

**BY E-MAIL ONLY**

International Auditing and Assurance Standards Board  
529 Fifth Avenue  
New York  
10017 USA  
Email:

Date: 25 September 2019

Subject: COMMENTS ON AUDITS OF LESS COMPLEX ENTITIES

Dear Sirs,

1. The International Forum of Independent Audit Regulators (IFIAR) appreciates the opportunity to provide comments on the IAASB project exploring the possible options to address the challenges in applying the ISAs in audits of less complex entities.
2. The members of IFIAR share the common goal of serving the public interest and enhancing investor protection by improving audit quality globally, including through the promotion of high-quality auditing and professional standards and related pronouncements and statements.
3. The comments provided in this letter reflect the views expressed by many, but not necessarily all, of the members of IFIAR. However, the comments are not intended to include, or reflect, all of the views that might be provided by individual members on behalf of their respective organisations.
4. Where we did not comment on certain specific matters, this should not be interpreted as either approval or disapproval by IFIAR.

**Support an international approach**

5. Alongside multinational/global companies for which regulation at a global level is particularly relevant, smaller and less complex entities play a critical role at the local level in most jurisdictions and hence provide a major contribution to the global economy. As a global organisation, IFIAR believes that it would be preferable that the issues and challenges of developing standards for audits of less complex entities be addressed at the international level rather than only locally. An approach involving a variety of different local solutions would drive inconsistency and result in confusion for users of such entities' audited financial statements.

### **Further research regarding challenges in using ISAs**

6. IFIAR acknowledges that auditors of less complex entities have often cited challenges they face in the application of ISAs. Therefore, it would be useful to identify more specifically the reasons behind the challenges and substantive issues that lead to dissatisfaction among auditors in this regard. We encourage the IAASB to understand the challenges and analyse further the underlying causes of the challenges faced, in order to identify appropriate solutions. We therefore suggest the IAASB continue its efforts and use the results of this consultation process to conduct further research and information gathering with a wide range of stakeholders.

### **Language**

7. For instance, many regulators hear comments on the increasing complexity of the standards. We believe that the use of complex language may contribute to the perception that the standards are overly complex. Applying and building on the drafting principles developed as part of the IAASB's clarity project, with additional focus from the IAASB on the understandability of the proposed standards, may enhance the ability of auditors to understand how the standards can be scalable to different situations.

### **Providing further tools to facilitate implementation**

8. The IAASB historically has dealt with challenges of adapting the audit to various types of entities through development of principles-based standards that can be scaled for entities of different sizes or levels of complexity. Additionally, the IAASB has incorporated specific guidance in the relevant ISAs about audits of smaller entities. The adaptation of the audit approach to the size of entities and the complexity of their operations is already embedded to some degree in the international auditing standards' framework. We believe, however, that providing further tools and means to adapting the audit to less complex entities in practice could further facilitate the implementation of ISAs by their auditors, as suggested in the IAASB's consultation paper.

### **Risks in developing a separate auditing standard for audits of less complex entities**

9. We are concerned about the risk of an increase in the expectation gap that may arise from developing separate standard(s) for audits of less complex entities. Two different auditing regimes (regular vs. less complex entities audits), could lead to further confusion about audit quality, especially for external stakeholders, including, potentially, a perception that audits of less complex entities are of lesser quality. This risk should be carefully addressed by the IAASB.

## **Use of technology**

10. As pointed out in the IAASB's Discussion Paper, we believe that the use of new technology and automated tools could, to a certain extent, facilitate the effective implementation of ISAs in the audits of less complex entities. However, consideration should also be given by the IAASB to the potential risks associated with the use of such technologies, and the importance of firms having effective controls around the acquisition or development and use of such tools.

## **“Less complex entities” vs. “small entities”**

11. We agree that the concept of “less complex entity” is likely to be more relevant than the concept of “small entity” as there are small entities that may nevertheless be complex (and larger entities that may be less complex). The “less complex entity” concept is also better aligned with the risk-based approach of the ISAs. A distinction may be particularly relevant in the context of groups and consolidated financial statements, in which a number of small entities may be included in a complex consolidation. Specific procedures performed on those entities might be needed to address the challenges of the group audit.
12. Regardless of the approach adopted, careful consideration of the definition must be made to ensure that it does not become a checklist-based definition and that the definition appropriately links into the auditor's understanding of the entity required to be obtained under existing ISAs.

## **Exclude specific entities**

13. While recognizing that the ISAs do not override local laws and regulation, we strongly believe that any standard for less complex entities audits or any specific guidance or application material for those entities should not be applicable to audits of listed entities, irrespective of their size or complexity. As currently defined in the Discussion Paper, we see a risk that some listed entities could potentially be classified as “less complex” and could be audited under what would likely be a less rigorous framework. Similar concerns may exist for some non-listed entities that are considered public interest entities in their jurisdictions.

## **Scalability vs. proportionality**

14. In order to address the requests for “scalability” and/or “proportionality” in the standards, it will be useful to clarify the differences, interrelationships and connections between these two concepts in the frame of the project.

As mentioned previously, the comments raised in this letter are not meant to be exhaustive, but rather wish to highlight areas of concern identified at this preliminary stage that should be considered in the IAASB's further research into this topic.

Those comments do not override, moreover, the messages previously expressed by IFIAR in its letter dated June 4, 2019, regarding the IAASB strategy for 2020/2023 and work plan for 2020/2021, on the need for timely finalisation of other projects already started.

Should you wish to discuss any of our comments, please do not hesitate to contact me or Marjolein Doblado, Chair of the IFIAR Standards Coordination Working Group.

Yours faithfully,



Frank Schneider  
IFIAR Chair

Cc: Duane DesParte, Vice Chair,  
Marjolein Doblado, SCWG Chair,  
Carl Renner, Executive Director