

September 11, 2019

Mr. Tom Seidenstein
Chair, IAASB
529 Fifth Avenue
New York, NY 10017
United States of America

DISCUSSION PAPER – AUDITS OF LESS COMPLEX ENTITIES: EXPLORING POSSIBLE OPTIONS TO ADDRESS THE CHALLENGES IN APPLYING THE ISAS

Dear Chairman Seidenstein,

HLB International, one of the leading international mid-tier networks, very much welcomes the focus which has been placed on the audit of less complex entities (LCE) and thus on the concerns of small and medium-size practices (SMPs) as this is a topic which touches the daily lives of many of our member firms.

For the past 50 years, HLB International has been one of the go to networks for small and medium-size entities (SMEs) and we strongly believe that the invaluable contribution made by SMEs to economies worldwide cannot be overestimated.

It is for this very reason that the significant efforts undertaken not only by the International Auditing and Assurance Standards Board (IAASB), but also by the International Federation of Accountants (IFAC) and the Forum of Firms to consider and address issues which, it seems to us, particularly touch small and medium-size firms, have not gone unnoticed and are greatly appreciated.

In particular, we welcome the survey which has been circulated and which we have shared with our member firms. Not only has it allowed them to share their concerns but also their determination to lobby on behalf of improved audit quality in the interest of servicing their clients in the best possible way while guaranteeing transparency for all stakeholder groups concerned.

It is with this same objective in mind that we are honoured to present our responses to the five questions raised in the Discussions Paper for your kind consideration:

Questions to respondents :	HLB response :
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?	The current starting point uses (a) Concentration of ownership and management by a small number of individuals (often a single individual – either a natural person or another enterprise that owns the entity provided the owner exhibits the relevant qualitative characteristics).

	<p>It may be more appropriate to look at public accountability rather than ownership or to consider both criteria. Looking to 'ownership' might create difficulties when applying the definition to charities and other not-for-profit organizations (incorporated without share capital) which could potentially, and depending on the circumstances, also be appropriately considered less complex entities. Using 'public accountability' would help scope out more complex entities, like for profit enterprises with publicly traded shares or debt, and not for profit entities (above a certain revenue threshold or with a public sector purpose like local governments).</p> <p>It seems to us that one of the main issues with definitions such as LCE and scalability is that they are open to a wide variety of interpretations. What we consider to be a less complex entity often depends on the market conditions in a jurisdiction, the portfolio the firm or the engagement partner is dealing with and other parameters which can be difficult to define across the board. It is therefore paramount that auditors in all jurisdictions can be confident that their interpretation is fully aligned with that of regulators. It is our hope that including 'public accountability' as part of the criteria might help improve this process.</p> <p>We agree with the qualitative characteristics noted in part (b) of the description.</p>
<p>g2. 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 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>We greatly appreciate that standard setters are trying to act in the interest of practitioners by including scalability, but feedback from our member firms shows that they find it complex to apply in practice through checklists. This can pose particular difficulties for SMPs as they may be more reliant on checklists to implement the</p>

b. In relation to 2a above, what, in your view, is the underlying cause 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?

ISAs than their counterparts in larger organisations.

We also appreciate that standard setters are trying their utmost to act in the public interest, particularly as far as the enhanced exercise of professional scepticism by practitioners is concerned. However, the longer and more complex the ISAs, the more there is scope for potential application difficulties. We fear that very important goals like enhancing the exercise of professional scepticism might easily be lost in checklists and concerns about local regulatory compliance, which in turn would not be in the public interest or in the interest of increasing audit quality.

There is not one specific ISA which we regard as problematic in the audit of an LCE; rather the current body of the ISAs as a whole may pose certain difficulties.

As noted in the challenges within scope in section II of the DP, the ISAs can be difficult to navigate, are increasing in length, and documentation requirements are extensive and increasing.

Practitioners have limitations on the amount of time which can be devoted to reading, comprehending and implementing new and revised standards. One might argue that this fact inherently places SMPs at a disadvantage as they have fewer staff members who they can assign these responsibilities to.

This fact may in turn lead practitioners, particularly SMPs, to become increasingly reliant on checklists in order to avoid reportable deficiencies noted by regulators. It may also lead to SMPs deciding to no longer provide audit services or actively encouraging clients to downgrade engagements (i.e. to a review or compilation) as many stakeholders do not perceive an audit engagement provides significant additional value. Such results, even if provoked inadvertently because the original intention is undoubtedly to increase transparency and develop standards which lead to an improvement in audit quality, will arguably not be in the public interest.

<p>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?</p>	<p>Value of an audit – while this has been scoped out, it is of paramount importance to continue to bring along and educate stakeholders (management, TCWG, the public at large) about the value of an audit. In particular, it would be helpful to have education campaigns regarding revisions to existing standards and why they serve the public interest as these changes can sometimes be viewed as adding little value or only as an excuse to increase audit fees.</p>
<p>4. To be able to develop an appropriate way forward, it is important that we understand our stakeholder’s views about each of the possible actions. In relation to the potential possible actions that may be undertaken as set out in Section III:</p> <p>a. For each of the possible actions (either individually or in combination):</p> <p style="padding-left: 40px;">I. Would the possible action appropriately address the challenges that have been identified?</p> <p style="padding-left: 40px;">II. What could the implications or consequences be if the possible actions(s) is undertaken? This may include if, in your view, it would not be appropriate to pursue a particular possible action, and why.</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>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>Revising the ISAs This possible action would address key challenges with the ISAs, including those noted in the comments to question 2. In particular, the building blocks approach could help to make the ISAs more accessible to SMPs. Revising the ISAs on a rolling or phased basis would provide more timely relief to SMPs, help them adopt the standards in practice in a measured fashion, and allow them to provide feedback to improve the revisions to future standards.</p> <p>Developing a Separate Auditing Standard for Audits of LCEs This possible action could address the identified challenges. However, a separate standard could lead to the perception that it is a lower quality audit. There could also be issues encountered when an entity no longer qualifies to utilize the separate auditing standard and has to have its audit transitioned to the full ISAs. This possible action would likely take a long time to implement and require the knowledge of two Distinct sets of auditing standards which would in turn potentially increase the burden on SMPs.</p> <p>Developing Guidance for Auditors of LCEs or Other Related Actions In our opinion, this possible action would not effectively address the challenges identified. For LCE audits to be improved, the standards themselves should be more accessible rather than pushing practitioners away from the standards to other documents. Furthermore, it seems challenging to draft guidance which will be applicable in all jurisdictions. Finally, many national standard setters have already provided detailed implementation tools which can assist</p>

	in the application of the ISAs but have not necessarily alleviated the main challenges.
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?	No further items to note.

We trust the IAASB will carefully consider all stakeholder feedback arising from the Discussion Paper with the view of obtaining a final outcome which will not only serve the best interest of audit practitioners but also that of the wider public.

Please do not hesitate to contact us should you require additional explanations regarding our response to the questions raised in the Discussion Paper.

Yours sincerely,



Corney Versteden
Global Chairman



Bettina Cassegrain
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