

IAASB - International Auditing and
Assurance Standards Board
529 Fifth Avenue
New York, 10017
USA

11 September 2019

Comment letter relating to the consultation on the Audit of Less Complex Entities

Dear Sirs,

1. IAASA appreciates the opportunity to comment on the IAASB's consultation on "*Audits of Less Complex Entities – Exploring Possible Options to Address the Challenges in Applying the ISAs*" issued in May 2019.
2. We support the IAASB initiative and efforts to understand and consider issues that have been raised by auditors in various jurisdictions. The audit of small or less complex entities merits attention, since it is a concern for both auditors and a broad range of stakeholders. In several countries, work has been undertaken on this topic, sometimes based on particular provisions of different national laws related to certain types of entities, for instance entities falling within thresholds based on their size. This topic should be further analysed in detail, to ensure that the right issues are identified and addressed.
3. Regulators are concerned not only with audit quality and the quality of auditors' opinions on financial statements, but also on the fact that audits appropriately meet the needs of the market.
4. The topic of Less Complex Entity ('LCE') audit encompasses complex issues, which need to be further analysed. We believe the following are key aspects to be considered by the IAASB:
 - a) Less complex/smaller entities play a core role and make a major contribution to the global economy and represent a high proportion of audits performed. Solutions are needed to reduce the expectation gap between auditors' current responsibilities and stakeholders' expectations of auditors of less complex entities.
 - b) A distinction needs to be made and the interrelationship needs to be analysed between the concepts of "smaller entities" and "less complex entities", since both smaller and larger entities can be complex, or not. In our view, certain entities should not be classified as LCEs, such as entities that are active in a regulated market, e.g. listed companies, banks, and insurers. Large private entities and charities or entities raising crowdfunding should also benefit from special attention and should not be considered as LCEs.
 - c) In order to respond appropriately to the request for "scalability" and "proportionality" in the standards, it will be necessary to clarify the differences, interrelationships and connections between these two concepts.

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- d) It is important to provide a single location and consistent approach for standards-related material applicable to the audit of LCEs. At present, there is a large volume of information, set out in varying formats and with differing levels of authority (ISAs, application material, guidance, IFAC guide etc.) so that it can be challenging for an auditor to identify those requirements/guidelines which are appropriate to an audited entity's particular circumstances.
5. We strongly encourage the IAASB to ensure that the underlying issues are further analysed and agreed upon by stakeholders globally, before proposing measures to address them.
 6. We moreover would like to stress that some of the qualitative characteristics listed by the IAASB for less complex entities such as 'simple record keeping', 'few internal controls' and 'few personnel, many having a wide range of duties', may be indicative of inappropriate systems and controls within some entities. In this context, the determination of whether an entity is an LCE should not only be based on qualitative characteristics, but also on an assessment as to whether they are appropriate to the entity's circumstances and operations. This also includes considering whether an entity is ultimately part of a more complex group, and how that might impact the role of the group auditor.
 7. The adaptation of the audit approach to the size of entities and the complexity of their operations is already embedded in the international auditing standards' framework. However, how the audit standards are to be adapted in practice could be further clarified and explained, as suggested in the IAASB initiative.
 8. We think that there needs to be more focus on how clear language and understandability can contribute to auditors better being able to apply the standards in differing situations. We suggest the IAASB develops clear criteria for language in drafting standards, such as limiting the length of sentences. The criteria that have been developed as part of the IAASB's clarity project could serve as a starting point.
 9. We would warn the IAASB regarding the risks and challenges that would arise in relation to a separate standard for the audit of LCEs based on a different framework. Such an approach may widen the expectation gap and would present practical challenges for auditors as entities evolve over time to become more complex, necessitating a change in audit approach when the 'full' ISAs become applicable.
 10. The Authority will be interested in monitoring the IAASB's progress in this area and contributing to the debate as the IAASB project progresses.

Yours faithfully



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