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## **IAASB Discussion Paper on Audits of Less Complex Entities**

Dear Sir

We thank the IAASB for the opportunity to give our view on the important subject of audits of less complex entities. We hereafter provide you with our comments and views on your respective discussion paper.

We as EXPERTsuisse - the Swiss Expert Association for Audit, Tax and Fiduciary – represent some 5,000 Swiss certified auditors, tax and fiduciary experts as well as some 800 professional services firms managed by them. Our members and the Swiss profession as a whole are directly affected by the implications which are discussed in your document.

As a member of IFAC we welcome that the IAASB is reflecting the important subject of audits of less complex entities and consider this subject as an urgent matter as small- and medium-sized enterprises (SMEs) make a critical economic and social contribution.

### **Our View at a Glance**

1. We are in favour of developing a separate auditing standard for audits of less complex entities (LCEs) in order to address the current challenges of applying the “full” ISAs in SMP/SME situations.
2. An LCE audit standard must be principles-based, should focus on the main aspects of an audit and – above all – must be developed from a “think small first”-standpoint. On that basis the audit report should include a reasonable assurance opinion.
3. The issue of diverging needs of SMEs and public interest entities (PIEs) has led to a fully reformed audit regime in Switzerland in 2008. We make reference to the regulatory set-up in our jurisdiction and encourage the IAASB to reflect on the merits of the Swiss audit regime.
4. We would welcome if the population of “LCEs” would not be defined solely by qualitative criteria, but supplemented or even replaced by quantitative and/or unambiguous criteria. We could imagine that in the future the full ISAs would only apply to PIEs.

## **Support for a Separate LCE Audit Standard**

EXPERTsuisse is in favour of the idea of developing a separate auditing standard for LCEs besides the existing ISAs, as the current standards have become overly complex and are very hard to digest and apply, especially by small and medium-sized audit practices (SMPs) in SME audits. The difficult language combined with the length of the standards have made it very ambitious to understand and follow the requirements. The “essence” of the standards is very often not apparent, as we realise that standards include a greater and greater level of detail, while not only requirements are added to the standards, but also contextual information that should be part of a methodology and not of the standards themselves. As a professional accountancy organisation in a country of several official languages, we also experience burdensome and time-consuming translation efforts.

### **“Think Small First” Approach in Standard-Setting**

In our observation the difficulties in applying the existing ISAs in less complex situations and in the SME area have to do with the fact that these standards are not developed under the overriding ‘think small first’ principle. Instead – as per our observation – ISAs are developed on the basis of what is expected in complex and international audits of financial statements of listed entities or public interest entities.

We assume that developing standards under the ‘think small first’ principle would require a different composition of the responsible standard-setting board with a more diverse background of its members having a greater emphasis on SME particularities. Considering the current discussion about the future of standard-setting (the Monitoring Group issue) we are not very convinced that developing an LCE audit standard or even revising the ISAs following a ‘think small first’ principle with clear and unambiguous language” will be an achievable goal in the near future or the medium term. We fear that an intensified involvement in the standard-setting process of stakeholder groups represented by the Monitoring Group would lead to an increased focus on complex multinational audits of PIEs combined with a lack of focus on SME particularities, thus the issue of unsatisfactory scalability of the standards as we have already experienced with the existing ISAs.

Nonetheless, we think the IAASB should utilise the momentum and should immediately start a project to develop a separate standard for audits of LCEs. This new LCE audit standard should be entirely principles-based and drafted using the “building block approach”. The “core” of the separate LCE audit standard should consist of the most fundamental requirements applicable for all audits, e.g. risk assessment, substantive audit procedures, reporting and communication with those charged with governance. On top of these fundamental requirements, additional requirements for more complex entities and PIEs could be added (in case the strategy would be to start with a new LCE audit standard, from which on new and fully revised ISAs would be developed).

Based on the risk assessment, further audit procedures could be planned, taking into account the role of the internal control system and testing of the same. If the auditor does not rely on the internal controls testing, a fully substantive approach could be chosen and - under the condition

that certain criteria are fulfilled - the need for the auditor to document the argumentation why a fully substantive approach is chosen, could be omitted or at least facilitated. Depending on the results of the risk assessment, the audit procedures for single items in the financial statements could be more or less detailed or could be limited to analytical audit procedures for items with a lower risk. Following such an approach, the audit could be performed more efficiently.

We also encourage the IAASB to reflect on the scope of fraud examination in the audit of LCEs. Although we know that fraud is not limited to public interest entities, we would like to see the IAASB – considering the fundamental differences between PIEs and LCEs - discuss a differentiation in the scope of work in relation to fraud.

Scalability of the standards is crucial in this regard and – although always been stressed by the IAASB – has not been (fully) achieved in the current ISAs.

A very important aspect is the scope of application of a new LCE audit standard. We surely are aware of the fact that quantitative thresholds are not an appropriate measure to differentiate between complex and less complex. Nonetheless, differentiating between complex and less complex entities must not be arbitrary or random, which would be an argument for setting quantitative thresholds.

### **Swiss Audit Regime as a Stimulation for Further Discussions**

In Switzerland a customized audit regime is in place based on different levels of assurance and a differentiation between listed entities on the one hand side and larger entities and SMEs (categorised by quantitative thresholds) on the other side.

Accepting fundamental differences between SMEs and PIEs, especially regarding differing expectations amongst their stakeholder base and foremost the varying number of stakeholders with an interest in audit, has led the Swiss legislator to change the audit regime with effect from 1 January 2008.

Since then we differentiate between full scope audits (with internal control attestation) in the segment of listed entities and larger corporations and statutory limited examinations in the SME segment. Whereas the first mentioned audit is a reasonable assurance engagement, the latter one is a limited assurance engagement tailored to the needs of SMEs and their respective stakeholders. Of course, the fact that we introduced two sets of standards has fostered the creation of a two-tier auditing profession and we see the risk that having the “full” ISAs and additionally a new LCE audit standard would also increase the risk of establishing two tiers in other jurisdictions. Nonetheless, the differentiation in Switzerland has led to increased stakeholder satisfaction and a more focused and risk-oriented approach in the SME audit segment.

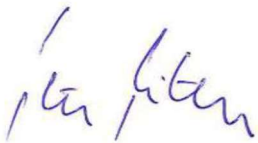
We thus ask you to consider whether an SME-standard with limited assurance would also be a suggestion for an (additional) alternative assurance regime as an option for jurisdictions with a high proportion of SMEs. Switzerland has gone this route with the “statutory limited examination” and – as said before – it is widely accepted in Switzerland.

Nonetheless, the Swiss profession still performs innumerable (full scope) audits of (less complex) entities exceeding the quantitative thresholds, in which application of the existing ISAs (adopted as Swiss Auditing Standards, SAS) is difficult. Thus, developing an LCE audit standard as a new option, would also be beneficial for the Swiss profession and the various stakeholders. Ultimately, we could imagine that the application of full ISAs would only be required for PIEs.

We hope that you will find our comments and observations helpful. If you would like to discuss any of them further, please do not hesitate to contact us.

Kind regards

EXPERTsuisse



Peter Ritter  
President



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Member of the Board