

August 13, 2019

Mr. Tom Seidenstein
Chair, IAASB
529 Fifth Avenue
New York, NY 10017

DISCUSSION PAPER—AUDITS OF LESS COMPLEX ENTITIES: EXPLORING POSSIBLE OPTIONS TO ADDRESS THE CHALLENGES IN APPLYING THE ISAS

Dear Chairman Seidenstein,

IFAC (International Federation of Accountants) welcomes the opportunity to comment on, and share relevant activities pertinent to, the International Auditing and Assurance Standards Board's (IAASB) Discussion Paper *Audits of Less Complex Entities: Exploring Possible Options to Address the Challenges in Applying the ISAs* (Discussion Paper).

IFAC submits this comment letter to further highlight the importance of the issues covered in the Discussion Paper. Notwithstanding significant efforts by many stakeholders, including the IAASB and IFAC, concerns remain about the application of International Standards on Auditing (ISAs) to less complex entities (LCEs). These concerns have grown in tandem with the ISAs, and local initiatives to address these concerns have recently emerged. We applaud the IAASB's initiative to consider the situation holistically and chart the best way forward.

IFAC strongly agrees that small- and medium-sized enterprises (SMEs) make a critical economic and social contribution. SMEs represent over 85% of the business population, accounting for more than half of the value added by the private sector and two-thirds of employment. SMEs are heterogeneous in size, growth intentions and business goals, with a significant proportion of SMEs being family enterprises.¹

IFAC also recognizes that the ISAs support strong economies and businesses of all sizes, from the largest publicly traded companies to the smallest SMEs. Widespread ISA acceptance—129 jurisdictions are currently using or are committed to implementing the ISAs—reflects their value and quality.

IFAC has a long-standing commitment to SME audit. IFAC first published the [Guide to Using ISAs in the Audits of Small- and Medium-Sized Entities](#) (the Guide) in 2007. The Guide helps firms efficiently and proportionally apply the ISAs on SME audits and in many cases is used by firms and professional accountancy organizations (PAOs) as part of training or in developing audit methodologies or manuals. Now in its fourth edition, the Guide has been downloaded over 100,000 times and 22 translations are completed or in progress.

¹ [The Role of SMPs in Providing Business Support to SMEs: New Evidence](#), IFAC, 2016.



In terms of standard development, the IFAC Small- and Medium-Sized Practice (SMP) Committee (SMPC) invests significant resources to provide input to the IAASB from an SMP and SME perspective on all its projects. This includes engagement at each SMPC meeting, formal responses to all consultations and targeted input on specific issues ahead of the IAASB's quarterly meetings.

Nevertheless, those auditing LCEs continue to face challenges in applying the ISAs. The Discussion Paper notes that, while SMEs and LCEs are not synonymous, the two populations overlap. As many LCEs are audited by SMPs, this core IFAC constituency overwhelmingly bears ISA application challenges. That said, larger firms audit many LCEs and face similar challenges.

IFAC agrees that there is no easy fix. Balancing the competing needs of all stakeholders while maintaining the robustness of the existing standards and audit quality will be a challenge. But it is a challenge that must be faced, and one that requires thoughtful and constructive input and engagement from the largest possible number of diverse global stakeholders.

With this in mind, IFAC is strongly encouraging our member organizations to prioritize the Discussion Paper and work with their members to submit a response. We likewise extend this encouragement to any practitioners or other stakeholders with views on the best way forward. We recognize that responding to the Discussion Paper requires both time and expertise cost, particularly for smaller IFAC members and SMPs. But it is exactly these voices that must engage with the issue to support best possible outcomes.

IFAC is facilitating feedback commensurate with the importance of this issue. On June 19, we launched a [survey](#) designed to gather feedback from stakeholders who are not otherwise intending to respond directly to the Discussion Paper. The survey was developed in consultation with the IAASB LCE Working Group and input from IFAC's SMPC and is available in English, French and Spanish. The survey has been circulated to IFAC member organizations and we have received over 1000 responses from over 120 countries to date. The survey will conclude on September 12, the closing date for Discussion Paper submissions. The IAASB will receive the results at that time. Initial survey responses indicate that over 85% of respondents consider over half of their audit clients to be LCEs, reinforcing the importance of this work.

The survey is supported by an in-depth article on IFAC's Global Knowledge Gateway developed with IAASB staff. The article [Exploring the Future Options for Audits of Less Complex Entities](#) was published on July 1 in English, with Spanish and French translations available. The article summarizes the key points of the Discussion Paper and provides links to useful background documents, as well as the survey.

In addition, the article highlights a series of webinars organized by the IAASB and supported by IFAC to explain key aspects of the Discussion Paper. These webinars were held between July 22-24 and conducted in English, Spanish and French. IFAC has actively promoted these activities on social media and members of the SMPC have been engaged in outreach activities promoting the Discussion Paper.



IFAC staff also coordinated with the IAASB to organize an event in Paris: *Responding to Challenges Related to Less Complex Entities* and have been participating in the IAASB LCE Working Group discussions as a member since January 2019.

In closing, we applaud the IAASB's desire to address an important and complicated issue, made more acute with recent national and regional initiatives specifically targeted at LCE audits. While local initiatives have the potential to fragment the widespread global standards ecosystem, they serve as a call for urgent action. Accordingly, we strongly encourage all stakeholders to respond directly to the Discussion Paper or to participate in IFAC's [Audits of Less Complex Entities Survey](#).

IFAC looks forward to the IAASB's careful consideration of diverse stakeholder feedback arising from the Discussion Paper.

Please do not hesitate to contact me if have any questions regarding this response.

Yours sincerely,

A handwritten signature in black ink, appearing to read "Kevin Dancey". The signature is fluid and cursive, with a long, sweeping tail on the final letter.

Kevin Dancey
Chief Executive Officer