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Mr. Thomas R. Seidenstein  
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Submitted via the website

Madrid, 12 September 2019

**Subject: IAASB Discussion Paper on Audits of Less Complex Entities**

Dear Mr Seidenstein,

The Instituto de Censores Jurados de Cuentas de España (hereinafter ICJCE) is pleased to provide you with our comments to the Discussion paper Audit of Less Complex Entities.

The ICJCE is a professional organization that groups statutory auditors. Although, as a member of the EU, Spain is regulated by the EU Audit Directive and Regulation, and by the Accounting Directive, the transposition of these regulations has led to differences among the Audit regulation in EU countries. In this regard, our answers are provided from a local perspective and taking into account the particular Spanish factors, especially our legislation and market structure.

These determinant factors include:

- Highly regulated profession, in some areas our regulation is one of the strictest in the EU.
- Extension of the PIE audits obligations to non-PIE audits (for example, KAM disclosure is required in all audit reports).
- Decreasing audit fees.
- Highly valued profession, in 2018 a 28% of the total audit engagements carried out were voluntary audits.
- Other assurance engagements (including reviews and other limited/reasonable assurance engagements) are not regulated except some assurance reports required by law.

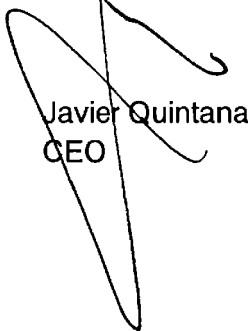
In general terms, we agree with the idea that something should be done to deal with the complexity and application problems of the current technical standards. All the proposals in the paper show pros and cons, but both big and small Spanish firms consider the

development of a separate standard for audits of less complex entities the one entailing more risks because it may exacerbate some of the issues included above.

Finally, we would like to stress the importance of achieving a common solution, at least at the EU level. Our feeling is that, every country applying their own standards weak us as a profession and allows unfair competitiveness among countries. The role of IFAC/IAASB in promoting the final proposal will be, therefor, crucial.

We remain at your disposal if you want to discuss or clarify the content of this letter.

Sincerely,



Javier Quintana  
CEO

**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?**

We support a definition of Less Complex Entities based on qualitative and quantitative criteria.

Currently, the common practice is to use only quantitative criteria to describe LCE, while the complexity and structure of the business are even more significant than the size. In this regard, although we understand that any definition can't fit all the circumstances in every jurisdiction, the development of general criteria and application material is necessary.

Definition should be principles based and application material should include a wide range of aspects and circumstances.

**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:**

- *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.*
- *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?*

It's not easy to enumerate all the particular aspects of ISAs that are difficult to apply, therefore, we enumerate below general challenges in relation to audits of LCEs. It also should be noted that some of these issues are applicable to all audits, despite the complexity of the audited entity.

- **Length of the standards and language:** Sometimes it is difficult to understand even the wording of the standard. This also makes their translation difficult. Although we agree that any legislation should be open to interpretation, some paragraphs are impossible to translate without a prior interpretation of what IAASB wants to say. Having a clear writing manual, avoiding duplications and using technologies to cross reference texts could help with this.
- **Documentation.** Auditors perceive that they spend a lot of resources documenting what they have or have not done and why. In addition, the lack of clarity in this issue, has led regulators to expect the maximum documentation from the auditor and to apply a compliance approach to their inspections. This is especially costly in LCE audits. Reviewing documentation requirements and clearly stating in each ISA that if the auditor has already documented the

inapplicability of a requirement, documentation of non-application of the related procedures is not necessary, could help with this.

- **Internal controls.** Most of times, as it is stated in the proposed definition of what is a LCE, internal controls in place in this kind of entities are very simple and they are not formalized in a way that allows the application of ISA 315 (Revised) in a proportionate way.

**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?**

We see benefits in:

- IAASB engaging with national standard setters and regulators to explain and advocate changes in the areas described before.
- IAASB engaging with IT developers at least to have technological solutions adapted to the standards.

**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:**

- For each of the possible actions (either individually or in combination):*
  - Would the possible action appropriately address the challenges that have been identified?*
  - 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.*
- Are there any other possible actions that have not been identified that should be considered as we progress our work on audits of LCEs?*
- 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.*

As stated in our general comments we see pros and cons in every proposed way forward. However, we consider that **revising the ISAs to ensure scalability** using the think small first approach and make their application easier to every audit is the best solution. This would benefit all audits and would be easier to be accepted by all jurisdictions. While we admit that this can take long time and efforts to develop, it does not have the negative impacts that we see in the other proposed solutions.

In line with that stated above we would also support a building blocks approach, setting out the minimum requirements and expanding them as needed in the circumstances of the entity, but we see that this is a more complex option and would take more time.

Although a separate standard may be the faster way forward we see significant inconveniences and challenges, including:

- Two different levels of audits.
- Increase of the expectation gap.
- Split of the profession in two levels of professionals.
- Reduction of audit fees.
- Duplication of methodologies, tools and software.
- Education and experience to access the profession.

These implications can be even more onerous if the separate standard is based on a different framework, level of assurance or objectives.

Regarding the development of more guidance, we consider that this would not be enough, could be seen as more material to add to the standards, and it is difficult to be capable of guiding the auditor in any situation that he/she may face.

**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?**

- Priority of the project in the IAASB agenda
- Involvement of the appropriate stakeholders in the project to know how the proposed solution would be accepted by the market, regulators, etc..

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