



**CONSIGLIO NAZIONALE  
DEI DOTTORI COMMERCIALISTI  
E DEGLI ESPERTI CONTABILI**



Consiglio Nazionale Dottori Commercialisti  
e degli Esperti Contabili

Prot. 0010031

del 11/09/2019 ore 11:56:32

Protocollo generale - Registro: U

MINISTERO DELLA GIUSTIZIA

*Il Presidente*

MM/COO/lp

Rome, 10 September 2019

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

**Ref.: Comments by *Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili* on the Discussion Paper "Audits of Less Complex Entities: Exploring Possible Options to Address the Challenges in Applying the ISAs"**

The *Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili* (hereinafter CNDCEC) is glad to provide its comments to the Discussion Paper "Audits of Less Complex Entities: Exploring Possible Options to Address the Challenges in Applying the ISAs".

CNDCEC is especially interested in IAASB's consultation and resulting actions, since in most cases, in Italy, auditing concerns small enterprises (or, using recent terminology we agree with, "less complex entities"). Recent regulation has significantly reduced the thresholds requiring a mandatory audit for limited liability companies (while the audit is always mandatory for companies limited by shares and partnerships limited by shares). According to this new legislation, for Italian limited liability companies the audit is mandatory when the company: a) is required to prepare the consolidated financial statements; b) controls a company whose financial statements are required to be audited; c) has exceeded, for two consecutive periods, at least one of the three following quantitative criteria: 1) total balance sheet assets: 4 million euro; 2) revenues from sales and services: 4 million euro; 3) average number of employees during the period: 20.

In view of the scope of the new legislation, CNDCEC has further stepped up its efforts on audit, especially for less complex businesses, a topic that has always aroused great interest and required continuous efforts, since more than 65% of professionals qualified to carry out audits are *dottori commercialisti* registered in our Roll.

We would be pleased to discuss with you every aspect of the comments enclosed herewith.

Yours Sincerely,

Massimo Miani

**Comments by Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili**  
**on**  
**Discussion Paper, *Audits of Less Complex Entities: Exploring Possible Options to Address the Challenges in Applying the ISAs***

- 1. We are looking for views about how LCEs could be described. 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?**

The elements describing LCEs are all appropriate.

In addition, we might include further qualitative characteristics such as:

- Informal decision-making process;
- Absence of written internal procedures;
- Outsourcing of bookkeeping and/or accounting activities to external Firms/Professionals;
- The process of evaluation of business risks takes place indirectly through the daily behavior – and with no specific formality - of the persons working within the business with functional responsibilities;
- There is no written code of conduct, and business guidance and procedures on ethics, including independence, are based on verbal directions provided by the entrepreneur or business management;
- The governance structure does not generally include individuals who are external to and/or independent from the business organization;
- Sector where the company operates. In this regard it would be appropriate to exclude from LCEs some specific sectors, such as financial and insurance sector, gambling and gaming sector, garbage sector, etc.;
- Simplicity of accounting estimates;
- Absence of investments in subsidiaries or associates.

In our opinion, the description of LCE could usefully be complemented by size parameters whose definition should, however, be left at the discretion of the single national legislators.

In Italy, recent regulation has significantly reduced the thresholds requiring a mandatory audit for limited liability companies (while the audit is always mandatory for companies limited by shares and partnerships limited by shares). According to the new mentioned legislation, for Italian limited liability companies the audit is mandatory when the company: a) is required to prepare the consolidated financial statements; b) controls a company whose financial statements are required to be audited; c) has exceeded, for two consecutive periods, at least one of the three following quantitative criteria: 1) total balance sheet assets: 4 million euro; 2) revenues from sales and services: 4 million euro; 3) average number of employees during the period: 20.



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 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?**

The main difficulty refers to the reliance on the internal control system for audit purposes. Based on the underlying characteristics of LCEs as specified above (i.e. internal control system often based on unwritten procedures and characterized by a low level of segregation of duties), and although the requirements of ISA 315 on the understanding of the internal control system need to be complied with, the related reliance on the internal controls by the auditor as specified in ISA 330 is generally difficult to apply in an LCE. In practice, a substantive approach is often preferred when performing the audit of an LCE.

The fact that, in general, within LCEs, the assessment of the reliability of the internal control system, required by ISA 315, is unlikely to be positive (also considering that the segregation of duties and related responsibilities is rarely applicable) has a series of consequences on the application of many other ISAs that should, therefore, be appropriately integrated with specific considerations concerning the audit of LCEs.

We refer in particular to:

- ISA 315: When it deals with the assessment of the internal control system and the results of this assessment on audit planning. Consequently, ISAs 265 and 330 should be revised for the same reason, as well as ISA 230 with reference to the documentation to be collected to support the assessments made on the internal control system itself.
- ISA 330: In light of the observations made on the assessment of the reliability of the internal control system, ISA 330 should be complemented keeping in mind that, when LCEs are audited, it is more likely for the auditor to choose an audit strategy including substantive procedures and tests of details, rather than tests of control, as general audit responses.
- ISA 402: If bookkeeping/accounting activities are outsourced, in compliance with ISA 402 the auditor also needs to obtain an understanding of the internal control system of the external accountant and of the interactions between the audited company and the service provider. Consequently, the auditor documents his/her intention to rely or not to rely on the internal control system for audit purposes.
- ISA 510: In case of first audit engagement in LCEs, the audit work on the opening data and information becomes more complex due to an environment with poor internal control. Therefore, the audit standard under consideration should provide guidance to the auditor of LCEs to identify and assess the potential risks of prior periods material misstatements through questions and inspections focused on the detection of any such risks.
- ISA 520: the application of substantive analytical procedures in LCEs to identify the areas of risk for the audit, may not be easy due to the lack of accounting data that are complete and consistent with comparative data of prior periods. In an environment with poor internal

controls, such as an LCE, such lack is very likely to occur – accordingly, ISA 520 should highlight the need to prepare comprehensive accounting data for a proper application of the substantive analytical procedure.

- ISA 540: Accounting estimates typically represent an area of risk for audit purposes. All the more so in LCEs, where the figure of the entrepreneur is dominant and there are other aspects that can affect the reliability of the accounting data (poor internal control, a limited number of staff with a limited allocation of tasks due to a low level of segregation of duties, etc.), evaluating the estimates is a key issue that deserves the auditor's full attention. The audit standard under consideration should therefore encourage the auditor to strengthen his/her own control through detailed guidance requiring specific questionnaires, memorandum, etc., on the tests and verifications to be carried out.

**3. With regards to the factors driving challenges that are not within our control, or have been scoped out of our exploratory information gathering activities, if the IAASB were to focus on encouraging others to act, where should this focus be, and why?**

IAASB needs to interact more at a local level, sharing views and projects with those Entities and Bodies representing the professionals involved in the performance of an audit (CPAs for example) in order to collect the requests and challenges that are commonly shared among the auditors belonging to different jurisdictions.

**4. To be able to develop an appropriate way forward, it is important that we understand our stakeholders' view 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, already discussed.**

**Action 1: Revising the ISAs**

- a. The process of revising all ISAs in order to encompass peculiarities and specific guidance addressed to LCEs appears to be time consuming and inefficient. The current version of the ISAs already provides specific inputs for smaller entities, in compliance with the "scalability" principle, but without setting rigid parameters that would contrast with the general scalability principle.



- b. The modified ISAs would consist in complex and extensive documents, difficult to navigate and apply.

**Action 2: Develop separate auditing standards for the audits of LCEs**

- a. The most appropriate solution would be the issuance of one separate audit standard encompassing peculiarities of LCEs and providing specific guidance for the performance of the related audits. The standard should encompass all basic steps of an audit performed on LCEs, from preliminary activities to issuance of the opinion.
- b. The new standard focused only on the audit of LCEs would provide a practical and exhaustive document for all auditors involved in the performance of audit on LCEs

**Action 3: Developing guidance for auditors of LCEs or other related actions**

- a. The development of specific guidance on audit of LCEs, which points out the peculiarities of performing an audit on LCEs, might also be a possible solution in the short term. However, in order to face the difficulties and challenges on the performance of audit in LCEs the preferable option remains the issuance of a dedicated audit standard.
- b. The development of a guideline might serve as supporting documentation in combination with a specific auditing standard; perhaps it might be customized at local level in order to address domestic peculiarities.

**5. Are there any other matters that should be considered by us as we deliberate on the way forward in relation to audits of LCEs?**

When performing an audit on LCEs, bookkeeping and accounting services of the audited company are often outsourced to accounting professionals or Firms. In this scenario, it would be appropriate to document the interaction between the audited company and the external provider of the bookkeeping and accounting services in the written representation letter, where respective responsibilities can be assessed and confirmed.

In addition, in the planning and performance phases the auditor needs to carefully evaluate timing and extension of the audit procedures in accordance with the availability of resources (time and personnel) by the bookkeeping/accounting service provider.