

PROJECT PROPOSAL—DEVELOPING A SEPARATE STANDARD FOR AUDITS¹ OF LESS COMPLEX ENTITIES – DECEMBER 2020

[This project proposal was developed and approved by the International Auditing and Assurance Standards Board (IAASB)] – Text subject to IAASB approval of project proposal in December 2020.

The IAASB develops auditing and assurance standards and guidance for use by all professional accountants under a shared standard-setting process involving the Public Interest Oversight Board, which oversees the activities of the IAASB, and the IAASB Consultative Advisory Group, which provides public interest input into the development of the standards and guidance.

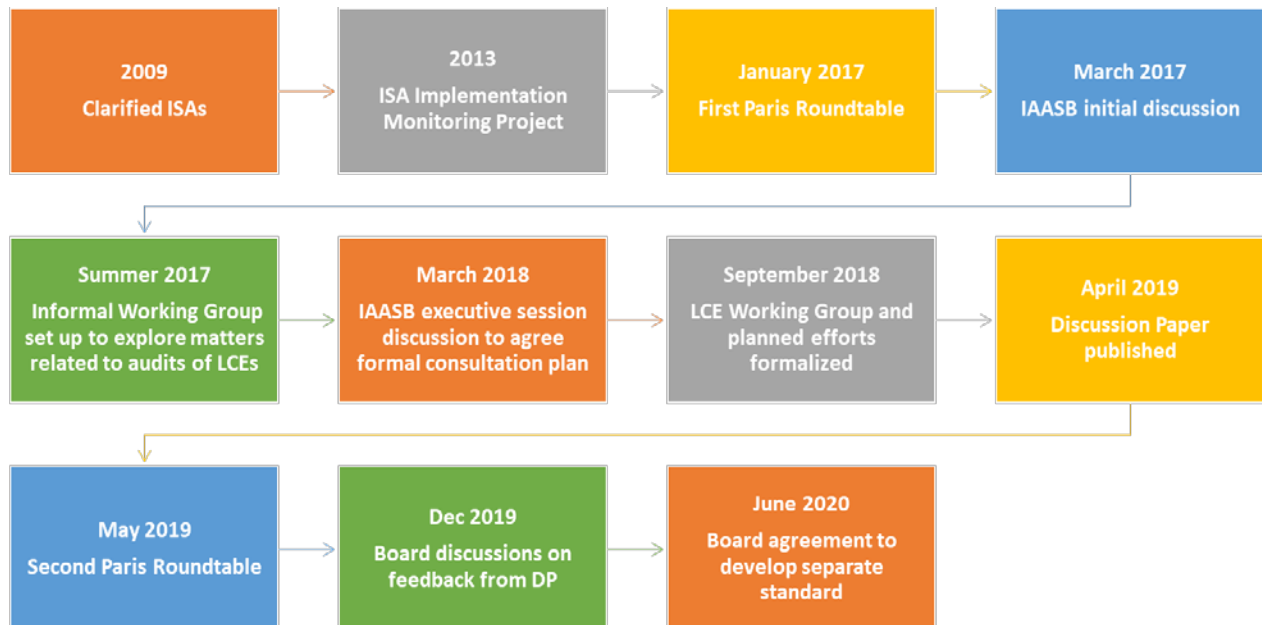
The objective of the IAASB is to serve the public interest by setting high-quality auditing, assurance, and other related standards and by facilitating the convergence of international and national auditing and assurance standards, thereby enhancing the quality and consistency of practice throughout the world and strengthening public confidence in the global auditing and assurance profession.

I. Subject

1. This project proposal addresses the development of a separate standard to audit the financial statements of a less complex entity (LCE).

II. Background

2. The following sets out the timeline related to the IAASB’s activities up to when the IAASB formally agreed to the development of a separate standard for audits of LCEs.



3. **Appendix 1** sets out the detailed background to this proposed project and other relevant developments to the development of the Discussion Paper (DP) [Audits of Less Complex Entities](#):

¹ In this project proposal, an audit refers to an audit of financial statements.

[Exploring Possible Options addressing the Challenges in Applying the ISAs](#), which was published in April 2019.

4. In December 2019, the IAASB discussed the responses to the DP. Respondents to the DP overwhelmingly supported the IAASB's work in determining how best to apply the International Standards on Auditing (ISAs) in audits of LCEs, emphasizing the importance of the need for an urgent, and global, solution. An overarching theme from the responses was the need for a solution that would maintain appropriate audit quality in audits of LCEs.
5. However, there were mixed views about all of the options for possible solutions set out in the DP (i.e., develop a separate standard, revise the ISAs, or develop supporting guidance), with no overwhelmingly preferred path forward. However, there were many who suggested that the way forward may well consist of a combination of the options.
6. Although the DP had focused on audits of LCEs, there was also a strong message in the responses that many of the issues within the ISAs related to more than audits of LCEs. Accordingly, two workstreams were identified, and in June 2020 the IAASB agreed to commence activities for each workstream:
 - (a) An '*ISA Focused Workstream*' which would address the complexity, understandability, scalability and proportionality (CUSP) issues in relation to the ISAs more broadly in order to address challenges that have been identified in applying the ISAs, for audits of all types of entities, including audits of LCEs; (more information with regard to the CUSP workstream can be found on the [project webpage](#)); and
 - (b) A '*Separate Standard Workstream*' exploring the development of a separate standard to focus on addressing the challenges in applying the ISAs in an audit of an LCE (which is the focus of this project proposal).
7. The responses to the DP also highlighted the challenges with documentation. It is therefore intended that both workstreams will focus on documentation as challenges are continually raised with regard to the nature and extent of documentation.
8. In the interests of time and making progress on developing the separate [draft] audit standard, exploratory work on the initial draft of the separate standard has been progressed as this project proposal has been developed.

III. Basis of Project Proposal

9. The IAASB undertakes wide-ranging information gathering and research activities in relation to possible new topics of global relevance to identify emerging issues, changing business or public practice environments, developments in accounting and auditing practices, and changes in technology that inform the development of new and revised standards that address the needs of the IAASB's stakeholders.
10. Accordingly, this project proposal has been developed on the basis of:
 - (a) Information gathering activities:
 - [Post-implementation review](#) of the clarified ISAs.
 - Comments to the DP (a [Feedback Statement](#) set out a summary of the input to the DP).

(b) Roundtables:

- Two joint roundtables together with the Compagnie Nationale des Commissaires aux Comptes (CNCC) and the Conseil Supérieur de l'Ordre des Experts-Comptables (CSOEC), held in Paris in 2017 and 2019. Each roundtable was attended by over 75 individuals with global representation of more than 25 countries at each. The first roundtable focused on both audit and other engagements for small- and medium-sized entities (SMEs) (changed to LCEs later – see note below) and the second roundtable focused only on audits of LCEs. A summary of the 2019 roundtable discussions can be found in the [Feedback Statement](#) to the DP.

(c) Other targeted outreach as set out below:

- Ongoing calls with the LCE Reference Group as the [draft] audit standard has been developed (see paragraph 45 for more on the LCE Reference Group).
- Discussions with national standard-setters in June 2017, May 2018 and November 2020.
- Discussions with representatives of Forum of Firms at biannual Forum of Firms meetings.
- An IAASB virtual roundtable with a specific focus audits on LCEs with regard to fraud and going concern on October 7, 2020. Participants at this roundtable were largely practitioners who undertake audits of LCEs.
- Discussions with relevant individuals who have been involved in the development of similar standards for auditors of smaller entities in different jurisdictions globally.

Although the discussions about the challenges of applying the ISAs has historically been around the difficulties experienced in audits of smaller entities (SMEs), the IAASB is of the view that it is appropriate to focus on the complexity of the entity rather than its size. The change was made in 2018 to start to refer to the focus of our work being on less complex entities to better reflect today's environment. Broadly, it is not only about size—there may be entities that are smaller but may be considered complex, and there may be other entities that would not necessarily be considered smaller, but would be considered less complex. However, many stakeholders still refer to SMEs. This project proposal refers to SMEs to the point where the IAASB made the decision to switch to LCEs.

11. In addition to the work noted above, the IAASB continues to engage with the IFAC SMP Advisory Group (SMPAG) on a regular basis. This has included:

- Updating the SMPAG at their in-person meetings (virtual in 2020) with relevant developments.
- Considering input from formal letters received prior to IAASB meetings and through focused sessions with a dedicated SMPAG Task Force.
- Representation by staff from the SMPAG on the LCE Working Group.
- Input from the SMPAG on specific aspects of the IAASB's work on audits of LCEs through formal letters issued prior to IAASB meetings on relevant Agenda Papers, and recognition of the matters raised at the IAASB meetings.
- Other interactions as has been necessary as the IAASB has continued to progress its work on audits of LCEs.

IV. How the Project Serves the Public Interest

12. The IAASB's remit is to set robust global standards that enable high-quality audits, assurance and related services engagements, with a view to building trust in the financial and non-financial reporting process. The IAASB also issues other non-authoritative pronouncements to support implementation and application of its standards. In focusing on revisions that are in the public interest, the IAASB's project proposals set out the IAASB's work effort to:
- Promote consistent practice and behaviors by auditors;
 - Drive effective actions by auditors in undertaking procedures, tasks and related activities;
 - Reinforce professional skepticism throughout the audit; and
 - Facilitate scalability and proportionality in the development and revision of the standard(s) addressed by the IAASB's project proposals.

The IAASB's work is also intended to enhance confidence in, and the reputation of, the global auditing and assurance profession.

13. SMEs² make a critical contribution to the world economy. Quantitatively, the majority of audits globally are audits of SMEs. Although there are no specific statistics on the number of audits performed globally, or for which types of entities, the World Trade Organization's [World Trade Report 2016](#) notes that "micro firms and SMEs account for the majority of firms in most countries (95% on average)."
14. Although audit findings or failures in audits of SMEs (or less complex entities) may not be perceived by some as being as critical to the public interest as for larger or more complex entities (including listed entities), the importance of high-quality audits (or other engagements, as appropriate) is nevertheless still significant to the global economy because of the number of audits performed for this sector.
15. As a result, any changes made to facilitate effective and high-quality engagements for these types of entities would serve the public interest by:
- a) *Maintaining confidence in financial reporting of LCEs*—SMEs and other entities that are less complex are a critical source of employment and innovation, and are embedded in local communities. Therefore, it is in the public interest to have high-quality audits that instill confidence and trust in this part of the economy.
 - b) *Helping auditors of LCEs undertake consistent, effective and high-quality audits*—In recent years, it has been recognized that the ISAs have become increasingly complex as the global environment has evolved. In addition, there has been an increasing focus on protecting the capital markets. As a result, there has been an increasing number of requirements and volume of material incorporated into the ISAs to serve the focus of protecting capital markets, some of which has been identified as challenging for auditors of LCEs (as the new and revised standards have been consulted on or initially implemented). Streamlined and targeted requirements that are appropriate to audits of LCEs are intended to result in an appropriate robust risk identification and assessment, and responses thereto, that are consistent and

² Although we refer to SME's, the matters noted in this project proposal may also apply to LCE's that are not SME's. As explained in paragraph 10, some stakeholders still refer to SMEs.

effective in the circumstances of the LCE, thereby maintaining audit quality.

- c) *Being responsive to stakeholder needs*—Considering the need for requirements targeted at, and appropriate for, the circumstance of the audit of an LCE, and maintaining a standard that is fit-for purpose, would be responsive to those stakeholders who have identified challenges with applying international standards in audits of LCEs.
 - d) *Promoting a more consistent application of the auditing standards to audits of LCEs*— The development of a global standard for audits of LCEs will fill a perceived gap that is currently filled by individual jurisdictions developing their own standards for audits of LCEs, which may result in inconsistency in practice within the LCE audit environment. Such fragmentation is not in the public interest. Developing a global solution would be in the public interest to ensure consistency of application of the standards in an audit, as well as supporting a common understanding of the procedures undertaken in an audit of an LCE.
16. The IAASB will also focus on how the scope (or applicability) of the standard is described so that audits performed using the standard are appropriate in the circumstances of the entity being audited (i.e., an audit of a less complex entity). It will not be in the public interest for the standard to be applied to entities for which it has not been designed.

V. Project Objectives

17. The IAASB's focus is on the clarity and conciseness of the [draft] audit standard to facilitate a proper understanding of the requirements of the standard once complete and finalized for use. Consideration through the development stage of the standard continues to be given to the global operability, implementability, and the ability of a standard to be consistently applied.
18. The objective of the project is to develop a separate standard, based on similar principles as the ISAs, for an audit of the financial statements of an LCE that:
- Facilitates the performance of a high-quality audit that:
 - Maintains the degree of confidence in the audit of the financial statements for the intended users thereof.
 - Is appropriate in the circumstances of a less complex entity.
 - Enables the auditor to issue a reasonable assurance opinion.
 - Is able to be used effectively and efficiently in the circumstances to be able to obtain sufficient appropriate audit evidence to support the audit opinion.
 - Promotes consistency in application through clear and understandable requirements that support a high-quality audit.
19. In developing the standard, the IAASB will remain mindful of the needs of those stakeholders who have expressly supported the development of a separate standard.

VI. Project Scope

20. To achieve the project objectives, the project scope is to develop a standard that:
- (a) Is based on the ISAs, i.e., using the same underlying concepts as the ISAs.

- (b) Is a risk-based approach to an audit so that it can be applied to entities with a wide range of circumstances that have common features of being less complex.
 - (c) Contains requirements that:
 - (i) Are principles-based and set out the auditor's obligations for obtaining sufficient appropriate audit evidence. Principles-based requirements will also enable scalability for individual circumstances of an LCE.
 - (ii) Are focused on the expected output of the requirement.
 - (iii) Are based on the requirements from the ISAs that are considered core to an audit, adapted as appropriate for an audit of an LCE, and relevant and suitable to the circumstances.
 - (d) Is premised on compliance with the IAASB's quality management standards, including ISQM 1³ and ISQM 2⁴ or national standards that are equally demanding, and the International Code of Ethics for Professional Accountants, Including International Independence Standards (Code of Ethics) related to an audit of financial statements together with national requirements that are more restrictive.
 - (e) Follows the flow of an audit that supports the practical application of the standard for audits where the circumstances are such that the audit is deemed to be less complex.
 - (f) Includes requirements that will enable the issuance of a reasonable assurance opinion and describe circumstances where that opinion may need to be modified.
21. The IAASB will explore how to clearly describe the applicability (or scoping) of the standard, that will help auditors and others understand when the standard is not appropriate to use, and will in turn help with understanding the focus and limitations of the standard.
22. The IAASB will also explore what more may be needed to support the effective and efficient implementation of the standard, either through material within the standard or supporting materials that do not form part of the standard (including IAASB non-authoritative materials as appropriate).

VII. Outline of the Project

Major Issues that Will Be Addressed

23. The IAASB's work will explore how best to:
- (a) Develop a standard that is considered "fit-for-purpose" for audits of LCEs, i.e., usable by auditors in a wide range of circumstances when auditing an LCE. In order to assist in enabling a standard that can be used globally and meet the expectations of stakeholders, the IAASB has established a "Reference Group" to supplement the activities of the LCE Working Group, but with a higher-level focus (see paragraph 45 for more detail about the activities of the Reference Group).
 - (b) Develop a standard that is clear, succinct, and concise. To assist, the standard will be drafted

³ International Standards on Quality Control (ISQM) 1, *Quality Management for Firms that Perform Audits or Reviews for Financial Statements, or Other Assurance or Related Services Engagements*

⁴ ISQM 2, *Engagement Quality Reviews*

using direct and straightforward language, following the flow of how an audit is executed. The development of related drafting principles and guidelines by the Complexity, Understandability, Scalability and Proportionality (CUSP) Working Group will also be considered as the standard is developed, as appropriate to the nature of this standard. The same structure will be used for each part of the standard to facilitate consistency of understanding. These actions are intended to enhance the usability of the standard for all stakeholders.

- (c) Facilitate implementation of the standard. In order to keep the standard concise and succinct it is intended that there will be limited or no application or other explanatory material. Therefore, the IAASB will explore how best to support the effective implementation of the requirements, either with essential material within the standard or very limited application material at the back of the standard. In addition, the IAASB will need to explore the development (by others) of support materials for the implementation of the standard.
 - (d) Incorporate the [draft] audit standard within the IAASB's suite of International standards. It is also expected this standard will be digitized once complete the same as the other IAASB standards.
 - (e) Keep the standard up to date with changes being made to the ISAs.
24. With regard to the applicability or scoping of the [draft] audit standard, it is intended that the standard will be designed to apply to audits of financial statements where the circumstances of the audit are less complex. However, there are some circumstances, such as for audits of listed entities, when the IAASB believes that only the ISAs would meet the public interest (even if those entities may otherwise meet the criteria of being 'less complex'). Therefore, it is proposed that the [draft] audit standard would exclude these types of entities explicitly from the scope of the [draft] audit standard. The IAASB will also explore whether to extend the exclusion to other entities including those that are considered to be public interest entities (or some subset of these).
25. Based on local facts and circumstances, individual jurisdictions may want to restrict the use of the [draft] audit standard (for example by using a size limit) or have additional criteria for its use. In addition, unless prohibited from using the [draft] audit standard (e.g., listed entity audits) the [draft] audit standard is an alternative to the ISAs for an audit to obtain reasonable assurance provided that it is used in circumstances where an audit would be considered to be less complex as contemplated in the applicability section of the standard. Even in circumstances where the [draft] audit standard is appropriate to use, the audit may still be undertaken in accordance with the ISAs.
26. Complexity in an audit could arise either from the nature of the entity, the way it undertakes its business, or from the application of the applicable financial reporting framework. The content of the [draft] audit standard will be developed using those requirements that are considered to be appropriate for less complex circumstances. The IAASB will explore how best to describe those circumstances that would drive complexity in an audit and therefore assist with understanding which requirements or topics are not included within the [draft] audit standard.
27. The IAASB will also need to further explore how best to communicate within the auditor's report about the audit that was undertaken, including the basis of the auditor's opinion (i.e., how compliance with the standard is described).

28. In tailoring the standard so that it is appropriate for audits of LCE's, further consideration will be given to topics that have been highlighted as challenging in audits of LCE's, in particular in relation to documentation and fraud.
29. The IAASB will also consider what more may be needed with respect to:
 - (a) Transitioning from the [draft] audit standard to the ISAs (for example, if the auditor has either previously used the [draft] audit standard in previous years (periods) and it is no longer appropriate because the circumstances of the entity have changed, or the auditor determines that it is no longer appropriate to continue to use the [draft] audit standard based on further information that comes to light as the auditor progresses through the audit; and
 - (b) Exploring the impact on the audit if the majority of the audit has been completed when the auditor determines that the [draft] audit standard is not appropriate.

Coordination with Other Working Groups and Task Forces

CUSP Working Group

30. As initial exploratory work on the [draft] audit standard has been undertaken, consideration has been given to the structure, flow, content, and articulation of the ISA requirements as appropriate to an audit of an LCE. In doing so, much has been learned about the current content of the ISAs which can feed into the work of the CUSP Working Group. At the same time, the work being undertaken by the CUSP Working Group in developing drafting principles and guidelines will also help inform the drafting of the [draft] audit standard.⁵ Therefore, continued coordination⁶ between the two working groups is essential.

Other Working Groups and Task Forces

31. The Task Force for this project will also coordinate as appropriate with other relevant Task Forces, including the Group Audits Task Force, the Audit Evidence Task Force, and the Fraud and Going Concern Working Groups (Task Forces), as projects on those topics are progressed.

VIII. Impact Analysis Considerations

32. The primary expected benefit of this project is to better enable consistent performance of quality audits through requirements that are adapted to the circumstances of less complex entities. The outcomes of this project will impact all participants in the financial reporting ecosystem i.e., auditors, those charged with governance and management of less complex entities (often for these entities, all of those charged with governance are involved in managing the entity), users of the financial statements, regulators and audit oversight bodies, national standard setters and other professional bodies)).
33. One of the expected outcomes of the [draft] audit standard is clarity about the applicability and relevance of the requirements for situations where audits are less complex. This would have the impact of focusing the auditor on undertaking targeted procedures that are appropriate to the

⁵ At the time of approval of this project proposal, the targeted timing for the consultation and completion of the drafting principles and guidelines by the CUSP Working Group has been coordinated with the targeted timing of the development of the [draft] audit standard. It is expected that the drafting principles and guidelines will be finalized before the [draft] audit standard is complete.

⁶ The Chair of the CUSP Working Group attends the working group meetings of the LCE Working Group, and the staff across both working groups are the same, which enables strong coordination between the two groups.

circumstances and proportionate to achieving the objectives, which may possibly impact the time or cost for these audits. The impact would vary from engagement to engagement depending on the nature and circumstances of the entity being audited and the methodologies currently in place.

34. The introduction of another standard for audits may also have an impact on education, training and professional development for auditors. The nature and extent of this impact will only be able to be determined once the [draft] audit standard has been finalized.
35. By addressing the public interest matters highlighted in Section III of this project proposal, the IAASB will contribute to improving the proficiency of auditors in undertaking an audit in circumstances where the audit is considered to be less complex, in particular for those auditors where all or most of their audits are for less complex entities. Clear requirements to create a consistent understanding of what needs to be done, in particular with regard to documentation, which will also assist regulators and audit oversight bodies in monitoring activities such as inspections (as relevant to audits of LCEs).
36. The development of this [draft] audit standard may result in:
 - (a) The mandate of the IAASB as a global standard setter being reinforced through developing a standard that can be used for audits of LCE's, thereby removing the need for other jurisdictions to develop their own standards and preventing fragmentation of the adoption of auditing standards on a global basis..
 - (b) 'Lessons learned' from developing the separate standard, in particular in relation to drafting the content, informing how the IAASB develops and revises its ISAs (or other International Standards) in the future.

Implications for Any Specific Persons or Groups

37. This project may have implications for all participants in the financial reporting ecosystem, which may vary depending on, for example, their proximity to the standard-setting process and the adoption and implementation of the standards (i.e., policy makers, regulators and audit oversight bodies, national standard setters and audit firms), or their proximity to the audited financial statements of an entity (i.e., preparers, those charged with governance, or users of financial statements).
38. Considering that the [draft] audit standard introduces an additional standard in the IAASB's suite of standards for audits of LCEs, each jurisdiction will need to accommodate local adoption and implementation activities, including through legislation where needed. For firms, the [draft] audit standard will pose policy decisions, and adoption and implementation considerations relating to a firm's human, technological and intellectual resources.
39. The [draft] audit standard will be developed to facilitate a high-quality audit, with a reasonable assurance opinion supported by sufficient appropriate audit evidence. There is a risk that users of financial statements may not understand that using the [draft] audit standard results in an audit with similar attributes as the ISAs, which may risk that the outcome of the audit from using the [draft] audit standard is perceived to be of a different quality. As a result, further description within the auditor's report and/or education may be needed, or other actions to mitigate this risk will need to be explored.

IX. Development Process, Project Timetable and Project Output

Development Process and Project Timetable

40. The project will be conducted in accordance with the IAASB’s Due Process and Working Procedures.⁷
41. The exploratory work for the development of the [draft] audit standard commenced in July 2020, with an initial draft of that work presented to the IAASB for discussion in December 2020. Below is a preliminary timetable from the Board’s December discussions, noting that specific project milestones and outputs may change as the project develops. The IAASB Consultative Advisory Group’s input will be obtained throughout the project.

Timing	Action
December 2020	Discussion of key matters relating to the exploratory work on the [draft] audit standard presented to the Board, including IAASB views on applicability / scope the [draft] audit standard and the inclusion of limited application material (i.e., essential material)
March 2021	Read of [draft] audit standard
June 2021	Finalization of exposure draft for public consultation (for 150-day consultation period)
December 2022	Finalization of audit standard for audits of less complex entities

Project Output

42. The expected output of the project is a separate audit standard for audits of less complex entities.
43. The IAASB will further consider how to encourage the development of appropriate support materials for the application of the standard. Consistent with the IAASB’s current Strategy, other implementation activities by the IAASB will likely be undertaken, such as the development of fact sheets, webinars explaining the [draft] audit standard and other actions as appropriate.

Resources Required

44. A project Task Force will be responsible for the project to develop the [draft] audit standard, and will be comprised of IAASB members, technical advisors, and external experts, as appropriate, with diverse backgrounds. IAASB Staff will provide support to the LCE Task Force.
45. Ongoing outreach has been undertaken with the LCE Reference Group at regular points throughout the initial exploratory efforts to develop the [draft] audit standard, and used to “test” the proposals as they have been developed. Broadly, the activities of the Reference Group have been to:
- Provide views on the direction of proposals to facilitate effective development of the [draft] audit standard. This initially involved high-level discussions on strategic matters and will evolve to matters presented in the draft as it is further developed.
 - Provide perspectives on important technical matters arising from challenges being experienced in audits of LCEs, and how these should be reflected in the [draft] audit standard.

⁷ [PIAC Due Process and Working Procedures](#)

- (c) Advise on other matters that should be taken into consideration as the [draft] audit standard is progressed.

The IAASB will continue to use this group until the exposure draft is finalized.

Appendix

Background to the Project on Developing a Separate Standard for Audits of Less Complex Entities and Other Relevant Developments

1. At present, over 130 jurisdictions use or are committed to using the International Standards on Auditing (ISAs) (up from some 90 countries using or committed to using the ISAs in 2006). Such use commonly applies to audits of entities of all sizes and complexity, mostly when such audits are mandated by law or regulation by a jurisdiction. However, there are differences across the jurisdictions as to how and for which entities there is a statutory requirement for an audit, with, for example, audit thresholds commonly being used (predominantly on a size characteristic) to limit those entities to which statutory audit requirements apply, with changes to these thresholds continually being reconsidered.^{8,9} Even when there is not a statutory requirement for an audit, many SMEs¹⁰ are either required to have an audit for a reason other than a statutory requirement, or still choose to have an audit, notwithstanding the ongoing debate about the cost versus benefits of an audit.
2. The widespread and continually growing international use of the ISAs underscores the importance the global community attaches to the ISAs. It also highlights the importance of the IAASB continuing to focus its efforts on maintaining the quality and operability of these standards for audits of entities of all sizes and complexity, and on meeting stakeholder expectations on their application.
3. The ISAs were clarified and revised in 2005–2009 (the ‘Clarity Project’)¹¹ with a view to being applied to audits of entities of all sizes and complexity.¹² As part of the finalization of the Clarity Project, the IAASB agreed to undertake a post-implementation review to determine whether its objectives in revising the ISAs had been achieved.
4. The post-implementation review of the Clarified ISAs was carried out in two phases. One of the key findings from Phase One of the review was that there was some concern about the application of the ISAs to smaller entities, notably whether they can be applied in a cost-effective manner. Accordingly, it was agreed that specific consideration would be given to this issue in Phase Two of the post-

⁸ For example, in the US private companies (with some limited exceptions) are not subject to a statutory audit. In Europe, member states can impose a threshold for audit for entities that are not public interest entities, medium or large entities (and the thresholds vary across the various member states). In France, there are currently no thresholds for a Société Anonyme, but they are in the process of considering the introduction of audit thresholds in the near future. In India, there is a statutory requirement for all unlisted entities to have an audit under their Companies Act annually. In Mexico, there is no requirement for an audit of non-listed entities. In Canada, business corporations that are privately owned are exempted from an audit if all shareholders consent in writing to the exemption in respect of that year. In Australia, there is a size threshold that exempts certain entities from a mandatory audit. In New Zealand, large New Zealand companies that are not Financial Market Conduct reporting entities have certain ‘opt out’ provisions where an audit may not be required.

⁹ In 2010 in Sweden, the regulatory requirement for an audit was abolished for small limited liability companies. However, the Swedish National Audit Office has recently published a report, [Abolition of audit obligation of small limited companies – a reform where costs outweigh the benefits](#) where it cites numerous downsides to abolishing the SME audit obligation.

¹⁰ There is no global definition for a ‘small- or medium-sized entity,’ and use and meaning of the term may differ substantially in different jurisdictions.

¹¹ In March 2009, the IAASB completed its Clarity Project designed to improve the clarity and understandability of the ISAs and International Standard on Quality Control (ISQC) 1 and, thereby, facilitate their consistent application

¹² An IAASB Staff publication was issued in August 2009 to explain how the ISAs can be applied to audits on a proportional basis, [Applying ISAs Proportionately with the Size and Complexity of an Entity](#).

implementation review.

5. The IAASB completed its post-implementation review of the clarified ISAs in 2013. As part of Phase Two, the IAASB conducted an annual survey of small and medium practices (SMPs) on audits of SMEs from a range of countries that had implemented the clarified ISAs, over the two years after implementation of the clarified standards. The findings from the surveys included:
 - A call from respondents to further demonstrate the scalability of the requirements.
 - Concern about the documentation requirements, with some respondents calling for more guidance about the nature and extent of documentation required.
 - Issues around implementing certain standards (particularly ISA 260 (Revised),¹³ ISA 540¹⁴ and ISA 550)¹⁵ in an SME environment.
6. In considering the findings from the post-implementation review, the IAASB acknowledged that the volume and complexity of the standards may result in challenges for audits of entities that are less complex. Accordingly, the IAASB recognized in its *Strategy for 2015–2019* that, in order to achieve effective implementation globally, its standards need to be, and be seen to be, proportionate and scalable for audits of all sizes and complexity.
7. Further efforts by the IAASB include:

January 2017	The IAASB, together with the Compagnie Nationale des Commissaires aux Comptes (CNCC) and the Conseil Supérieur de l'Ordre des Experts-Comptables (CSOEC), held a two-day working conference in Paris, focused on understanding the needs of SMPs when applying audit and non-audit IAASB standards to SMEs. There was overall support from attendees for the IAASB to explore what further possible actions are needed, although there were mixed views about what the most appropriate possible actions should be. For example, some attendees supported the development of a single standard (such as the draft Nordic Standard for Audits of Small Entities (see paragraph 10)), others were supportive of a “building block” approach and phased adoption, while others supported the development of more guidance and implementation activities.
March 2017	The IAASB received feedback from the January 2017 Paris conference and from discussion with the International Federation of Accountants (IFAC) SMP Committee at the March 2017 IAASB meeting. The IAASB also discussed a paper setting out possible actions for how scalability and proportionality could be incorporated into the IAASB's standards, in particular the ISAs.

¹³ ISA 260 (Revised), *Communication with Those Charged with Governance*

¹⁴ ISA 540, *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*

¹⁵ ISA 550, *Related Parties*

June 2017	The challenge of auditing SMEs and LCEs was discussed at the annual National Standards Setters (NSS) meeting hosted by the IAASB. NSS outlined developments in their jurisdictions emphasizing efforts to modify thresholds for audit exemptions.
Summer 2017	An informal working group (the Working Group) was established by the IAASB to consider the issues raised with a view to advising the Board on an appropriate way forward in response to the views expressed by stakeholders at both the Paris conference and the NSS meeting. The group met twice, and developed an issues paper and a possible draft of a standard to be discussed with the IAASB.
March 2018	The IAASB discussed, in an executive session, a paper highlighting the identified issues, and agreed with the recommendation that a global consultation on these matters was appropriate. To this end, the IAASB agreed that a DP would help the IAASB consolidate the work that has been undertaken in this area to date, better understand the issues that had been identified, and obtain stakeholder views on the most appropriate possible actions to address these issues with an open mind. For example, in addition to considering how the ISAs are structured and drafted, this could include (but is not limited to) understanding whether there was a need for, and whether it was feasible to develop, (a) separate standard(s) for audits of smaller and less complex entities, as suggested by some stakeholders. The Board supported the Working Group continuing its work to develop the DP and make recommendations for possible IAASB actions after consideration of the feedback from the planned consultation.
May 2018	In light of evolving developments, the challenge of auditing SMEs and LCEs was further discussed at the annual NSS meeting hosted by the IAASB. A proposed consultation process to gain a better understanding of the issues and possible solutions was outlined and support was expressed by the NSS for further work in this area.
September 2018	The IAASB discussed an initial draft of a proposal for the activities of the LCE Working Group (previously the Working Group) in developing a DP for IAASB discussion in March 2019.
April 2019	DP on issues and challenges related to audits of LCEs published.
May 2019	Second Paris conference focusing on matters set out in the DP. The working conference was held jointly together with the Compagnie Nationale des Commissaires aux Comptes (CNCC) and the Conseil Supérieur de l'Ordre des Experts-Comptables (CSOEC).

7. The DP was out for comment until September 12, 2019. Ninety-three written responses were received from a broad range of stakeholders across many regions:

Stakeholder Type	No.	Region	No.
Monitoring Group	1	Global	18
Regulators and Audit Oversight Authorities	5	Asia Pacific	16
National Auditing Standard Setters	14	Europe	28
Accounting Firms	25	Middle East and Africa	13
Public Sector Organizations	2	North America	8
IFAC and Other Professional Organizations	34	South America	10
Academics	1	Total	93
Individuals and Others	11		
Total	93		

Other Relevant Developments

8. Against this background, various jurisdictions or bodies have been exploring initiatives about how professional accountants in practice can continue to serve SMEs, including initiatives relating to audit (including guidance for audits of non-complex entities in various countries) and alternative service offerings beside for statutory audits. For example:
- Draft Nordic [*Standard for Audits of Small Entities*](#) (SASE) – in 2015 the Nordic Federation released, for consultation, a stand-alone draft of a standard for audits of small entities. The draft standard was developed based on the same audit principles as the ISA's but was specifically tailored to audits of small entities. The consultation received a large number of responses, from a number of different jurisdictions globally, reflecting the significant interest for further action in this area. This consultation, and the widespread international interest also demonstrated that for an initiative to be successful in this area, an international response is needed.
 - Sri Lanka – published an approved “*Framework for Audits of Non-Specified Business Enterprises*,” which is a stand-alone standard, tailored specifically to audits of small entities.
 - France – two new standards in France for audits that fall below the statutory threshold.
 - Morocco – An audit standard for small and medium entities, developed based on the IFAC SMP Guide translated into French by the Ordre des Experts Comptables of Morocco.
 - Belgium – In Belgium a statutory standard for contractual auditing of SMEs and small not-for-profit entities has been developed.
 - Germany – currently developing a set of standards for LCE audits based upon the existing ISAs. The targeted date for completion of this project is the end of 2021.
9. IFAC has published its updated *Guide to Using International Standards on Auditing in the Audits of Small- and Medium-Sized Entities* in July 2018 to reflect the changes to the IAASB's Auditor Reporting and related standards. This guide is used by practitioners in many jurisdictions, including public sector auditors, in implementing the ISAs.