

IAASB
Attn. Thomas Seidenstein, Chairman
529 fifth Avenue, 6th Floor
10017 New York
USA

P.O. Box 7984
1008 AD Amsterdam
Antonio Vivaldistraat 2-8
1083 HP Amsterdam
T +31 20 301 03 01
nba@nba.nl
www.nba.nl

Date	Re	Our ref	Attachment
12 September 2019	DP LCE	KvH	1 – Dutch results survey

Direct dial nr
020-3010281

Dear Mr. Seidenstein,

The NBA appreciates the opportunity to share our thoughts and ideas relating to the IAASB Discussion Paper *Audits of Less Complex Entities: Exploring Possible Options to Address the Challenges in Applying the ISAs*.

It will not come as a surprise to the IAASB that this subject is dear to us. When the IAASB held her meeting in Amsterdam in 2018 and celebrated her 45th anniversary we introduced our local heroes 'Jip and Janneke' to the IAASB and plead for using plain English in the ISA's. On several occasions we have discussed in our response letters (eg. ISA 540) that the standards became to educational leading to far too much application material. Therefore in our response to the strategy for the coming period we have applauded the ISA 315 taskforce and the IAASB on the work that is done on a new structure for the application material. In our response to the strategy we recommend to apply the approach of draft revised ISA 315 where "what needs to be done" is separated from "why" and "how" to all standards.

To us the statement 'Practice what you preach' is important. Therefore we have decided not to provide answer to all the questions, but to share our general thoughts and experiences in a short response.

Based on our understanding the need for a short single standard in certain countries results from the fact that in these countries a statutory audit is needed for (almost) all limited liability companies. In the Netherlands, for smaller and/or less complex entities mainly compilation engagements are performed. These engagements are valued by banks, investors and fiscal authorities. Only for medium sized or large companies, using the maximum thresholds from the EU, statutory audits are obliged. There are voluntary audits for smaller entities, but these entities make a conscious choice for an audit together with their stakeholders. Therefore the need for a single standard is not felt as much in the Netherlands.

At the same time we doubt whether the market will except a separate standard, with the intention to provide the same level of assurance, but with less clarity on the sound basis for the auditor's opinion. Based on our understanding, applying a short standard could only be done successfully by an experienced auditor, with a sound knowledge of the ISA's. To us it is not clear how the auditors performing this knowledge would gain this experience.

Royal Netherlands
Institute of Chartered
Accountants



It might not be so easy to provide a clear definition of what a LCE is. The current criteria are subjective and leave room for interpretation. A simpler business doesn't necessarily mean an easier audit. On the contrary, if there are fewer internal controls (e.g. unable to segregate duties), the auditor faces challenges to perform the audit and has increased areas of attention. If various countries will have different boundaries for less complex entities, this will make it even more complicated. Therefore we feel that a local definition with seize as a distinguishing parameter is not the answer. And thus it might not be clear who might apply the separate standard.

But our most important issue is that the current set of ISA's is written so complex. All involved: auditors standard setters, inspectors and stakeholders have a problem understanding the ISA's. In many situations we need to read a sentence three or four times to be able to understand the full meaning of the sentence. Thereby scaling down is more difficult than scaling up. A better approach would be to explain what every auditor must do and then elaborate the requirements as the size and complexity of the audited entity increases. It is important that standards have a simple basis from which they can build up, rather than starting with complex issues and expecting auditors of less complex entities to work out what to remove. It would make it easier for the auditor of a less-complex entity to find the specific requirements that apply to their situation, instead of having to distil complicated standards into more basic procedures.

Our stakeholders in the Netherlands have experienced the same problem with our own regulation. We have learned that in most cases these issues can be solved by writing short sentences, using plain language and where relevant, taking a 'think small first' approach.

We have experienced that trying to write standards and guidance in this way leads to questions about what we really want to achieve. Questions that need to be answered before leading to clearer and better standards. This might even help to bridge the expectation gap a bit.

With regards to providing separate guidance we see that as a sub-optimal solution. It takes more effort writing and approving the standards first, then writing the guidance on how to apply the standards. But we have experienced that in a number of occasions going through this process, we felt the need to make changes to the standards. This as a result from the questions that came to mind clarifying the standards. We have learned that it is worth the effort to get it right the first time.

Our response is built on our experience with regards to the standards for quality systems (ISQC1). We have tried all options. We had separate standards for small and large firms and learned that practitioners had a lot of questions since they were somewhere in between. We now have a standard using the 'think small first' approach but learned that our text was not clear enough. We provided guidance leading to a need to change the standard in certain areas.

Therefore to us the answer to the LCE problem is:

- one set of standards for all entities including LCE's;
- ISA's developed on the concept of think small first;
- using plain English;
- taking full advantage of technology and develop Standards not necessarily for book-format, but for electronic format.

We fully accept that such a project will be challenging and difficult to fit within the current workplan of the IAASB. To us this should be a parallel project involving a project team with a clear direction and mandate of the board.



This project team might be sourced by National standard setters, since they will directly benefit from the outcomes. In principle the project should be based on the concept of system replacement. Nevertheless the project will lead to questions that will need to be answered by the board.

This is the most important project for the next coming years.

Closing Remarks

For further information, please contact Jan Thijs Drupsteen (j.th.drupsteen@nba.nl).

Yours sincerely,

NBA, the Netherlands Institute of Chartered Accountants,



Marco van der Vegte
Chair of the NBA



Anton Dieleman
Chair of the Dutch Assurance and Ethics Standards Board-
NBA

