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IAASB Consultation on Exposure Draft of Proposed International Standard on Auditing for Audits of Financial Statements of Less Complex Entities (ISA for LCE)

Dear Sir

We thank the IAASB for the opportunity to give our view on the important subject of audits of less complex entities. We hereafter provide you with our comments and views on the respective exposure draft.

We as EXPERTsuisse - the Swiss Expert Association for Audit, Tax and Fiduciary – represent some 5,000 Swiss certified auditors, tax and fiduciary experts as well as some 800 professional services firms managed by them. Our members and the Swiss profession as a whole are directly affected by the implications which are discussed in your document.

As a member of IFAC we welcome that the IAASB has developed an exposure draft for a separate standard for audits of less complex entities and consider this subject as an urgent matter as small- and medium-sized enterprises (SMEs) make a critical economic and social contribution.

Our View at a Glance

1. We are in favour of a separate auditing standard for audits of less complex entities (LCEs) in order to address the current challenges of applying the “full” ISAs in SMP/SME situations.
2. We welcome that the ED-ISA for LCE is principles-based and focuses on the main aspects of an audit and that the audit report includes a reasonable assurance opinion. It is important that auditor’s judgement is included in the standard to enable a scalable application. Furthermore, we urge the IAASB to be even more radical in omitting (unnecessary) requirements, which have been included (as a copy/paste from the full ISA) in the draft LCE.
3. The application of the standard should be determined based on quantitative and/or unambiguous criteria rather than qualitative criteria to make sure that the standard is used consistently.
4. In our view it is crucial that the standard is also applicable for less complex group audits to reflect the needs of several jurisdictions and to consider proportionality of costs and benefits for audits of small groups.

Support for a Separate LCE Audit Standard

EXPERTsuisse supports the development of a separate auditing standard for LCEs besides the existing ISAs, as the current standards have become overly complex and are very hard to digest and apply, especially by small and medium-sized audit practices (SMPs) in SME audits. The difficult language combined with the length of the standards have made it very ambitious to understand and follow the requirements. The “essence” of the standards is very often not apparent, as we realise that standards include an increasing level of detail, while not only requirements are added to the standards, but also contextual information that should be part of a methodology and not of the standards themselves. As a professional accountancy organisation in a country of multiple official languages, we also experience burdensome and time-consuming translation efforts.

Scalability

Scalability of the standards is crucial and – although always been stressed by the IAASB – has not been (fully) achieved in the current ISAs. Therefore, it is important that an appropriate level of auditor’s judgement is included in the LCE audit standard to enable a scalable application and to make the audit really more efficient.

The requirements set out in the ED-ISA for LCE are much less granular and summarized compared to the full ISAs. However, in our view there is no true reduction of requirements or modification of basic concepts in the ED-ISA for LCE. We are of the opinion, that the IAASB should be even more radical in omitting (unnecessary) requirements to make the LCE audit standard fit for purpose. In areas such as “Audit Evidence and Documentation”(ISA 230), “The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements” (ISA 240), “Risk Identification and Assessment” (ISA 315 (Revised)), “Auditing Accounting Estimates and Related Disclosures” (ISA 540 (Revised)) or “The Auditor’s Responsibilities Relating to Other Information” (ISA 720 (Revised)) further reductions of the requirements would in our view be possible and desirable.

Scope of application

A very important aspect is the scope of application of the new LCE audit standard. We surely are aware of the fact, that quantitative thresholds are not necessarily an appropriate measure to differentiate between complex and less complex. Nonetheless, we would recommend setting quantitative criteria for the definition of the scope. Quantitative criteria is comparable and easy to determine for every professional. There could be set a range of quantitative thresholds on global level which could be refined by the jurisdictions on local level. Complementary qualitative criteria could be defined in cases where there are special circumstances (e.g. complex IT environment, complex business model, situation of capital loss or over-indebtedness). The assessment of the qualitative criteria could be made by the responsible auditor based on professional judgement.

In addition, we suggest that the number of criteria applicable to all LCE - no matter the jurisdiction they are based in - should be further reduced in order to allow the jurisdictions more room for development of their own rules; this might reduce the real threat that they develop and implement their own local GAAS for LCEs.

Ultimately, we could imagine that the application of full ISAs would only be required for PIEs.

Group Audits

Furthermore, in our view it is crucial that the standard is also applicable for less complex group audits to reflect the needs of several jurisdictions and to consider proportionality of costs and benefits for audits of small groups. In Switzerland there are a lot of groups with a simple group structure which could be audited by the LCE audit standard in the future if the application for specific group audits was included in the scope of application. Additionally, a general scope-out of group audits would very likely imply that all significant components of a group would also be subject to a full ISA-audit even if they themselves met the LCE-criteria.

We hope that you will find our comments and observations helpful. If you would like to discuss any of them further, please do not hesitate to contact us.

Kind regards

EXPERTsuisse



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