

ADRIAN & PARTNERS AB

AUKTORISERADE REVISORER

IAASB
545 Fifth Avenue
New York 10017
USA

Comments from Adrian & Partners AB concerning "Audits of less complex entities"

Adrian & Partners AB, a medium-sized auditing firm based in Gothenburg, Sweden, is pleased to leave our comments on the DP with due date September 12.

Our firm a typical SMP, owner-led with mostly owner-led clients. Being an SMP with SME clients, we perhaps more than many other stakeholders really understand the challenges with the present ISAs. We are on a daily basis dealing with quality in our SME-audits as well as performing them in a manner that our clients feel not only cost-efficient but also value-adding.

We have had the pleasure of following the work leading to this DP quite closely since one of our partners, Mats Olsson, previously has been member of and later vice chair in IFAC SMPC.

General comments

Creating a new standard designated for the SMEs/LCEs will not only get us two separate standards, both with various problems with interpretation and application etc but also, above that, difficulties in striking the balance between them. We will probably only create a two-tier discussion of value, application and so on and so forth.

We still believe in the concept "an audit is an audit" and instead of creating a new standard, we strongly encourage the IAASB to revise present ISAs in a way that SMPs more efficient can perform high quality audits on SMEs/LCEs. This might take more time and be more burdensome than "just" writing a separate standard for SMEs/LCEs. However, a whole new standard will probably need not only writing but also deep considerations regarding how to balance versus the present ISAs.

In the light of urgent demands due to already taken regional and national initiatives it might not be a good idea to take on the "bigger job" but as professor Arnold Schilder, IAASBs former chair, says in the DP "*There is no "easy" fix and it will take time...*" Further, if you consider that the SMEs/LCEs are the backbone in most if not all economies around the globe, they are so precious for the society that they deserve perhaps more than a quick fix!

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No matter the choice from IAASB will be revised ISAs or a separate standard, we believe and also would like to emphasize the importance of what we would like to call "The Return of the Professional Judgment".

Detailed comments

1. Concerning the definition of a LCE it is extremely hard to define something that will work globally and in a way that concerned parties aren't unsure of where they belong. Any definition built on judgment will cause problems for not only the auditor but also all stakeholders. Thus we recommend a definition based on quantitative bases.

2 a. The general difficulty with present ISAs we believe is all iterations, over-detailed text and top-down approach. The length in itself should normally not be a major worry, it is the lack of the possibility of reliance on the professional judgment we feel is mostly missed. For PIEs and other big organisations, the more rule-based and lengthy standards do not seem to carry the same problems that they do for SMEs/LCEs. This can be addressed by "special considerations for SMEs" ensuring that these considerations are as straight-forward as possible. It is important to reduce the over-documentation that today's standard demand.

2 b. Most audit programs of today strengthens the problems with over-documentation and bypasses the professional judgment. We have developed a strategy which demands both professional judgment and understanding of the audit process in a way that no "tick-in-the-box" can beat. It requires more collaboration and tutorial work but we have found this line of work more stimulating in a way that enhances the interest of what our staff is actually doing.

3. What IAASB or perhaps even more IFAC can take on as a challenge, in an area not within their control, is to ensure that all MBs are doing their utmost to help their respective members to understand and comply with present and future standards.

Since the SMPs constitutes 40% or more of our business we believe it is important to bring the real SMPs, or at least a couple of them, into the game. Perhaps future work, both nationally, regionally and globally might better consider the SME and SMP worries if SMPs are invited to the table. Again, bottom-up is normally better than top-down.

Depending on resources for IAASB we also would like to stress the importance of keeping up with the digitalisation, in this case meaning improvements of the digital access to the ISAs.

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Finally, IAASB could ask for more research like the one presented in Paris in May 2019 where it was clear that SMEs having an audit grew better, employed more staff and had better profits than SMEs without audit. If this research proves to be a global conclusion it underlines even more the importance of revising the ISAs.

4 a.

- A.** We prefer revising the ISAs in which focus should be on less documentation demands, easier and strict language with less repeats.
- B.** A new and separate standard might create confusion for stakeholders, is one audit better than another, why have they chosen this and not that standard etc. If the definition of SME/LCE is based on judgment, the uncertainty will be even bigger.
- C.** We feel that more guidance is useful. Not more hand-books though but guidance, short examples in the ISAs.

4 b. No.

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

5. No.

Göteborg 12th September 2019

Adrian & Partners AB

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Helena Adrian

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Mats Olsson