



IAASB - International Auditing and
Assurance Standards Board
529 Fifth Avenue
New York, 10017
USA

30 September 2019

Comment letter relating to the consultation on the Audit of Less Complex Entities

Dear Sir/Madam,

1. The CEAOB appreciates the opportunity to comment on the IAASB's consultation on "*Audits of Less Complex Entities – Exploring Possible Options to Address the Challenges in Applying the ISAs*" issued in May 2019. As the organisation representing the audit regulators of the European Union and the European Economic Area, the CEAOB encourages and supports continuing improvement of professional standards for the audit profession.
2. The content of this letter has been prepared by the International Auditing Standards Subgroup and has been adopted by the CEAOB. The comments raised in the letter reflect matters agreed within the CEAOB. It is not intended, however, to include all comments that might be provided by the individual regulators that are members of the CEAOB and their respective jurisdictions.
3. We support the IAASB initiative and efforts to understand and consider issues that have been raised by auditors in various jurisdictions. The audit of small or less complex entities merits attention, since it is a concern for both auditors and a broad range of stakeholders. In several countries, work has been undertaken on this topic, sometimes based on particular provisions of different national laws related to certain types of entities, for instance entities falling within thresholds based on their size. This topic should be further analysed in detail, to ensure that the right issues are identified and addressed.
4. Regulators are concerned not only with audit quality and the quality of auditors' opinions on financial statements, but also on the fact that audits appropriately meet the needs of the market.
5. The topic of LCE audit encompasses complex issues, which need to be further analysed. We believe the following are key aspects to be considered by the IAASB:
 - a) Less complex/smaller entities play a core role and make a major contribution to the global economy and represent a high proportion of audits performed. Solutions are needed to reduce the expectation gap between auditors' current responsibilities and stakeholders' expectations of audits of less complex entities.





- b) The distinction that needs to be made and the interrelationship that needs to be analysed between the concepts of “smaller entities” and “less complex entities”, since both smaller and larger entities can be complex, or not. In our view, certain entities should not be classified as LCEs, such as entities that are active in a regulated market, e.g. listed companies, banks, and insurers. Large private entities and charities, entities raising crowdfunding or other entities defined as public interest entities according to national laws should benefit from special attention during this project, and should not be considered as LCEs.
 - c) In order to respond appropriately to the request for “scalability” and “proportionality” in the standards, it will be necessary to clarify the differences, interrelationships and connections between these two concepts.
 - d) It is important to provide a single location and consistent approach for standards-related material applicable to the audit of LCEs. At present, there is a large volume of information, set out in varying formats and with differing levels of authority (ISAs, application material, guidance, IFAC guide etc.) so that it can be challenging for an auditor to identify those requirements/guidelines which are appropriate to an audited entity’s particular circumstances.
6. We believe the IAASB should also consider, while examining the audit of LCEs, the relevance of other types of assurance services that could be provided by auditors to LCEs as alternatives to audit as defined by the ISAs (e.g. more limited reviews), and whether those are likely to better meet the expectations of LCE stakeholders. However, to avoid confusion and manage public expectations, any such alternatives would need to be clearly distinguished from audit. Such alternatives would also not be suitable in all instances, e.g. where the audit of an LCE is required by law.
 7. We strongly encourage the IAASB to ensure that the underlying issues are further analysed and agreed upon by stakeholders globally, before proposing measures to address them.
 8. We moreover would like to stress that some of the qualitative characteristics listed by the IAASB for LCEs such as ‘simple record keeping’, ‘few internal controls’ and ‘few personnel, many having a wide range of duties’ may be indicative of inappropriate systems and controls within some entities. In this context, the determination of whether an entity is an LCE should not only be based on qualitative characteristics, but also on an assessment as to whether they are appropriate to the entity’s circumstances and operations. This also includes considering whether an entity is ultimately part of a more complex group, and how that might impact the role of the group auditor.
 9. The adaptation of the audit approach to the size of entities and the complexity of their operations is already embedded in the international auditing standards’ framework. However, how the audit standards are to be adapted in practice could be further clarified and explained, as suggested in the IAASB initiative.
 10. We think that more focus on clear language and understandability can contribute to auditors better being able to apply the standards in differing situations. We suggest the IAASB develops clear criteria for language in drafting standards, such as limiting the length of sentences. The criteria that have been developed as part of the IAASB’s Clarity project could serve as a starting point.





11. We would warn the IAASB regarding the risks and challenges that would arise in relation to a separate standard for the audit of LCEs based on a different framework. Such an approach may widen the expectation gap and would present practical challenges for auditors as entities evolve over time to become more complex, necessitating a change in audit approach when the 'full' ISAs become applicable.
12. The CEAOB will be interested in monitoring the IAASB's progress in this area and contributing to the debate as the IAASB project progresses.

Yours faithfully,

Ralf Bose
Chairman