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**Via e-mail**

Correspondant	Notre référence	Votre référence	Date
IAASB	SQ/IVB	DP LCE	5/09/2019

Dear Chairman,

Re: IAASB Discussion Paper on Audits of Less Complex Entities

The Belgian Institute of Registered Auditors (IBR-IRE) welcomes the opportunity to comment on the issues and questions raised in the IAASB Discussion Paper on Audits of Less Complex Entities.

IBR-IRE remains a strong advocate of the ISAs as such, which are inherently scalable, and believes these standards should stay the main reference for an audit.

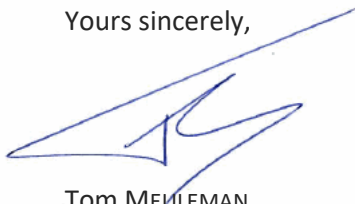
However, as the IAASB is well aware, since 2017, concerns around the audits of SMEs have been raised in our jurisdiction, which led to the development, at the explicit request of the competent minister, of a specific standard addressing the contractual audit and review of SMEs.

Given the fact that the topic on less complex entities seems to be a worldwide issue, we believe there is an urgent need for an international position and we call on the IAASB to make this topic its priority.

Please find below our reactions to the different questions. As a member of Accountancy Europe, we also refer to their comment letter, which reflects our view.

We hope you find our comments constructive and helpful. If you have any questions regarding these comments, please contact Ms. Inge VANBEVEREN, Head of Professional Expertise and Standards ([i.vanbeveren@ibr-ire.be](mailto:i.vanbeveren@ibr-ire.be)).

Yours sincerely,



Tom MEULEMAN  
Chairman

Question 1: We are looking for views about how LCEs could be described (see page 4). In your view, is the description appropriate for the types of entities that would be the focus of our work in relation to audits of LCEs, and are there any other characteristics that should be included?

In general, we believe the suggested qualitative characteristics are appropriate and helpful to support the professional judgment in considering the complexity of the entity, and therefore the complexity of the audit.

We agree that, due to differences amongst national markets, it is not desirable to set quantitative criteria at a global level, but it could be suggested that the auditor or his network or the national standard-setter determine as best practice some quantitative criteria, e.g. some financial factors of the audited entity.

We believe the qualitative characteristics should more clearly indicate where the complexity of each of them lies. We note that the proposed definition is the same as the one that currently exists in the ISAs and which does not seem sufficient to address the issue of scalability.

We suggest to extend the number of qualitative characteristics (such as the IT systems managed by the entity, significant estimates or complex valuations, the structure of the audited entity, the risk of the occurrence of fraud, restatements etc.) and add sufficient practical examples to illustrate their complexity.

Regarding the suggested qualitative characteristics, we would suggest to better define the paragraph a) concerning the “concentration of ownership or management”. Indeed, the notion of less complex entities is generally independent of the type of ownership or management. In addition, the IAASB should consider adding in the description that it is unlikely that listed or public interest entities would meet the LCE definition.

Question 2: Section II describes challenges related to audits of LCEs, including those challenges that are within the scope of our work in relation to audits of LCEs. In relation to the challenges that we are looking to address:

- (a) What are the particular aspects of the ISAs that are difficult to apply? It would be most helpful if your answer includes references to the specific ISAs and the particular requirements in these ISAs that are most problematic in an audit of an LCE.
- (b) In relation to 2a above, what, in your view, is the underlying cause(s) of these challenges and how have you managed or addressed these challenges? Are there any other broad challenges that have not been

identified that should be considered as we progress our work on audits of LCEs?

### **Length of the standards**

As mentioned in the discussion paper, the ISAs are voluminous which can make them difficult to read and determine what needs to be done. A better presentation combining the requirements and the related application material could facilitate their reading and understanding.

Additionally, a list of the key subjects covered in the application material would allow the professional to better focus on the issues that are relevant to him.

We also observe that by trying to clarify the standards, the IAASB added more and more details, reducing the room for interpretation but also making the standards, and specifically the application material, more complex to read and their core principles more difficult to identify. We believe this concern is not limited to the issue of less complex entities but should be addressed in all ISAs.

### **Overdocumentation**

As mentioned in the discussion paper, documentation requirements throughout the ISAs are extensive and, in many cases, due to the length of the application material, there is a lack of clarity as to what needs to be documented, and the extent thereof, in particular, when auditing LCEs. This might have the unwanted consequence of documenting circumstances that do not exist and developing long and often unnecessary checklists. Therefore, we suggest to revise ISA 230 to clarify what needs to be documented, irrespective of the topic of this discussion paper.

### **Documentation related to internal controls in LCEs**

ISA 315 (Revised) requires to understand internal control relevant to the audit. The "Guide to Using ISAs in the Audits of Small and Medium-Sized entities" develops in Chapter 11 (11.1) this approach and mentions: *"The auditor is required to obtain an understanding of the internal control elements as set out above (where they exist) on all audit engagements. This applies to any size of entity. It assists the auditor in determining whether there are any other risks to consider arising from possible control deficiencies. This understanding is required even when the auditor intends to take a substantive approach to the audit."*

Additional guidance would be helpful as to the extent of this understanding and the auditor's documentation thereof in a LCE environment.

### **Technology / Methodology**

As mentioned in the discussion paper, a helpful global solution, developing or promoting technology tools or methodologies is not part of the remit of the IAASB as a standard-setter. However, we are convinced that the initiative “Guide to Using ISAs in the Audits of Small and Medium-Sized entities” could be continued and developed. Many tools already exist. The IAASB could draw more attention of the auditors to the existing tools and facilitate their worldwide distribution amongst the auditors.

**Question 3:** With regard to the factors driving challenges that are not within our control, or have been scoped out of our exploratory information gathering activities (as set out in Section II), if the IAASB were to focus on encouraging others to act, where should this focus be, and why?

As mentioned above, the initiative such as the “Guide to Using ISAs in the Audits of Small and Medium-Sized entities” could be continued and developed and the IAASB could also contribute to greater collaboration with educational bodies at national level, including providing support to them.

**Question 4:** To be able to develop an appropriate way forward, it is important that we understand our stakeholders’ views about each of the possible actions. In relation to the potential possible actions that may be undertaken as set out in Section III:

- (a) For each of the possible actions (either individually or in combination):
  - (i) Would the possible action appropriately address the challenges that have been identified?
  - (ii) What could the implications or consequences be if the possible action(s) is undertaken? This may include if, in your view, it would not be appropriate to pursue a particular possible action, and why.
- (b) Are there any other possible actions that have not been identified that should be considered as we progress our work on audits of LCEs?
- (c) In your view, what possible actions should be pursued by us as a priority, and why? This may include one or more of the possible actions, or aspects of those actions, set out in Section III, or noted in response to 4b above.

In theory, we believe that revising the ISAs would be the most desirable option and should be one of the actions to be pursued by the IAASB. To ease the application of the ISAs, in relation to LCE audits and for the benefit of all audits, this revision should follow a ‘think simple first / building block’ principle. This means that the core of the ISAs would consist only of the most fundamental requirements applicable in all audits. The ISAs would then be expanded ‘in blocks’ as needed to address more complex audit areas and circumstances.

However, this is more an action on the longer term as it will take a lot of time and, therefore, might not be perceived as the most adequate solution for the issues that are now being raised. As mentioned in our introduction, we believe an international initiative is necessary and urgent. The IAASB always strived for a harmonised and of equally recognised quality of an audit at global level, ensuring the trust users can place in the audit. Avoiding further development of national initiatives would undoubtedly contribute to this. Therefore, a separate standard developed by the IAASB seems to be a more appropriate solution in the short term.

This separate auditing standard should remain based on the existing ISAs with the aim of achieving the same objective and encompassing all the relevant requirements for an audit of an LCE, including compliance with ISQC 1 (or the IAASB's new proposed quality management standards) and relevant ethical requirements. This standard should remain principles-based. To ensure the trust users can place in the audit and in the auditor's report, we emphasize that the report resulting from the audit, whether it is in the context of a large entity or a less complex entity, should remain the same.

However, we point out that it is important to leave it up to the auditor, his firm or his network, to decide whether this separate standard is appropriate in the circumstances and to preserve the opportunity to keep on applying the ISAs, even if the entity, or the audit, is considered to be non-complex. Many firms have already developed a methodology based on the ISAs for the audit of less-complex entities and it would not be efficient to oblige them to depart from it or to develop a new one. In addition, their experience could also be used to achieve short-term results.

At the same time and as already mentioned above, initiatives should be taken to develop complementary tools to provide practical assistance to the auditors especially with regard to the risk assessment and risk response.

In summary, we believe the IAASB should take the following actions as a priority:

- (1) On the longer term, start revising the ISAs, following a “think small first/building block” principle, with due attention to the use of clear language and the efficient use of words by reducing the over-detailing of the standards, with a focus on the application material;
- (2) On a short term, start developing a separate standard for audits of LCE, and therefore, less complex audits, with due attention to firms that want to continue to use the ISAs in all circumstances;

- (3) Develop complementary tools to provide practical assistance to the auditors and ensure that the existing tools are known worldwide.

Question 5: Are there any other matters that should be considered by us as we deliberate on the way forward in relation to audits of LCEs?

The IAASB could play a role in promoting the role of audit, including LCE audit, in our society. In particular, the IAASB could do this by focusing on positive contributions of audit such as bringing trust to the users of the financial statements, including those of LCEs.

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