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Our ref

SRA/288

12 September 2019

Dear Mr Seidenstein

Re: IAASB Discussion Paper: Audits of Less Complex Entities, *Exploring Possible Options to Address the Challenges in Applying the ISAs*

We appreciate the opportunity to comment on the above Discussion Paper (DP) issued by the IAASB ('the Board'). We have consulted with, and this letter represents the views of, the KPMG network.

Our overarching comments, which provide our views on key aspects of the proposed standard, are set out below. The Appendix to this letter provides our responses to the specific questions posed in the DP.

We believe that global consistency in the application of a single set of auditing standards, the International Standards on Auditing, (the ISAs), is essential to drive audit quality and to support a common understanding regarding the nature and purpose of an audit.

We agree that over time the ISAs have increased in length/volume and complexity as the IAASB, in response to the increasing complexity of the business landscape (including in relation to the financial reporting frameworks that provide the basis for preparation of financial statements), has rightly developed auditing standards that support the performance of consistent high quality audits across the spectrum of entity size and type, including very large and complex entities that are listed and regulated, sometimes in multiple jurisdictions.

We acknowledge the challenges faced by auditors of smaller and less complex entities (LCEs) in applying the ISAs, as described in the DP, and we support the IAASB in undertaking this project to obtain a deeper understanding of these challenges, with the ultimate aim of developing appropriate solutions that are capable of consistent application on a global basis, across a wide range of jurisdictions, entity types and industry sectors.

We note that certain actions have already been taken, and/or are on the horizon, by a number of National Standard Setters (NSS), regulators and other bodies to develop their own solutions in response to increasing local pressure to address such challenges, including the development of separate auditing standards for LCEs and the raising of statutory audit threshold levels.

We therefore welcome the IAASB's timely initiative to reflect on current practice and explore the associated challenges faced by LCE auditors in applying the ISAs and we consider that the DP presents a comprehensive summary of such challenges.

ISAs as a Single Set of Standards

The ISAs have been developed based on a fundamental premise that there is a single set of standards, which are applied holistically, are scalable across entities of different sizes and types, and which support a principles-based audit that is focused on the risks that are specific to the entity, in the particular engagement circumstances. The standards as a whole are anchored to the IESBA Code of Ethics for Professional Accountants (the "Code") and a critical aspect of the value of an audit performed in accordance with the ISAs is that auditors are bound by the ethical requirements set out in the Code, including independence and professional competence and due care.

In accordance with their development as a single set of standards, the ISAs are inherently self-scaling. ISA 200.22 states "*the auditor shall comply with each requirement of an ISA, unless, in the circumstances of the audit: a) the entire ISA is not relevant; or b) the requirement is not relevant because it is conditional and the condition does not exist.*"

When examining the implications of this statement for audits of LCEs, we note that several ISAs likely would be determined not to be applicable in their entirety, whilst specific aspects of other ISAs likely would be considered not to be applicable, as we describe in our response to Question 4a).

We consider it critical that any proposed solution(s) retain the fundamental principle of a single set of ISAs, and accordingly we would not support development of a separate standard/set of standards that purport to be based on the ISAs. We believe a separate standard, based on the ISAs, for LCEs may have unintended consequences, including giving rise to confusion in practice as to the scope of an ISA audit and the impact on the auditor's report, and we would also be concerned that such an approach may devalue ISA audits as well as, potentially, the wider range of assurance and related services currently provided based on IAASB standards.

Instead we recommend solutions in which the IAASB provides greater support to LCE auditors in summarising which ISAs/aspects of the ISAs would usually apply to an audit

of LCEs, and provides further guidance as to how to execute the requirements in an appropriately scaled manner.

ISAs that Present Particular Challenges

We share the IAASB's concerns that specific aspects of certain ISAs, in particular, may present challenges in terms of their understandability. We believe that, in essence, these involve a lack of clarity as to the IAASB's intentions in establishing certain requirements, and therefore an auditor faces difficulty in understanding why they are required to perform certain procedures, and how this assists them in obtaining sufficient, appropriate audit evidence or contributes to audit quality. As a result, auditors face challenges in determining how to properly perform such procedures across different entity types and engagement circumstances. Auditors of LCEs may face particular challenges in terms of determining whether and how they may scale such requirements, and may be driven to perform unnecessary work, with the aim of complying with such requirements.

These challenges exist across the spectrum of size and complexity of the entity subject to audit, and therefore we believe that the optimal solution(s) will assist all auditors in addressing these important issues. However, we recognise that scalability challenges may disproportionately impact the work effort of LCE auditors, in particular.

We consider that extant ISA 315, *Identifying And Assessing the Risks Of Material Misstatement Through Understanding The Entity And Its Environment* (and the expected revised standard) is likely the most challenging of all the ISAs in this regard, and we set out further information regarding our concerns, as well as challenges in respect of other specific ISAs, and aspects of other ISAs, such as documentation requirements, in our response to Question 2a).

Solutions to Address Challenges in Applying the ISAs

Revision of the ISAs

As the DP states, revision of the ISAs could take various forms ranging from a whole-scale re-write to more targeted amendments to particular ISAs/specific aspects of ISAs that are acknowledged to be more challenging.

We would be supportive of actions in this area, in particular, because a key benefit to this approach would be the retention of a single set of ISAs.

We suggest that the IAASB target areas of specific challenge, as we note that a full-scale re-write of the ISAs would be very time-consuming and therefore would not respond quickly to LCE auditor needs and concerns. It would also require significant use of IAASB resources and may detract from other (higher priority) projects.

In considering this approach, we acknowledge the paradox set out in the DP that the more the IAASB introduces material such as introductory paragraphs into ISAs to “set the scene” and explain the intention behind requirements, and provides guidance to address complexity of the ISAs and scalability considerations, the longer the ISAs become. However, we believe that such material is critical to include, especially for those ISAs that are inherently more complex, e.g. ISA 315, in order to explain “why” certain procedures need to be performed, how these are to be performed, and how this assists in obtaining audit evidence and driving audit quality, in order to avoid an auditor performing unnecessary work.

The ISAs are principles-based, with significant interrelationship between different standards, and therefore we believe that to properly apply the ISAs, an auditor needs to read and understand all their content/related material. Accordingly, we do not believe that revisions such as removal of application material to instead address matters such as scalability in separate guidance documents are helpful, and such changes in placement may interrupt the flow of the ISAs, as well as making it more difficult to find important information, which may increase issues around understandability and ease of use for practitioners.

We recommend that the IAASB instead take a “building-blocks” approach to developing/revising ISAs, such that requirements and application material are clearly linked to the overarching objectives of the standard, begin with those that are applicable to all audits, including LCE audits, and build from there, through those that are more likely to be applicable as entities become larger/more complex, to those that apply only to listed entities, which we consider should be clearly separated.

We also recommend that the IAASB explore IT-enabled interactive solutions regarding the ability to facilitate end-user interface with the standards, including search and research capabilities.

Development of a Separate Standard

Summary of ISA Requirements

In considering the proposal for the development of a separate standard, we highlight that we understand the term “separate standard” to mean a standard (or set of standards) that contains requirements that are restricted/reduced or, simply, different in scope compared to those of the ISAs, such that an engagement performed in accordance with these would have fewer/different requirements in terms of the procedures to be performed and evidence that would be obtained and therefore the level and nature of assurance it would provide.

We contrast this with a solution that aims to assist LCE auditors in determining which requirements of the ISAs they need to comply with in a “typical” LCE audit, as in this scenario the LCE auditor would be performing an audit that is fully compliant with the ISAs. We believe that certain of the “separate standard” solutions developed in various jurisdictions, are more of this nature, e.g. the NEP-911, recently issued in France.

Separate Standard for LCE Audits Based on the Existing ISAs

We would not support a solution that truly involves a “separate standard” for LCE audits that purports to be based on the ISAs, as we describe below:

- **Clarity of Definition**

We highlight that if such an LCE-only solution is developed, premised on the IAASB establishing a means of clearly delineating such entities, the decision regarding implementation of the solution ultimately will reside with National Standard Setters, regulators and other bodies, which may not adopt/endorse the solution for use, or may be inconsistent in their approach, for example, there may be jurisdictional variation in terms of which entities are considered to be LCEs, which would not be a helpful outcome in terms of global consistency.

Additionally, since the definition/description is based on factors that primarily focus on the presence versus absence of certain conditions, there may be inherent subjectivity in application in certain situations, and therefore differing interpretations between practitioners and regulators/other supervisory bodies as to whether and when it would be appropriate to use the standard.

Furthermore, if the standard is perceived to be less stringent, in terms of the work effort required to comply, this may encourage inappropriate designation of certain entities as LCEs.

As a result of the inherent subjectivity of a definition/description of an LCE and therefore its lack of capability of consistent application on a global basis, we consider that any solution developed should be available to all entities, and not restricted only to LCEs, as we describe further below. Accordingly, we do not believe it necessary or appropriate to develop a definition of LCEs.

- **Departure from a Single Set of ISAs**

We consider that this proposed solution would depart from the fundamental premise of a single set of ISAs. We consider that a separate standard, with reduced/restricted requirements that are nevertheless described as being derived from the ISAs themselves would likely result in a product that would lack clarity as to its nature and value; how such an “audit” would differ from an audit

performed in accordance with the “full” ISAs; what is the nature of assurance that is provided, including whether this may still be considered to be reasonable assurance, or whether it is instead limited assurance, or even an intermediate level of assurance. Please refer to our response to Question 4a) for further information.

We highlight that there is currently an “expectation gap”, regarding public perception as to what an audit is and what it is not, and the introduction of an additional product that is also identified in any way as an ISA “audit”, or similar to such an audit, would likely exacerbate the expectation gap, which would not be in the public interest.

There may also be negative implications in terms of the understandability of, and perceived value of a wider range of assurance and assurance-related services, e.g. reviews, other assurance engagements performed in accordance with the ISAE 3000 (Revised) suite of standards, as well as related services that do not provide assurance, such as agreed-upon-procedures.

- **Application of Principles-Based Standards**

We also highlight, in our response to Question 4a), that a practitioner would need to be fully conversant with the ISAs to be able to apply a standard that is based on the principles of the ISAs, and therefore it is difficult to understand how such a separate standard would achieve the IAASB’s aim of reducing the burden of understanding of the ISAs for LCE auditors.

Additionally, we note that the development of a separate standard, which is *based on* the principles of the ISAs but does not itself set these principles out in full (i.e. principles based on principles), may give rise to issues in terms of differing interpretation of the requirements, including by regulators and other bodies, as well as by individual users, and greater inconsistency in application, which would seem counterintuitive given the aim of increasing clarity, consistency and ease of use for LCE auditors.

Separate Standard Based on a Different Framework to the ISAs

As noted in the DP, a potential solution would be the development of a separate standard based on a different framework to the ISAs that is available for use by auditors of all entities, i.e. it is not restricted to LCEs.

We believe this solution is preferable to one which aims to be closely linked to the ISAs and therefore may cause confusion in the marketplace, as well as being based on an inherently subjective definition. However, we believe there are challenges in pursuing this approach, in particular, the concern that this may lead to confusion in practice

regarding how such a solution would contrast to an audit under the ISAs. In order to avoid the lack of clarity described above, we note that this solution would need to satisfy the following conditions:

- It would need to provide clarity as to the nature of assurance provided, for example, whether this is reasonable assurance, limited assurance or an intermediate level of assurance;
- Practitioners and users of auditor's reports would need to clearly understand the scope and extent of procedures performed, how these support the assurance provided and how the procedures differ in nature and extent to those performed in accordance with an ISA audit, to avoid any confusion between the two separate offerings;
- If a rules-based approach is taken (rather than a principles-based approach), supporting a substantive audit, to reduce scalability concerns and the need for interpretation of requirements, the framework would need to avoid driving a "checklist mentality", and the IAASB would need to consider whether and how to incorporate ethical requirements as well as pervasive principles such as the concepts of professional scepticism and professional judgement;
- The reporting output would need to be clearly different to that of an auditor's report in accordance with the ISAs, including in terms of the "opinion" provided and the description of the auditor's responsibilities;
- The standard would need to be compatible with financial reporting frameworks in order to support an "assurance" engagement regarding fair presentation/preparation and presentation in accordance with the applicable financial reporting framework.

We believe that the development of such a solution would be challenging, and would represent a fundamental departure from the basis for development of standards to date.

Alternative Deliverables

We highlight that a consistent theme through the IAASB's research is that many regulators require an audit and many users request an audit in the absence of such requirements, whilst finding this solution not to be cost-effective, and therefore creating fee pressure.

We believe that IAASB standards currently support a wide range of deliverables, which meet different user needs, ranging from a full-scope audit in accordance with the ISAs,

through to non-assurance engagements such as compilations and agreed-upon procedures engagements.

Rather than attempting to develop an “audit-lite” solution that would change and dilute a widely-used product that provides value to many users, or to attempt to introduce an additional product, which may be challenging to do, we suggest to explore in more depth as to why regulators require/user groups request an audit, and whether an alternative service performed in accordance with other IAASB standards may better meet their needs, in a cost-effective and efficient manner. We note that such standards are based on similar principles to those underlying the ISAs, as relevant, including ethical requirements, and pervasive principles such as the exercise of professional scepticism and professional judgement. They may, therefore form a more appropriate basis to deliver services to LCEs as an alternative to an ISA audit, for example, they may provide a means to focus on a specific subject matter, or to assist management with the preparation and presentation of financial statements (a compilation engagement), or the performance of particular procedures which are agreed upon by the user and the auditor, in order to meet the user’s needs.

Accordingly, we suggest that the IAASB work with others, e.g. regulators, National Standard Setters and others to explore user needs more fully and to educate user groups as to the availability of such other services and the value of these. Please refer to our response to Question 5.

Development of Guidance

The DP notes that a potential solution may involve the development of non-authoritative guidance, which could take a number of forms, including comprehensive guidance such as the IFAC *Guide to Using ISAs in the Audits of SMEs*, which is intended to explain fundamental principles and provide practical support, or could be more targeted to focus on specific areas, e.g. it could take the form of an IAPN, or be developed to accompany new or revised ISAs on issuance. We would be supportive of this proposed solution and recommend that the IAASB develop guidance to target areas of particular challenge and support practical application to manage the challenge of already extensive material provided. We recommend that the IAASB liaise with IFAC to update the IFAC Guide, or to supplement this with a more succinct summary publication.

Development of Guidance for Management

The DP focuses on issues regarding the ISAs themselves that cause challenges in performing audits of LCEs. We note that a significant challenge to many LCE auditors lies, however, not in applying the ISAs *per se* but in applying them at an entity where management may have relatively limited knowledge and experience of preparation of financial statements as well as limited knowledge as to what an audit constitutes and

the information and explanations that the auditor will require. Such lack of preparedness inevitably leads to additional work for the auditor.

We highlight that ISA 210.6 sets out the preconditions that are required to be present in order to perform an audit, which include acknowledgement by management of its responsibility for the preparation of the financial statements; for such internal control that is necessary to enable the proper preparation of the financial statements, and to provide the auditor with access to information, as well as persons within the entity, that the auditor believes necessary in order to obtain sufficient, appropriate audit evidence.

We suggest, therefore, in order to support entities in ensuring that the preconditions for an audit are present in terms of being able to understand and acknowledge their responsibilities regarding an audit, that as part of the suite of solutions the IAASB considers, it would be helpful to explore the development of guidance that is directed at management of such entities, helping them to better understand the concept of an audit, the work involved, and the information required, to enable them to better prepare for an audit.

Please contact Sheri Anderson if you wish to discuss any of the issues raised in this letter.

Yours sincerely

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Appendix: Responses to Specific Questions Posed by IAASB

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?

We note that a definition/description of an LCE, which is capable of consistent application on a global basis, is important only in the event that a solution is developed that is intended to be specific to entities that meet this definition. We believe that in exploring this potential approach, such a solution likely would involve a deliverable that is restricted in nature/scope in comparison to an ISA audit, but nevertheless based on the ISAs, and we would not be supportive of such a solution, as we describe in our overarching comments and also in our response to Question 4a).

If the IAASB continues to explore an LCE-only solution, premised on the IAASB establishing a means of clearly delineating such entities, we highlight that the decision regarding implementation of the solution ultimately will reside with National Standard Setters, regulators and other bodies, which may not adopt/endorse the solution for use, or may be inconsistent in their approach, for example, there may be jurisdictional variation in terms of which entities are considered to be LCEs, which would not be a helpful outcome in terms of global consistency.

Additionally, since the definition/description is based on factors that primarily focus on the presence versus absence of certain conditions, there may be inherent subjectivity in application in certain situations, and therefore differing interpretations between practitioners and regulators/other supervisory bodies as to whether and when it would be appropriate to use the standard.

Furthermore, if the standard is perceived to be less stringent, in terms of the work effort required to comply, this may encourage inappropriate designation of certain entities as LCEs.

Accordingly, as we note in our overarching comments, we believe that a solution that involves a separate standard should not be restricted to those entities that may be considered to be LCEs, and instead should be available for use by all entities. As a result, we do not believe it necessary or appropriate to develop a definition of LCEs.

However, in the event that IAASB does consider it important to pursue such a solution, and therefore to develop a definition/description of an LCE, we suggest that the IAASB consider inclusion of the following factors, in addition to those set out in the DP, to help indicate that an entity is an LCE:

- Definitions/descriptions of LCEs set out in jurisdictional laws, regulations and/or national standards, including financial reporting standards;
- A factor that focuses on a limited number of stakeholders/users of the financial statements and auditor's report thereon, and the purpose for which they will use the report (this may be particularly relevant to the development of a separate standard with requirements that are restricted in comparison to the ISAs, or which support a deliverable that is different in nature to an audit);
- A factor that focuses on the simplicity versus complexity of IT systems.

We suggest that the IAASB establish size factors such as turnover, net assets and employee numbers that would act as benchmarks rather than establish *de minimis* limits.

It may also be appropriate to clarify that a definition/description (and its related solution) is intended to be applicable to "repeat" audits, and may not be appropriate to apply in an initial audit, in which broader consideration of the full suite of ISA requirements may be necessary.

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.**

Challenges in Applying the ISAs as A Single Set of Standards

As we set out in our overarching comments and elsewhere in this letter, we believe it critical that the ISAs are retained as a single set of standards, which are applied holistically, are scalable across entities of different sizes and types, and which support a principles-based audit that is focused on the risks that are specific to the entity, in the particular engagement circumstances.

The standards as a whole are anchored to the IESBA Code of Ethics for Professional Accountants (the "Code") and a critical aspect of the value of an audit performed in accordance with the ISAs is that auditors are bound by the ethical requirements set out in the Code, including independence and professional competence and due care.

We recognise that the holistic application of the standards in an appropriately scaled manner may present particular challenges for auditors of LCEs. We suggest the IAASB actively reach out to small practitioners to obtain a better understanding of their concerns to help explore potential solutions to address such circumstances. We would refer the IAASB to the Canadian CPA Paper, *Anatomy Of A 12-Hour Audit Of Micro-Entities Using ISAs*, which addresses and generally concurs with many of the observations we make in this letter, and provides further information as to how to customise the ISAs and ways to read and understand them.

ISAs that Present Particular Challenges

We share the IAASB's concerns that specific aspects of certain ISAs, in particular, may present challenges in terms of their understandability. We believe that, in essence, these involve a lack of clarity as to the IAASB's intentions in establishing certain requirements, and therefore an auditor faces difficulty in understanding why they are required to perform certain procedures, and how this assists them in obtaining sufficient, appropriate audit evidence or contributes to audit quality. As a result auditors face challenges in determining how to properly perform such procedures across different entity types and engagement circumstances. Auditors of LCEs may face particular challenges in terms of determining whether and how they may scale such requirements, and may be driven to perform unnecessary work, with the aim of complying with such requirements.

These challenges exist across the spectrum of size and complexity of the entity subject to audit, and therefore we believe that the optimal solution(s) will assist all auditors in addressing these important issues. However, we recognise that scalability challenges may disproportionately impact the work effort of LCE auditors, in particular.

In terms of individual ISAs that may present particular challenges, we also agree with the IAASB's observations on page 13, in particular, regarding extant ISA 315, *Identifying And Assessing the Risks Of Material Misstatement Through Understanding The Entity And Its Environment* (and the expected revised standard).

ISA 315, *Identifying And Assessing the Risks Of Material Misstatement Through Understanding The Entity And Its Environment*

We consider ISA 315 to be particularly challenging, as this standard addresses the auditor's risk identification and assessment, which forms the foundation for the entire audit and therefore if this is not carried out appropriately the audit procedures performed in response may not be necessary/appropriate. There

are specific challenges in understanding the requirements of this standard and in executing these, in terms of clarity of the intention of the IAASB as to why certain procedures need to be performed, how these are intended to be performed, and how this will assist an auditor in gaining sufficient appropriate audit evidence. We believe that such a lack of understanding may drive an auditor to carry out more work than is necessary, including in relation to evaluating IT systems.

We raised concerns in our comment letter on ED: ISA 315 (Revised), dated 2 November 2018, as we believed that the IAASB's attempts to introduce clarity in the standard did not go far enough to address challenges in this area, for example, we noted in our comment letter:

"We have a number of significant concerns relating to certain aspects of the "understanding" section of the ED, which we believe may continue to give rise to confusion and inconsistency in application."

"Our interpretation of the requirements [of the ED] is that the auditor is required to obtain an understanding of the Control Environment, the entity's Risk Assessment Process, the entity's Process to Monitor the System of Internal Control, and the Information System and Communication components of the entity's system of internal control by performing the procedures set out in the standard but that this understanding does not involve identifying controls, and nor does it involve evaluating the design and implementation of such controls within these components at this point."

We noted that we welcomed the *"differentiation introduced between "understanding" each of the components of the system of internal control, and "evaluating the design and implementation of controls relevant to the audit"*, however we raised concerns regarding apparent contradictions in the standard, which also refer to *"developing an understanding of a component by identifying controls relevant to the audit and evaluating their design and implementation"*.

These concerns are mirrored when addressing obtaining an understanding of the entity's IT system as the ED appeared to establish requirements to evaluate the design of the IT system controls relevant to financial reporting. In particular, the standard appeared to suggest that the auditor is required to obtain an understanding of all IT applications and IT infrastructures relevant to financial reporting and all the related IT processes. We suggested that the IAASB clarify the intention of such requirements, and *"whether a higher-level understanding of the IT environment is intended, focused on matters such as whether the IT environment is appropriate to the size and complexity of the entity"*.

ISA 240, The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements

We believe this standard is generally drafted in a way that it is scalable, with the application material providing guidance to auditors as to how to scale the requirements to the size and nature of the entity.

ISA 540, Auditing Accounting Estimates, Including Fair Value Accounting Estimates, And Related Disclosures

As above, the concerns identified by the IAASB do not particularly resonate with us as we consider that this standard contains clear links to the risk assessment process and therefore the procedures required by ISA 540 in response to such risks are less in scope when an estimate is less complex and there is a lesser degree of estimation uncertainty. The standard specifically addresses substantive procedures that may be performed up to the date of the auditor's report. However, we do note that further clarity would be helpful regarding the scaling of the standard to very simple estimates and, in particular, we would welcome a broader range of examples of simple estimates in the application material to the standard.

Other ISAs

ISQC 1

We note that this standard may present challenges to small practices in terms of developing scaling solutions that are appropriate to the size of the practice, recognising that many policies and procedures will be less formal.

We note that ISQM 1 and ISQM 2 aim to address scalability concerns and we encourage the IAASB to consider these as the standards are finalised.

Communication with Management / Those Charged With Governance

We note that the formality of communications with management/those charged with governance across various standards may be overly formalised/unnecessarily complex and we recommend that such requirements are simplified, with inbuilt scaling solutions, as well as providing clarification as to what would be considered to be sufficient appropriate documentation to evidence communications that are made orally.

Documentation

We believe that concerns primarily relate to the requirement at ISA 230.8 for the auditor to prepare audit documentation that is "*sufficient to enable an experienced auditor... to understand: a) the nature, timing and extent of audit procedures performed to comply with the ISAs...b) the results of the audit*

procedures performed and the audit evidence obtained and c) significant matters arising during the audit, the conclusions reached and significant professional judgements made.”

We consider that this requirement, in conjunction with regulatory oversight in some jurisdictions, may lead LCE auditors to prepare extensive and unnecessary documentation as to, for example, why a matter is not considered to be significant; why a particular course of action was not taken by the auditor, including how the auditor exercised professional scepticism and professional judgement in connection with these determinations.

In relation to this, there is a lack of clarity as to the meaning of “*experienced auditor... to understand*”, in terms of whether documentation should be sufficiently extensive to enable another auditor to replicate the audit entirely, or rather to obtain a higher level understanding of the procedures actually performed and the results of such procedures.

We also highlight that there have been incremental documentation requirements in recent years, with several ISAs now establishing additional, specific documentation requirements, which may be onerous for auditors of LCEs, and may also lead to unnecessary documentation.

We suggest that the IAASB provide clarity as to the extent of documentation that an LCE auditor is expected to produce, and the purpose of this in the context of enabling an “*experienced practitioner to understand...*”, in particular when an audit consists primarily of substantive procedures.

Other Matters – Management Preparedness for an Audit

The DP focuses on issues regarding the ISAs themselves that cause challenges in performing audits of LCEs. We note that a significant challenge to many LCE auditors lies, however, not in applying the ISAs *per se* but in applying them at an entity where management may have relatively limited knowledge and experience of preparation of financial statements as well as limited knowledge as to what an audit constitutes and the information and explanations that the auditor will require. Such lack of preparedness inevitably leads to additional work for the auditor, with associated costs that may be difficult to recover.

We highlight that ISA 210.6 sets out the preconditions that are required to be present in order to perform an audit, which include acknowledgement by management of its responsibility for the preparation of the financial statements; for such internal control that is necessary to enable the proper preparation of the financial statements, and to provide the auditor with access to information, as well as persons within the entity, that the auditor believes necessary in order to obtain sufficient, appropriate audit evidence.

We suggest, therefore, in order to support entities in ensuring that the preconditions for an audit are present in terms of being able to understand and acknowledge their responsibilities regarding an audit, that as part of the suite of solutions the IAASB considers, it would be helpful to explore material that is directed at management of such entities, helping them to better understand the concept of an audit, the work involved, and the information required, to enable them to better prepare for an audit.

Please also refer to our comments regarding liaising with standard setters regarding financial reporting frameworks and scalability solutions in terms of the requirements of these standards.

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

We believe the IAASB has appropriately identified the primary drivers of challenge in applying the ISAs to audits of LCEs, in particular, in the table on page 13 of the DP. We also set out additional comments regarding these, and other challenges, above, in our response to Question 2a).

It is difficult to parse the underlying causes of these challenges, as many of these are interrelated. We would encourage the IAASB to exercise caution in attempting to respond to challenges individually, e.g. by attempting to make the ISAs shorter in order to address the length, as we believe such an approach to be overly simplistic and unlikely to be useful, as we highlight in our response to Question 4a).

We consider that, at their core, the challenges relate to LCE auditor lack of understanding of certain aspects of the ISAs, in terms of the IAASB's intention underlying certain requirements, and therefore how to appropriately comply with such requirements in a manner that is relevant to the audit, and avoids inefficiencies.

As we describe in our overarching comments, we believe that an approach involving a range of complementary solutions would be optimal, which, with regard to the ISAs themselves, would be targeted at specific areas of challenge, with a view to providing clarity to an auditor as to what the underlying intention is behind certain requirements, how to perform these required procedures, and how they assist in obtaining sufficient appropriate audit evidence.

Examples of how we manage these challenges include the development of a scalable methodology; industry sector focus by professionals; audit training, and on-the-job, real-time coaching as challenges arise, and national professional practice support.

We suggest that the IAASB provide appropriate support to LCE auditors by way of clarifying certain aspects of the ISAs that present the most challenge, and also by liaising with others e.g. NSS, IAESB, the IFAC SMP Committee and others to encourage them to provide appropriate training and support to LCE auditors.

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?

We agree that the IAASB is not able to directly control commercial considerations relating to an audit. However, since much of the challenge in this regard is in relation to the cost-benefit relationship of an audit, the IAASB is able to take actions to avoid inefficiencies and therefore reduce fee pressure on LCE audits, by improving the clarity of certain ISAs/certain requirements, as we describe elsewhere in this letter.

Although we agree with the IAASB's observation that developing or promoting technology tools or methodologies is not part of their remit, we note that IT-enabled solutions in respect of user interaction with the standards themselves may go a significant way to improving the LCE auditor's experience in using the ISAs, as we set out in our response to Question 4a).

Regarding the legal/regulatory requirements for an audit, including the establishment of entity thresholds in relation to whether an audit is required, we agree that the IAASB is unable to establish these, however, we recommend that the IAASB liaise with regulators and other bodies with this responsibility, as the IAASB is able to influence the debate in this area, with the aim of:

- Clarifying the value of an audit to help drive consistent requirements;
- Educating such bodies, as well as certain user groups, e.g. banks, regarding alternative offerings, including review engagements, other assurance engagements in accordance with the ISAE 3000 (Revised) suite of standards to address a specific subject matter, non-assurance engagements such as agreed-upon procedures, or compilations engagements, as well as combinations of these. Such offerings are based on IAASB standards, contain similar concepts and principles as the ISAs, as relevant, and are

also anchored to the Code, and therefore may be more suited to the needs of particular users and provide value in a more cost effective fashion;

We note that the IAASB's research indicates that in jurisdictions in which the audit thresholds were raised to exempt smaller/less complex entities from an audit, this did not appear to confer cost savings to the entities affected; in fact the reverse appeared to happen in many cases. It would be helpful to explore further the reasons for this, e.g. whether an auditor is a trusted advisor and therefore removal of this relationship had negative consequences for such entities; whether the lack of audited financial statements reduced affected entities access to capital, or increased the cost of capital, or other reasons.

We suggest that in several cases, an alternative offering may provide similar "value" as an audit, e.g. a compilation engagement and agreed upon procedures over certain aspects of the financial statements may provide access to capital; a limited assurance engagement (review) may meet user needs although providing a lower level of assurance.

Accordingly, rather than simply exempting such entities from audit, regulators may consider it appropriate to require alternative services.

- Liaising with bodies such as IAESB, NSS, the IFAC SMP Committee and other bodies regarding training of auditors, to help improve auditor understanding of the ISAs and support auditors in implementation of these.

Please see our responses to Question 4b) and 5 for further details regarding the above.

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?**
 - 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.**

ISAs as a Single Set of Standards

The ISAs have been developed based on a fundamental premise that there is a single set of standards, which are applied holistically, are scalable across entities of different sizes and types, and which support a principles-based audit that is focused on the risks that are specific to the entity, in the particular engagement circumstances.

The standards as a whole are anchored to the IESBA Code of Ethics for Professional Accountants (the “Code”) and a critical aspect of the value of an audit performed in accordance with the ISAs is that auditors are bound by the ethical requirements set out in the Code, including independence and professional competence and due care.

An audit has intrinsic value as a result of these core features, and application of the ISAs on a consistent basis, across jurisdictions, is significantly in the public interest, with holistic application of the ISAs driving audit quality.

In accordance with their development as a single set of standards, the ISAs are inherently self-scaling. ISA 200.22 states that “*the auditor shall comply with each requirement of an ISA, unless, in the circumstances of the audit: a) the entire ISA is not relevant; or b) the requirement is not relevant because it is conditional and the condition does not exist.*”

When examining the implications of this statement for audits of LCEs, we note that several ISAs likely would be determined not to be applicable in their entirety, whilst the auditor would likely determine that specific aspects of other ISAs are not applicable, for example:

- ISA 600, *Special Considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)*; ISA 610, *Using the Work of Internal Auditors*; ISA 620, *Using the Work Of An Auditor’s Expert*, and ISA 720, *The Auditor’s Responsibilities Relating to Other Information* would be unlikely to be relevant;
- Similarly, ISA 701, *Communicating Key Audit Matters In The Independent Auditor’s Report*, and specific aspects of the new Quality Management standards, including ISQM 2, *Engagement Quality Reviews*, would likely not be relevant, as these are directed principally at listed entities, or other “higher risk” entities with a similar profile;
- ISA 500, *Audit Evidence*, paragraph 8, is unlikely to be applicable, as we would not expect that management at an LCE has used a management’s expert. Similarly, much of the context of ISA 540, *Auditing Accounting Estimates, Including Fair Value Accounting Estimates, And Related Disclosures* relates to auditing of complex estimates, and is unlikely to be

applicable to an LCE audit, (although, as we note earlier, further clarity would be helpful regarding the scaling of the standard to very simple estimates and, in particular, we would welcome a broader range of examples of simple estimates in the application material to the standard);

- Requirements throughout the standards regarding communication with those charged with governance would not be applicable, or would be adapted to the LCE circumstances, to focus on management.

Furthermore, we believe that the requirements of many ISAs are relatively straightforward to apply, as much of the content of those standards is intended to address specific, complex situations which are less likely to be relevant in a “typical” LCE audit.

We recognise the challenges of applying the ISAs to an LCE audit, as we state elsewhere in this letter. However, as a result of the above, we consider it critical that any proposed solution(s) retain the fundamental principle of a single set of ISAs, and accordingly we would not support development of a separate standard/set of standards that purport to be based on the ISAs. We believe a separate standard, based on the ISAs, for LCEs, may have unintended consequences, including giving rise to confusion in practice as to the scope of an ISA audit and the impact on the auditor’s report, and we would also be concerned that such an approach may de-value ISA audits as well as, potentially, the wider range of assurance and related services currently provided based on IAASB standards.

Also, as outline above, we do not consider such an approach to be necessary and instead we recommend solutions in which the IAASB provides greater support to LCE auditors in summarising which ISAs/aspects of the ISAs would usually apply to an audit of LCEs, and provides further guidance as to how to execute the requirements in an appropriately scaled manner.

Solutions to Address Challenges in Applying the ISAs

We address each of the potential possible actions set out in Section III of the DP, in turn, below.

Revising the ISAs

As the DP states, revision of the ISAs could take various forms ranging from a whole-scale, holistic re-write, to more targeted amendments to particular ISAs/ specific aspects of ISAs that are acknowledged to be more challenging.

We would be supportive of actions in this area, in particular, because a key benefit to this approach would be the retention of a single set of ISAs, applicable across all entities, which we believe to be a key driver of audit quality, and to be in the public interest.

We also note that this solution would have broad applicability since, although we recognise the particular challenges faced by auditors of LCEs, we also note that issues such as understanding particular aspects of the ISAs and therefore considering how to scale certain requirements are a challenge for many practitioners, including those at medium-sized/ somewhat more complex entities.

We suggest that the IAASB target areas of specific challenge, as we note that a full-scale re-write of the ISAs would be very time-consuming and therefore would not respond quickly to LCE auditor needs and concerns. It would also require significant use of IAASB resources and may detract from other (higher priority) projects.

As we note in our overarching comments, it is important to properly parse the underlying reasons for the challenges in applying the ISAs, and to recognise, in developing solutions, that aspects of challenges may be interrelated. We would encourage the IAASB to exercise caution in attempting to respond to challenges individually, e.g. by attempting to make the ISAs shorter in order to address concerns regarding their length, as we believe such an approach to be overly simplistic and unlikely to be useful.

The ISAs are principles-based, with significant interrelationship between different standards and therefore we believe that to properly apply the ISAs, an auditor needs to read and understand all their content/related material. Accordingly, we do not believe that revisions such as removal of application material to instead address matters such as scalability in accompanying guidance, to be helpful, and such changes in placement may interrupt the flow of the ISAs, as well as making it more difficult to find important information, which may increase issues around understandability and ease of use for practitioners.

We recommend that the IAASB take a “building-blocks” approach in developing/ revising ISAs, such that requirements/application material are clearly linked to the overarching objectives of the standard, begin with those that are applicable to all audits, include LCE audits, and build from there, through those that are applicable as entities become larger/more complex, to those that apply only to listed entities, which we consider should be clearly separated.

We note that this approach is already being taken in several areas, for example, in updating the reporting suite of standards, requirements and guidance relating

to KAMs, which are required only for listed entities, were clearly delineated. Similarly, in developing the new Quality Management standards, requirements in respect of EQ (C) Reviews have been clearly separated.

We suggest that this approach be applied going forward for new ISAs and revisions to ISAs, including those in development such as ISA 315 (Revised) and the Quality Management standards (ISQM 1 and ISQM 2), and that it also be applied retrospectively to extant ISAs in a targeted fashion to address particular areas of concern, e.g. documentation requirements and communication with management and those charged with governance.

We also recommend that the IAASB explore IT-enabled interactive solutions regarding the ability to facilitate end-user interface with the standards, including search and research capabilities.

Development of a Separate Standard

Summary of ISA Requirements

In considering the proposal for the development of a separate standard, we highlight that we understand the term “separate standard” to mean a standard (or set of standards) that contains requirements that are restricted/reduced or, simply, different in scope compared to those of the ISAs, such that an engagement performed in accordance with these would have fewer/different requirements in terms of the procedures to be performed and evidence that would be obtained and therefore the level and nature of assurance it would provide.

We contrast this with a solution that aims to assist LCE auditors in determining which requirements of the ISAs they need to comply with in a “typical” LCE audit, as in this scenario the LCE auditor would be performing an audit that is fully compliant with the ISAs. We believe that certain of the “separate standard” solutions developed in various jurisdictions, are more of this nature, e.g. the NEP-911, recently issued in France.

Separate Standard for LCE Audits Based on the Existing ISAs

We would not support a solution that truly involves a “separate standard” for LCE audits that purports to be based on the ISAs, as we describe below:

- Clarity of Definition

We highlight that if such an LCE-only solution is developed, premised on the IAASB establishing a means of clearly delineating such entities, the decision

regarding implementation of the solution ultimately will reside with National Standard Setters, regulators and other bodies, which may not adopt/endorse the solution for use, or may be inconsistent in their approach, for example, there may be jurisdictional variation in terms of which entities are considered to be LCEs, which would not be a helpful outcome in terms of global consistency.

Additionally, since the definition/description is based on factors that primarily focus on the presence versus absence of certain conditions, there may be inherent subjectivity in application in certain situations, and therefore differing interpretations between practitioners and regulators/other supervisory bodies as to whether and when it would be appropriate to use the standard.

Furthermore, if the standard is perceived to be less stringent, in terms of the work effort required to comply, this may encourage inappropriate designation of certain entities as LCEs.

As a result of the inherent subjectivity of a definition/description of an LCE and therefore its lack of capability of consistent application on a global basis, we consider that any solution developed should be available to all entities, and not restricted only to LCEs, as we describe further below. Accordingly, we do not believe it necessary or appropriate to develop a definition of LCEs.

- Departure from a Single Set of ISAs

We consider that this proposed solution would depart from the fundamental premise of a single set of ISAs. We consider that a separate standard, with reduced/restricted requirements that are nevertheless described as being derived from the ISAs themselves, would likely result in a product that would lack clarity as to its nature and value as follows:

- How such an ISA “audit” would differ from an audit performed in accordance with the “full” ISAs. We do not believe it would be appropriate to identify such a product as an “audit performed in accordance with ISAs”;
- If such a solution were to be identified as being linked to the ISAs in any way, e.g. an “audit performed in accordance with X Standard that is based on ISA principles”, we believe this would cause confusion to users as to what such an audit involves, which principles from the ISAs are applied and how they are applied, as well as how exactly this differs to an audit performed in accordance with the “full” ISAs;

- If this were to be identified as an audit although more clearly distinguished from an ISA audit, e.g. to state that it is an “audit performed in accordance with X Standard”, we believe this also would not be well understood by users, for example, it would be very unclear as to what the opinion actually provides in terms of assurance;
- What is the nature of assurance that is provided, including whether this may still be considered to be reasonable assurance, or whether it is instead limited assurance, or even an intermediate level of assurance. The auditor’s report may clarify that this solution is not a “full-scope” ISA audit, or an audit that provides reasonable assurance.

We highlight that there is currently an “expectation gap” regarding public perception as to what an audit is and what it is not and the introduction of an additional product that is also identified in any way as an ISA “audit” or similar to such an audit, would likely exacerbate the expectation gap, which would not be in the public interest.

There may also be negative implications in terms of the understandability of, and perceived value of a wider range of assurance and assurance-related services, e.g. reviews, other assurance engagements performed in accordance with the ISAE 3000 (Revised) suite of standards, as well as related services that do not provide assurance, such as agreed-upon-procedures.

- **Application of Principles-Based Standards**

We note that if a separate standard were to be principles-based, in line with the ISAs, including the “spirit” of these, a practitioner would need to be fully conversant with the ISAs to be able to apply such a standard, and would need to ensure their knowledge is updated as new developments emerge. We highlight that the Nordic standard, SASE, explicitly states this is the intention of the standard. This approach is important, as otherwise practitioners would not be able to determine whether it is truly appropriate to perform an “audit” in accordance with such a standard, and omit certain requirements, or adapt others to an LCE, without understanding the full text of the ISAs, their interrelatedness etc.

Accordingly, it is difficult to understand how such a separate standard would achieve the IAASB’s aim of reducing the burden of understanding of the ISAs for LCE auditors.

Additionally, we note that the development of a separate standard, which is *based on* the principles of the ISAs but does not itself set these principles out in full (i.e. principles based on principles) may give rise to issues in terms of differing interpretation of the requirements, including by regulators and other bodies, as well as by individual users, and greater inconsistency in application, which would seem counterintuitive given the aim of increasing clarity, consistency and ease of use for LCE auditors.

Instead, as we note below, we would prefer alternative solutions, including education of users of an auditor's report, and other stakeholders, as to other potential engagements that may be performed and how these may better meet the needs of such users.

We acknowledge that other standard-setters have gone down a separate standard route, including global standard setters such as the IASB, which has developed IFRS for SMEs. However, we consider that this solution may be more appropriate for financial reporting standards, which contain more prescriptive requirements and therefore potentially lend themselves to a solution of this type, whereas ISAs are more principles-based and therefore do not. Please refer to our comments elsewhere in this letter regarding liaising with financial reporting standard setters as to solutions to better enable scaling of such standards.

Separate Standard Based on a Different Framework to the ISAs

As noted in the DP, a potential solution would be the development of a separate standard based on a different framework to the ISAs.

We believe this solution is preferable to one which aims to be closely linked to the ISAs and therefore may cause confusion in the marketplace, as well as being based on an inherently subjective definition. However, we believe there are challenges in such an approach and this may lead to confusion in practice as to how such a solution would contrast to an audit under the ISAs. In order to avoid the lack of clarity described above, we note that this solution would need to satisfy the following conditions:

- It would need to provide clarity as to the nature of assurance provided, for example, whether this is reasonable assurance, limited assurance or an intermediate level of assurance;
- Practitioners and users of auditor's reports would need to clearly understand the scope and extent of procedures performed, how these support the assurance provided and how the procedures differ in nature and extent to

those performed in accordance with an ISA audit, to avoid any confusion between the two separate offerings;

- If a rules-based approach is taken (rather than a principles-based approach), supporting a substantive audit, to reduce scalability concerns and the need for interpretation of requirements, the framework would need to avoid driving a “checklist mentality”, and the IAASB would need to consider whether and how to incorporate ethical requirements as well as pervasive principles such as the concepts of professional scepticism and professional judgement;
- The reporting output would need to be clearly different to that of an auditor’s report in accordance with the ISAs, including in terms of the “opinion” provided and the description of the auditor’s responsibilities;
- The standard would need to be compatible with financial reporting frameworks in order to support an “assurance” engagement regarding fair presentation/preparation and presentation in accordance with the applicable financial reporting framework.

We believe that the development of such a solution would be challenging, and would represent a fundamental departure from the basis for development of standards to date.

Alternative Deliverables

We highlight that a consistent theme through the IAASB’s research is that many regulators require an audit, and many users request an audit in the absence of such requirements, whilst finding this solution not to be cost-effective, and therefore creating fee pressure.

We believe that IAASB standards currently support a wide range of deliverables, which meet different user needs, ranging from a full-scope audit in accordance with the ISAs, through to non-assurance engagements such as compilations and agreed-upon procedures engagements.

Rather than attempting to develop an “audit-lite” solution that would change and dilute a widely-used product that provides value to many users, or to attempt to introduce an additional product, which may be challenging to do, we suggest the IAASB instead refer to other solutions already available and explore in more depth as to what users want, why regulators require/user groups request an “audit”, and whether an established service performed in accordance with other IAASB standards may better meet their needs, in a cost-effective and efficient manner. We note that such standards are based on similar principles to those

underlying the ISAs, as relevant, including ethical requirements, and pervasive principles such as the exercise of professional scepticism and professional judgement. They may, therefore form a more appropriate basis to deliver services to LCEs as an alternative to an ISA audit, for example, they may provide a means to focus on a specific subject matter, or to assist management with the preparation and presentation of financial statements (a compilation engagement), or the performance of particular procedures which are agreed upon by the user and the auditor, in order to meet the user's needs.

Accordingly, we suggest that the IAASB work with others, e.g. regulators, National Standard Setters and others to explore user needs more fully and to educate user groups as to the availability of such other services and the value of these.

Development of Guidance

The DP notes that a potential solution may involve the development of non-authoritative guidance, which could take a number of forms, including comprehensive guidance such as the IFAC *Guide to Using ISAs in Audit of SMEs*, which is intended to explain fundamental principles and provide practical support, or could be more targeted to focus on specific areas, e.g. it could take the form of an IAPN, or be developed to accompany new or revised ISAs on issuance.

We highlight that such an approach would avoid the need for extensive changes to existing ISAs or a more fundamental change in approach, such as a separate standard, and accordingly we would welcome this solution.

We recognise the paradox, described in the DP, that additional guidance may be viewed by practitioners as adding to the already extensive material already available, which is noted as being part of the challenge in applying the ISAs.

We therefore recommend that the IAASB develop guidance to target areas of particular challenge and support practical application. We suggest that the IAASB liaise with IFAC to update the IFAC Guide, or to supplement this with a more succinct summary publication.

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?

We suggest elsewhere in this letter that the IAASB explore the following possible actions:

- Development of guidance directed at management of LCEs, to enable them to better understand the concept of an audit, what it involves, and how they

may be better prepared. (Please refer to our response to Question 2a) for further details).

- An interactive set of ISAs, using IT- enabled functionality. (Please refer to our response to Question 4a) for further details).
- Further exploration of user needs and alternative offerings based on extant standards other than the ISAs, e.g. reviews, assurance engagements performed in accordance with the ISAE 3000 (Revised) suite of standards to focus on a specific subject matter, agreed-upon procedures engagements and compilation engagements. (Please refer to our responses to Questions 4a) and 5 for further information).

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.

We believe that the optimal approach to the challenges identified in the DP would involve developing a range of different, complementary solutions, recognising that the challenges described are in many respects interconnected. We believe such solutions ideally would include:

- Developing/revising the ISAs taking a "building-blocks" approach such that requirements/application material begin with those that are applicable to all audits, include LCE audits, and build from there, as we describe in our response to Question 4a);

We suggest that this approach be applied going forward for new ISAs and revisions to ISAs, including those in development such as ISA 315 (Revised) and the Quality Management standards (ISQM 1 and ISQM 2), and that it also be applied retrospectively to extant ISAs in a targeted fashion to address particular areas of concern, e.g. documentation requirements and communication with management and those charged with governance.

- Providing material to "set the scene" for more complex ISAs, in particular, upfront within the application material. Such guidance is fundamental to an auditor to explain "why" certain procedures need to be performed, and how to perform them, to help ensure that an audit is as effective and efficient as possible, and avoiding auditors performing work that is unnecessary;

- Exploring IT-enabled interactive solutions regarding the ability to facilitate end-user interaction with the standards themselves, as we describe in our response to Question 4a);
- Development of non-authoritative guidance, in particular, to liaise with IFAC to update the Guide to Using ISAs in the Audits of SMEs, or to supplement this with a more succinct summary publication;
- Liaison with NSS, IFAC, regulators and other bodies, and user groups to obtain information about experience to date with solutions developed locally, and to better understand user needs, including whether alternative deliverables would be more appropriate, as we describe in our response to Question 5;
- Liaising with financial reporting standard setters, to explore scaling solutions in those standards also.

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?

We highlight the actions that have already been taken and/or are on the horizon by a number of NSS, regulators and other bodies to develop their own solutions in response to increasing local pressure to address such concerns, including the development of separate auditing standards for LCEs and the raising of audit threshold levels. We recommend that the IAASB reach out to such bodies to understand and evaluate their actions, including how these have been received and experienced in practice, to help inform the IAASB's project, as well as to liaise with these bodies to encourage the development and implementation of a truly global set of solutions.

Additionally, it would be helpful to understand how actions such as raising audit thresholds have affected user groups, and whether alternative solutions such as review engagements, agreed-upon procedures engagements, compilation engagements, and other engagements, including combination engagements such as a review engagement with agreed-upon-procedures in respect of certain key areas, performed in accordance with IAASB standards, may help meet user needs, recognising the value of such engagements since they are performed in accordance with IAASB standards, based on key principles, as relevant, including ethical requirements.