

Mr Tom Seidenstein
Chair
International Auditing and Assurance Standards Board
529 5th Avenue
New York, NY 10017
USA

10 June 2020

Subject: IAASB progress on finding a solution to the audit of less-complex entities (LCEs)

Dear Mr Seidenstein,

With this letter, Accountancy Europe calls on the IAASB to achieve clear progress towards a draft standard for the audit of LCEs by the end of the year and deliver this solution for such audits as soon as possible.

We have been a strong supporter of the IAASB's efforts in the area of LCE audit as we believe that challenges in applying the International Standards on Auditing (ISAs) in LCE audits need to be promptly resolved.

The trend of increasing audit thresholds¹, which we especially observe in Europe, together with the fact that countries have started developing solutions for LCE audits at national or regional levels demonstrate that the IAASB has to act quickly and deliver the solution in the short term. This solution should satisfy stakeholders' demands and put a stop to the development of solutions at a national/regional level.

As stated in our response to the IAASB Discussion Paper on LCE audits², whilst acknowledging the need for a solution for LCE audits, we firmly believe in using the existing ISA framework to develop it. This will ensure the same audit approach and consistency across the profession at a global level. Our response to the IAASB's consultation highlighted the following three priorities for the IAASB:

- as the first priority, develop a separate standard for LCE audits based on the ISAs
- in the longer term, use the separate standard as an opportunity to revise the ISAs as a whole with a think simple first/building blocks approach
- anticipate, and plan the converging of the above exercises

We acknowledge that undertaking such exercise would be challenging and demanding, especially in the current times of disruption caused by the Covid-19 pandemic and its significant impact across the audit profession. We also recognise the fact that the IAASB's recently published work plan is full of other equally strategic projects. Furthermore, we are conscious of the challenge of reaching decisions in the current situation where working remotely is the new norm. Nevertheless, we strongly believe that

¹ <https://www.accountancyeurope.eu/about-us/evolution-of-sme-audit-in-europe-from-the-perspective-of-the-legislation-and-auditing-standards/>

² <https://www.accountancyeurope.eu/consultation-response/iaasb-consultation-on-audits-of-less-complex-entities/>

the IAASB should continue its efforts in the area of LCE audit. There may be ways to use external resources as the IAASB did to advance the Extended External Reporting (EER) project.

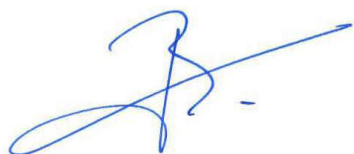
As small and medium-sized enterprises (SMEs)/LCEs make a critical contribution to the economy³, it is in the public interest to find an efficient way to deal with audits of these entities. This need becomes even more apparent in times of crisis – the Covid-19 pandemic has put especially SMEs at very high risk. In Europe, on average, about 90% of SMEs report to be economically affected.⁴ In such crisis which heightened going concern risks for many businesses, audit provides clarity to those using their accounts, for example suppliers or lenders. Audit ensures that a company's financial information is reliable, which is indispensable to instil confidence and trust in the economy. To enable auditors to carry out efficient and effective audits of LCEs, fit-for-purpose auditing standards are instrumental.

Taking into account all of the above, we believe that the IAASB needs to come up with concrete proposals on the way forward for the draft standard for the audit of LCEs by the end of this year. In consideration of SMEs/LCEs' importance for the economy, we also encourage the IAASB to see the current crisis as an invitation to rethink the ISAs with the aim to ensure their scalability and easier application in an LCE environment.

As stated in our response to the IAASB Discussion Paper on LCE audits, considering that several European countries have already developed their own national solutions, Accountancy Europe, as a body that represents these countries at a European level, could serve as a platform for exchange and potential collaboration. We stay committed to helping the IAASB find a solution for LCE audits.

We remain at your disposal for further exchange on this project and to help move it forward. For this, please contact Noémi Robert via email noemi@accountancyeurope.eu or on +32 (0)477 68 72 70 or Júlia Bodnárová via email julia@accountancyeurope.eu or on +32 (0)471 71 36 02.

Sincerely,



Olivier Boutellis-Taft
Chief Executive



Florin Toma
President

ABOUT ACCOUNTANCY EUROPE

Accountancy Europe unites 51 professional organisations from 35 countries that represent close to **1 million** professional accountants, auditors and advisors. They make numbers work for people. Accountancy Europe translates their daily experience to inform the public policy debate in Europe and beyond.

Accountancy Europe is in the EU Transparency Register (No 4713568401-18).

³ In Europe, SMEs account for 61,4% of employment and generate 54,5% of GDP and 56,4% of value added in the non-financial business sector in 28 Member States of the European Union. More details can be found in the European Commission's *Annual Report on European SMEs 2018/2019*, available at https://ec.europa.eu/growth/smes/business-friendly-environment/performance-review_en#annual-report

⁴ <https://smeunited.eu/admin/storage/smeunited/200417-covid19-impact1.pdf>