

September 9, 2019

International Auditing & Assurance Standards Board

Re: Discussion Paper, Audits of Less Complex Entities

The California Society of CPA's ("CalCPA") Accounting Principles and Assurance Services Committee (the "Committee") is the senior technical committee of CalCPA. CalCPA has approximately 43,500 members. The Committee consists of 51 members, of whom 45 percent are from local or regional firms, 32 percent are from large multi-office CPA firms, 12 percent are sole practitioners in public practice, 6 percent are in academia and 5 percent are in international firms. Members of the Committee are with CPA firms serving a large number of public and nonpublic business entities, as well as many non-business entities such as not-for-profits, pension plans and governmental organizations.

The Committee has the following replies to the Questions for Respondents.

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?

Our Committee had various reactions to the definition. Some thought the proposed description is fine and that staying consistent with the SME definition is a good idea. Others felt that the definition should be more directed towards the expected difficulty of the audit rather than the characteristics of the organization being audited. And others felt that there should be a tie-in to the risk assessment, i.e. an audit with lower risk.

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:

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.

315 Risk Assessment – We need a better approach when the auditor knows from the get-go that control risk will be assessed at maximum. The amount of time required for the extant procedures is simply overkill.

Documentation has also become an issue. The extant standards have moved away from auditor judgment towards more proscriptive requirements. It seems intuitive that the

documentation needed when auditing an LCE would be less robust than when auditing an entity that is not an LCE.

b. (1) 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?

Contributing factors include –

315 – In many, if not most, LCE, a real system of internal control is absent because the owner fills the role absent staffing that enables meaningful segregation of duties.

- Auditors lack of understanding of the auditing standards.
- Clients lack of understanding of the accounting standards and failing to document controls making it more difficult to assess and document risks.
- “Familiarity” has caused auditors to take a “SALY” approach to auditing and lack of documentation. While we have focused on the performance of nonattest services which, in my mind, have yet to be proven to result in audit failures, as a contributing factor to poor audit quality, familiarity is a much greater threat.
- Fee pressure by clients. While not within its control, the IAASB could address the fee pressure by guiding that the auditor should not accept an engagement that can’t be satisfactorily completed in the amount of time the client is willing to pay for.
- Inadequate training of auditors.
- To some extent, the length of current standards is viewed as daunting and intimidating but this could be alleviated with the development of more and better guidance for auditors of LCE’s.

b. (2) Are there any other broad challenges that have not been identified that should be considered as we progress our work on audits of LCEs?

As noted above, fee pressure on auditors is an issue as are independence issues, a shortage of staff auditors and inadequate investment in training and education. Again, while some of this is not within the IAASB’s control, the response to the issue is in its purview.

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?

While there was no clear consensus around any suggestions, here are a few that were discussed:

- IAASB should focus on encouraging jurisdictions to modify statutory auditing requirements by raising exemption thresholds and substituting a review requirement for entities scoped out of the audit requirement.
- Encourage education focused around the above areas of difficulty.
- Encourage enhanced post-secondary education.
- Encourage more emphasis on audit skills in professional qualification exams

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?

Minority view - The best choice is a separate set of standards which would include a different auditor's report.

Majority view - ISAs need to be revised to be more focused on meeting the objectives rather than detailing requirements. This would make the ISAs more scalable. Developing further guidance for auditors of LCEs would be helpful.

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.

It seems clear from our discussions that there will be a significant learning curve for auditors whichever alternatives are adopted, and that there will be tremendous confusion if there is a different auditor's report for LCE.

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?

No.

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.

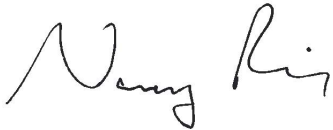
Further guidance as it is the easiest and quickest to implement.

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.

We thank you for the opportunity to comment on these matters. We would be glad to discuss our opinions with you further should you have any questions or require additional information.

Sincerely,

A handwritten signature in black ink that reads "Nancy Rix". The signature is written in a cursive style with a large, flowing "N" and "R".

Nancy A. Rix, Chair
Accounting Principles and Assurance Services Committee
California Society of Certified Public Accountants