Audits of Less Complex Entities
Q4 (c) Priority of actions

Q4 (c) Option A - Revising the ISA

3. National Audit Standards Setters
Austrian Chamber of Tax Advisors and Public Accountants (KSW) - 20

Actions to be Pursued by the IAASB

Considering all pros and cons of the recommended solutions, we prefer the Revising the ISAs approach most. As mentioned in the discussion paper a rolling or phased basis using the so-called “building-blocks approach” is our preferred solution.

The IAASB should start revising the most fundamental ISAs first, i.e. ISA 315, 330, 240 and 540. To ease the application of ISAs, in relation to LCE audits and also to the benefit of all audits, ISAs cannot be developed as they are today and should be fundamentally revised using the building-block approach. This means that the core of the ISAs would consist of the basic requirements applicable in all audits. In doing so, IAASB should rigorously question any proposed requirement and check its usefulness and applicability for all LCE audits, as well as disclose its respective reasoning why the requirement should be a requirement.

Further requirements should added systematically addressing further complexity and risks of the audited entity and circumstances. In this process the IAASB should also make sure that the ISAs become technology–based, for example by integrating a software to help the auditor navigate and apply the ISAs.

If the IAASB decides to develop a separate standard at first, this should be the way forward. The separate standard should contain the basic requirements of all ISAs. The separate standard could be the first building block of the revised and rewritten ISAs.

Malaysian Institute of Accountants (MIA) - 30

Please refer to our response in 4(a) above.

Revising ISAs

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

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

The Japanese Institute of Certified Public Accountants - 41

We believe that the building-blocks approach in A. Revising the ISAs (“adopting an approach of revising the standard by setting out the basic requirements for all audits, then expanding as needed to address more complex circumstances”) is the most appropriate action.
4. Accounting Firms

Adrian & Partners AB - 26

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

HW Fisher - 17

Although we are calling for a substantial review of all of the ISAs there would be no reason for all the changes to be made at a single time. While there will be issues with maintaining consistency within the standards, an approach whereby batches of standards are updated in a rolling programme would bring the benefits of these changes into effect sooner. It would also mean that experience of implementing the first few standards in the new format could be used in developing further standards as the project continues.

MNP LLP - 8

In our view, for the reasons in our response to question 4a, revising the ISAs should be pursued as a priority.

Moore Global - 78

Our preferred option for dealing with the issues identified both in the DP and by several national standard setters, amongst others, would be Option A, a full rewrite of all ISAs using a building block approach, thinking low complexity first, reforming the use of language to ensure that objectives and requirements are clearly and understandably articulated and freeing the approach from the paper paradigm which still persists and which can no longer usefully be applied to auditing given its iterative nature. However, we accept that this is not a feasible short- or medium-term solution.

Given that root and branch revision is not feasible as a solution to the problems of today or indeed tomorrow, we would support option B with the following provisos:

The new standard should not simply be a 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. It would be wise to remember that for many auditors of entities of low complexity it is the ‘how’ rather than the ‘what’ which is contentious. The drafting process should be done with operationalisation in mind.

As indicated above, we believe that in an ideal world all ISAs would be rewritten from the ground up, thinking low complexity first and building in additional requirements or options for entities or areas where complexity increases or emerges, in a manner which would reflect the varying nature and circumstances of entities that are audited, the iterative nature of auditing, and modern methods of publishing and
communication. The paper paradigm (regarding each standard as if it was printed on paper and limited in its construction by an imposition of linearity that does not reflect reality as a result of that imaginary paper-based existence) needs to be abandoned. The opportunities offered by modern methods of communication and publishing to more fully reflect the iterative nature of auditing and the interconnectedness of much of the work that auditors do, should no longer be ignored. This would be a substantial project and take time to achieve, it would also be hard to do, but that is not a reason not to do it. If IAASB adopts option B and a new standard for LCEs/entities of low complexity is developed, it would be an ideal opportunity to explore new ways of articulating and presenting material to achieve the maximum utility and benefit for all concerned. This could then be applied to the bigger, longer term but no less necessary project of reimagining all the ISAs.

Pitcher Partners - 7

Revising the ISAs

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

How this could be achieved? There are a number of individually identifiable standards which urgently need revision such as ISA 500. However, the interconnectivity of the standards and the evidence of the initial exposure draft of ED540. ED 540 contained proposals which would have had substantial issues with alignment to other standards. This is an example that if a truly impactful and substantive revision is proposed it needs to be as part of a comprehensive re-write from the ground up to reflect changed auditing landscape, addressing in its thinking the changing technology environment, litigation environment, auditing in a public/listed environment as opposed to a private/non-public environment and expectation gap.

6. Member Bodies and Other Professional Organizations

Institute of Chartered Accountants of Nigeria - 6

In our opinion, the Board is advised to prioritize revision of ISAs as the first together with the accompanying BCs. Thereafter, the Board should then develop guidance for Auditors of LCEs based on the revised Standards

8. Individuals and Others

Alla Ejova - 42

Priority is given to the inclusion of a special section in the text of the ISAs on LCE.

Q4 (c) Option B - Separate auditing LCE standard

3. National Audit Standards Setters

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

In our view, if a realistic opportunity to revise the standards as we describe in our response to 2 a) does not present itself, we believe that the IAASB should seek to commence and quickly complete a project on the
development of a separate standard or standards for other than regulatory audits as a matter of priority. The other actions noted in Section III will not meet the challenges identified and therefore the IAASB should not use its resources to engage in these other actions.

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. The New Zealand constituents who participated in the NZAuASB outreach activities also indicated a strong preference for this option (about 65% of participants, in an online survey asking their opinions about the three proposed possible actions, selected this option).

If this separate standard is developed to be responsive to the characteristics of LCE audits, it may be a success. An effort to develop such a standard is likely to be useful even if it is ultimately determined that a separate standard is not a viable option. In that event, the prepared material for a separate standard may be useful for revising the ISAs in a way that is more helpful for audits of LCEs.

A separate standard has also a greater potential for innovation as it is not restricted to stay in line with the existing ISAs in their current form and shape.

4. Accounting Firms

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.

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.

MGI Worldwide - 18

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.

PKF International Limited - 69

We recommend developing a separate Auditing Standard for Audits of 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.
6. Member Bodies and Other Professional Organizations

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

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.

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.

Federación Argentina de Consejos Profesionales (FACPCE) - 76

4. In our country all companies, regardless of their size or whether they are public or private, must keep accounting records and issue financial statements.

We consider it a priority to start developing a rule based on principles that is determined and specifically realized by understanding the needs of the auditor in an LCE entity, but accompanying the requirements of the ISAs.

We suggest reviewing the application guide to make it simpler and containing working paper models for the audit of LCE entities.

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.

Institute of Chartered Accountants of Pakistan - 64

In view of the pros and cons of each possible approach as highlighted in our response to 4a(i) above, we would suggest developing a separate standard on LCEs. This would be easier to read and understand and thus would result in effective implementation of the same. We already have examples in the form of separate IFRS for SMEs and separate set of auditing standards available in Sri Lanka and France. There would of course be challenges which are detailed in 5 below for the IAASB’s consideration.

Institute of Chartered Accountants of Sri Lanka - 92

Response

Priority should be given to the second possible action of developing a separate Auditing Standard for Audits of LCEs.

As this possible action is covered, most of the challenges could be overcome with regard to the LCE audits and that will have limited implications. (refer 4 (a)(i) and 4 (a)(ii)).
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.

South African Institute of Professional Accountants (SAIPA) - 56

This project is critical and long overdue, it will be appreciated if the IAASB will work on the new standard with speed so that we can have a standard that is relevant and serve the purpose for which it is aimed in the LEC/SMEs.

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

Michel Maher - 16

My analysis leads me to conclude that the auditing rules of the LCE should be completely separated from those of the other entities precisely to avoid any resistance based on apprehensions of excessive complexity, which would be detrimental to their adaptation to large scale because of considerations based on erroneous cost-benefit analyzes. While bridge rules could be developed for borderline cases, managers and trustees of EPCs would appreciate the existence of audit standards specifically tailored to their specific situations.

In addition, I also think that in order to complete the auditing standards for LCEs, new IFRS standards adapted to this type of entity should also be developed. In addition, these new accountability-specific standards for LCEs corresponding to their different legal forms should be designed and implemented to meet the requirements of both private and public entities.
• In terms of private entities, there is a real need for standards for the personal finances of individuals, as well as those of LCEs whose private trusts for which these individuals could become beneficiaries, if and when unable to act on their own due to cognitive diseases leading to temporary or permanent disability.

• At the level of public entities, there is also a need for benchmarks for social organizations such as co-operatives, charities, and some public-interest foundations or trusts.

• In both cases, these entities have objectives emanating from their constitution or from the law that commit them to use all their resources, sometimes limited, within a precise legal framework, but there are no precise and stable accounting standards allowing to ensure that the financial information they produce reflects the compliance of the transactions with these specific commitments.

Finally, in relation to the major advances in information technology, a fundamental element of the modernization of audit rules and accounting standards for LCEs would be to ensure continuity of accountability, ideally in real time, since it would be counter-productive to do without a technically adequate tool, all the more necessary:

• The technology allows for online account updates as transactions are executed by remote access to EPC bank accounts in read mode.

• In addition, banking regulations on the short prescription of bank recourse may make annual reporting impossible in the event of insolvency of potential perpetrators of financial malfeasance.

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.

I have developed a draft of accounting and auditing standards related to the problem of financial reporting of individuals with very high net worth or those whose activities may be subject to reporting, and these standards may be used to not very complex entities.

Hoping that this will be useful to you in your mission to the International Federation of Accountants, please do not hesitate to communicate with me for any required additional information.

Q4 (c) Option C - Guidance for audits of LCE

3. National Audit Standards Setters

Australian Auditing and Assurance Standards Board - 73

Overall, the AUASB considers that guidance should be pursued as a priority in the short-term. Guidance is not mutually exclusive to the other options and should be completed as an interim solution whilst the project is further developed.
Whilst the AUASB encourages the IAASB to explore all possible options, at this early stage the AUASB’s preference is a revision of the ISAs. The AUASB has raised in submissions on recent IAASB Exposure Drafts that the growing complexity of the standards is becoming problematic and may be leading to issues with confidence in the standards by the assurance profession. In particular, the AUASB raised in the ISA 315 submission that a different approach to the development of new and revised auditing standards should be considered by the IAASB to address the impact that the growing complexity has on small and medium assurance practitioners. A revision of the standards may have benefit for all users of IAASB standards, not just auditors of LCEs.

Whilst a separate standard may be appealing for some jurisdictions as it allows the current ISAs to retain their complexity, there will likely be more complex implementation issues in Australia as a result of auditing standards having force-of-law. A separate framework comes with a number of possible challenges such as negative impact on the audit expectation gap and the difficulty in maintaining two frameworks. We have seen the International Accounting Standards Board (IASB) struggle to maintain both IFRS and IFRS for SMEs. In particular, IFRS for SMEs has not been updated since 2015 even though a number of fundamental changes have occurred in IFRS. The challenge of balancing multiple frameworks is also relevant to National Standard-Setters who will be required to implement and maintain the separate standards.

The AUASB encourages the IAASB to explore all possible options outlined in section III of the Discussion Paper. It is important that at this early stage the IAASB avoids landing on a single solution until all options are fully explored.

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

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.

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

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.

**4. Accounting Firms**

**Crowe Global - 86**

As a priority, we encourage the IAASB to:

Develop its own succinct and focused guidance on applying ISAs to the audits of LCEs;

Developing implementation guidance for recently issued and forthcoming standards such as ISA 540 (Revised) and ISA 315 (Revised) that specifically relates to the audits of LCEs; and

Giving greater prominence to the consideration of the audits of LCEs in the development of future new and revised standards.

As the IAASB develops its future standard setting plans, it should then be open to considering the case for developing a separate standard for the audit of LCEs that shares the core principles of the full ISAs.
Dailamipour and Co. - 31

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

I have addressed this matter in my previous answers above.

Duncan & Toplis Limited - 15

We feel priority should be given to clear guidance available for the use of the existing ISAs by LCEs. We also believe that the definition of what a LCE is key.

Grant Thornton International Limited - 62

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

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 are of the view that a project to revise all the ISAs (Option A presented in the Discussion Paper) will not be sufficiently responsive to the need for immediate action either as a holistic project or as a more narrow project that includes making targeted changes to an ISA when that ISA is being revised as part of the IAASB current Strategy and Work Plan.

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

Further guidance as it is the easiest and quickest to implement.
Chartered Accountants Australia and New Zealand (CA ANZ) and ACCA - 51

As discussed above, we are of the opinion that additional short-term guidance on how to apply the existing standards in the case of LCEs would be very helpful given that the timeframe involved in implementing either the revision of the ISAs or the development of a single standard is likely to be long. However, this guidance needs to be carefully considered to avoid the issues that existing guidance has encountered.

Institute of Certified Public Accountants of Uganda - 55

ICPAU suggests that the IAASB should promote awareness and provide guidance on the application of ISAs in the audits of LCEs. This is because the basic procedures within the ISAs are unlikely to change even when a separate standard is developed for LCEs. Aspects like going concern assessment, sampling, auditing of accounting estimates, materiality and formation of an opinion need to be addressed through guidance material, webinars etc. so that auditors of LCEs can find it easier to perform these procedures.

Additionally, the IAASB should engage the public to appreciate the relevance of auditing. This will help to encourage small business owners to appreciate the importance of proper bookkeeping which will in turn make audits of LCEs much easier. It will also help to narrow the expectation gap between the auditors and the owners of LCEs.

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.

Inter-American Accounting Association (IAA) - 47

Based on the draft document, we are particularly excited about the development of the Guide for LCE auditors or other related actions because, we believe, that will give visibility and support to the project of thousands of medium and small firms that are engaged in auditing entities, not very complex, in addition, of not taking the possible action consisting in the issuance of a separate audit standard would encourage the more robust application of the current ISAs, which would result in extraordinary expertise and consequent growth of both audits to LCE as of the small and medium-sized firms.

8. Individuals and Others

Ali Sarehraz - 32

Future actions

As many other auditors I believe auditing is auditing and we do not need to establish separate set of auditing standards. We need guidelines about the application of certain standards; especially the risk assessment.

Central point of the case is internal control. Because of their structure and the risk of overriding internal control, we could not rely on internal control and this issue directs us toward changing our approach in auditing. Using substantive procedures including analytical procedures which are so important in case of Less Complex Entities.

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.

See response in 4.a

**Q4 (c) Combined approaches**

3. National Audit Standards Setters

Canadian Auditing and Assurance Standards Board - 81

In our view the following actions are a priority:

Develop targeted guidance and tools for practitioners that are focused on the less complex elements of an entity’s operations and financial statements. This action could be undertaken to more quickly address current issues while longer term actions, such as revising ISAs are performed.

Develop a framework to deal with scalability and proportionality in drafting new or revised ISAs. Feedback from stakeholders should be solicited to better understand whether the new approach to scalability and proportionality used in revising ISA 315 would be appropriate to apply to future revisions of audit standards.

Engage in further research into the issues and areas within the ISAs that are hard to scale. The investigation of these issues should be prioritized based on the anticipated impact. It would be important to understand whether these issues can be addressed more immediately through non-authoritative tools and guidance. This research could start with ISA 315 since it is a foundational standard and covers an area of an audit that stakeholders have identified to be the most challenging in applying scalability and proportionality.

Consider the use of technology and ‘smart’ tools in addressing the challenges in applying the ISAs to the less complex elements of an entity’s operations and financial statements.

Give high priority to engaging with SMPs in the development of new or revised ISAs in order to gain deeper insight to the challenges they encounter in performing audits. Such engagement will enhance the understanding needed to develop new or revise ISAs that effectively address scalability and proportionality. SMP engagement could be built into the consultation process through field testing proposed standards and consulting directly with this group.

We believe that the solution to the identified challenges needs to be practical and achievable in a reasonable timeline. We believe that the best way forward is as follows:

- develop targeted guidance, and technology-based tools and methodologies to support stakeholders in applying the ISAs in a practical manner to the less complex elements of an entity’s operations and financial statements;
- incorporate scalability and proportionality into the ISAs as they are revised or new ISAs are developed, using an approach that is proven to be effective based on field testing or other similar techniques; and
- identify existing ISAs that need to be revised to incorporate more effective scalability and proportionality within the requirements.

We do not believe that the development of a separate auditing standard for LCEs based on the ISAs is an appropriate solution, for the reasons noted below. However, we are not opposed to exploring the
development of a separate standard outside of the ISAs that provides a different level of assurance and is clearly distinguished from the ISAs to avoid any confusion with an ISA based audit.

**CNCC & CSOEC - 61**

Concerning the actions to be pursued by the IAASB as a priority, we have identified the following ones:

First, as a matter of urgent priority, develop a separate and standalone standard for the LCE audits and work on a IAPN for audit of LCEs;

Then, on a longer term, revise the ISAs following the “think small first” principle with clear and unambiguous language.

The proposed separate standard should be based on the existing ISAs and provide the same level of assurance and have the same objectives as the ISAs. We consider that this project should be coordinated with national standard setters and regulators.

Knowledge and experience of countries which are already using a separate standard at national level could serve as a starting point for the IAASB’s work. Considering that several European countries have come up with their own national solutions, Accountancy Europe as a body representing these countries at European level could serve as a platform for this exchange and potential collaboration.

As a second step, we believe that the IAASB should start working on revising the ISAs based on a “think small first approach”, beginning by the most fundamental ones, such as. ISA 240, 315, 330 and 540. This means that the core of the ISAs would consist of the most fundamental requirements applicable in all audits. Complexity added in each ISA should be systematically conditional on the size and complexity of the audited entity as well as on the circumstances. The newly developed separate standard for the LCE audits could serve as a starting point for this work. It would be the fundamental building block.

We are convinced that using a “think small first” approach to revise the IASs should be a appropriate way to revert to standards that are largely principles-based and so applicable to audits of all entities. This would also allow convergence of a separate standard for LCEs with revised ISAs in a longer term.

It is essential that the IAASB develop an appropriate action for LCE audits. The retained solution should not deviate from the objectives of principles-based standards.

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

From our feedback to Question 2 above, we consider that the IAASB should firstly focus on the specific ISAs with problematic requirements and develop separate guidance for the application of specific areas within these ISAs.

4. Accounting Firms

**Deloitte Touche Tohmatsu Limited - 46**

It is DTTL’s view that the IAASB should pursue the action of Revising the ISAs with the supporting action of Developing Guidance for Auditors performing audits of LCEs.

DTTL recommends that the work related to Developing Guidance is supplemented with examples of documentation (for example, by issuing Practice Notes or something similar). It is important that the IAASB clearly sets the level of authority of any Guidance and Examples provided. Guidance and Examples may also be an appropriate way of delivering an intermediate solution to meet the demand from auditors performing audits of LCEs. Revising the ISAs may be a long-term vision and will require more work to fully
assess the problematic areas and underlying causes before beginning the work of revising them. Thus, the timeline for revising the ISAs could potentially be many years. It may be easier to develop and deliver useful Guidance and Examples in the short-term, and could be considered as a first step in the right direction by stakeholders, also keeping local standard setters from continuing working on developing local responses.

Urgent action

The need for action is now, and depending on the option(s) selected, a solution could be several years in the future. DTTL encourages the IAASB to not only consider a long-term solution, but also to consider a short-term solution to meet the current demands. For example, Guidance and Examples can be issued in the short-term on how to apply the ISAs on audits of LCEs, while simultaneously working on revising the ISAs as further commented in Question 4 in Appendix I.

DTTL further believes that swift action on a short-term solution is important to accommodate stakeholders’ ask for results and to avert local standard setters from further developing and deploying local materials that will likely impact a continued divergence across regions and countries. DTTL believes that a global set of standards is an imperative and if the issue is not addressed adequately, both in the short- and long-term, that there will continue to be divergence in this area.

The IAASB can deliver a clear and strong message that action is being taken by issuing Guidance and Examples as the first short-term activity. However, DTTL also emphasizes that Guidance and Examples does not completely address the call to action. The long-term vision must include a more fundamental change, making the ISAs scalable by drafting them with a ‘building block approach’ in mind, starting with the requirements for audits of LCEs, and adding incremental requirements for more complex entities.

With the following considerations in mind, it is DTTL’s view that the ideal solution is working towards revising the ISAs in combination with developing Guidance and Examples in the short-term. DTTL also notes that this is not “the easy” solution, as it requires a significant change to the ISAs rewriting many of the ISAs from the bottom up and starting with requirements for LCEs and thereafter adding requirements for more complex entities.

**Ernst & Young Global Limited - 25**

We believe that the IAASB should take an approach that involves:

Identifying ISAs that are particularly challenging for audits of LCEs, which require priority action, and the key issues to address.

Setting forth plans for revising those ISAs to simplify and clarify them.

Until such time the ISAs can be revised, pursuing as an immediate priority the development of ‘LCE perspective’ publications that assist auditors of LCEs in applying the standards; such publications would also provide a blueprint for future revisions. We encourage collaboration with others in this effort.

The reasons for this being the preferred approach and considerations for how this process would occur are detailed in our response to (a) above.

We acknowledge that the IAASB is in the process of finalizing ISA 315 (Revised) and has plans to develop implementation materials, including materials to address scalability. We encourage the IAASB to specifically focus on audits of LCEs as part of the development of these materials. It is important that the implementation materials are available shortly after the release of the final standard to allow them to be taken into account appropriately in firms’ transition planning to adopt the revised ISA.
KPMG IFRG Limited - 72

We believe that the optimal approach to the challenges identified in the DP would involve developing a range of different, complementary solutions, recognising that the challenges described are in many respects interconnected. We believe such solutions ideally would include:

Developing/revising the ISAs taking a “building-blocks” approach such that requirements/application material begin with those that are applicable to all audits, include LCE audits, and build from there, as we describe in our response to Question 4a);

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

Providing material to “set the scene” for more complex ISAs, in particular, upfront within the application material. Such guidance is fundamental to an auditor to explain “why” certain procedures need to be performed, and how to perform them, to help ensure that an audit is as effective and efficient as possible, and avoiding auditors performing work that is unnecessary;

Exploring IT-enabled interactive solutions regarding the ability to facilitate end-user interaction with the standards themselves, as we describe in our response to Question 4a);

Development of non-authoritative guidance, in particular, to liaise with IFAC to update the Guide to Using ISAs in the Audits of SMEs, or to supplement this with a more succinct summary publication;

Liaison with NSS, IFAC, regulators and other bodies, and user groups to obtain information about experience to date with solutions developed locally, and to better understand user needs, including whether alternative deliverables would be more appropriate, as we describe in our response to Question 5;

Liaising with financial reporting standard setters, to explore scaling solutions in those standards also.

PwC - 84

Based on our views above, we believe that a structured revision of the ISAs, adopting one or a combination of the options we describe, would be more effective. However, recognising the development timeline for such a project, even on a phased basis, the Board may wish to consider whether temporary guidance that could be developed and issued on an expedited basis would help, pending revision of all priority ISAs, in addressing the most significant areas of challenge identified by respondents.

See our overarching responses to part (a).

RSM International Limited - 65

We believe a re-examination of the standard setting process and timeline should be a key priority to enable a new suite of ISAs, developed using a building blocks approach, to be issued in the relative near term. Both a revised process and a building blocks approach would enable the IAASB to react more nimbly in the future. In the meantime, development of a specific standard for LCEs should be a priority for the reasons already explained in this response.
6. Member Bodies and Other Professional Organizations

Accountancy Europe - 83

Actions to be pursued by the IAASB as a priority

We have identified the following actions to be pursued by the IAASB as a priority:

Work on developing a separate standard for LCE audits. This separate standard should be fully standalone, based on the existing ISAs and provide the same level of assurance and have the same objectives as the ISAs. When developing this standalone standard, the IAASB would need to make sure that it does not just cross refer to individual ISAs but includes what are the key requirements from an ISA that need to be followed by LCEs to meet the ISA objectives.

Start revising the ISAs following a think simple first approach, using clear and unambiguous language and incorporating technology.

Anticipate and plan convergence of both of the above exercises.

Developing separate standard for LCE audits based on the existing ISAs

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

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

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

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

Within the remit of this project, the IAASB should work on identifying the essence of an ISA audit. The IAASB would need to make sure that it does not just cross refer to individual ISAs but includes what are the key requirements from an ISA that need to be followed by LCEs to meet the ISA objectives. This analysis would be very useful and informative to demonstrate the value of audit for LCEs. It could be used as input to the project on revising the ISAs following a think simple first approach referred to below. It should also be used as the basis of discussions with the regulatory community and national standard setters. As emphasised at the May 2019 Paris Conference by speakers from Italy and Sweden in particular, audits are valuable also for LCEs and help support growth, tax recovery, financial crime deterrence, etc.

While coordinating with regulators and national standard setters, the IAASB will need to clarify the applicability of the separate standard. We refer to our response to Question 1.

The knowledge and experience of the various countries already using a separate standard at a national level could serve as a starting point for the IAASB’s work. Considering that several European countries have come up with their own national solutions, Accountancy Europe as a body that represents these countries at a European level, could act as a platform for this exchange and potential collaboration. Following our
previous work on this topic, we are committed to helping the IAASB further in finding a solution for LCE audits.

Revising the ISAs following a think simple first approach with clear and unambiguous language and incorporating technology

The IAASB should embark upon an exercise to revise the ISAs. As stated above, revising the ISAs would be the most desirable solution, but this project will take a long time. However, the IAASB could begin with revising the most fundamental ISAs first, i.e. ISA 200, 230, 315, 330 and 540 and with rationalising the documentation requirements.

To ease the application of the ISAs, in relation to LCE audits and for the benefit of all audits, ISAs cannot continue to evolve as they have done recently and should be revised using clear language and following a think simple first / building blocks approach. This means that the core of the ISAs would consist only of the most fundamental requirements applicable in all audits. The ISAs would then be expanded 'in blocks' as needed to address more complex audit areas and circumstances.

Any further complexity added to each individual ISA and its requirements should be systematically conditional based on the size and complexity of the audited entity and its circumstances. This means that the auditor would address any applicable requirements depending on facts and conditions linked to a particular audit of an entity. The newly developed separate standard for LCE audits could serve as a starting point for this work, i.e. it would be the fundamental building block.

In addition, the revision of the ISAs should include setting better quality objectives which are genuinely objectives, not just a summary of requirements. This would then be the same for a separate standard which, as said, should have the same objectives as the ISAs.

Revising the ISAs using understandable language and following the think simple first approach would help to revert to standards that are principles-based and therefore scalable for audits of all entities. This would allow for the convergence of the separate standard for LCEs with the revised ISAs over a longer term.

For the ISAs to stand the test of time, they need to enable practitioners to remain relevant by auditing in new and more effective ways.

Furthermore, the IAASB should make sure that the ISAs become technology-based, for example by integrating software to help practitioners navigate and link to the individual ISAs.

Additionally, given the issues of language identified in our response to Question 2, we urge the IAASB to develop strict drafting guidelines for use going forward.

Ultimate goal: Convergence of separate standard with revised ISAs

The creation of newly revised ISAs, which are principles-based and rewritten in simpler language based on a think simple first approach, would allow potential convergence with the separate standard. This should be feasible as the separate standard would in fact be the first building block of the revised ISAs.

Through developing a separate standard in the short term and using it as the basis for revising the ISAs in the medium term, we would ideally go back to having one set of standards for all audits at some point in the future.

First and foremost, the IAASB has to find a solution for LCE audits which will be internationally accepted. This solution should stop the development of solutions at national or regional levels. Furthermore, to ensure adoption by different markets, this solution has to be principles-based.
In addition, we need to factor into this project that any solution may depend on the outcome of the Monitoring Group's reform of the standard setting environment.

We have therefore listed the following priorities as our preferred approach to be pursued by the IAASB on the issue of LCE audits:

Priority 1: Work on developing a separate standard for LCE audits. This separate standard should be fully standalone, based on the existing ISAs and provide the same level of assurance and have the same objectives as the ISAs.

Priority 2: Start revising the ISAs following a think simple first approach, using clear and unambiguous language and making good use of technology. The work done on developing a separate standard could serve as a basis for the revision of the ISAs using the think simple first approach.

Priority 3: Anticipate and plan the convergence of both of the above exercises.

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

The drafting of a global standalone standard based on the same principles as the ISAs, is a priority to start a total revision of the ISAs applying a ‘think small first’ approach.

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

In summary, we believe the IAASB should take the following actions as a priority:

On the longer term, start revising the ISAs, following a “think small first/building block” principle, with due attention to the use of clear language and the efficient use of words by reducing the over-detailing of the standards, with a focus on the application material;

On a short term, start developing a separate standard for audits of LCE, and therefore, less complex audits, with due attention to firms that want to continue to use the ISAs in all circumstances;

Develop complementary tools to provide practical assistance to the auditors and ensure that the existing tools are known worldwide.

**CPA Australia - 67**

On balance, we recommend a long-term solution, along with a short to medium term solution, to address the immediate needs of auditors of LCEs, encompassing:

Long-term: Restructuring of the existing auditing standards, in particular using plain English (“articulated using clearer and understandable language”) with basic requirements as a base (the “building-blocks approach”), as well as utilizing diagrams, flowcharts and hyperlinks to better structure and navigate the standards.

Short/medium term: Guidance that identifies the key auditing requirements applicable to LCEs and provides a roadmap of the relevant requirements; again, using flowcharts or diagrams, hyperlinks to the relevant ISAs and plain English explanations of how to apply the standards to audits of LCEs.

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

What should IAASB do next?

If IAASB does not develop a separate standard for LCEs, the likely long term outcome is a fragmented, ad hoc set of dissimilar national standards, with varying, hard-to-measure degrees of linkage to the ISAs, applied to different categories of audits in different jurisdictions.
In an ideal world, IAASB would revise all of the ISAs on a retrospective basis rather than develop a separate standard, but we do not believe that IAASB is willing or able to do this.

A separate standard is not a perfect solution and there will undoubtedly be implementation challenges and unintended consequences, including the application of the standard to entities for which it was not intended, differences of opinion regarding which entities it should apply to, and the standard becoming the ‘new normal’ over time.

On balance, we believe that the overriding concern is the need for high quality auditing standards for LCEs and the avoidance of fragmentation globally. IAASB must therefore seek to develop a global standard for the audit of LCEs, aligned with the ISAs, on a ‘bottom-up’ rather than ‘ISA-minus’ basis.

We strongly suggest that IAASB seeks to work with those national standard-setters who already use a separate standard or are in the process of developing one. But we caution against any attempt to drive the project on the basis of the length or size of any new standard.

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

We see no alternative to determining the range of audits to which a separate standard might apply at a national level. Many commentators had significant concerns about this and pointed out, rightly, that local scoping has implications for any separate standard. However, trying to deal with such implementation issues at this stage is a recipe for doing nothing and, on balance, we do not believe that a lack of clarity regarding scoping is a proper reason to avoid consideration of a separate standard. Nevertheless, significant flexibility at a national level as to which audits a separate standard might apply to might well lead to the application of a separate standard to more complex or larger audits than intended. IAASB therefore needs to consider whether it should address, in general terms, the linkage of the application of any standard to audit exemption limits by audit regulators.

We note an underlying fear that a separate standard might, over time, become the ‘new normal’. This might be because of scope creep, whereby more and more entities were determined to be less complex, or because the LCE standard might be viewed as the better quality or more effective standard, reflecting poorly on the existing suite of ISAs. Provided IAASB takes the long view and addresses the structural defects in the ISAs in a robust manner, this should not happen.

Doing nothing is no longer an option if IAASB is to retain its status as the global standard-setter for all audits. The world is watching and national standard-setters will conclude that if little changes as a result of this DP, the opportunity will not arise again, and that if something is to be done they will have to do it themselves.

Institute of Chartered Accountants of Scotland (ICAS) - 28

We have inserted our views on each of the three possible actions under the relevant headings below, however, in our opinion, the IAASB should prioritise their activities as follows:

Priority 1 – Develop a separate standard for audits of LCEs based on the key principles in the current ISAs that delivers the same level of assurance and has the same objectives as the current ISA audit.

Priority 2 – The current ISAs should be redesigned and re-drafted to be fully principles-based using a ‘plain English’ language convention based on the same ‘building blocks’, or ‘think simple first’, approach adopted in the development of a separate auditing standard for LCEs as set out in Priority 1 above. Adoption of a
true principles-based approach will assist the firms in the more efficient use of technological advancements within their audit processes whilst still complying with the standards.

Priority 3 – In due course, more consideration should be given to converging the two activities above resulting in the ultimate desired option of a single suite of ISAs that can be applied to all audits regardless of size and complexity.

Instituto Mexicano de Contadores Públicos A.C. (Audit and Assurance Standards Commission) - 39

In regards to the Discussion Paper question number 4, where the possible actions to be undertake by the IAASB, we provide our comments to each of the 3 possible actions, including positive and negative aspects to consider for each one. In addition, we concluded for such question, that in the IMCP point of view, the best possible action for the IAASB to pursue is a combination of actions:

C- “Developing Guidance for Auditors of LCEs or Other Related Actions” and
A- “Revising the ISAs”, mainly focusing such revision on the ISAs that the public considers difficult to apply.

The main factors for our conclusion are the following:

The negative impacts of the audit report user's perception on the differences of a regular audit and LCE audit

We consider this alternative is the less time and resources consuming alternative

Allowing to continue with one set of audit standards, with worldwide applicability.

Malaysian Institute of Public Accountants (MICPA) - 10

As mentioned in (a) above, IAASB should prioritise on the development of a separate auditing standard for the audit of LCEs. While such effort is being undertaken, IAASB should consider issuing non-authoritative guidance and other support materials on specific areas of the ISAs where auditors have difficulty applying in an audit of a LCE.

The Institute of Chartered Accountants of Ghana - 71

In our view, developing a separate auditing standard for audit of LCEs should be pursued by the IAASB and a guidance for auditors of LCEs should be provided for peculiar situations as and when such issues are noticed. This approach will best address the current challenges in applying the ISAs on audit of LCEs.

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

Gabriel Yepez - 13

3. In the study of the possible actions to be taken by the IAASB, as expressed by the DP, there is no single solution, however, we believe that the alternative that generates the best applicability in the professional auditor, is a combination between the development of a standard of auditing for ECEs, and the development of a guide to LCE audits.
Q4 (c) Other action priorities

3. National Audit Standards Setters

American Institute of Certified Public Accountants (AICPA) - 27

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

We believe the results of the possible actions discussed herein, if done properly, will be more effective and cost-efficient audits of LCEs.

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

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

4. Accounting Firms

Baker Tilly International - 43

We believe that the IAASB needs, as a matter of urgency, to reach a conclusion on the preferred way forward and then consult as soon as possible on its proposals. At this stage it is too early to say what the priorities would be given the range of options on the table. However, reducing the length of the ISA’s themselves would likely be required.

BDO International - 60

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

6. Member Bodies and Other Professional Organizations

Cayman Islands Institute of Professional Accountants (CIIPA) - 9

4. c. Finalizing the definition of an LCE is a priority and identifying ways that will help reduce the inconsistent application of this definition in practice.

Institute of Independent Auditors of Brazil (IBRACON) - 75

As there are important ongoing projects of the IAASB, we would recommend addressing the scalability issue, mainly in ISA 315, which appeared to be the more complex one. In addition, for future projects, starting working with the concept of ‘building blocks’ to help the understanding and application of ISAs.
8. Individuals and Others
Vera Massarygina - 48

Some actions may include such steps as refinement of the characteristics of LCE, determination characteristics of audits of LCEs, determination of the ISAs concerned, determination of the paragraphs of these ISAs concerned and developing a separate auditing standard for audits of LCEs.

Q4 (c) None

1. Monitoring Group
IFIAR - 88

2. Regulators and Audit Oversight Authorities
Canadian Public Accountability Board - 5
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
Korean Auditing and Assurance Standards Board (KAASB) - 23
Royal Netherlands Institute of Chartered Accountants (NBA) - 85

4. Accounting Firms
HLB International - 57
NEXIA International - 52
Rymand&co - 87
SRA - 21

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

6. Member Bodies and Other Professional Organizations
ASSIREVI - 3
Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili - 34
CPA Ireland - 70
IFAC - 4
IFAC SMPC - 77
Institute of Public Accountants of Australia (IPA) - 91
Instituto de Censores Jurados de Cuentas de España - 22
Instituto Mexicano de Contadores Públicos, A.C. - 37
South African Institute of Chartered Accountants (SAICA) - 63
8. Individuals and Others
Adele Driscoll - 2
Audit Assistant Limited - 33
Chartered Accountants Academy - 66
Gary Young - 19
SAMantilla - 1