

Brasília, Brazil, September 12th, 2019

International Auditing and Assurance Standards Board – IAASB
United States

Dear Sirs,

The Conselho Federal de Contabilidade - Federal Accounting Council (in English) – CFC is the national body of the accounting profession in Brazil that sets Brazilian Accounting, Auditing and Ethic Standards, regulate and supervise the profession and promotes continuing professional development.

CFC has been active on the world scenario for over thirty years, participating in accounting discussions, through representations in international organizations such as IFAC, Asociación Interamericana de Contabilidad (AIC) and Comité de Integración Latino Europa-América (CILEA). The IASB Board and also IFAC Board currently have Brazilian members and the GLASS (Group Latin American Standard Setters) is chaired by a Brazilian.

Firstly, we would like to congratulate the IAASB initiative to study alternatives for improving the ISAs addressed to LCEs. Those studies are essential to apply the standards and to increase market confidence in audit work.

We agree that it is not an easy assignment and we must balanced the requirements and expectations of all stakeholders while maintaining the current standards strength and audits quality. However, the changes need to be well evaluated, since when sudden change they tend to generate insecurity in the regulatory environment and difficulties in understanding and implementation.

An important aspect is that the recognition of LCE is not easily conceptualized and can generate many inconsistencies around the world. The same occurs for Public Interest Entities (PIE). Therefore, we believe that defining LCE on a global scenario can be extremely complex due to specificities of the countries.

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

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

We understand that for the process of proper use of the standard there should be greater consultation with the professional accounting. However, it is not clear what will be their consequences, whether positive or negative. The issuance of standards for LCEs may have an adverse consequence of the perceived loss of audit value for such entities to the market and users of the financial statements, including investors and credit agents.

In our point of view, the IAASB should be cautious of dismissed specific audit requirements for LCEs and should also insert further audit procedures in exceptional cases and more complex situations.

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

In conclusion, the CFC understands as follows:

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

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.

Sincerely yours,

Idésio da Silva Coelho Júnior
Technical Vice President