

September 10 2019

Comments on Proposed International Standard on Auditing – Audits of Less Complex Entities

1. The ISAs have been declared to the world at large as the prime document that measures the standard of an audit. It has also been received (rather gladly) by the regulators as an immovable yardstick to measure auditors' performance. Hence, not complying (to the letter) of an ISA/ISAs means an auditor has **failed!** Regulator's sanctions follow because the "prescribed" process has not been fulfilled. The prescription has not been "filled" and all the bells and whistles and jumping through hoops have not been followed.
2. I have nothing against the need for a global uniform platform so that auditing standards quality can be managed. Introduction of new processes and procedures provides upskilling of professionals and awareness. I have been an auditor since 1971 and have accepted ISAs as an "occupational hazard" (A necessary evil!). But I have been deprived of the key tool that we "experienced" auditors (in my case – 48 years) are supposed to possess: Professional judgement. Even professional scepticism is now being prescribed; an auditor has to watch out for specific biases? If we are able to "tick" all the right boxes prescribed, the audit is complete and audit standards preserved but is the audit opinion substantive? The ISAs are touted as being principles based; there has to be some soul searching by the IAASB.
3. It is commendable that the IAASB is exploring possible options to apply ISAs. At least there is recognition that there is scalability and variance in applying audit principles. There was your clarity project on small medium enterprises but it fell short of providing "manoeuvring room" to scale down application of *de rigueur* ISAs. Now this discussion centres around an attempt to define "Less Complex Entities" ("LCE").
4. My personal view is to caution that any pronouncements should not be construed that auditors have "double standards"! I agree and would be pleased to have IAASB to provide auditors to make a professional judgement that a particular engagement will have the avenue to apply on a scaled down manner the respective ISAs that is relevant. There should not be a "carte blanche" choice of "Normal ISAs" or "LCE ISAs". (My earlier description of ISAs? Lesser of Two Evils?)
5. I am proposing that IAASB go ahead and provide the Guide to LCE scenarios but the auditor should be given the prerogative to judge that some ISAs are not applicable for this particular entity, partially or wholly, and of course, justify his opinion in his audit working papers.
6. I read with interest the Nordic proposals and the IAASB response. The response mentions "expense of audit quality" several times in the critique. Your response states that:
"the ISAs contain many requirements and related application material for such procedures, whereas the draft SASE is limited to less than **two pages** and relies heavily on the use of **professional judgment and other practitioner considerations**. (My emphasis).
The IAASB continues to state that:
"Although the SASE is intended to be used by experienced practitioners, and only for small audits below the European Union (EU) threshold, reality will be that the SASE are available to all qualified practitioners, including those that have never used the ISAs as a frame of reference to performing a quality audit."
I do not wish to comment further but to state that the response pre-empts the IAASB's mindset of their overview of auditors, their abilities and capacity (experienced or otherwise!) to make sound judgements?

I have always held the view that we have painted ourselves into a corner; however, time has elapsed and the paint is dry and we should and can step away from that corner. I do wish that many positives will emanate from this exercise.

Best wishes

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