthermore, many have tried, with mixed success, to develop guidance and tools to help apply ISAs on SME audits.

Perhaps the most notable and comprehensive guidance is the IFAC SMP Guide cited in the DP. The guide has been criticized for being voluminous and complex. But this is inevitable given the requirement of auditors using ISAs is to read and understand all ISAs and, consequently, the need to include all the ISAs and their requirements. Moreover, guidance that seeks to be comprehensive, providing all the necessary guidance in one document with practical examples, templates etc., will always be long. The IFRS for SMEs training material is many times the volume of the 250-page standard.

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

We believe that the development of guidelines is essential but not sufficient in itself to address the issue of LCE audits.

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

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

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

It would be difficult for audit practitioners to keep abreast with changes to two sets of auditing standards;

It may cause challenges to differentiate when to apply the auditing standard for LCEs and when to apply the ISAs; and most importantly that

A separate auditing standard for LCEs may be perceived by the public as either an inferior standard or one that results into a lower audit quality than an audit conduct in accordance with ISAs.

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

**Institute of Chartered Accountants of Nigeria - 6**
In view of the likely misunderstanding that may arise from having different sets of auditing standards for audits of LCEs for the same audit firm auditing LCEs and other entities not classified as LCEs, we recommend that the Board should:

Consider revising the ISAs;
Developing guidance for Auditors of LCEs; and
Publish Basis for Conclusions to accompany each of the auditing standards.

Institute of Chartered Accountants of Sri Lanka - 92

Way forward Action- Developing Guidance for Auditors of LCEs or Other Related Actions - Not applicable.
Way forward Action- Developing Guidance for Auditors of LCEs or Other Related Actions - Not applicable.

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.
Way forward Action- Developing Guidance for Auditors of LCEs or Other Related Actions - The guideline can be developed by addressing the principle based requirements.
Way forward Action- Developing Guidance for Auditors of LCEs or Other Related Actions - This can be addressed as the guideline can be written in simple language.
Way forward Action- Developing Guidance for Auditors of LCEs or Other Related Actions - Guidance also can be a voluminous as per the Guide has already been developed by IFAC (the Guide to Using ISAs in Audits of SMEs).
Challenge to be addressed - Significant materials are added through recent revision processes of the core ISAs, in particular, to add application material as the ISAs become more complex;
Way forward Action- Developing Guidance for Auditors of LCEs or Other Related Actions - Not applicable.
Challenge to be addressed - Unnecessary procedures are being performed because when an auditor is faced with a specific set of circumstances, the standards are not clear about the nature and extent of the work required.
Way forward Action- Developing Guidance for Auditors of LCEs or Other Related Actions - Cannot be addressed.
Challenge to be addressed - Direct the auditors towards more of a ‘compliance with the standards’ approach rather than an approach that encourages the use of professional judgment in determining the most appropriate audit procedures for the specific circumstances.
Way forward Action- Developing Guidance for Auditors of LCEs or Other Related Actions - Can be addressed by encompassing all the required audit procedures that is to be performed.
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.
Since it will not be mandatory, the practitioners might not use it for their routine audits.
Implication - Developing Guidance for Auditors of LCEs or Other Related Actions

Why significant

Guidance can be lengthy as ISAs.

This will be a time consuming task.

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 - 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.

Way forward Action- Developing Guidance for Auditors of LCEs or Other Related Actions - Cannot be addressed as the guideline might become a checklist.

Institute of Singapore Chartered Accountants - 54

Developing Guidance for Auditors of LCEs

In our view, the development of additional guidance should be pursued as a priority. Additional guidance which are relevant and practical to aid auditors in applying the ISAs in LCE audits can help improve the efficiency of such audits to a certain extent. We hear from our stakeholders that they wish for measures which can be introduced quickly and this is understandably the least time-consuming course of action amongst those considered by the IAASB.

The downside of additional guidance will be that there will be more to read. As it is, there are already comments that the ISAs are lengthy. This may potentially discourage some auditors from reading all the available materials. It is also unlikely that additional guidance can be the sole solution in improving efficiency or narrowing expectation gap as there will be limitations to the areas which guidance can practically cover. As such, additional guidance is unlikely the ultimate solution but will serve well as an interim measure.

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

Quick and least expensive implementation, by developing and expanding existing guides and developing other mechanisms for IAS dissemination and training aids.

Avoid changing the historical approach of ISAs from a conceptual framework to a compliance framework - particular rules.

If a new suite of specific ISAS is developed a different conceptual framework may also be needed to be issued.

Avoid possible adjustments necessary to the Code of Professional Ethics and the Quality Control Standard, if a new set of ISAs is issued.

Alternatively developing guidance for audits of LCE would result in the following negative impacts:

The possibility that the guides do not meet the expectations of the auditors (and stakeholders) that the work is effectively simplified.
The possibility that the application of the guidance do not comply with what is required by the ISA conceptual framework

The need to continually adapt the guidelines for particular situations that arise in the future of operations, and the business environment of each country.

C. Developing Guidance for Auditors of LCEs or Other Related Actions.

The development of non-authoritative guidance would avoid the need for extensive changes to existing ISAs, however additional guidance may be viewed by practitioners as adding more material already available. In this way, it can be recommended the preparation and development of a concrete summarized guidance, which can be efficiently understood and applied in LCE audits.

We consider developing guidance for auditors of LCE would obtain the following positive impacts in audit practices:

The Institute of Chartered Accountants of Ghana - 71

We believe the development of guidance would work best if combined with development of separate standards for LCEs. There should of course be a significant education available to all the supreme auditing institutions to enable this filter down, and we believe this is important to improve the quality of audits of LCEs.

Developing Guidance for Auditors of LCEs or Other related actions – This would not be an appropriate approach to addressing the challenges as a standalone strategy but should be considered in combination with the two approaches mentioned above. Preferably, guidance should be provided on peculiar situations in order to provide further clarity on the application of standards.

8. Individuals and Others

Alla Ejova - 42

The Guide to Using ISAs in Audits of SMEs is a very useful document, which would like to see more examples of practical situations. Perhaps best practice examples could be published as a stand-alone material, as this would help the ISAs to be adopted by small organizations whose clients are LCE.

Chartered Accountants Academy - 66

Developing Guidance for Auditors of LCEs or Other Related Actions – This would likely be the most efficient way to address the challenges identified. Concern however would be raised over the appropriateness of the solution bearing in mind that the IFAC has already got a guide along the lines being proposed but challenges are still being faced.

If guidance is provided by way of an International Auditing Practice Note (IAPN), the challenges might again not be appropriately addressed as the ISA requirements would still need to be complied with in full, therefore the aspect of scalability might still be unaddressed.

Guidance for the application of specific areas within the ISAs, or particular ISAs specifically for challenges identified related to audits of LCEs, could be the most a better way to address the challenges. It would however possibly mean a robust process in collecting input on the identified ISAs requiring guidance, to ensure that coverage is as wide as possible. This could be more effective if issued together with focused “implementation packs” for new and revised ISAs.

Gabriel Yepez - 13
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.

**Q4 (a.3) Option C - Neither agree or disagree and with further comments**

3. National Audit Standards Setters

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

Some of the KAASB express that improving considerations specific to audits of LCEs or provision of guidance (or both of them collectively) would be most realistic for a short term, as it would take much time to take other possible actions. This is because, it would be most critically necessary for the ISAs to provide clear explanations as to which requirements can be applied in a matter that is scalable and proportionate to audit of LCEs and how such requirements can be applied to their audits.

**New Zealand Auditing and Assurance Standards Board - 53**

Possible action - Developing Guidance for Auditors of LCEs or Other Related Actions

Potential positive attributes

Would be quicker to do.

Potential negative attributes

There is already an abundance of guidance available. It is unlikely that additional guidance on its own can be helpful

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

With regards to providing separate guidance we see that as a sub-optimal solution. It takes more effort writing and approving the standards first, then writing the guidance on how to apply the standards. But we have experienced that in a number of occasions going through this process, we felt the need to make changes to the standards. This as a result from the questions that came to mind clarifying the standards. We have learned that it is worth the effort to get it right the first time.

Our response is built on our experience with regards to the standards for quality systems (ISQC1). We have tried all options. We had separate standards for small and large firms and learned that practitioners had a lot of questions since they were somewhere in between. We now have a standard using the ‘think small first’ approach but learned that our text was not clear enough. We provided guidance leading to a need to change the standard in certain areas.

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

It would also not be possible to solve the problem by just seeking C. Developing Guidance for Auditor of LCEs or Other Related Actions.

4. Accounting Firms

**BDO International - 60**

Option C – Developing guidance for auditors of LCEs or other related actions
As this would simply be a continuity of the work that has already been undertaken, it would be a relatively quick solution and consistent with previous projects undertaken. We would have reservations however that this would address the number of challenges noted above and could easily be perceived as just adding more reading material (outside the ISAs) to the lengthy ISA materials. Auditors of LCEs would still have to read and understand the full suite of ISAs and then would also have to read and understand even more guidance in other resources – which doesn’t resolve the issue about the length of the ISAs.

Our thoughts regarding the specific alternatives presented in Option C are as follows:

- **Option C(a) – Working with IFAC to Enhance Their Comprehensive Guide for LCEs** – We believe this alternative has potential if there is a way to make the guidance concise and easy to apply. If this project is undertaken, feedback should be obtained from the many users of the current guide on why it is deficient in its present format.

- **Option C(b) – International Auditing Practice Note (IAPN) for Audits of LCEs** – If users are only struggling with particular standards, this may be a useful alternative. However, we don’t think it would resolve the overall issue about how to apply the pervasive standards (risk assessment, responses to risk, fraud, etc.) more practically.

- **Option C(c) – Guides on Specific ISAs** – Similar to Option C(b), we don’t believe that this piecemeal approach on its own would be sufficient for auditors to conduct LCE audits more effectively.

- **Option C(d) – Implementation packs for new/revised ISAs** – Such materials would probably be appreciated by practitioners in smaller firms. This option would be particularly helpful if done in conjunction with Option C(a)

If one of the alternatives under Option C is adopted, we would encourage the IAASB to provide hyperlinks from the ISAs to the relevant paragraphs in the supplemental guidance to minimize the time that auditors of LCEs need to spend searching through voluminous supplemental guidance.

**HW Fisher - 17**

Additional guidance, while welcome, will not alone resolve the issues raised.

**MGI Worldwide - 18**

Whilst we would welcome further “How to” guides (as mentioned in Option C), we feel that this would be of less benefit and ease of use than a new LCE auditing standard. There is already guidance available in the existing ISAs (the Application Material) and in other sources but this can be difficult to navigate through. It means that member firms have another reference point, as well as the standards themselves and any local regulatory guidance and this potential overload of information may be self-defeating in that firms do not take the time to read, review and apply on their audits. A new LCE audit standard would represent a clear change that we feel would be welcomed.

**MNP LLP - 8**

Developing Guidance for Auditors of LCEs or Other Related Actions

We believe that the focus should be including new requirements and guidance directly within the ISAs or their appendices, as this is the main authoritative source of guidance practitioners reference. If additional implementation guidance is developed over and above what can practically be included in the ISAs and...
their appendices, this would be a welcomed complement. However, guidance spread out over multiple sources can be difficult for application in practice.

**Moore Global - 78**

Option C

We believe that guidance is often helpful. However, we also believe that a lack of guidance is not in fact the key reason that many auditors of entities of low complexity have issues with using ISAs to perform those audits.

**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.

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

**CPA Ireland - 70**

Developing Guidance for Auditors of LCEs or other related actions

In our view, whilst guidance for auditors of LCEs, is always to be welcomed, we do not believe that such an approach alone would dispel the current challenges. We would be concerned that the guidance would become voluminous, and may discourage its use, given that the auditor must now consult the ISA and the guide.

**IFAC SMPC - 77**

Developing Guidance for Auditors of LCEs or Other Related Actions

More non-authoritative guidance could be useful. However, it may need to be considered in combination with another option, because on its own it may not actually help all the implementation challenges and solve the issues trying to be addressed.

It would require SMPs to have recourse to even more material and so exacerbates one part of the problem.

The communication needs to be clear whether any material is authoritative or not. In some jurisdictions regulators already interpret application material as quasi-authoritative.

The maintenance of guidance needs to be considered as the ISAs change. Achieving timely alignment could be challenging.

The timeliness of guidance is critical to help support implementation.

A concern that the IAASB may stop considering complexity/ scalability because guidance for LCE audits exists.
Institute of Chartered Accountants of England and Wales (ICAEW) - 24

Option C

We do not believe that option C alone represents an adequate solution. It represents little more than the status quo. The additional guidance which already exists has clearly failed to address the scalability issue. Nevertheless, additional guidance is needed to supplement the ISAs from time to time and we believe IAASB could be much bolder than it has been in the past on this issue. High quality guidance material can have a marked effect on the quality of implementation and IAASB should not seek to avoid implementation guidance simply because it is a standard-setter, as it has on occasion in the past. For example, guidance on the scope of any new standard, and on how to proceed in borderline or emergent cases as described elsewhere in this response, would be particularly helpful.

In our recent response to IAASB's proposed quality management standards, we note IAASB's dilemma: inclusion of additional material renders standards unwieldy and onerous, giving a more elevated status to some material than is warranted. Exclusion creates a need to cross-reference, difficulties in determining where the additional material should go and uncertainty over status, because anything IAASB issues, regardless of its actual status, is treated by some regulators as having greater authority than is intended. This hampers attempts by IAASB to innovate in terms of the types of publications it issues.

To escape this impasse we suggested that IAASB must make it clearer than it does now that each audit, each firm, and set of circumstances is unique, and that it is inappropriate to treat non-authoritative material - examples, in particular - as authoritative or as best practice to be applied in all cases, because examples can never reflect the full circumstances of the firm or audit. Communicating the status of non-authoritative material – ie, the fact that examples, FAQs and similar material are just that, and are not applicable in all cases - will be key in helping to ensure that new IAASB publications are not misunderstood or misused by government, regulators, PAOs or others.

We believe IAASB should actively consider how its process for developing guidance could be streamlined and expedited. It should also consider issuing targeted non-authoritative material directly related to different types of firm, such as SMPs.

Institute of Chartered Accountants of Pakistan - 64

Possible Action 3: Developing Guidance for Auditors of LCEs or other related actions

The supplemental guidance is generally considered as non-authoritative; therefore, auditors might not consistently apply them. Whereby, the perceived benefit would be lost. Further, for auditors lacking a general understanding of the ISAs, it would mean referring to two sets of documents the guide as well as the ISAs, hence diminishing its value as well as the objective would not be achieved of creating ease.

Institute of Public Accountants of Australia (IPA) - 91

While the development of guidance for auditors of LCEs, the IPA sees such an approach as interim approach and does not address the inherent issues with the applying ISAs to the audit of LCEs. Any proposed guidance should be an intrinsic part of a revised suite of ISAs.

South African Institute of Chartered Accountants (SAICA) - 63

A final point that was also raised is that: if guidance is considered as a solution on its own, the standards will remain complex and not scalable – thus not providing the intended relief.
During discussions held with members, it was noted that much guidance was already available, and the question was if further guidance was really needed. The timing of when such guidance would become available was raised as a concern and possible remedy. It was suggested that when standards are revised, guidance is issued at the same time as the final approved ISA. This allows for easier implementation and understanding of the standard. The types of guidance referred to during discussions as being useful include first-time application material and staff discussion papers to assist with the application and understanding of the revised standards.

It is clear, following our engagement and based on the points raised above, that guidance on its own is not a suitable solution, but should rather be seen in combination with one of the other solutions. A lot of guidance is non-authoritative, and due its nature does not raise some of the challenges identified. It should be clearly stated whether the material is authoritative or non-authoritative. It would still be open for interpretation by each jurisdiction – which could result in inconsistent application.

The amount of material available is probably also worth noting, especially where firms have limited resources. Additional guidance alone would only add to the burden and not provide a stand-alone solution, especially for small and medium practices (SMPs). The survey respondents had mixed views on this option relating to guidance. The three top options with roughly equal support were:

- An enhanced comprehensive guide on applying ISAs for audits of less complex entities;
- An International Auditing Practice Note (IAPN) for Audits of Less Complex Entities; and
- Focused “implementation packs” for new or revised ISAs specifically for audits of LCEs.

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

C. Developing Guidance for auditors of LCEs or other related actions

The problem with guidance is that it sits on top of a cumbersome base which is the ISAs, it sometimes lead to further complications where the guidance and the underlying standard do not match.

**Q4 (a.3) Option C - Disagree**

3. National Audit Standards Setters

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

Developing Guidance for Auditors of LCEs or Other related Actions

At this point, newly developed or revised guidance would not be answer to respond to the current challenges faced by auditors in the audit of LCEs. More guidance would be considered even more burdensome.

Although new and revised guidance on its own is not the answer to the problem, it should be part of any solution for LCE audits.

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

3. Developing Guidance for Auditors of LCEs or Other Related Actions
The main problem for auditors of LCEs is too much material – not too little. For these reasons we do not believe that creating a comprehensive guide on the audit of LCEs, an IAPN, guidance within the ISAs or outside of the ISAs, or implementation packs would actually meet the challenges identified.

3. Developing Guidance for Auditors of LCEs or Other Related Actions

We do not believe that creating a comprehensive guide on the audit of LCEs, an IAPN, guidance within the ISAs or outside of the ISAs, or implementation packs would actually meet the challenges identified and therefore believe that these options should not be pursued further.

4. Accounting Firms

Baker Tilly International - 43

C – Developing guidance for auditors of LCEs or Other Related Actions

We do not support the notion of addressing the LCE audit through guidance in any of the ways outlined in the Discussion Paper. Some of the concerns addressed in relation to applying the ISAs to LCE audits is the length and complexity of the material. Issuing further guidance which the auditor would need to understand, over and above an understanding the ISAs, would only further exaggerate the length and complexity of the material that auditors need to understand.

HLB International - 57

Developing Guidance for Auditors of LCEs or Other Related Actions

In our opinion, this possible action would not effectively address the challenges identified. For LCE audits to be improved, the standards themselves should be more accessible rather than pushing practitioners away from the standards to other documents. Furthermore, it seems challenging to draft guidance which will be applicable in all jurisdictions. Finally, many national standard setters have already provided detailed implementation tools which can assist in the application of the ISAs but have not necessarily alleviated the main challenges.

RSM International Limited - 65

Developing guidance for Auditors of LCEs or Other Related Actions: There is already a large volume of guidance available, much of which is not sufficiently focussed on the core issues faced by auditors of LCEs. In our view, the profession does not need more guidance but rather a body of standards that meet the needs of LCE audits.

5. Public Sector Organizations

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

We believe that the creation of an audit guide should not be pursued. The time and effort to create and then update a guide based on changes in standards would be burdensome. In addition, the translation of such a guide would make it difficult to ensure consistent application across languages.

6. Member Bodies and Other Professional Organizations

Accountancy Europe - 83

Further, the status of such guidance would not be clear and could therefore give rise to potential issues with regulators. It could also be a source of legal uncertainty. In addition, there is already an IFAC Guide available, and it has not proven capable of resolving the issues that we are debating now.
Although guidance on its own is not the answer to the problem, we support considering it as part of any solution for LCE audits that the IAASB pursues.

Developing guidance for auditors of LCEs or other related actions

At this point, we are convinced that newly developed or revised guidance will not be enough to respond to the challenges faced by auditors, who may see it as even more material being added.

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

Developing more guidance will not help in solving the issue. There is currently so much guidance written that the auditors of a small entity may have to read more of the standard than those of a large entity when applying the ISAs.

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

c. Developing guidance for auditors of LCEs or other related actions

We are not supportive of this as a proposed solution at this stage but, potentially, depending upon the selected solution, there may be a role for further guidance, or an update to the current IFAC guidance, at some point in the future.

**Instituto de Censores Jurados de Cuentas de España - 22**

Regarding the development of more guidance, we consider that this would not be enough, could be seen as more material to add to the standards, and it is difficult to be capable of guiding the auditor in any situation that he/she may face.

**Nordic Federation of Public Accountants - 58**

Also, trying to deal with the challenges with applying the ISAs on audits of LCEs by developing additional guidance has already been explored by many countries and also by IFAC’s SMP Committee without solving the problem.

Developing Guidance for Auditors of LCEs

We do not believe that developing guidance for auditors of LCEs is a standalone option. It will not solve the issues with the current ISAs and would rather add length and work to the IAASB. The work has to be focused on the standards themselves and not on providing additional guidance material.

In our opinion, this option should rather be used as a supplement to the preferred option.

**8. Individuals and Others**

**Vera Massarygina - 48**

Developing Guidance for Auditors of LCEs or Other Related Actions is not a good solution of the problem too. Regulation authorities would not use it in their control activities and would demand using all the requirements of the ISAs in full.
Q4 (a.3) Option C - None

1. Monitoring Group
IFIAR - 88

2. Regulators and Audit Oversight Authorities
Canadian Public Accountability Board - 5
These questions are covered in our introductory comments.
Committee of European Auditing Oversight Bodies - 90
Czech Republic Public Audit Oversight Board - 89
Independent Regulatory Board for Auditors (IRBA) - 35
Irish Auditing and Accounting Supervisory Authority (IAASA) - 36

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

4. Accounting Firms
NEXIA International - 52
Pitcher Partners - 7
Rymand&co - 87
SRA - 21

5. Public Sector Organizations
Wales Audit Office - 40

6. Member Bodies and Other Professional Organizations
ASSIREVI - 3
EXPERTsuisse - 50
IFAC - 4

IFAC has a long-standing commitment to SME audit. IFAC first published the Guide to Using ISAs in the Audits of Small- and Medium-Sized Entities (the Guide) in 2007. The Guide helps firms efficiently and proportionally apply the ISAs on SME audits and in many cases is used by firms and professional accountancy organizations (PAOs) as part of training or in developing audit methodologies or manuals. Now in its fourth edition, the Guide has been downloaded over 100,000 times and 22 translations are completed or in progress.

Instituto Mexicano de Contadores Públicos A.C. (Audit and Assurance Standards Commission) - 39
Malaysian Institute of Public Accountants (MICPA) - 10

7. Academics
Hunter College - 68

8. Individuals and Others