Feedback on the draft International Standard on Auditing for Less Complex Organizations

Good day! After reviewing the International Standard on Auditing for Less Complex Organizations, I have formulated some feedback on this standard that the IAASB may find valuable:

1. It is not entirely clear what the practical need for the development of a new standard is. Based on the provisions of the new standard, there is clearly no indulgence for the auditor when performing an audit of the financial statements of less complex organizations. In essence, all the responsibilities that are assigned to the auditor in the draft standard have been repeated from the ISAs already adopted. In this connection, it is not clear what is the difference between an audit conducted in accordance with ISA of financial statements of less complex organizations and an audit conducted in accordance with already adopted ISA? In the draft ISA for LCO, in terms of communication, it is provided with persons with management, if management and persons responsible for corporate governance, as well as owners, are one and the same person. However, in my opinion, this difference is not enough to justify the development of a new standard. This distinction could be made in the existing ISA.

2. As indicated in paragraph 1, the draft ISA for LCO has few features from the already adopted ISA. In my opinion, such differences in the new ISA for LCO could be significant relaxation for the auditor when considering the effectiveness of controls and the associated risks of misstatement of the financial statements. In particular, when carrying out the risk assessment procedure, it would be possible to provide for the exclusion from this procedure of issues that relate to familiarization, testing and the formation of a conclusion about the effectiveness of controls. My proposal is based on my practical work, which shows that less complex organizations such as small businesses, family firms, etc., as a rule, do not have formalized and actually applied controls. As a result, there is no practical value in learning about controls, testing their effectiveness and communicating information to management for audit purposes. Conducting an audit risk assessment requires the auditor to evaluate the effectiveness of controls and the associated risks. In the absence of a procedure for assessing the effectiveness of controls, it was permissible to oblige the auditor not to rely on the organization's controls, if such controls are not formalized in the organization, do not apply, that is, they are actually absent or formalized, but do not work. It would also be appropriate to relieve the auditor of the obligation to obtain an understanding of how management oversight of the financial reporting process functions. In addition, it would be acceptable to provide in the standard to increase the risk of material misstatement of the financial statements, which would require the auditor to collect bigger audit evidences, which would be more appropriate when auditing less complex organizations. Where a less complex organization has all of these controls in place, it might be more appropriate to evaluate their effectiveness only if the auditor plans to rely on the organization's controls to conduct his audit. In other cases, an assessment of the effectiveness of controls, testing and obtaining an understanding of the functioning of this system for the audit of small organizations is not carried out.

3. According to the draft standard, less complex organizations are understood as small businesses, such as family firms, cooperatives of real estate owners, and the like. In some jurisdictions for small businesses, laws or national accounting standards may provide for significant concessions to preparing financial statement and accounting. The use of these exemptions by the organization could be included in the ISA for LCO as one of the benchmarks (criteria) that would allow the auditor to draw the correct conclusion that an audit of such an organization can be carried out using ISA for LCO.

4. It would be more appropriate in ISA for the LCO to provide for significant relaxation of communication between the auditor and management (those responsible for corporate governance) if, in such a less complex organization, management and those responsible for corporate governance are ones and the same persons. In particular, release the auditor from the obligation to inform management of significant deficiencies in controls, the timing of the audit, request from management to assess the likelihood of misstatements in the financial statements as a result of fraud or errors, and some others.

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