



**Mr. Thomas Seidenstein,
IAASB Chair,
International Auditing and Assurance Standards Board,
529 Fifth Avenue,
New York,
NY 10017**

12th September 2019

Dear Mr. Seidenstein,

Discussion Paper: Audits of Less Complex Entities: Exploring Possible Options to Address Challenges in Applying the ISAs

We welcome this opportunity to engage in this vital consultation on the application of the ISAs to Less Complex Entities. At a time when there is ongoing global scrutiny of the audit product, it is critical that the challenge of delivering a solution that safeguards the robustness and the value of the statutory audit function, for all entities, is examined and explored.

We also welcome the recognition by the consultation of the contribution by smaller entities to the global economy and consequently the auditors of such entities.

We would also highlight the ever-present challenge of the training of the next generation of auditors and this should be a factor that is considered whatever the outcome to the consultation and next steps are.

Background to the Irish LCE Audit Market

The market for statutory audit services in Ireland has undergone substantial change, particularly over the last twenty years, following the introduction of the audit exemption, the current turnover threshold for which is currently €12m. In Ireland the “penalty” for the late filing of company returns with the Companies Registration Office is the loss of the audit exemption for a period of two financial years. This penalty system makes the demand for audit services artificially high for a country with a relatively high income threshold for audit. It also, in our view damages the value of the audit function, given that it is viewed as a sanction for non-compliance. Therefore, the subject matter of this consultation is of prime importance to the SMP/SME audit market in Ireland.

In developing our response, we undertook a member engagement exercise whereby we highlighted the content of the discussion paper through a dedicated webinar for members, during which we conducted an interactive survey. The webinar was well attended by the auditors of LCEs and participants were anxious to express their views on the topic. We surveyed participants throughout and have outlined the results of the survey in Appendix One to our response.

We also encouraged members to respond to the IAASB survey on the matter.

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Profile of the Irish Audit Profession

In Ireland the Irish Auditing and Accounting Supervisory Authority (IAASA) recently published its annual Profile of the Profession for 2018¹. It reflects an audit profession dominated by SMPs. The report shows that at 31st December 2018, 97.5% of audit firms in Ireland had five partners or less (58% were sole practitioners), 92% of firms operated via one office only and 99% of audit firms had no Public Interest Entity audit engagements. Typically, such firms have LCE audit clients. These statistics underline the importance of this consultation to the Irish audit market.

The report also highlights the changing face of the audit landscape in Ireland, identifying that over the past 5 years the number of audit firms with offices in Ireland declined by 18%. This decline is exacerbated by many challenges to the sector.

Some of the challenges identified in the CPA Ireland survey in this regard were as follows;

- 91% cited audit fee pressure
- 63% cited availability of audit staff
- 64% cited the availability of audit technology solutions for LCEs

For all these reasons this discussion paper is essential at this point in time. There is an opportunity now to consider and identify solutions to these challenges and to promote and enhance the value of the audit for the LCE market.

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 that the description outlined in the discussion paper of an LCE is appropriate and we welcome the qualitative approach taken.

However, we do believe that a focus on qualitative descriptors alone may result in an over reliance on judgement which could result in inconsistencies in application.

Therefore, we believe that in addition to the qualitative measures outlined, that at national level additional criteria be applied, such as turnover levels and balance sheet totals etc. Consultation as to the appropriate levels would be required and it would be essential that consistency in application is achieved.

It may also be worthwhile to re-consider the terminology “Less Complex Entities”. Whilst its use is appropriate at this point of the consultation, it may be worth revisiting as the project evolves. There may well be instances where an entity is small and non-complex in terms of its operations but could be complex in terms of other aspects of its activities.

¹ IAASA’s 2018 [Regulatory and Monitoring Supervision Profile of the Profession](#)



2. a. What are the particular aspects of the ISAs that are difficult to apply?

Audit Planning

The planning stages of the audit were identified by practitioners as a particularly challenging point of the audit of an LCE. The extensive planning requirements of ISA 300, 315 and 330 were cited as being overly burdensome for such client types.

ISA 315

It is felt that the sheer length of ISA 315 makes the standard difficult to read and to determine what the auditor needs to do.

The complex language throughout the standard make it difficult to apply to an LCE, for example the consideration of an LCE's "control environment" can often be difficult to consider in terms of the systems of an LCE, which are often very basic in nature but perhaps sufficiently appropriate to record the activities of a less complex entity.

ISA 330

Much of the same commentary can be attributed to the requirements of ISA 330 in terms of the difficulty applying the complex language and requirements of ISA 330 to an entity with basic internal processes.

ISA 230

One of the key challenges cited by respondents to the survey were around the extensive documentation requirements of the ISAs.

In particular the appendix to the standard, which sets out the relevant requirements, could be afforded greater prominence and detail. Improvements in the navigation from ISA 230 to these relevant sections would aid an auditor's consideration of the adequacy of their documentation. This is an area where additional guidance would be beneficial.

ISA 240

Difficulty can also be experienced by the auditor of an LCE when it comes to the auditor's assessment of ISA 240. Again, it is the use of the complex language in the standard that can make it difficult to identify and apply to the more simplistic controls 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 underlying causes of these challenges in our view are as follows;

- Use of complex terminology and language that do not apply to the internal systems and processes of an LCE
- Lack of guidance in the area of audit documentation

CPA Ireland has attempted to address these challenges through the provision of relevant training and workshops for its members. The CPA Ireland audit work programmes have also been designed with these challenges in mind and they seek to ensure that all the necessary requirements are set out in a

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user-friendly manner. Additional guidance is provided at various points through the audit process as necessary. The programmes have been designed with the vital input of the auditors of LCEs and CPA Ireland's Quality Assurance staff.

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?

We recognise that there are challenges that are not within the control or scope of this exercise. The factors that are scoped out of this exercise are though critically important to the success of the exercise. Of particular importance is the question raised around the value of the audit and this is a matter for ongoing debate and focus. Addressing the scalability of the ISAs for the LCE market, we believe, will enhance the value of the audit.

Technology has a vital role to play in the future of the audit process and the outcome of this consultation may find solutions in technology innovations.

Ongoing outreach with member bodies, national regulators and auditors is vital in this regard.

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.

Consideration of possible actions;

Revising the ISAs

We believe that the revision of the ISAs would provide a suitable opportunity to improve the scalability of the standards, and therefore address the challenges identified.

We believe that a building block or "think small first" approach to the setting of standards would be most beneficial and again would deliver improved scalability, i.e. identify the absolute requirements for an LCE with add on requirements for more complex entities and public interest entities.

At present there is insufficient consideration of scalability within the standards.

However, we do understand that this approach may require a lengthy timeframe, whether this is achieved either by revising on a standard by standard basis or revising all the standards in one go. It may therefore take a considerably long time to reap the benefits of this approach.

However, we would encourage those revising the standards in the future to follow this approach whatever the outcome of this consultation is.

Developing a Separate Auditing Standard for Audits of LCEs

We believe that such an approach would deliver a faster solution to the issue and it is the most favoured proposal by the respondents to our survey.

We also believe that it could deliver a harmonised approach to the audit of LCEs globally.

There is concern that the individual development of different LCE standards at national level dilutes the global advantages of an ISA compliant audit. We believe that any perceived differences in standards weakens the audits global value.

In developing such a standard, it would be vital that the framework and overall thrust of the ISAs be used to build the standard, in particular the focus on risk and professional scepticism. This would be

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necessary to ensure that the “audit product” for entities of all sizes would have a common understanding by all stakeholders. The desired result must be the delivery of a proportionate solution at the same standard as that which is applied to non LCEs.

It would also ensure that auditors who are trained within SMP firms and with LCE audit clients, have an adequate understanding and knowledge of the ISA approach to statutory audit.

Developing Guidance for Auditors of LCEs or other related actions

In our view, whilst guidance for auditors of LCEs, is always to be welcomed, we do not believe that such an approach alone would dispel the current challenges. We would be concerned that the guidance would become voluminous, and may discourage its use, given that the auditor must now consult the ISA and the guide.

Conclusion

In summary we see merit in all the proposed actions outlined in the consultation. It is essential that the solution that is ultimately delivered enhances the value and future of the audit.

We also believe that it is vitally important that the outcome of the process is one that can achieve consistency in application globally. Without such consistency it is a concern that the value of the audit process could be threatened.

We warmly welcome this opportunity to engage and commend the IAASB for the consultation. We understand that the solution may take some time to achieve but believe that it is vital, considering the valuable contribution of SMEs to the global economy.

If you have any queries on any aspect of our response, please contact us.

Yours sincerely,

A handwritten signature in black ink that reads 'Emer Kelly'.

Emer Kelly

Secretary – Audit Practices Sub-Committee



Appendix One – Results of Survey of CPA Members

1. Does your practice offer audit services?	Percentage of Respondents
Yes	70.45%
No	29.55%

2. Does your practice have LCE audit clients?	Percentage of Respondents
Yes	75.31%
No	24.69%

3. In your view, is the description of an LCE appropriate?	Percentage of Respondents
Yes	69.74%
No	3.95%
Partly	26.32%

4. Do your LCE clients value the audit process?	Percentage of Respondents
Yes	15.71%
No	58.57%
Partly	25.71%

5. Do you think that the audit process is a valuable process for an LCE?	Percentage of Respondents
Yes	22.62%
No	41.67%
Partly	35.71%

6. Have you experienced significant challenges applying the ISAs to LCE clients?	Percentage of Respondents
Yes	53.85%
No	17.95%
Partly	28.21%

9. Are the following areas difficult to apply to an LCE?

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a) Risk assessment standard (ISA 315)	Percentage of Respondents
Yes	59.26%
No	11.11%
Partly	29.63%

b) Fraud assessment standard (ISA 240)	Percentage of Respondents
Yes	50.00%
No	25.64%
Partly	24.36%

c) The Audit of accounting estimates	Percentage of Respondents
Yes	48.65%
No	20.27%
Partly	31.08%

d) Documentation requirements	Percentage of Respondents
Yes	57.14%
No	9.52%
Partly	33.33%

10. What would your preferred option be?	Percentage of Respondents
Option 1 – Revise the ISAs	1.19%
Option 2 – Develop a separate standard for audits of LCEs	42.86%
Option 3 – Develop guidance for auditors of LCEs	16.67%
Option 4 – A combination of option 1 and 3	39.29%

11. Would you see the following matters as challenges for the auditors of LCEs?

a) Audit fee pressure	Percentage of Respondents
Yes	91.25%
No	3.75%
Partly	5.00%

b) Availability of audit staff	Percentage of Respondents
Yes	63.41%
No	17.07%
Partly	19.51%

c) Audit technology not available for the audit of LCEs	Percentage of Respondents
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Yes	63.75%
No	7.50%
Partly	28.75%