



**ASOCIACION INTERAMERICANA DE CONTABILIDAD  
INTERAMERICAN ACCOUNTING ASSOCIATION  
ASSOCIAÇÃO INTERAMERICANA DE CONTABILIDADE**

San Juan, Puerto Rico, September 12<sup>th</sup>, 2019

Members of the Board

**International Auditing and Assurance Standards Board (IAASB).**

529 5th Avenue, 6th Floor

New York, New York 10017

**REF: Discussion Paper Audits of Less Complex Entities: Exploring Possible Options to Address the Challenges in Applying the ISAs**

Dear Members of the Board,

The Inter-American Accounting Association (IAA) (AIC – in Spanish), welcomes the opportunity to comment on the **Discussion Paper Audits of Less Complex Entities: Exploring Possible Options to Address the Challenges in Applying the ISAs**

This reply summarizes the views of different member countries of the IAA, according to the following due process:

**Due process:**

The Draft was submitted to the different IAA member, the Inter-American Technical Commissions (ITC) and the Sponsor Organizations (SO), hence all members had the opportunity to participate in the discussion of the Draft.

All comments received from the ITC and SO, were compared and discussed, before preparing a reply which has been approved upon by all members

**General comments:**

We decisively support the IAASB initiative on this important issue, considering the educational issue as fundamental in the formation and exercise of the accounting and auditing professional.

If you have any questions about our comments, please do not hesitate to contact us.

Sincerely,

Cornelio Porrás Cuellar  
**PRESIDENT**



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**Comment Letter of the Interamerican Accounting Association- IAA on the document for public discussion referred to; “Audits of Less Complex Entities: Exploring Possible Options to Address the Challenges in Applying the ISAs”**

We have answered the questions of the document in accordance with the provided instructions. Please see our answers and related comments below.

*Stakeholders may choose to answer all, or only some, of the questions below—all input is helpful to our future considerations.*

- 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?*

**Yes, we consider that the proposed definition is adequate for the entities to which the study is addressed, although we believe that with the progress of the investigations a different description could arise. Regarding the characteristics proposed we understand that some such as the following could be added:**

- **Few banking activities (although it may be for significant amounts)**
- **Few or no internal audit structures.**
- **Normally they are not subject to inspection by a state control body, such as the Central Bank, National Securities Commission or similar, of the jurisdiction.**
- **Nature of business**
- **Few users to whom the financial statements and the audit report are addressed**
- **Simple transactions that do not require the participation of specialists or complex calculations for accounting processing.**
- **Some additional factors may be included, according to the criteria established in ISA 315 for the assessment of the risk of material misstatement in the financial statements.**

**They do not adopt IFRS but apply GAAP from the jurisdiction.**

- 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.*



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In fact, several rules are difficult to apply in an audit to less complex entities, but in particular ISA 315 it is difficult to apply due to the characteristics of the LCE, specifically the recent modifications introduced, such as Big Data and Data Analytic; and as a logical consequence, it is also difficult to apply ISA 330 to respond to assessed risks. Similar difficulty arises in the application of ISA 570 with the modifications introduced as a result of the entry into force of ISA 701.

- 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?*

There is no doubt that one of the underlying causes of the difficulties indicated in 2 a corresponds to the complexity of the ISAs, which were originally intended to address the distrust of users of public accountant reports and for large companies. Another of the possible causes, always in our opinion, is the cost required by the LCE to have an adequate internal control structure, with periodic and appropriate segregation of functions and monitoring by controls, which in the majority of cases the LCE does not poses, therefore, apply NIA to an audit of financial statements in an entity that has a poor or weak internal control structure makes the appropriate application of most ISAs, in particular 315, 330 and 570, almost impossible. Cited in 2 a.

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 understand that the four factors presented are of high interest for the audit and for IAASB. The arguments presented are the reason why the IAASB considers them to be challenges that are not under its control; However, this situation of uncontrollability of such factors becomes a new challenge that IAASB must face so that with appropriate strategies it can overcome the barrier that it faces today, as, for example, many jurisdictions limit the application of ISAs in their areas of competence. out of sheer ignorance, therefore, if IAASB delineated an action plan that involves the approach to the authorities with decisive power in the issuance of regulations, we are convinced that it will break that barrier. Similar action can be taken in other areas, but to answer the requirement, we believe that IAASB should focus its efforts on the “Legal Requirements and Other Requirements for an Audit”. Additionally, all material developed by the IAASB in relation to professional standards and its support or application material must be promptly translated into other languages, for dissemination in the various jurisdictions in which ISAs are mandatory



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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?*

**We understand that the possible action would adequately address the challenges identified as long as the action undertaken is not complex. We believe, as we present in a.ii, that some of the actions proposed as possible should not be carried out..**

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.*

**We believe that it would help strengthen the audit of the LCEs and the auditors who are engaged in this activity in a significant way, particularly if the possible action presented in C. is carried out. Development of the LCE Auditors Guide or Other Related Actions. In our opinion, the possible action presented as B. Development of a separate audit standard for LCE audits would not make much sense. The audit is unique, whether for large corporations, medium or small companies, for highly complex companies or for LCE, therefore, the possible benefit would not compensate for the enormous effort involved in the development of such a standard.**

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?*

**It may be necessary to develop and specify more precisely the application guides or practical notes for audits of less complex entities and surely there are many other possible actions that have not been identified and that should be considered in the future to the extent that the work is developed, reason that justifies, our proposal presented in numeral 5 of this comment.**

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.*



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Based on the draft document, we are particularly excited about the development of the Guide for LCE auditors or other related actions because, we believe, that will give visibility and support to the project of thousands of medium and small firms that are engaged in auditing entities. not very complex, in addition, of not taking the possible action consisting in the issuance of a separate audit standard would encourage the more robust application of the current ISAs, which would result in extraordinary expertise and consequent growth of both audits to LCE as of the small and medium-sized firms.

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?*

We are sure that other issues will arise to consider as the investigation progresses in relation to the audits of the LCE, for that reason, it is our opinion, to leave open the possibility of extending the comments in the future, especially to those who have issued its comments on this occasion, this proposal could enrich the debate and significantly expand the contribution in ideas for the IAASB.

The translation of the rules and documents must be ensured and that they are available to accounting professionals.