

January 31, 2022.

To the attention of :

Mr. Thomas SEIDENSTEIN

President IAASB

Dear Mr. President,

**Re.: Draft new standard – Audits of less complex entities.**

We are writing you in our capacity of the leadership team of the Practice group “auditing, reporting and compliance” of GGI, which is a multidisciplinary alliance of independent accounting firms, law firms and consulting firms.

Our comments to the draft new standard have been elaborated on the basis of the exchanges our Practice group had with firms active in various parts of the world. It should be clear that the law firms and those GGI member firms not involved in auditing were not participating in the outcome of our analysis.

We will limit our comments to some aspects of the draft new standard.

We do support the principles and the general approach as exposed

As already expressed in September 2019 in response to the survey accompanying your discussion paper, we, as a major world alliance with members doing a lot of audits of “less complex entities”, we do support the development of a separate auditing standard based on the audit risk approach of modern audit.

By reducing useless audit procedures on “less complex entities”, the draft new standard will make audit more practical for the best profit of the SMEs world – a world that is creating value, innovation and jobs. By reducing some form of bureaucratic and disproportionate audit procedures on SMEs, the new standard will simultaneously reinforce audit attractiveness, including for the staff of the audit firms.

A world standard will also avoid the fragmentation of the audit standards for SMEs around the world, favouring, also for SMEs, the comparability, the consistency and the understandability of the audit opinions, and the access to capital where it can be found.

But of course, the new standard should not be detrimental to audit quality. This risk should be reduced at a not significant level. Our comments suggest amendments to the draft new standard in order to go further into the reduction of that risk.

### We advocate for a more precise definition of a “less complex entity”

We think that the definition as proposed by the draft new standard for defining a “less complex entity” could lead to different interpretations. This could favour even free riders among auditors jeopardizing the credibility of the profession as a whole, and harmful competition within it.

We ask therefore IAASB to define the concept of “less complex entity” without any ambiguity. This could be done with clear rules, including positive and negative criteria. For instance, the evaluation by the auditor of the impact of the IT tools used by the auditee should be straightforward for deciding that an entity is “less complex” or “more complex”.

Moreover, we have to avoid excessive volatility in the answer to the question of “complexity” of an entity. If an entity is “less complex” year one, it should keep that status year two, except if something very obvious and undisputable has changed within the entity or its environment. Therefore, the rules and criteria should be also robust.

It should be expected that many entities would try, maybe for a question of cost, to present themselves as “less complex”, and/or prefer an audit proposal based on the assumption that they are “less complex”. Therefore, the rules and criteria should be also designed as allowing the entities themselves to make a self-assessment in order to know if they are “less complex” or “more complex”. Of course, this self-assessment, which could take the form of a decision tree, should be checked by the auditor on a later stage, with all possible consequences if the self-assessment is not confirmed by the auditor’s assessment. The final decision of the selection of the applicable ISA remains with the auditor.

### One model report and one audit opinion

In order also to avoid any misperception about the equivalent quality of an audit according to the new standard and an audit according all other audit standards, we strongly advocate that neither the audit opinion nor the other parts of the audit report contain any reference to the application of the standard for LCEs. Indeed, an audit according to the new standard is supposed to be fully compliant with the level of assurance delivered by an audit, when this standard LCE is applicable (in function of clear criteria and rules: see our previous section).

Introducing a distinction would on the contrary create possible misunderstandings by the readers of the audit reports, including the banks and the financial markets when a LCE (usually a SME) wants to access these markets and therefore discloses its previous financial statements possibly audited according to the new standard.

Group audits could be done according to the draft new standard when the group is “less complex”

We share the opinion of many stakeholders that the consolidation of “less complex” entities does not qualify automatically the group as a “more complex” entity. Including for group audits, the new standard should include a clear definition of what is complexity (see above).

Hoping to have the new standard available and applicable as soon as possible,

Yours sincerely,

Boris Michels (Germany), Global Chairperson of the Practice group

Prof. Dr. Michel De Wolf (Belgium), Global Vice Chairperson of the Practice Group