



Crowe Global
488 Madison Avenue, Suite 1200
New York
NY 10022-5734
USA
+1.212.808.2000
+1.212.808.2020 Fax
www.crowe.com/global
david.chitty@crowe.org

18 September 2019

Mr T Seidenstein,
Chairman,
International Auditing and Assurance Standards Board,
529 Fifth Avenue, 6th Floor,
New York,
NY 10017,
USA.

Dear Mr Seidenstein

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

Crowe Global is delighted to present a comment letter on the Discussion Paper *Audits of Less Complex Entities: Exploring Possible Options to Address the Challenges in Applying the ISAs*. Crowe Global is a leading global network of audit and advisory firms, with members in some 130 countries.

We welcome the project on the application of ISAs to the audit of Less Complex Entities, as there are strong views on this subject. Our responses to the request for specific comments are presented in the appendix to this letter. We agree with the proposed concept of “less complex entities” and encourage the discussion about the qualitative definition of this term. We also welcome the IAASB’s exploring of the options for progressing this project. Within our membership there are strong views for both developing a separate auditing standard for the audit of less complex entities and for taking a new approach to developing guidance for the sector. To reconcile these views, as an immediate priority, we encourage the IAASB to develop its own succinct and practical guidance. Looking further forward, as the IAASB develops its standard setting plans it ought to be open to developing a specific standard for the audit of less complex entities that shares the same fundamental principles as the full ISAs.

We trust that our comments assist the IAASB in progressing this important project. We shall be pleased to discuss our comments further with you.

Kind regards

Yours sincerely

A handwritten signature in black ink, appearing to read "David Chitty".

David Chitty
International Accounting and Audit Director

Appendix – Response to Request for Specific Comments *Audits of Less Complex Entities: Exploring Possible Options to Address the Challenges in Applying the ISAs*

Question	Response
<p>1. We are looking for views about how LCEs could be described (see page 4). 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?</p>	<p>We consider the description presented in the Discussion Paper to be appropriate. Risk ought to be the determinant of “complexity” rather than size.</p> <p>We agree with the qualitative characteristics set out on page 4 of the Discussion Paper and see these as a basis for development.</p> <p>As an observation about qualitative characteristics, we have no issue with regarding a small, thinly traded and narrowly held quoted company with straightforward activities (such as a mineral resource prospector that has no revenue) as “less complex”.</p>
<p>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:</p>	
<p>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.</p>	<p>As an overall observation, when working in an environment where qualitative factors equate to the proposed definition of an LCE, the ISAs are regarded as having too many requirements that are difficult to understand. There are concerns about the understanding of the standards by non-native English speakers and the quality and interpretation of the translations into other languages. This does not help when trying to interpret the standards in a less complex environment. We encourage IAASB to develop its own protocols for use of both the English language in the original standards and for the process of translation into other languages.</p> <p>With regard to the conduct of the audit:</p> <p>Application of ISA 315</p> <p>The application of the extant ISA 315 and its proposed replacement are regarded as demanding and not necessarily consistent with the understanding of the business and identification of risk in a less complex environment. The application of COSO principles is appropriate in the full standard, but has to be challenged when looking at the audit of LCEs. There is the opportunity to look at other ways to address the understanding of the business and identification of significant risk.</p> <p>Understanding Systems & Internal Control</p> <p>The requirements of the full ISAs with regard</p>

	<p>to the understanding of systems and the assessment of internal control are seen as demanding and not necessarily applicable to the LCE environment. LCEs do have internal controls (such as authorisation) and do have simple transaction cycles. These could be relied upon. However, a different way has to be found to express this.</p> <p>Documentation</p> <p>The application of ISA 230 gives rise to concerns about the documentation requirements of ISAs. We consider the documentation of the performance of the audit to be critical in demonstrating that the auditor has applied standards, as well as applicable laws and regulations, and is acting in the public interest. However, the LCEs project presents an opportunity for a discussion about “how much is enough” in the context of the documentation of a lower risk audit such as an LCE.</p> <p>Audit Assertions</p> <p>The audit assertions are important but often not understood properly by the auditor. This means that there is the possibility that not all the assertions are properly addressed. We understand that the IAASB may review the assertions in the Audit Evidence project. The LCEs project also presents an opportunity to explore the application of the audit assertions and their application in collecting meaningful audit evidence.</p>
<p>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?</p>	<p>The underlying cause is probably that the ISAs have been developed to meet the needs of stakeholders who are relying on reports on audits of public interest entities in environments that are heavily regulated. Stakeholders, such as oversight bodies, have influenced the development of Auditing Standards, in a way that is important for public interest audits, but not necessarily relevant for other audits.</p> <p>Audits of LCEs involve presenting reports that are likely to be relied upon by a narrow community of owners (in many cases involved in the business) and indirectly by other parties, who often also might have relationships with the business that mean that the audit report can be regarded as complementing their understanding. The audit report is valued, but the process for preparing the report does not have to be the same as that for a public interest entity.</p>
<p>3. With regard to the factors driving challenges that are not within our control, or have been scoped out of our exploratory</p>	<p>The list of factors that are not within the IAASB’s control in Section II is an interesting presentation. As an overall observation, we</p>

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?

encourage the IAASB to respond pro-actively to the challenges that it has identified and build relationships that can mitigate some of these. The IAASB may have to convince some of its existing stakeholders that time and resources have to be devoted to the LCE project rather than projects that are directly related to the audits of public interest entities. Collectively, LCEs are important components of the economy, and the specific characteristics of their audits merits attention.

We comment below on some of the challenges.

Audit Exemption Thresholds

Audit exemption thresholds vary, whether between European Union Member States, or more widely. It is therefore helpful that the IAASB has encouraged discussion about “less complex” audits rather than SME audits because of the variation both in the setting of thresholds and the voluntary performance of audits of entities that are below the threshold. The IAASB’s approach means that size thresholds are an indirect consideration.

Technology

Audit technology applications are increasingly available in many markets and one of the challenges for auditors (and their oversight bodies) is that most ISAs do not reflect the current technological environment. The IAASB has a data analytics-working group and this group has to be more visible and engaged in projects such as the audit of LCEs.

Expectations and Value

The IAASB makes important observations, and we would encourage it to use projects such as the audit of LCEs to debate the expectations of an audit of an LCE and the value that stakeholders derive from such an audit. Any audit has to meet the expectations of stakeholders and deliver value.

Audit Oversight

Some of the concern about the application of ISAs to less complex audits may have arisen because of the expectations set by some oversight bodies to the application of ISAs. We encourage the IAASB to engage with oversight bodies about the application of ISAs as the standards are intended to be scalable. An open and effective dialogue about scalability and realistic expectations as to what is expected of an ISA compliant may

	be beneficial to the discussion about the audit of less complex entities.
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?	<p>Revising the ISAs</p> <p>There are merits in revising the ISAs, but as the only practical way that this can be achieved is in conjunction with projects to develop new ISAs or revise existing ISAs this could take a long time and be disjointed.</p> <p>Developing a Separate Auditing Standard for Audit of LCEs</p> <p>The development of a separate standard is a potential solution that can be seen as being audit's parallel to <i>IFRS for SME</i>. This solution does potentially give rise to the risk of creating a two-tier audit profession as well as confusion with stakeholders. These concerns can be overcome provided that the full standards and the LCE standard share common core principles and the objective of the new standard is clearly articulated.</p> <p>From a practical point of view the process of developing such a standard could be lengthy, meaning that a separate standard might not be available for several years. Other more immediate solutions would therefore also be needed.</p> <p>Developing Guidance for Auditors of LCEs</p> <p>There is a strong case for developing guidance, as this can be prepared in the short to medium term. Guidance has to be succinct and focused, and has to be developed and owned by the IAASB (see our observation under question 5 below). The implementation guidance developed by the IAASB for its recently issued standards provides an example for what can be done.</p>
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.	As we commented above in relation to developing a separate standard, there are time considerations. Some of the solutions to the issue of effectively auditing LCEs might take a long time to achieve, meaning that the "expectations gap" continues. The IAASB has to be open to pragmatic solutions that enable solutions to be delivered in the short to medium term, with possibly a separate standard following later. In delivering these solutions, the integrity of the meaning of

	<p>“audit” has to be maintained. In practice, a solution is best achieved through the combination of developing guidance and giving greater developing to the audit of LCEs in standard developing activity.</p>
<p>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?</p>	<p>The Discussion Paper presents a range of appropriate ways to progress a project on the audit of LCEs.</p>
<p>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.</p>	<p>As a priority, we encourage the IAASB to:</p> <ul style="list-style-type: none"> • Develop its own succinct and focused guidance on applying ISAs to the audits of LCEs; • Developing implementation guidance for recently issued and forthcoming standards such as ISA 540 (Revised) and ISA 315 (Revised) that specifically relates to the audits of LCEs; and • Giving greater prominence to the consideration of the audits of LCEs in the development of future new and revised standards. <p>As the IAASB develops its future standard setting plans, it should then be open to considering the case for developing a separate standard for the audit of LCEs that shares the core principles of the full ISAs.</p>
<p>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?</p>	<p>The appendix to the Discussion Paper lists literature relevant to the theme of SME / less complex audits. We comment on two sources on this subject.</p> <p>We regard the Guide to applying ISAs for SME Audits that has been prepared by the IFAC SMP Committee to be unhelpful and unnecessarily long. There is a perception that the guide is probably as long as the standards themselves and the guide takes unusual approaches such as applying tests of controls to transactions cycles of SMEs. It is important that the IAASB takes ownership of support materials for the results of the LCEs project and that the role of other IFAC related bodies is consultation only.</p> <p>The now withdrawn UK Practice Note 26 was a very practical guide to applying the then body of standards of SME audits. Some of the content of Practice Note 26 could be appropriate to be revisited in the IAASB’s LCE project.</p>