

Il Presidente

IAASB

International Auditing and Assurance Standards Board
529 Fifth Avenue
New York, NY 10017
USA

2 August 2019

IAASB Discussion Paper – Audit of Less Complex Entities

Dear Sirs,

ASSIREVI is the association of Italian audit firms. Its member firms represent the majority of the audit firms under the oversight of CONSOB (*Commissione Nazionale per le Società e la Borsa*) and are responsible for the audit of almost all of the companies listed on the Italian stock exchange. ASSIREVI promotes technical research in the field of auditing and accounting and publishes technical guidelines for its members. It collaborates with Governmental bodies, CONSOB, the Italian accounting profession and other bodies in the development of auditing and accounting standards.

ASSIREVI is pleased to submit its comments on the Discussion Paper "Audit of Less Complex Entities: Exploring Possible Options to Address the Challenges in Applying the ISAs" issued by IAASB in April 2019.

Our detailed comments to the questions are set out in the attached document.

Should you wish to discuss our comments, please do not hesitate to contact us.

Yours faithfully,



Mario Boella
Chairman of ASSIREVI

COMMENTS ON THE IAASB DISCUSSION PAPER

Audits of Less Complex Entities:

Exploring Possible Options to Address the Challenges in Applying the ISAs (April 2019)

- 1- **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 upon the qualitative characteristics identified in the foreword of the Discussion Paper and we acknowledge that these characteristics are neither exhaustive nor exclusive to smaller entities. We are fairly convinced that quantitative thresholds are not appropriate in all circumstances; rather, we believe that professional judgement should be required for the identification of LCEs. Concentration of ownership and management in a small number of individuals (often a single individual – either a natural person or another enterprise that owns the entity provided the owner exhibit the relevant qualitative characteristics) might represent an indicator; however, we believe that IAASB should not assign prominence to that characteristic.

Lastly, we do not support the adoption of statutory thresholds for the definition of LCEs regardless the decisions taken at each jurisdiction level to define when an audit is required or not.

- 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.**
 - 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?**

We concur on the major challenges described in the Discussion Paper. We believe that the following are specifically relevant in the audit of LCEs:

- Risk identification and assessment;
- The auditor's considerations in relation to fraud;
- Auditing accounting estimates.

In our view, the analysis and evaluation of the internal control is the broad challenge in the audit of LCEs. As a matter of facts, LCEs status implies less sophisticated system of internal control and insufficient segregation of duties.

- 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?

The main issue might be the effort on Education and People. We acknowledge what is evidenced in the Discussion Paper “the auditor’s knowledge of the ISAs contributes to the effective execution of an audit”.

Secondly, but not less important, would be the continuous effort to close the expectation gap.

However, our suggestions are relevant for all audits not only LCEs.

- 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.
- 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?
- 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.

Consistently with our response to question 2. above, we mostly support IAASB’s ongoing efforts regarding scalability and proportionality in the application of ISAs.

In our view, the development of a specific standard for LCEs is not the appropriate solution. That approach might be viewed as a low level of assurance work thus reducing the reliance placed by stakeholders on the auditor’s opinion.

Milan, 2 August 2019