

September 12, 2019

Mr. Willie Botha
Technical Director
International Auditing and Assurance Standards Board
International Federation of Accountants
585 Fifth Avenue – 14th Floor
New York, NY 10017
United States of America

Dear. Mr. Botha,

Re: IAASB Discussion Paper: Audits of Less Complex Entities: Exploring Possible Options to Address the Challenges in Applying the ISAs

The Canadian Auditing and Assurance Standards Board (AASB) is pleased to provide its comments on the IAASB's Discussion Paper, *Audits of Less Complex Entities: Exploring Possible Options to Address the Challenges in Applying the ISAs* (the "Discussion Paper"). The AASB is an independent standards-setting board that is responsible for setting Canadian Auditing Standards (CASs) for financial statement audits, and other assurance and related services standards that apply to all Canadian entities in all sectors of the economy. In our response, "we" refers to the AASB.

We are very supportive of the IAASB's efforts to obtain a greater understanding of the challenges that practitioners encounter in applying the ISAs in a scalable and proportionate manner. We believe that a comprehensive understanding of these challenges is essential to be able to provide an appropriate and balanced response. The approach that the IAASB adopts in responding to the challenges identified is relevant in Canada as we adopt the ISAs as CASs.

Small and micro-businesses¹, as well as small and micro not-for-profit organizations and public sector entities, make up a large segment of the Canadian economy. Where the users of these entities' financial statements need reliable information to make financial decisions, an audit continues to be an important service that instills confidence in this part of the economy. Consequently, we share your concern for the ability of the ISAs to apply to a wide range of

¹ Source: [Government of Canada – Key Small Business Statistics - January 2019](#): There are approximately 1.178M businesses in Canada, of which 98% are small-businesses (<100 employees) and 54% are micro-businesses (1-4 employees).

entities with varying complexity. For this reason, we committed in our [2016-2021 Strategic Plan](#) to identify and address challenges practitioners encounter when applying auditing standards to audits of Less Complex Entities (LCEs).

We have spent the last two years informing ourselves on the challenges practitioners encounter when auditing LCEs, as well as listening and contributing to international deliberations on this topic. We conducted outreach activities in [2017](#) and [2018](#), speaking to more than 30 practitioners each time. We were also involved in several international discussions and activities, including attending the 2018 and 2019 SMP/SME Working Conferences in Paris, France.

In developing this response letter, we sought views from stakeholders on the questions asked in the Discussion Paper. We conducted outreach with a broad range of stakeholders, including practitioners from small and medium size practices (SMPs), practice reviewers, practice advisors, developers of audit tools and methodologies, and regulators. We spoke to more than 100 stakeholders, of which 64 were practitioners. The feedback provided by our stakeholders through written comments and roundtable sessions has informed the views that we express in this response letter.

Our Overall Views

Our overall views on the matters raised in the Discussion Paper were shaped by the feedback that we received from stakeholders on the challenges that practitioners encounter in applying the ISAs where the elements of the entity's operations and financial statements are less complex. We firmly believe that effective solutions require a comprehensive understanding of the challenges and their underlying root causes, so our outreach activities focused on gaining that understanding.

There are several important matters we learned from our outreach activities, including the following:

- Challenges in scaling the ISAs arise regardless whether an entity meets or does not meet the characteristics of an LCE (however defined). Audits of most entities involve some elements of complexity and some elements of simplicity. It is only the very simplest of entities that have no elements of complexity. Stakeholders described the challenges they encounter in scaling the ISAs by discussing the less complex elements of an entity's operations and financial statements. They did not describe challenges based on any description or definition of the entity.
- Many stakeholders, including practitioners, audit tool and methodology developers and practice reviewers have difficulty scaling the ISAs for the less complex elements of an entity's operations and financial statements. These stakeholders indicated that the ISAs do not clearly address when scalability is permitted and how it can be achieved. For example,

the ISAs are silent on whether, and if so when, a practitioner can opt out of a requirement when the practitioner judges the procedure to be ineffective or does not apply.

Based on what we have learned, the challenges in applying the ISAs require a solution that focuses on the complexity of the elements of an entity's operations and financial statements rather than on the complexity of the entity. Therefore, we believe that the most effective solution is to address within each ISA the ability to scale or modify requirements for the less complex elements of an entity's operations and financial statements. Also, the solution needs to be practical and achievable in a reasonable timeframe.

We believe that the best way forward is to:

- 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 following reasons:

- Where the LCE auditing standard has been used to perform the audit, there is a risk of insufficient audit work on the complex elements of the entity.
- Where the ISAs have been used to perform an audit of an entity that is defined as complex, the existing challenges of applying the requirements to the simple elements of an entity will continue to exist.
- Stakeholders may be confused as to the differences between an audit performed under the ISAs and an audit performed under a separate auditing standard for LCEs, which will exacerbate the expectation gap.
- Determining whether an entity is complex versus one that is less complex is difficult and somewhat arbitrary because complexity cannot be defined at an entity level – an entity may have both complex and less-complex elements.
- Increased cost, time and resources will be required for practitioners to develop methodologies and tools, train staff and keep current on two sets of auditing standards.

- Transitioning from one set of auditing standards to another as an entity qualifies or no longer qualifies as an LCE introduces many challenges and issues, including stakeholder confusion.
- Developing a separate auditing standard will be a complicated and difficult project that will likely not provide a timely solution.

Notwithstanding our concerns related to a separate auditing standard for LCEs based on the ISAs, we are not opposed to exploring the development of a separate standard outside of the ISAs that provides a different level of assurance. This separate standard would need to be clearly distinguished from the ISAs in the practitioner's report in order to avoid any confusion with an ISA based audit. In Canada, many entities use services other than audits, such as review and compilation engagements, to meet the needs of their financial statement users.

In addition to these views, we have addressed the questions for respondents in the Discussion Paper. Our responses are presented in the Appendix to this letter.

We hope that these comments will be useful to the IAASB in determining the appropriate next steps relating to this key project. If you have any questions or require additional information, please contact me at kcharbonneau@asbcanada.ca.

Yours very truly,



Ken Charbonneau, FCPA, FCA, ICD.D
Chair, Auditing and Assurance Standards Board (Canada)

c.c. Canadian Auditing and Assurance Standards Board members
Julie Corden, CPA, CA, IAASB Member
Eric Turner, CPA, CA, IAASB Member

Appendix - Questions for Respondents

Q1. *In your view, is the description appropriate for the types of entities that would be the focus of our work in relation to audits of LCEs, and are there any other characteristics that should be included?*

We support the IAASB's direction to focus on complexity as a driver of scalability and proportionality of the ISAs. However, we believe that the characteristics of an LCE as presented in the Discussion Paper may be indicative, but not determinative, of an LCE partly because each characteristic is subject to a wide range of interpretation. For example:

- The characteristic of “concentration of ownership and management” does not define the complexity of an entity. An entity with a simple business model and less-complex operations and financial statements may have a wide range of ownership or many stakeholders. Conversely, an entity with a single shareholder could have operations and financial statements that are complex.
- The characteristic of “few internal controls” does not define the complexity of an entity. Recognizing that “few” can mean a different number to different people, an entity having less-complex operations and financial statements may have more than a “few” internal controls. Also, an entity may have few internal controls, but those controls may not be sufficient to support the entity.

In our discussion with stakeholders, there was no specific entity definition or description that guided the conversation. Instead, stakeholders described difficulty scaling the ISAs for the less complex elements of an entity's operations and financial statements.

The challenges practitioners encounter in applying the ISAs are not unique to LCEs and arise regardless of whether an entity meets or does not meet the characteristics of an LCE (however defined). Audits of most entities involve some elements of complexity and some elements of simplicity. It is only the very simplest of entities that have no elements of complexity.

Accordingly, we believe that the challenges in applying the ISAs require a solution that focuses on the complexity of the elements of an entity's operations and financial statements rather than on the complexity of the entity. Therefore, the most effective solution is to address within each ISA the ability to scale or modify requirements for the less complex elements of an entity's operations and financial statements.

Characteristics which recognize the complexity of elements of an entity's operations and financial statements include:

- the nature of the organizational structure,
- the entity's decision-making process,
- geographic location(s),

- the type and nature of accounting transactions,
- management judgments and estimates, or
- financial reporting requirements.

The use of the LCE description

We believe that the description of an LCE should not to be viewed or used as a checklist, nor a “bright-line” definition of a less complex entity. Determination of complexity should be:

- judgement based, and driven by the facts and circumstances of an entity’s operations and financial statements;
- a continuous assessment that could change over time; and
- a continuum that, based on the auditor’s judgment, may affect the nature, timing, and extent of the audit procedures performed.

As such, we recommend that the description of an LCE should be used only as a frame of reference to the IAASB’s work in addressing the challenges in applying the ISAs.

We agree with the caveats currently included in the LCE description in the Discussion Paper stating that the list of characteristics is not exhaustive, the characteristics are not individually exclusive to LCEs, and that an LCE will not necessarily display all of the listed characteristics.

Q2a. *What are the particular aspects of the ISAs that are difficult to apply? It would be most helpful if your answer includes references to the specific ISAs and the particular requirements in these ISAs that are most problematic in an audit of an LCE.*

In our consultations, very few practitioners cited specific ISAs when discussing the challenges they encounter in performing audits. Most practitioners perform audits using methodologies and tools, rather than referring directly to the ISAs. Consequently, we collected their comments and linked them to the relevant ISAs.

While our consultations focused on audits of LCEs, we are of the view that the challenges identified are not unique to those entities. Such challenges can occur in audits of entities described as complex, much the same as they can occur in audits of less complex entities.

ISA 315 - Identifying and assessing the risks of material misstatement through understanding the entity and its environment

Preliminary Analytical Review – ISA 315.6(b) – This paragraph requires the auditor to perform analytical procedures as a risk assessment procedure. Stakeholders indicated that such a procedure is often not effective for an audit where the financial information of the entity requires year-end adjustments (e.g. cut-off adjustments, amortization, etc.)

to comply with the applicable financial reporting framework. While stakeholders acknowledged that the guidance in ISA 315.A17 provides considerations specific to smaller entities, they felt that it does not allow enough flexibility for the auditor to decide not to perform the procedure or decide to combine the procedure with final analytical procedures.

Risk assessment procedures – ISA 315.13 – This paragraph requires the auditor to perform procedures in addition to inquiry, when obtaining an understanding of controls relevant to the audit. Stakeholders thought that inquiry alone should be sufficient to obtain this understanding when taking a fully substantive audit approach.

Understanding internal controls – ISA 315.14-.19 and .22-.24 – These paragraphs require the auditor to obtain an understanding of the components of internal control. Stakeholders thought that the understanding required in this section is too granular and not reflective of a less complex environment. Such an environment is typically less formal and more focused on monitoring and oversight controls than on process controls. Further, stakeholders thought that this section seems onerous in circumstances where a fully substantive approach is taken.

Responding to risks arising from IT – ISA 315.18 and ISA 315.21 – These paragraphs require the auditor to obtain an understanding of the information system and related controls relevant to financial reporting. Stakeholders thought that the standard is not clear as to the extent of work required when the auditor decides that certain controls over IT applications will not be relevant to the audit. For example, IT risks for an entity using “off-the-shelf” commercial accounting packages that cannot be changed by the entity should present a low risk to financial reporting, but practitioners struggle in understanding what evidence is needed to support this judgement.

ISA 240 - The auditor's responsibilities relating to fraud in an audit of financial statements

Identification and response to fraud risk – ISA 240.27 – This paragraph includes a presumption that there is always a risk of material misstatement due to fraud related to revenue recognition. Stakeholders indicated that this requirement is challenging to apply to audits of entities that have a single source of revenue (ex. government grant) that is not susceptible to fraudulent financial reporting. Although rebuttal of the presumed risk of fraud is permitted, the work effort to support and document the rebuttal is not well understood and believed by some to be a high hurdle to meet.

Incorporate an element of unpredictability in the selection of procedures – ISA 240.30(c) – This paragraph requires the auditor to incorporate an element of unpredictability in the design and selection of the nature, timing and extent of audit procedures. Stakeholders indicated that this can be challenging when taking a fully substantive audit approach, where many (if not all) transactions and balances are examined. In such

circumstances, it can be difficult to determine what may be an effective unpredictability procedure.

Journal Entry Testing – ISA 240.33(a) – This paragraph requires the auditor to design and perform procedures to test the appropriateness of journal entries, both at period end and throughout the period. Stakeholders indicated that this requirement is not well understood when a fully substantive audit approach is taken. For example, when many of the entity’s journal entries have already been tested in a substantive audit approach, it is not clear how much additional testing is required.

ISA 260 - Communication with those charged with governance

Frequency and substance of communications – ISA 260.14 -.17 – These paragraphs list matters that the practitioner is required to communicate with those charged with governance. Stakeholders indicated that they are sometimes challenged in complying with the requirements to communicate specific matters throughout the audit in less formal oversight structures, where a board of directors does not exist or meets infrequently.

Q2b. *In relation to 2a above, what, in your view, is the underlying cause(s) of these challenges managed or addressed these challenges? Are there any other broad challenges that have not been identified that should be considered as we progress our work on audits of LCEs?*

Our observations about the underlying causes of the challenges identified in Q2a have been grouped below into three categories.

Readability and scalability of the ISAs

The challenges in applying the ISAs are influenced by the practitioners’ understanding of the extent of work and documentation that is required to comply with the ISAs. The reasons that practitioners struggle with the ISAs are twofold.

First, the ISAs are perceived by some practitioners as too long, overly detailed and difficult to navigate. As an example, proposed ISA 315 (Revised) contains over 40,000 words, and a significant increase in the number of requirement and application paragraphs compared to the extant standard. This includes more than 100 application paragraphs dealing with internal controls components and IT issues, an area of the audit that is particularly difficult to scale for the less complex elements of an entity’s operations and financial statements.

Second, many stakeholders including practitioners, audit tool and methodology developers and practice reviewers have difficulty scaling the ISAs for the less complex elements of an entity’s operations and financial statements. These stakeholders indicated that the ISAs do not clearly address when scalability is permitted and how it can be

achieved. They feel that it is hard to justify not applying a requirement when, in the specific circumstances of the audit, the procedure required would be ineffective or does not apply.

Further, practitioners indicated that they spend unnecessary time and effort documenting what they have not done and why this was an appropriate course of action. They do so in order to avoid being challenged by practice reviewers about the application of professional judgment when determining that a requirement is ineffective or does not apply.

We believe that a lack of clarity about scalability in the standards may be causing inappropriate interpretations. ISA 200.22(b) states that the auditor shall comply with each requirement of the ISAs unless, in the circumstances of the audit, the requirement is not relevant because it is conditional, and the condition does not exist. It is unclear how to interpret this requirement. Is conditionality a matter of professional judgment (i.e. the practitioner determines that the procedure would be ineffective and therefore the requirement is not relevant), or is conditionality required to be explicitly defined in the requirement (as in ISA 220.21 where the requirement is conditional for listed entities)? We believe that clarification is needed on how to interpret ISA 200.22(b).

Other factors that strongly motivate practitioners to use tools, such as checklists, are consistency of service delivery, practice review, training, and compliance with regulatory requirements.

Ability of management to successfully apply accounting standards and prepare reliable financial information

The challenges in applying the ISAs are influenced by the increasing complexity of accounting standards and the quality of information prepared by management. For example, the requirements of ISA 540, *Auditing Accounting Estimates and Related Disclosures*, are predicated on an expectation that an entity's management team has the necessary skills and knowledge in accounting necessary to make accounting estimates. Also, there is a presumption that management has the necessary processes in place to provide the auditor with supporting documentation for audit purposes. When this is not the case, it can be difficult for the auditor to determine the nature and extent of audit procedures to perform and the evidence that needs to be obtained to be able to form a conclusion.

Use of emerging technology

Stakeholders have told us that it would be helpful to have access to more 'smart' tools which embrace advances in technology. Such tools could include application software to:

- better link and facilitate the interconnectivity and the scalability of the ISAs,

- assist with information gathering and analyzing audit evidence, and
- support a more consistent platform for documentation and communication.

Technology-based tools and methodologies that may help with the application of ISAs is identified in the Discussion Paper as a factor that is not within the control of the IAASB. However, we encourage the IAASB to consider the use of technology in addressing the challenges in applying the ISAs to the less complex elements of an entity's operations and financial statements. For example, standards are currently developed in a format to be published in paper books or in an electronic form. However, standards developed for use with smart technology may be more accessible to practitioners, as well as developers of tools and methodologies. In addition, technology-leveraged tools and methodologies may help alleviate the challenges in applying the ISAs to the less complex elements of an entity's operations and financial statements.

Q3. *With regard to the factors driving challenges that are not within our control, or have been scoped out of our exploratory information gathering activities (as set out in Section II), if the IAASB were to focus on encouraging others to act, where should this focus be, and why?*

We agree that the challenges of performing effective and efficient audits may not all be related to standard-setting and that the IAASB is well placed to help encourage other groups to pursue relevant possible actions. We have identified three factors which drive challenges in the auditors' ability to perform effective and efficient audits. These factors are not unique to LCEs.

Educating users about the value of an audit

We believe that it is important to educate users about the value of an audit, including its contribution to public trust, capital markets, and good business practices. The value of an audit may not be understood by users based on practitioners' comments that they are pressured by their clients to reduce audit fees. The IAASB is encouraged to further consider how the value of an audit can be better communicated to users and other stakeholders. We encourage the IAASB to work with users and other stakeholders to narrow the expectation gap.

Attracting, educating, and retaining skilled people

We believe that attracting, educating, and retaining people with the right skills, relevant experiences, and openness to growth and development are crucial to performing effective and efficient audits. In this regard, the IAASB could encourage jurisdictions around the world to:

- assess their position on the continuum of attracting, educating, and retaining skilled candidates for the audit profession, and
- consider how these efforts relate to achieving effective and efficient audits.

Collaborating with practice reviewers

Many practitioners have told us that they are reluctant to exercise professional judgment in applying scalability in the performance of an audit because of the fear of being second guessed by practice reviewers. The fear of inspection risk creates a culture that encourages a “checklist” approach that is not tailored to incorporate scalability.

Practice reviewers play a significant role in educating practitioners on the application of the ISAs. In this regard, the IAASB could collaborate with The International Forum of Independent Audit Regulators to develop a common understanding of the application of new and revised standards and a more integrated approach to communicating and implementing standards. Also, education and development efforts could include National Standard Setters (NSSs) collaborating with practice reviewers in their respective jurisdictions.

Q4a. For each of the possible actions (either individually or in combination):

- i. Would the possible action appropriately address the challenges that have been identified?**
- ii. What could the implications or consequences be if the possible action(s) is undertaken?**

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.

Revising the ISAs

Revising the ISAs on a rolling or phased basis

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

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

Making targeted changes when an ISA is being revised

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

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

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

Revising all of the ISAs as part of one substantial project

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

Some practitioners have stated that a "building blocks" approach is an attractive concept, where the ISAs start with the most basic requirements and build up based on increasing complexity. They felt that this approach to drafting the ISAs may improve

practitioners' ability to more easily identify the requirements that apply to their specific situation.

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

Developing a Separate Auditing Standard for LCEs

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

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

- Where the LCE auditing standard has been used to perform the audit, there is a risk of insufficient audit work on the complex elements of the entity.
- Where the ISAs have been used to perform an audit of an entity that is defined as complex, the existing challenges of applying the requirements to the simple elements of an entity will continue to exist.
- Stakeholders may be confused as to the differences between an audit performed under the ISAs and an audit performed under a separate auditing standard for LCEs, which will widen the expectation gap.
- Determining whether an entity is complex versus one that is less complex is difficult and somewhat arbitrary because complexity cannot be defined at an entity level – an entity may have both complex and less-complex elements. Also, it will be difficult to develop a description of an LCE that is compatible with the national characteristics and requirements of the almost 130 jurisdictions that have adopted or are adopting the ISAs as national standards.
- Increased cost, time and resources will be required for practitioners to develop methodologies and tools, train staff and keep current on two sets of auditing standards;
- Transitioning from one set of auditing standards to another as an entity qualifies or no longer qualifies as an LCE introduces many challenges and issues, including stakeholder confusion.

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

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.

Q4b. *Are there any other possible actions that have not been identified that should be considered as we progress our work on audits of LCEs?*

No further possible actions identified

Q4c. *In your view, what possible actions should be pursued by us as a priority, and why? This may include one or more of the possible actions, or aspects of those actions, set out in Section III, or noted in response to 4b above.*

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.

Q5. *Are there any other matters that should be considered by us as we deliberate on the way forward in relation to audits of LCEs?*

No other matters identified.