

September 11, 2019.

For the attention of:

Mr Thomas SEIDENSTEIN

President, IAASB

Dear Mr President,

**Re: Discussion paper – Audits of less complex entities**

We are writing to you in our capacity of leadership team of the Auditing, Reporting and Compliance Practice Group of GGI, a multidisciplinary alliance of independent accounting firms, law firms, and consulting firms.

Our answers to the discussion paper have been elaborated on the basis of the exchanges our practice group had at the European conference of GGI in Praha, where not only European accounting firms participated, but also some coming from other continents. It should be clear that the law firms and those GGI member firms not involved in auditing did not participate in the outcome of our analysis.

We will limit our answers to just a few of the questions.

**Question 1: The concept of “less complex entities” (LCEs)**

We are not convinced by this concept.

Small and medium size enterprises (SMEs) are also often complex (see for instance their possible less-formal governance and internal control systems). They should nonetheless benefit as much from competent auditors as larger enterprises.

From our point of view, the distinction should be linked rather to the relation with the public interest. SMEs usually have a less intense relation with the public interest than listed companies. However, they will benefit from audit work of the same quality, for example because the auditor will help them to identify management risks and improvements to the accounting related internal control system.

**Question 2: The current challenges incurred with LCEs when applying the ISAs**

We prefer to speak about SMEs than LCEs (see question 1).

When applying the ISAs to the SMEs, we find that the requirements in terms of documentation are disproportionate, including when the non-applicability of some procedures must be documented. Another way would be better in our view: some procedures should be deemed as required in principle (and then any deviation should

be documented), and some additional procedures should be put in place only when a risk in that field has been positively identified.

#### **Question 4: Possible actions by IAASB**

Guidance is always welcome, but in view of the expectation gap having grown between the audit firms and the regulatory / supervisory authorities, a solution offering legal certainty should be quickly implemented.

With this aim, the development of a separate auditing standard based on the existing ISAs appears to be the best choice. It can be developed quickly and will not jeopardize the added value of the audit risk approach of modern audit. Indeed, on the contrary, it will make it more practical for the best profit of the SMEs world — a world that is creating value, innovation, and jobs.

We hope to hear as soon as possible the follow-up IAASB will give to this discussion paper.

Yours sincerely,

Boris MICHELS (Germany), Global Chairperson of the Practice Group

Andrew JONES (UK), Global Vice Chairperson of the Practice Group

Professor Dr Michel DE WOLF (Belgium), Global Vice Chairperson of the Practice Group