

# FEEDBACK STATEMENT AND WAY FORWARD

## AUDITS OF LESS COMPLEX ENTITIES



The International Auditing and Assurance Standards Board (IAASB) is a global independent standard-setting body that serves the public interest by setting high-quality international standards which are generally accepted worldwide.

The IAASB follows a rigorous process in developing its standards, involving multi-stakeholder input, including from the IAASB's Consultative Advisory Group, the International Federation of Accountants' (IFAC) relevant committees and professional accountancy organizations, regulatory and oversight bodies, firms, national standard setters (NSS), governmental agencies, investors, preparers and the general public.

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## Purpose of this Feedback Statement

This Feedback Statement provides an overview of the key messages from the responses to the IAASB's Discussion Paper (DP), *Audits of Less Complex Entities: Exploring Possible Options to Address the Challenges in Applying the ISAs*, and related outreach activities.

The matters set out within this Feedback Statement present the views of the IAASB's stakeholders in response to the DP and a survey undertaken by the International Federation of Accountants (IFAC) related to the IAASB's work on audits of less complex entities (LCE's). This documents also includes feedback received at the IAASB's Paris roundtable (held in May 2019). The IAASB will reflect on the views of its stakeholders (as summarized within this document) as it further considers its most appropriate actions going forward.

The IAASB welcomes the significant interest in our work related to LCEs and appreciates respondent comments which have been thoughtful and informative.

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## A WORD FROM THE IAASB CHAIR...

Our recent consultation on audits of less complex entities has garnered much interest – we have received feedback to our questions from a wide range of jurisdictions and stakeholder groups. Not only did we receive a significant number of written responses to our Discussion Paper, we are excited to benefit from the more than 1,700 respondents from a broad range of jurisdictions to the International Federation of Accountants' (IFAC) survey.

The unprecedented participation in our consultation and thoughtful comments received demonstrate the importance of, and interest in, this initiative. The level of response also reflects the broad cross-section of interest in and application of ISAs across various global jurisdictions and different stakeholder constituencies. The IFAC survey, based on the questions in our Discussion Paper, ran concurrently with our consultation. Through the survey we heard from many stakeholders from whom we would not ordinarily hear, in particular practitioners who offered many valuable insights as to the challenges of auditing less complex entities.



Throughout this consultation process, including our related outreach activities, respondents shared a diversity of views on the three options outlined for possible action. Indeed, many recognized that these options are not mutually exclusive.

In the coming months we will chart a clear course of action on this topic. We will do so taking into account the views expressed by all of our stakeholders. Our expectation that our work will benefit all seeking high-quality audit and assurance standards, not only those auditing less complex entities.

We have developed this feedback statement to acknowledge the important and constructive input received, but also to keep our stakeholders informed about where we are in this important initiative. The IAASB believes that sharing what we have heard will be useful in stimulating further thinking and exploration of this very important topic.

A handwritten signature in blue ink that reads "Tom Seidenstein".

TOM SEIDENSTEIN

IAASB Chair

# I. BACKGROUND

## 2016

IAASB establishes informal Working Group to explore issues and challenges relating to audits of Small and Medium-Sized Entities (SMEs)

## 2017

**JANUARY** – first Paris roundtables to explore issues and challenges related to SME's / small and medium practices (SMPs)

Informal working group continues to explore related matters

## 2018

**MARCH** – IAASB in executive session discussed feedback from first Paris roundtable and other outreach

**DECEMBER** – proposal agreed for formal information gathering related to audits of LCEs

## 2019

**MAY** – second Paris Roundtable

**APRIL to SEPTEMBER** – consultation through DP and surveys

Working Group continued to explore matters related to audits of LCEs

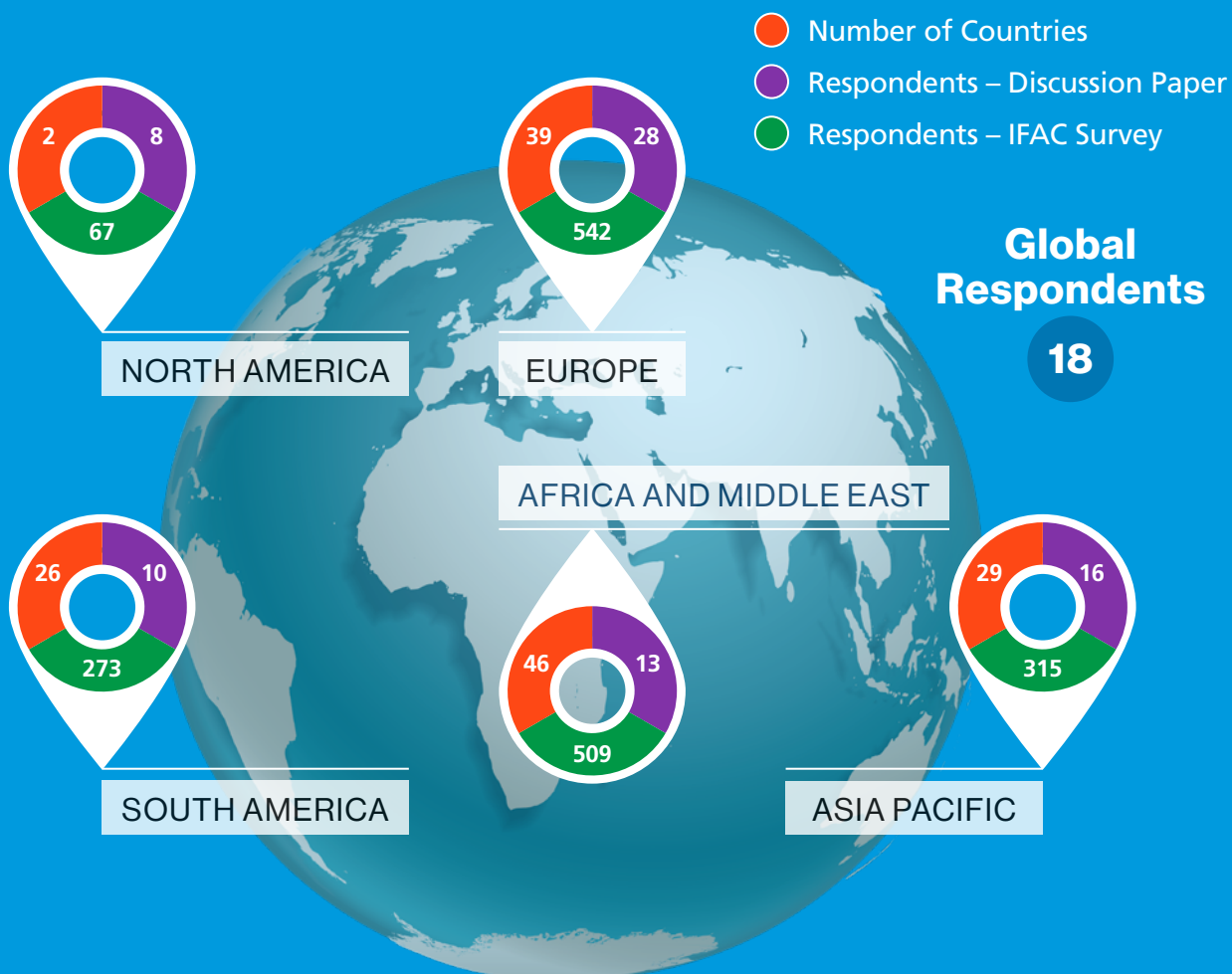
## 2020

**JUNE** - recommendations for future actions discussed by IAASB





## II. OVERVIEW OF RESPONDENTS



### DISCUSSION PAPER



### IFAC SURVEY



### III. OVERVIEW OF RESPONSES TO THE DISCUSSION PAPER

The comment period for the Discussion Paper closed on September 12, 2019, and we received 93 responses. An overview of the respondents by country and group is set out on page 5.



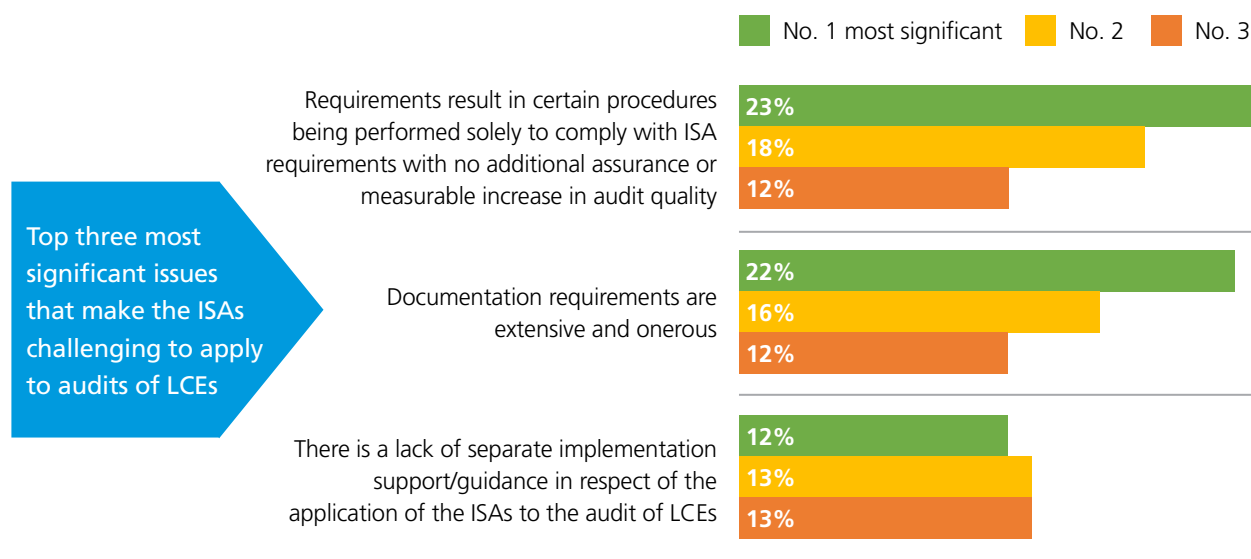
## Key Messages from Respondents to the Discussion Paper

The IAASB welcomes respondents' support for our efforts on this initiative, and we will use the valuable and helpful information as we determine our future actions in relation to LCEs. Although the DP focused on LCEs, commentators highlighted that many issues and challenges are not unique to LCEs. They emphasized that any work in this area would likely be broader and affect more than just audits of LCEs. Broadly, the following sets out a high-level summary of the key messages in the responses.

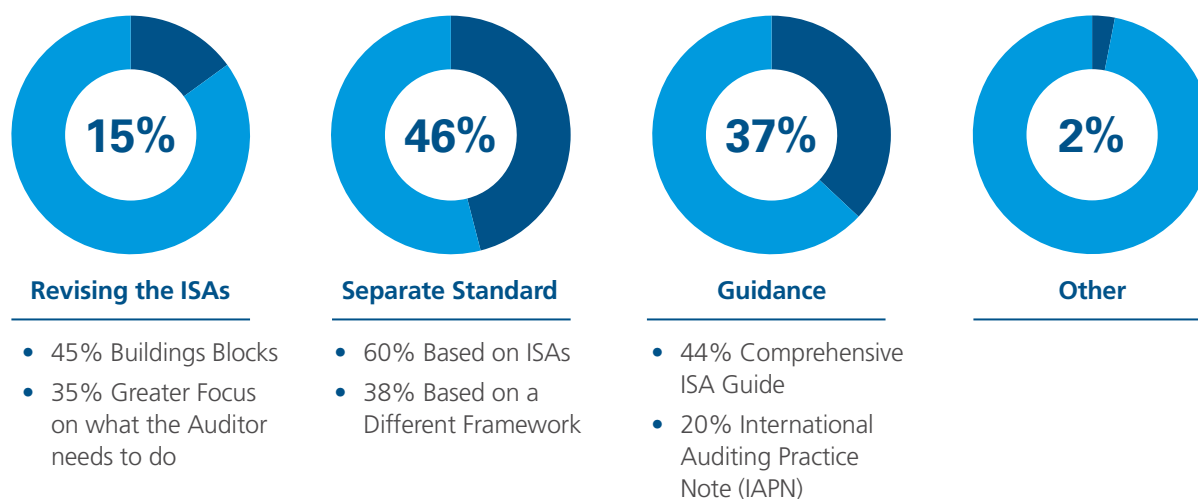
RESPONDENTS' VIEWS ON THE DESCRIPTION OF "LESS COMPLEX ENTITIES"	RESPONDENTS' VIEWS ON ISA RELATED CHALLENGES	
<ul style="list-style-type: none"><li>• Support for a principle-based approach using qualitative characteristics</li><li>• Further consideration needed about qualitative characteristics, including other risk-based factors</li><li>• Mixed views on excluding 'listed' or 'public interest entities' expressed</li><li>• Caution that description needs to be in context of outcomes of IAASB's work – so that description is relevant</li></ul>	<ul style="list-style-type: none"><li>• Overall length and volume of the standards</li><li>• Complexity is an issue, as well as increasing level of prescriptiveness</li><li>• Lack of clarity about the purpose of some prescribed procedures</li><li>• Lack of support tools and guidance</li><li>• Specific ISAs highlighted include ISA 230 (documentation), ISA 240 (fraud), ISA 315 (Revised) (identifying and assessing risks) and ISA 540 (Revised) (accounting estimates)</li></ul>	
RESPONDENTS' VIEWS ON THE POSSIBLE ACTIONS		
OPTION A – REVISING THE ISAs	OPTION B – DEVELOPING A SEPARATE STANDARD	OPTION C - GUIDANCE
<ul style="list-style-type: none"><li>• Preference for 'building-blocks' approach</li><li>• Mixed views about targeted approach versus a 'big bang'</li><li>• Would be most effective solution in addressing issues and challenges, but recognition that not timely</li><li>• Need simpler language and principles-based requirements</li><li>• Need more scalability and proportionality (such as more focus on a bottom-up approach)</li></ul>	<ul style="list-style-type: none"><li>• Perceived as more timely - would be quicker than revising all of the ISAs</li><li>• Needs to be a reasonable level of assurance</li><li>• Little support for development of a separate standard using a different framework – i.e., not based on the ISAs</li><li>• Could be seen as a different level of quality</li></ul>	<ul style="list-style-type: none"><li>• Not seen as a standalone solution</li><li>• Need identified, but should support the other two options as appropriate</li></ul> <div>IAASB encouraged to consider a combination of approaches</div>

## IV. FEEDBACK FROM THE IFAC SURVEY

IFAC undertook an online survey, at the same time that the IAASB Discussion Paper was out for consultation, targeted at stakeholders who would not necessarily respond to the IAASB's formal consultation. The survey was undertaken to help inform the IAASB's discussions and was largely based on similar questions to the IAASB's Discussion Paper. Page 5 provides further information on the respondent numbers, stakeholder groups and jurisdictions who provided responses to the IFAC Survey.



### IFAC Survey: Respondents Views on which Actions should be Pursued as a Priority?



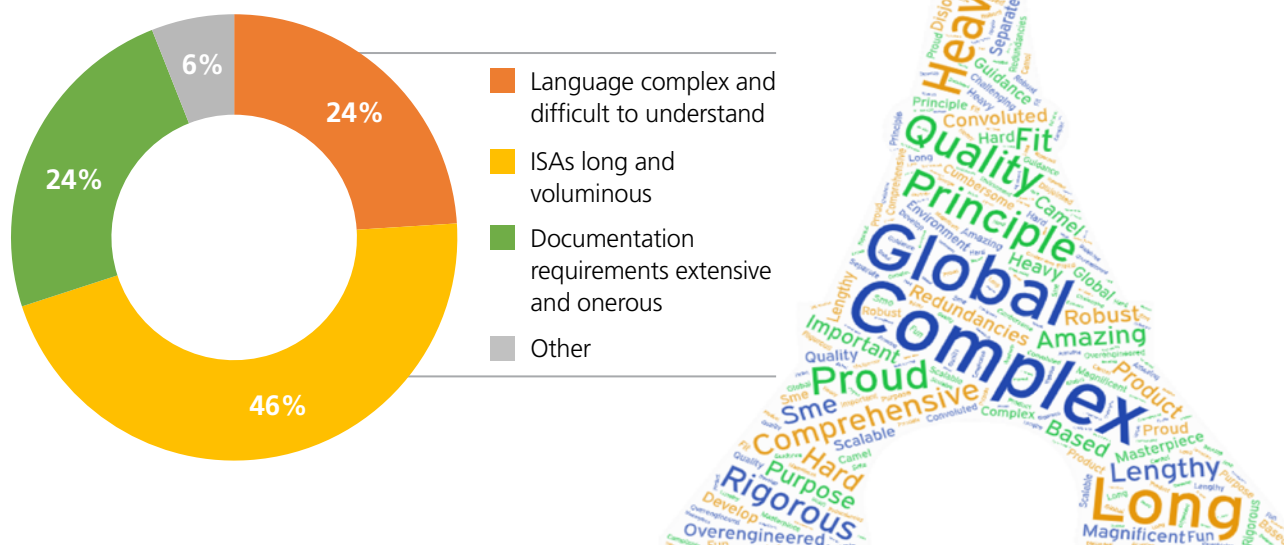


## V. FEEDBACK FROM IAASB'S PARIS ROUNDTABLE

Views expressed at the IAASB's conference discussing matters related to audits of LCEs included quick polls during the event.



## MOST SIGNIFICANT ISSUE THAT MAKES ISAs CHALLENGING TO APPLY IN AUDITS OF LCEs



## VI. THE WAY FORWARD

What We Have Heard	Our Actions Going Forward
 <p><b>MIXED VIEWS</b></p> <p>We have heard mixed views on the options – the way forward is likely a combination of approaches</p>	 <p><b>ACTION FOR OTHERS</b></p> <p>We will coordinate with our other stakeholders as needed to encourage action as appropriate</p>
 <p><b>COMMITTED TO ACTION</b></p> <p>We are committed to moving forward – we recognize a global solution is needed</p>	 <p><b>HOW WILL WE MOVE FORWARD?</b></p> <p>The IAASB will continue to analyze the feedback from stakeholders to help determine the way forward. Further information gathering activities will continue until June 2020, at which time the IAASB will make a decision about the way forward</p>
 <p><b>IMPLICATIONS FOR ALL OF OUR STAKEHOLDERS</b></p> <p>We will remain mindful of the implications of the options selected for all of our stakeholders</p>	