

Mr. Tom Seidenstein  
Chair  
International Auditing and Assurance Standards Board  
529 5th Avenue  
10017, New York  
USA

Submitted via website

Madrid, 31 January 2022

**Subject: IAASB ED**

Dear Sir,

The Instituto de Censores Jurados de Cuentas de España (hereinafter, ICJCE) is pleased to provide you with our general comments to the Exposure draft of proposed International Standard on Auditing of Financial statements of Less Complex Entities (LCEs).

The ICJCE is a professional organization that groups statutory auditors. Although, in Spain as an EU member State, laws and regulations are common to other EU countries, transposition and local market differs from one country to another. In this regard, our answer is provided from a local perspective.

As we stated in our answer to the IAASB consultation on the way forward of audit of less complex entities in 2019, in general terms, we welcome the initiative taken by the IAASB to find a way to deal with the complexity and application problems of the current Technical Standards when used in the audits of LCEs, but we also stand in our opinion expressed there, that the solution is not the issuance of a separate standard.

In this regard, we fear that due to the urgency assigned to the matter, a new standard is issued without having safeguarded the consequences that it can entail for the global and local profession. We note the view of more than a half of the respondents to the 2019 consultation who supported other measures.

Specifically, our concerns relate to:

1.- Perceptions about the quality and outcome of the work performed by the auditor, which can lead to widening the expectation gap and the creation of a second-level of auditors/audits. In this regard, we are of the opinion that the proposed standard lacks a clear message about the assurance provided with an audit carried out under the LCE Standard be the same of one carried out under ISAs. This message is also conveyed by including the name of the standard used to perform the audit although the level of assurance achieved be the same.

2.- As a consequence of the above point, a risk of decrease in audit fees, which in Spain is already a matter of concern. Auditors will need to convince their clients that an audit of a less complex entity is not always of a less value or entails less audit work.

3.- Division of the profession between LCE auditors and Non-LCE-auditors. LCE auditors may encounter difficulties to grow and access Non-LCE market as they can be perceived

as non-capable of performing complex audits. This may exacerbate the perceived concentration of the audit market.

4.- Legal uncertainty for the profession. In Spain, audit is highly and strictly regulated. In some areas, Spanish audit regulation is one of the strictest in the EU and it is applicable to all auditors, despite of their size and the size or complexity of the audited entity. For instance, enhanced reporting requirements, very closed to those in ISA 701 are applicable to Non-PIE audits. Using a standard which applicability is a matter of professional judgment and which content is simplified but has the same objective of providing an audit opinion may leave room to increasing supervisory and regulatory questioning and pressure. This also may affect a current problem that auditors are facing related to insurance coverage and liability issues.

Regarding the standard itself, apart from the matters discussed above, we see room for improvement regarding the following:

- We do not see a real simplification exercise but the elimination of those standards and requirements that are not applicable because they refer to complex entities; and the elimination of most of the application material, annexes and examples, which, at the end, will need to be included in a separate guide (as it happens with the illustrative examples of modified audit reports or the application of the risk based approach).
- As a consequence of the above, especially the lack of application material, an auditor carrying out exclusively LCE audits may lose the context in which requirements are applied, and finally, not fulfil them.
- The treatment when differences in the judgment about applicability of the standard between predecessor and successor auditors or between regulators and auditors arise, and more widely, the need for an auditor wishing to focus on LCE audits, because of commercial or risk appetite strategy, of keeping the capacities resources and efforts to audit more complex entities. These requires doubling the systems and processes and significantly increases the litigation risks for the firm.

We urge the IAASB to start with a project not only to address clarity, but scalable reading and application of the standards, adopting a building block approach together with more structured guidance to apply the standards in the audit of less complex entities. This new approach could deal, for instance, with the scalability in the audit of less complex groups. Should you have any question or if you wish to further discuss the content of this letter, please do not hesitate to contact me at [jquintana@icjce.es](mailto:jquintana@icjce.es).

Best regards,



Javier Quintana  
CEO