August 13, 2019  
Ref.: SEC/053/2019 - DN

International Assurance and Auditing Standards Board for Accountants (IAASB)  
545 Fifth Avenue, 14th Floor  
New York, NY 10017  
USA

Dear Sirs,

We, Ibracon – Instituto dos Auditores Independentes do Brasil (Institute of Independent Auditors of Brazil), appreciate the opportunity to comment on the Discussion Paper: Audit of Less Complex Entities: Exploring Possible Options to Address the Challenges in Applying the ISAs. See our comments below.

Survey

1) What are the most significant matters impacting the audit environment for less complex entities? (You may select up to 3 with 1 being the most significant)

- Inadequate amount of education and training in the application of the ISAs
- An expectation gap between what is required of an auditor and what is expected by some stakeholders
- Difficulties recruiting next generation talent
- National legislation requires audit for small (less complex) entities
- Audit technology/software tools not available, too expensive, inadequate or not easily scalable
- Users do not value audit as a service
- **Audit fee pressure (1)**
- **Financial reporting standards continue to evolve and require more interpretation and judgment (3)**
- **Low awareness of perceived value of other financial reporting services (e.g. review, compilation and Agreed Upon Procedures (AUP) engagements) (2)**

2) What are the most significant issues that makes the ISAs a challenge to apply to audits of less complex entities (LCEs)? (You may select up to 3 with 1 being the most significant)

- Requirements result in certain procedures being performed solely to comply with ISA requirements with no additional assurance or measurable increase in audit quality
- There is a lack of separate implementation support/guidance in respect of the application of the ISAs to the audit of LCEs
- **ISAs are long and voluminous (3)**
- The standards are not clear about the nature and extent of work required
- **The language is complex and difficult to understand (1)**
- It is difficult to identify the relevant requirements for an LCE audit
- Documentation requirements are extensive and onerous
- There is a lack of clarity and different interpretations as to what, and how, certain matters are documented
- **There is insufficient application material or inadequate application material in the ISAs addressing scalability and proportionality considerations (2)**

3) What areas of the ISAs are most difficult to apply in audits of less complex entities? (The specific ISAs and the particular requirements would be helpful)

ISAs 315, 240 and 540, mainly in relation to the extent of work and documentation required.
4) The IAASB are exploring a range of potential possible actions to address the challenges. Which action should be pursued as a priority? (you can select only one). Further details are included in Section III of the DP.

- Revising the ISAs to make the auditor’s work effort clearer
  . Greater focus on more clearly setting out what the auditor needs to do
  . Setting out the basic requirements for all audits then expanding as needed to address more complex circumstances (building-blocks approach)
  . Featuring more scalability and proportionality considerations in the application material
  . Including considerations specific to audits of less complex entities in a separate section within each ISA
- Developing a separate auditing standard for audits of less complex entities
  . A separate standard based on the existing ISAs
  . Developing a standard based on a different framework (e.g. not risk-based)
  . Other (please specify)
- Developing guidance for auditors of less complex entities or other related actions
  . An enhanced comprehensive guide on applying ISAs for audits of less complex entities
  . An International Auditing Practice Note (IAPN) for Audits of Less Complex Entities
  . Guidance for the application of specific areas within the ISAs or specific ISAs
  . Focused “implementation packs” for new and revised ISAs specifically for audits of LCEs
  . Other (please specify)
- Other (please specify):

5) If you are a practitioner, what percentage of your audit clients would be considered as less complex entities (LCE)? (The IAASB have used the current definition of a “smaller entity”, which sets out many of the qualitative characteristics that could be attributable to an LCE. Please see page 4 of the DP ‘What is a Less Complex Entity?’)

- Less than 50%
- 51-60%
- 61-70%
- 71-80%
- 81-90%
- Over 91%
- Not applicable

6) Are there any other matters that should be considered by the IAASB as it deliberates on the way forward in relation to audits of less complex entities?

No.

Questions for respondents

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 agree with the change in terminology from Small and Medium-sized Entity (SME) to Less Complex Entity (LCE), as smaller entities can be complex. Considering the high degree of subjectivity and judgment involved in setting what is a LCE, additional considerations regarding the definition of LCE should be addressed at a jurisdictional level. Nevertheless, the IAASB can provide further clarity on the characteristics of LCEs such as an application material to illustrate different examples of entities, especially if the Board decides to develop a separate standard.
In addition to the characteristics described in item (b) of the definition (page 4), we believe that regulation is an important aspect that should be considered. Moreover, we recommend setting clearly that a PIE could not be a LCE.

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.

ISAs 315, 240 and 540, mainly in relation to the extent of work and documentation required.

(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?

The issues that already exist in the current ISAs, such as complexity and length, also affect the LCE audits. The main challenge is the evaluation of internal controls - assessing design and implementation of controls when the auditor plans substantive procedures and does not intend to rely on controls, which is quite often for LCEs.

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?

Audit fees and public expectations of an audit. It is important to increase awareness of the benefits of reviews and other types of assurance engagements to the users of financial statements. Regulators and law makers may address some of the concerns regarding the audits of LCEs, considering that if a lesser degree of assurance is acceptable, more LCEs could request assurance engagements other than audits.

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.

We acknowledge a number of advantages in Option A of revising the ISAs to a ‘think small first’ or ‘building blocks’ approach where complexity can be added to each ISA depending on facts and circumstances of a certain entity. However, as this would be very lengthy and costly, we would rather prefer Option C - Developing guidance for auditors of LCEs or other related actions, which is a quick solution and aligned with the other IAASB’s projects.

We have several concerns regarding Option B - Developing a separate auditing standard for audits of LCEs, such as setting two levels of assurance (a LCE audit could be perceived as less value than a full ISA) and challenges for practitioner and regulators to acknowledge the differences and application of a separate 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?
No.

(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.

As there are important ongoing projects of the IAASB, we would recommend addressing the scalability issue, mainly in ISA 315, which appeared to be the more complex one. In addition, for future projects, starting working with the concept of 'building blocks' to help the understanding and application of ISAs.

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 have no further comments.

Best Regards,

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President

Valdir Renato Coscodai  
Technical Director