



**ACCOUNTANCY
EUROPE.**

SIMPLIFYING AUDITING STANDARDS FOR SMALL OR NON-COMPLEX ENTITIES

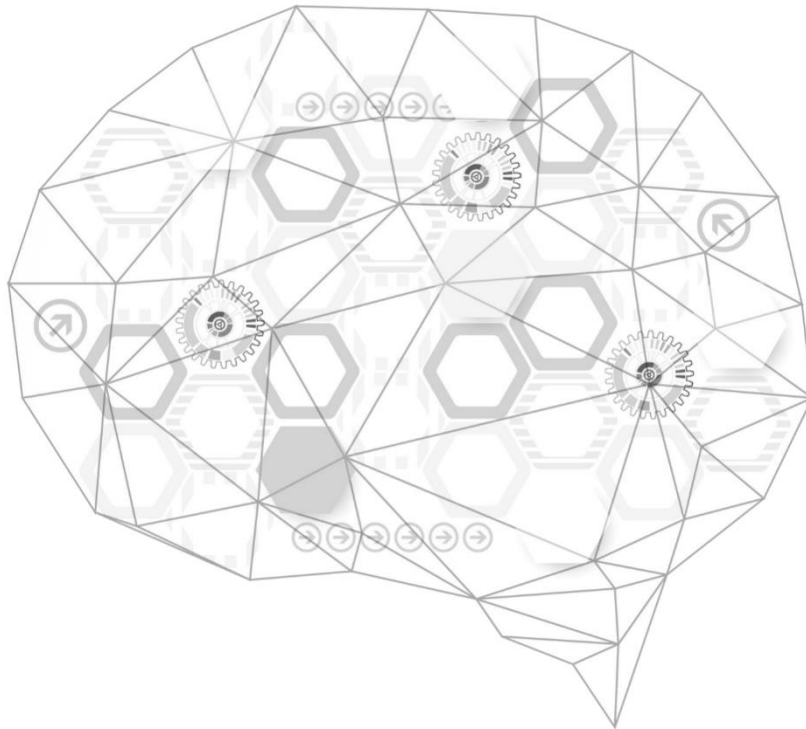
Exploring possible solutions

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COGITO.



Cogito: I think
Accountancy Europe's
thought-leadership series



COGITO

This document is part of the *Cogito* series, a selection of thought-provoking publications by Accountancy Europe.

Cogito (i.e. *I think*) is set up to provide new ideas for the European accountancy profession. With this series, we aim to enhance innovation and our contribution to business and society.

This publication aims to stimulate debate; the views expressed thus do not reflect the official positions of Accountancy Europe or any of its 51 member bodies.

HIGHLIGHTS

Confidence in smaller companies' performance benefits us all. Especially since they contribute more to the EU economy than large enterprises do. An audit of financial statements (hereafter: audit) can instil such trust as auditors check if historical financial information is reliable.

But should auditing a small or non-complex entity with e.g. 20 employees follow the same standards as a large company with 50,000 people? The current International Standards on Auditing (ISAs) have become too complex for the needs of smaller entities because audit regulators and standard setters focus on protecting capital markets. However, since smaller entities are major contributors to growth, they must not overlook them when dealing with auditing standards.

As the difficulties of applying the ISAs in this environment become more apparent, the status quo is not an option. This Cogito publication explores different solutions to help the IAASB find an efficient way to deal with small or non-complex entity audits. We aim to open the debate, so all stakeholders can work towards a way forward on this strategic issue.

ISSUES AT STAKE

SCOPE: SMALL OR NON-COMPLEX ENTITIES

An increasingly complex regulatory environment has resulted in very detailed auditing standards in order to deal with listed entity and public interest entity (PIE) regulatory issues. As a result, auditing standards have become over-engineered for small or non-complex entities.

In this Cogito publication, we speak about the audit of small or non-complex entities: 'small' is based on thresholds as defined in local legislation and 'non-complex' is based on the auditor's professional judgement. We acknowledge therefore that the scope of entities we consider may vary across the European Union (EU).

CURRENT GLOBAL AUDITING STANDARDS

International Standards on Auditing (ISAs) are developed by the International Auditing and Assurance Standards Board (IAASB). They are widely recognised at international level: over the last 40 years, the IAASB has become the world's leading standard setter in audit and assurance and has been instrumental in advancing audit quality worldwide.

CONFLICTING PRESSURES

In principle, the ISAs should be scalable and applicable in a proportionate manner¹, but auditors face an increasing number of requirements and volume of material that make this more difficult. They also struggle with regulators insisting on proper documentation and challenging them over the application of their professional judgement. These conflicting pressures are challenging to reconcile.

Audit policy and regulation focus on protecting capital markets. Since small and medium-sized entities (SMEs) are major contributors to growth, regulators and standard setters must not overlook this part of the economy when dealing with auditing standards.

SMEs ARE KEY STAKEHOLDERS

SMEs make a critical contribution to the EU economy, exceeding that of large enterprises. They account for 66.6% of total employment and generate 56.8% of value added² in the EU28 non-financial business sector.³ It is in the public interest to have high quality services that instil confidence and trust also in this part of the economy. Audit is one such service as auditors check if historical financial information is reliable, which is crucial for the functioning of the economy and its growth. For this reason, finding an efficient way to deal with small or non-complex entity audits is of great importance.

As the Monitoring Group is discussing the standard setting reform to better serve the public interest⁴, now is a good time to reflect on how to ensure that the auditing standards reflect the SME perspective.

¹ *Applying ISAs proportionately with the size and complexity of an entity (2009)*

<http://www.ifac.org/system/files/publications/files/applying-isas-proportionate.pdf>

In addition, *Directive 2014/56/EU of the European Parliament and of the Council of 16 April 2014 amending Directive 2006/43/EC on statutory audits of annual accounts and consolidated accounts* (EU Audit Directive) embedded the principle of proportionality of auditing standards: Member States which require the statutory audit of small undertakings may ensure proportionate application of the auditing standards in this environment

² Reflects SMEs' share of the annual growth in the sector

³ European Commission's *Annual Report on European SMEs 2016-2017* https://ec.europa.eu/growth/smes/business-friendly-environment/performance-review_en?pk_source=ec_newsroom&pk_medium=link&pk_campaign=spr17

⁴ Monitoring Group consultation *Strengthening the governance and oversight of the international audit-related standard-setting boards in the public interest* <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD586.pdf>

In the EU, large and medium-sized entities are required to be audited⁵. Small entities are also required to be audited in some Member States. However, in recent years, the mandatory audit of small entities has been increasingly perceived as an administrative burden. As a result, regulators in some European countries have raised or introduced audit exemption thresholds for certain small entities.

If the use of the ISAs is perceived as excessively burdensome for audits of smaller entities, with too much focus on compliance aspects, this will be used as an argument to exempt small entities from the statutory audit requirement. Given the value of audit, this is not a desirable development.

THE VALUE OF AUDIT OF SMALL OR NON-COMPLEX ENTITIES

Sweden has recently evaluated the impact of its 2010 reform that raised the audit exemption thresholds, concluding that the reform was unsuccessful as its costs to society outweigh the benefits. This is demonstrated in the report *Abolition of audit obligation for small limited companies – a reform where costs outweigh benefits*⁶ published by the NAO, an independent body of the Swedish Parliament⁷, in December 2017. The report questions the benefits of the raised audit exemption thresholds. Through an impact assessment, it demonstrates that the audit of small entities is valuable not only to the small entities themselves, but also to the public good. Based on this evidence, the Swedish Government has decided not to further raise the thresholds.

The impact assessment outlines numerous downsides of abolishing the audit obligation for small limited companies in Sweden and shows that the companies' competitiveness and growth have not been enhanced by the reform. On the contrary, without audit, companies show weaker subsequent growth, both in net sales and staff numbers and have lower earnings. These companies also have more accounting errors in their annual reports.

In addition, exempting small entities from audit may have unintended consequences for the economy, in particular increased risk of tax evasion, money laundering and other forms of economic crime. Audit serves as a deterrent to such fraudulent and criminal behaviour. Without audit, overall transparency is reduced, and authorities have less information to exercise control and enforcement in these areas.

In parallel, Italy has recently lowered the audit exemption thresholds as part of a business insolvency legislation reform. The main issue that led to this change was the recognition that smaller companies which were not subject to any audit or control system were the first to become insolvent. It was also acknowledged that a certain level of controls and early-warning mechanisms could be useful to avoid business failure. The new law was approved in October 2017.

CHARACTERISTICS OF SMALL OR NON-COMPLEX ENTITIES

Small or non-complex entities often have one or more of the following specific characteristics⁸:

- **Governance:** the owner is strongly involved, often without non-executive directors, and there is a limited number of shareholders.
- **Business environment and internal control:** the business model is not complex to understand, and the related risks are easy to assess. There is, in general, a lack of documented procedures and processes. The control environment is easy to comprehend, but not easy to test due to the limited segregation of duties and established procedures.

⁵ Accountancy Europe publication *Audit exemption thresholds in Europe*
<https://www.accountancyeurope.eu/publications/1605-audit-exemption-thresholds/>

⁶ A summary in English and a full report in Swedish are available at <https://www.riksrevisionen.se/en/audit-reports/audit-reports/2017/abolition-of-audit-obligation-for-small-limited-companies--a-reform-where-costs-outweigh-benefits.html>

⁷ The Swedish National Audit Office is an independent agency charged with auditing government institutions and overseeing state finances. It operates directly under the Swedish Parliament and is independent of political or other stakeholder interests.

⁸ These characteristics are broadly in line with the IAASB's definition of smaller entities.

- **Accounting:** the accounting and reporting framework may be simplified. The number of transactions and their complexity is low and it is easy to get an insight into what is included in the balance sheet, for example, there are often few and non-complex estimates and low external debt.

An audit is often performed months after the year end. Therefore, the degree of estimation uncertainty is limited: the account receivables may already be paid, the inventory sold and significant subsequent events already happened.

DIFFICULTIES OF APPLYING THE ISAs IN SMALL OR NON-COMPLEX ENTITIES

The characteristics of small or non-complex entities, as described above, have implications on how the audit is conducted. As explained above, the audit of these entities is seen as a valuable service. However, it is sometimes demanding to audit efficiently and in a proportionate manner while applying the ISAs. The auditor can often encounter the following difficulties:

- **Voluminous maze of requirements and application material:** the ISAs have become increasingly complex and lengthy. They have moved further away from the long desired ‘think small first’ approach and are rather perceived as based on a ‘checklist’ approach. There is also a risk that auditors put a disproportionate audit effort into those areas that are voluminous in the standards, but where there is little or no exposure to risk in the audited entity itself. This is sometimes done at the expense of more pertinent risks, which may need deeper attention, e.g. going concern analysis, related party transactions, as well as the application of professional scepticism.
- **Limited scalability and proportionality in practice:** the ISAs are meant to be principles-based standards to allow practitioners to apply professional judgement and tailor audit procedures depending on the risks of the audited entity and any facts and circumstances. Some ISAs may apply only to large entities and their requirements may be scaled down to be more proportionate to the small or non-complex environment. In practice, these scalability and proportionality aspects are difficult to apply due to the following:
 - **Onerous level of documentation:** audit documentation shall be sufficient to enable an experienced auditor to understand the audit procedures performed, the audit evidence obtained, and any significant judgement applied. Where the audited entity is not a complex one, the audit documentation can be reduced but is still quite onerous given the amount of ISA requirements to be applied. Practitioners often mention the fact that they spend a lot of time explaining why they have not done certain procedures.
 - **Over-engineered risk analysis:** the auditor must identify and assess the risks of whether financial statements may contain material misstatements. The auditor is then expected to design and implement appropriate audit procedures to mitigate these risks, and thereby obtain appropriate audit evidence about these risks. This risk analysis when applying the ISAs is very complex to perform and does not necessarily result in detecting the real risks efficiently in a non-complex environment.
 - **Extent of work on internal controls:** according to the ISAs, the auditor must understand internal controls based on the five-component Committee of Sponsoring Organizations of the Treadway Commission (COSO) model⁹. The extent of work that must be undertaken and documented to evidence the understanding of the internal controls according to this model is often seen as excessively burdensome and not efficient in small or non-complex environments. The COSO model is not designed to deal with small or non-complex entities.
- **IAASB’s current strategy drives scaling up the ISAs, but not scaling them down:** in the current projects undertaken, a lot of the ISAs are scaled up - for instance ISA 540 to deal with IFRS 9 - but to date, there is little evidence of scaling down any ISA.

⁹ <https://www.coso.org/Pages/default.aspx>

- **Hidden value of the audit:** the audit approach that the ISAs generate tends to be directed towards compliance with the standards themselves rather than towards the use of professional judgement in the work that is needed to ensure that the financial information is correct. The practitioner can bring much more than compliance with auditing standards when conducting an audit. The auditor is often very experienced and has a deep business knowledge to be able to speak on an equal footing with management. The auditor possesses a broad set of additional skills, including technical knowledge in tax, company law and IT.

These difficulties demonstrate that the ISAs have become less fit for purpose for small or non-complex entity audits. Against this backdrop, audit practitioners and their clients are increasingly questioning and challenging the applicability of the ISAs in a small or non-complex environment.

NATIONAL ADAPTATIONS OF AUDITING STANDARDS

Across Europe, national standard setters are adapting the ISAs and producing guidance or specific standards for SMEs. The extent to which these adapted standards and guidance have been deemed necessary, signals that there is a need for additional support for using the ISAs in a small or non-complex entity environment. Even if the support needed may vary, all practitioners serving these entities are affected – whether they work at large firms, network firms or smaller firms.

We refer to the Appendix of this publication that summarises the different national approaches currently in place to ease the proportionate application of the ISAs.

NATIONAL GUIDANCE AND IT TOOLS

We see a trend of countries developing national guidance and information technology (IT) tools to help apply the ISAs proportionately. To date, the following are noted:

- ten European countries¹⁰ have developed, or are in the process of developing, such national guidance
- in ten European countries¹¹, IT tools are provided by professional bodies

Additionally, professional bodies in two European countries¹² have developed a non-obligatory ISA manual to help auditors apply the ISAs proportionately.

NATIONAL STANDARDS FOR SMALL OR NON-COMPLEX AUDITS

France is the only country that has a specific standard for audits of small entities. This standard has been endorsed by the French Ministry of Justice. The Nordic countries have also developed a standalone standard SASE for the audit of small entities, but it is not in use.

DO THESE NATIONAL INITIATIVES OVERCOME THE DIFFICULTIES?

National adaptations may help ensure that the ISAs are applied in a proportionate manner. However, they are insufficient to tackle the issues at global level. More pressure is being placed on the IAASB to look into how the ISAs can be more effectively used for the audit of small or non-complex entities.

In January 2017, the IAASB and the French accountancy profession organised an international conference to exchange views on this topic with national standard setters, regulators, the audit profession and academics.

¹⁰ Austria, Belgium, Bulgaria, Germany, Hungary, Ireland (UK's *Practice Note 26* is used in Ireland), Italy, Slovak Republic, Switzerland, UK. This is based on the 28 EU Member States, Iceland, Norway and Switzerland. Refer to the Appendix of this publication for detailed information per country.

¹¹ Belgium, Denmark, Estonia, Finland, France, Germany, Greece, Latvia (IT tool used in Latvia was developed by the Estonian Auditors' Association), Norway, Switzerland. Please note that this is based on the 28 EU Member States, Iceland, Norway and Switzerland. Refer to the Appendix of this publication for detailed information per country.

¹² Czech Republic, Poland

These different opinions have triggered Accountancy Europe to debate possible solutions in practice to overcome the difficulties of applying the ISAs in a small or non-complex entity environment. We have undertaken this project to explore solutions that could help the standard setter, the IAASB, tackle the outlined difficulties.

EXPLORING POSSIBLE SOLUTIONS

Before exploring possible solutions, we should acknowledge that none of these solutions is perfect. Therefore, we include pros and cons of each solution we present.

EXPERIMENTING

To identify the best solution to deal with the issues at stake, we need to experiment and be willing to think out of the box. This is crucial in moving this strategic agenda forward.

We refer to the Financial Reporting Lab that has been instrumental in moving forward the agenda of better corporate reporting in the UK. The Financial Reporting Council is continuing this experience with their Audit and Assurance Lab to explore the role of audit committee reporting in promoting audit quality.

The IAASB has started setting up advisory panels, for instance on technology. But the mandate of such initiatives should not only be to advise, but to work collaboratively and test new ideas in practice.

CONDITIONS FOR A WORKABLE SOLUTION

For solutions to be workable, the following three conditions should be met. Any solution must be global, ensure a consistent audit comfort and assurance level, and be technology oriented.

BE GLOBAL

First and foremost, we need a global solution for the following reasons:

- it allows for comparability and mutual recognition internationally. It also enables a common understanding by auditors, audit firms, national standard setters and regulators
- it secures consistency in application. It is in the public interest that the growth and cross-border expansion of these entities is not hindered by significant differences in audit amongst countries

ENSURE A CONSISTENT AUDIT COMFORT AND ASSURANCE LEVEL

To ensure consistency of audit quality, the design of any standard setting solution for the audit of small or non-complex entities should provide for the same level of audit comfort and assurance as for any other audit. The audit recipient and users of the financial statements should receive the same level of comfort when a standalone standard (or a set of standalone standards) is used as when the full ISAs are used.

BE TECHNOLOGY-ORIENTED

Proposed solutions must be compatible with current, as well as anticipated future developments in technology, to enable practitioners to audit in different and more efficient ways.

SOLUTION 1 - BUILT WITHIN THE ISAs

The solution built within the ISAs could be one or a combination of the following four streams: a) develop guidance to apply the ISAs to small or non-complex entities, b) revise the ISAs applying a ‘think small first’ approach, c) revise the ISAs to deal with complex language, and d) apply information technology to the ISAs.

DEVELOP GUIDANCE TO APPLY THE ISAs TO SMALL OR NON-COMPLEX ENTITIES

The structure and length of the ISAs make it difficult for practitioners to navigate them. Additional material, separate to that currently included within the standards or application material, may help practitioners to apply the ISAs more efficiently.

Pros and Cons of developing guidance to apply the ISAs

| Pros | Cons |
|--|--|
| <ul style="list-style-type: none"> It will be a continuity of the work that has been done so far. | <ul style="list-style-type: none"> It will not be enough to respond to the challenges faced by practitioners, who may see it as even more material being added to the ISAs. It will be seen as a solution that has been tried already in the past (SMP Committee Guide). If additional material is developed, there is a risk that guidance becomes very long and complex which hinders its usefulness for practitioners. |

REVISE THE ISAs APPLYING A ‘THINK SMALL FIRST’ APPROACH

Revising the ISAs by applying a ‘think small first’ approach would help to revert to standards that are largely principles-based. Such approach would also allow to apply the ISAs in a proportionate manner and add complexity only when the audited entity’s environment justifies it.

Based on the general objectives of audit as embedded in the ISAs, the IAASB would have to extract the very essence of the ISAs and redraft their content with a ‘think small first’ approach. Complexity added to each ISA and its requirements should be systematically conditional based on the size and complexity of the audited entity and circumstances. This means that the auditor would address only applicable requirements depending on facts and conditions linked to a particular audit of an entity.

Pros and Cons of revising the ISAs for proportionality to work

| Pros | Cons |
|---|---|
| <ul style="list-style-type: none"> Starting from the general objectives of the ISAs, it is possible to extract the essence of the ISAs and redraft their content with a ‘think small first’ approach in order to take out complexity. Complexity can be added to each ISA to be applied depending on facts and circumstances linked to an audit of an entity. | <ul style="list-style-type: none"> It is easier said than done and will be a difficult task to undertake due to the maturity of the ISAs as developed to date. It will require redrafting all the ISAs. |

REVISE THE ISAs TO DEAL WITH COMPLEX LANGUAGE

The IAASB undertook the Clarity Project a few years ago to make the ISAs’ structure and language more understandable.

Subsequent modifications to standards have introduced new language complexity – some refer to overengineered or too elaborate language – and this may even have undone some of the understandability that was originally brought in by the Clarity Project.

This is why another Clarity Project or a perpetual Clarity Project with the Board delegating the drafting to a dedicated Committee may help restore and maintain better clarity.

Pros and Cons of revising the ISAs to make them understandable

| Pros | Cons |
|---|--|
| <ul style="list-style-type: none"> • It will improve the understandability of the ISAs for all. • It will be welcomed by all practitioners to get the ISAs more understandable in terms of language used. | <ul style="list-style-type: none"> • It will be very time consuming. The last Clarity Project took five years as a point of reference. • There will always be a tendency to add language complexity. • It will create instability in the ISAs that will keep on changing. |

APPLY INFORMATION TECHNOLOGY TO THE ISAs

Regardless of what solution stakeholders will come up with, the IAASB needs to bring its Handbook to the digital age. A fully-indexed electronic set of standards would already help users better navigate them. This measure would also enable the IAASB to remove a lot of the repetition that is currently in the standards.

In this context, we refer to the survey in the Appendix to this Cogito publication. Audit software and tools have been developed locally in ten¹³ European countries to enable navigating through the ISAs when auditing small or non-complex entities. Developing a generic methodology or software could be explored by the IAASB or other standard setters.

SOLUTION 2 - DEVELOPING A STANDALONE STANDARD

A standalone standard could be developed to design an audit that achieves the same objectives as the current audit while tailoring it to the circumstances of small or non-complex entities. Considering the difficulties faced when carrying out the audit of small or non-complex entities, a standalone standard could adapt the current audit approach. It could make more use of professional judgement, moving away from an approach that is too focused on compliance and documentation of non-applicable requirements. A standard with clear and explicit principle-based requirements could also help avoid misunderstandings and unnecessary discussions with oversight authorities.

As already mentioned, in Europe, two jurisdictions have endorsed or explored such solutions:

- the French standard 910, as endorsed by the Ministry of Justice, is the only specific standard in use
- the Nordic standard SASE has been developed by the Nordic countries, but is not in use
- SASE relies on the use of professional judgement and is therefore intended to be used by experienced practitioners

A STANDALONE STANDARD: OUTSIDE THE ISAs OR ALONGSIDE THE ISAs?

In exploring this second option, we need to assess whether this standalone standard would be better developed alongside the ISAs or completely separate, i.e. the auditor not referring to the suite of the ISAs at all. The pros and cons included below should be assessed with this aspect in mind.

¹³ Includes Latvia which is using the audit software developed by the Estonian Auditors' Association.

Pros and Cons of developing a standalone standard for the audit of small or non-complex entities

| Pros | Cons |
|---|--|
| <ul style="list-style-type: none"> Developing a standalone standard presents a solution that allows for a quicker response to the issues of applying the ISAs in a small or non-complex entity context as compared to the time needed to redraft all the ISAs. Following a standalone standard, the auditor would be able to provide a better service to small or non-complex entities. The auditor would be able to focus exclusively on audit procedures that are relevant to these entities and would not have to document why some procedures do not apply. The newly developed standard could be written with digitalisation in mind as opposed to the ISAs which do not take it into account yet. The 'fundamental principles' of an audit are similar when either using the ISAs or another set of standards: risk-based approach, assessment of the environment, evidence gathering with the application of professional judgement and exercise of professional scepticism at all times. A standalone standard could bring these fundamental principles together and help practitioners focus on the relevant aspects of the audit of small or non-complex entities while emphasising the need for professional judgement. | <ul style="list-style-type: none"> The 'public' may be confused by different requirements and an apparent difference of rigour, both leading to the same audit comfort. For those countries that have adopted the ISAs, it is unclear if they would readily shift to an alternative standalone standard, even if that alternative is endorsed/ issued by the IAASB and results in a similar outcome, an 'audit'. This approach may therefore fail to address the concerns raised, especially if the new suite of standards is less rigorous than the full ISAs. As far as the scope of application is concerned, it may be challenging to differentiate when such a standalone standard can be applied and when the application of the full ISAs is necessary. A set of standards that contains fewer requirements may be more challenging for audit regulators to enforce. Regulators would need to be involved in discussing possible solutions. The fact that the standalone standard is intended for use by experienced practitioners may make it difficult to be used in practice. |

OTHER ROUTES TO BE EXPLORED

Two main possible solutions have been explored above: a solution within the ISAs and a standalone standard as a solution - alongside the ISAs or separate from the ISAs.

There are other aspects in the audit of small or non-complex entities that may help identify possible solutions. These aspects are routes to be explored further and may be part of a possible solution, but do not really constitute a full response to the issues at stake.

INCLUDING A DIRECT ENGAGEMENT DIMENSION TO AUDIT

A solution can be found with incorporating a 'direct engagement dimension' to the audit.

Traditionally, in an audit, there are those who prepare and take responsibility for the financial statements (the management), those who audit the financial statements (the auditor) and those for whom the report is issued (the shareholders). Management takes full responsibility for the financial statements and the auditor is responsible for the auditor's opinion on these financial statements.

In small or non-complex entities, the general manager is ordinarily not an expert in accounting matters and may not have a CFO. Under the assurance framework of the IAASB, it is possible to provide assurance within a direct engagement, i.e. an engagement in which the practitioner directly measures or evaluates the underlying subject matter against the criteria.

It is possible to imagine an audit engagement where the auditor is involved in the calculation of the closing entries and the measurement of the final estimates. This would result in a combined engagement: a direct engagement on the final estimates and an assertion-based audit on the overall financial statements. While remaining responsible for the financial statements, the general manager will receive added-value from the auditor beyond the usual audit work on the financial statements.

Such an engagement would present the following advantages:

- closing the expectation gap of requiring the full responsibility of management for something on which they have no real expertise
- allowing the auditor to add value to the engagement by directly using the auditor's expertise of the accounting framework to measure estimates and closing entries

Management would retain full responsibility for the whole financial statements since such responsibility is usually set in national law.

MAKING FULL USE OF DATA ANALYTICS IN AUDIT

Another route to be explored could be to use new technology, such as data analytics, to a greater extent, and to embed new technology more comprehensively in audit standard setting. This would allow the auditor to use this data relating to the entity more easily. It could also pave the way for the adoption of more straightforward controls that could simplify the audit approach.

Even if software enables a check of 100% of a population, there are often many so called 'outliers' and the issue of completeness of the accessed population also needs to be addressed.

NEXT STEPS

This Cogito publication aims to stimulate the debate on the audit of small or non-complex entities and how the ISAs, or any other auditing standard, could help to better respond to the challenges faced. Given the difficulties of applying the ISAs in small or non-complex entity audits, the status quo is not an option. Therefore, we have explored different solutions that may help the IAASB. Accountancy Europe is planning to pursue dialogue on this topic with its members and the IAASB. We will also continue analysing national developments in Europe.

To discover different and potentially better ways of dealing with the audit of small or non-complex entities, the IAASB would need to experiment with possible solutions and set up a safe space to innovate, e.g. by conducting audit pilots using new solutions like those suggested in this Cogito publication. Subsequently, the outcome of these pilot projects has to be assessed by practitioners. Representatives of audited entities, along with auditors, should also be part of this assessment.

In this project, Accountancy Europe started from the premise that audit is a valuable service to small or non-complex entities. Further research could be done on this aspect and whether a possible solution to serve these entities could be something else than audit.

APPENDIX

SURVEY: NATIONAL GUIDANCE AND IT TOOLS ON PROPORTIONATE APPLICATION OF THE ISAs¹⁴

| Country | National guidance on proportionate application of the ISAs developed? Yes/ No | Software/ IT tool for audits of smaller entities available? Yes/ No | Details |
|---------|--|--|---|
| Austria | Yes | No | <p>Since 2007, the Institute of Austrian Public Accountants (IWP) has been issuing a handbook on quality assurance, a guidance especially addressing the needs of SMPs. Currently, the handbook is in the process of being updated.</p> <p>In April 2017, the IWP issued <i>Guidance No 27</i> on the proportionate performance of an audit under the ISAs.</p> |
| Belgium | Yes | Yes | <p>The Institute of Statutory Auditors (IRE-IBR) developed a Guide oriented to SMPs and to the audit of SMEs by providing check-lists and templates which illustrate the control procedures to perform when auditing SMEs. This guide is available on the website as from January 2012 and is principally a practical guidance. Please find hereunder a link to the guidance in French and in Dutch: http://www.icci.be/fr/publicaties/downloads/Pages/listesdeconrole-matrices.aspx http://www.icci.be/nl/publicaties/Downloads/Pages/isa-checklists-en-templates.aspx</p> <p>Furthermore, the IBR-IRE published a guidance on the summary of the audit approach within non-complex entities on 14 December 2017. Please find below a link to this guidance in French and in Dutch: https://www.ibr-ire.be/fr/publications/series_actuelles/notes-techniques/Pages/Note-technique-synthese-de-la-demarche-daudit-dans-des-entites-non-complexes.aspx https://www.ibr-ire.be/nl/publicaties/actuele_reeksen/technische-notas/Pages/Technische-nota---samenvatting-van-de-controleaanpak-in-niet-complexe-entiteiten.aspx</p> <p>Reference is made to the IAASB's publication <i>Applying ISAs Proportionately with the Size and Complexity of an Entity</i> (August 2009). In 2013, the IRE-IBR published a circular on this subject.</p> <p>In parallel with the adoption of clarified ISQC 1 in 2014, the IRE-IBR published three circulars relating to the Belgian specificities with respect to the application of</p> |

¹⁴ This survey is based on the input of Accountancy Europe's members. It follows up on our publication *Overview of ISA adoption in the European Union* (2015); <https://www.accountancyeurope.eu/publications/fee-shows-that-european-countries-increasingly-move-towards-international-standards-on-auditing-isas/>

| Country | National guidance on proportionate application of the ISAs developed? Yes/ No | Software/ IT tool for audits of smaller entities available? Yes/ No | Details |
|----------|--|--|--|
| | | | <p>ISQC 1 in Belgium (confidentiality, independence and responsibility) and in order to clarify the notion of 'relevant ethical requirements' in this context.</p> <p>The IRE-IBR, in collaboration with the French National Association of Statutory Auditors (CNCC), has also developed Pack Petites Entités – Kleine Entiteiten (Pack PE-KE) providing tools to allow the auditor to perform an audit of a small entity in accordance with the clarified ISAs adopted in Belgian law.</p> |
| Bulgaria | In progress | No | <p>According to the Bulgarian Independent Financial Audit Law, the ISAs were adopted in Bulgaria in 2003. The Institute of Certified Public Accountants of Bulgaria (ICPA) carries out training courses on the ISAs within the continuous professional education on a yearly basis. The lecturers are experienced practitioners representing the Bulgarian profession as well as guest lecturers from other countries and professional institutes.</p> <p>Some materials published by IFAC, are translated and distributed among the members of the ICPA, for example, <i>Guide to Practice Management of Small and Medium-sized Practices</i>, <i>Audit Practice Alerts</i>, <i>Guide to Quality Control for Small and Medium-Sized Practices</i> etc. All new ISAs, their changes and other relevant IFAC material for their application are subject of regular review by the ICPA and translation.</p> <p>In addition, the ICPA's Technical Committee plans to start a new project on the development of internal audit guidance for SMPs and for the audit of SMEs, based on the ISAs and other guidance of IFAC and the new legal rules for statutory audit resulting from the EU Audit Reform.</p> |
| Croatia | No | No | <p>There is no national guidance on proportionate application of the ISAs.</p> <p>The Croatian Audit Chamber (CAC) organises for its members training courses and workshops within the programme for continuous professional education of certified auditors regarding implementation of the ISAs and ISQC 1 and about their proportionate application.</p> <p>As of 2014, the IFAC Guides translated into Croatian are available for the CAC's members, as follows:</p> <ol style="list-style-type: none"> 1. <i>Guide to Using International Standards on Auditing in the Audits of SMEs</i>, Volume 1 - Core Concepts, Third Edition, November 2011 2. <i>Guide to Using International Standards on Auditing in the Audits of SMEs</i>, Volume 2 – Practical Guidance, Third Edition, November 2011 |

| Country | National guidance on proportionate application of the ISAs developed? Yes/ No | Software/ IT tool for audits of smaller entities available? Yes/ No | Details |
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| | | | 3. <i>Guide to Quality Control for SMPs</i> , Third Edition, August 2011 |
| Cyprus | No | No | There is no national guidance on proportionate application of the ISAs. |
| Czech Republic | No – but ISA manuals are provided to auditors of SMEs | No | <p>There is no national guidance on proportionate application of the ISAs, full application of all relevant ISAs is required for audits of all types and sizes of companies.</p> <p>However, the Chamber of Auditors of the Czech Republic (KACR) provides to its members written aids in the form of manuals. These manuals aim to help apply the ISAs in audits of SMEs, but are not binding or obligatory:</p> <p>https://www.kacr.cz/prirucka-k-uplatnovani-isa-pri-auditu-ucetnich-zaverek-malych-a-strednich-podniku https://www.kacr.cz/metodicka-pomucka-pro-smesmp</p> |
| Denmark | No | Yes | <p>There is no national guidance on proportionate application of the ISAs. The ISAs are used in full in Denmark.</p> <p>The Danish Auditors' Institute FSR markets an IT-system (audit software), which is integrated into Caseware. There are also competing systems that help the SMPs to comply with the standards.</p> |
| Estonia | No | Yes | <p>There is no national guidance on proportionate application of the ISAs.</p> <p>In addition to compulsory audit, Estonia has a compulsory review (performed in accordance with ISRE 2400 (revised)) for smaller entities.</p> <p>The IFAC <i>Guide to Using International Standards on Auditing in the Audits of SMEs</i> has been translated into Estonian. The <i>Guide to Quality Control for SMPs</i> has also been translated into Estonian.</p> <p>The Estonian Auditors' Association (EAA) has developed an audit software for the audit of small and medium entities.</p> |
| Finland | No | Yes | <p>There is no national guidance on proportionate application of clarified ISAs.</p> <p>The IFAC <i>Guide to Using International Standards on Auditing in the Audits of SMEs</i> has been translated into Finnish. The <i>Guide to Quality Control for SMPs</i> has also been translated into Finnish.</p> <p>In October 2017, the Finnish Association of Auditors (FAA) launched an Excel based workbook for SME audits.</p> |

| Country | National guidance on proportionate application of the ISAs developed? Yes/ No | Software/ IT tool for audits of smaller entities available? Yes/ No | Details |
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| France | No – but has standard for SME audits | Yes | <p>There is no national guidance on proportionate application of clarified ISAs.</p> <p>For the statutory auditors (commissaires aux comptes)</p> <p>Professional Standard 910 - Statutory Audit of Entities under Article L823-12-1 of the Commercial Code which deals with the scalability of statutory audits for small entities, was issued by the National Association of Statutory Auditors (CNCC) and endorsed by the Ministry of Justice in 2009.</p> <p>This standard has been set in the context where French law requires that auditors perform their audits following a specific professional standard in partnerships, limited partnerships, limited liabilities entities and entities with limited shareholdings which do not exceed certain thresholds at the end of the fiscal year.</p> <p>These thresholds, stipulated by article R. 823-7 of the Commercial Code are the following:</p> <ul style="list-style-type: none"> • turnover excluding taxes: EUR 3.1 million • total assets: EUR 1.55 million • number of employees: 50 <p>Faced with this legal obligation and anxious to preserve the unity of the audit, the French profession has developed the above-mentioned standard (known as the standard for 'Petites Entreprises' or 'PE' or small entities). The standard preserves all the basic principles and essential procedures of auditing and provides auditors with implementation guidance tailored to the audit of SMEs (see paragraph 2 of that standard).</p> <p>This standard specifies (paragraph 3) that to express an opinion on the financial statements, the auditor performs the procedures provided by the professional standards for the audit of the financial statements, which he adapts based on professional judgment to the specific context of the SME audits. These procedures are adapted to take into account the following circumstances, which are common in an SME environment:</p> <ul style="list-style-type: none"> • direct communication with Management that enables the auditor to assess the conduct and professional ethics of the management • a control environment that is based on the direct involvement of the management in the authorisation process and control of operations • a timing, later in the year, for the performance of the audit which will often see the clearance of account balances or the settlement of transactions recorded |

| Country | National guidance on proportionate application of the ISAs developed? Yes/ No | Software/ IT tool for audits of smaller entities available? Yes/ No | Details |
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| | | | <p>It should be noted that, to maintain the compatibility of its standards to international standards, the profession has ensured that modification terms set forth in the PE standard comply, in both the letter and the spirit, with the application material of the ISAs. For example, ISA 315 states in paragraph A49 that in a small entity owned by its manager, the latter may be able to exercise overall control of the activity more effectively than in a larger entity:</p> <p><i>"Smaller entities often have fewer employees which may limit the extent to which segregation of duties is practicable. However, in a small owner-managed entity, the owner-manager may be able to exercise more effective oversight than in a larger entity. This oversight may compensate for the generally more limited opportunities for segregation of duties."</i></p> <p>For the professional accountant (expert-comptable)</p> <p>As mentioned above, the professional standard 910 applies to the statutory audit of certain small entities carried by statutory auditors (commissaires aux comptes).</p> <p>For contractual audits carried by experts-comptables, the authority Conseil Supérieur de l'Ordre des experts-comptables has recently published a standard for the audit of small entities (NP 2910). This standard was endorsed by the Ministry of Finance through a Ministerial Order on 13 March 2017.</p> <p>The standard is based on the ISA and is used for a contractual financial statements' audits by a French professional accountant (expert-comptable). To make this engagement more accessible to all professionals, while remaining consistent with the ISA, this new standard is intended for the audit of the financial statements of a small entity. It presents the objectives of each ISA, complemented as necessary. The provisions of the 'Application and other explanatory material' section include all specific paragraphs applicable to small entities such as provided for in the ISA.</p> <p>'Small entity' is defined in paragraph 2. It refers to an entity that has typically qualitative characteristics such as concentration of ownership and management in the hands of a small number of persons (often a single person - either a physical person or another entity that holds the entity provided that its owner has the same qualitative characteristics), and one or more of the following attributes: simple or no-complex transactions, simple accounting, an undiversified activity or few products in the product lines, limited internal controls, short levels management but with extensive responsibilities on controls, or few employees, many having very large tasks.</p> <p>As stipulated in the standard (paragraph 4) – the</p> |

| Country | National guidance on proportionate application of the ISAs developed? Yes/ No | Software/ IT tool for audits of smaller entities available? Yes/ No | Details |
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| | | | <p>professional accountant performs the audit work specified by the ISAs that he/ she will adapt based on his professional judgment and on this auditing standard for small entity audits.</p> <p>The CNCC developed a software for small entity audits.</p> |
| Germany | Yes | Yes | <p>The approach of the Institute of Public Auditors (IDW) has long been to establish a common understanding between all relevant parties that the ISAs follow a principles-based approach permitting the auditor to adapt audit procedures, by applying professional judgement, to the specific circumstances of the individual engagements.</p> <p>At the time of publication, the IDW is in the process of changing from the current transposition of the ISAs into the IDW's Auditing Standards towards adoption of the ISAs (ISA-DE), within IDW German Principles of Proper Auditing. Once in place, future German auditor's reports will refer to German Principles of Proper Auditing.</p> <p>In order to foster acceptance for the ISAs and ISQC 1 amongst its members, the IDW prepared together with the Austrian and Swiss institutes (in cooperation with the European Commission's Directorate General for translation) the official translation of the ISAs into German.</p> <p>In order to assist its members with the proportionate application of the auditing standards (IDW AuS (and ISAs)) the IDW has undertaken the following:</p> <ul style="list-style-type: none"> • published the IDW Quality Assurance and Audit Handbook (available in print and as a CD) which is updated regularly. This Handbook guides practitioners through the audit process in particular, and thus assists SMPs in performing quality audits pursuant to the Auditing Standards applicable in Germany. It includes checklists that can be tailored to the individual audit circumstances, and specimen documents (e.g. engagement letters, and in particular group audit instructions etc.) • developed an electronic navigator (IDW Prüfungsnavigator – IDW Audit Navigator) that is linked to the relevant part of the IDW Handbook and to various texts from law or from the IDW AuS. The Audit Navigator has been designed for direct application in audits of smaller or less complex entities and as an educational tool for audit staff and trainees. It takes auditors and students through each of the key steps in the audit process, giving access to the detailed source of a requirement (auditing standards and, where applicable, text of relevant |

| Country | National guidance on proportionate application of the ISAs developed? Yes/ No | Software/ IT tool for audits of smaller entities available? Yes/ No | Details |
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| | | | <p>legislation), guidance in the IDW Quality Assurance and Audit Handbook and specimen letters and checklists, in various degrees of detail (drill down facility). The IDW has released the first podcasts as an interview session (You-Tube) to introduce and explain the IDW Audit Navigator. The IDW Audit Navigator also has recently been integrated into the audit software of several providers.</p> <ul style="list-style-type: none"> developed two publications regarding the proportionate application of ISA documentation requirements in an SME-context, based on the UK FRC <i>Practice Note 26 (Revised) Guidance on Smaller Entity Audit Documentation</i>. These publications aim to assist IDW practitioners in complying with the documentation requirements in an efficient manner and to inform practitioners as to the extent of documentation required by the ISAs and IDW AuS. |
| Greece ¹⁵ | No | Yes | <p>There is no national guidance on proportionate application of the ISAs.</p> <p>The Institute of Certified Public Accountants in Greece (SOEL) has made available to SMPs an audit software for the audit of SMEs.</p> |
| Hungary | Yes | No | <p>Full application of all relevant ISAs incorporated in the National Standards on Auditing (NSA) is requested for statutory audits of all types and sizes of companies.</p> <p>There is a national guidance for SME audits based on the National Standard on Auditing (i.e. a handbook with explanatory application material and with a set of simplified sample audit documentation templates. It is available on the website of the Hungarian Chamber of Auditors (MKVK), in Hungarian only: http://www.mkvk.hu/tudastar/utmutatok/kkv.</p> <p>However, the SME audit handbook has no other specific emphasis on the proportionate application of the NSA/ ISAs. The SME audit handbook was prepared, on the basis of the clarified ISAs, in 2011. It is planned to update the handbook in the near future.</p> |
| Iceland | No | No | There is no national guidance on proportionate application of the ISAs. |
| Ireland | Yes | No | <i>Practice Note 26 (Revised) Guidance on Smaller Entity Audit Documentation</i> ¹⁶ continues to be available to auditors in |

¹⁵ Recent information on Greece is currently not available. Therefore, the information in this appendix is based on our 2015 publication *Overview of ISA adoption in the European Union* <https://www.accountancyeurope.eu/publications/fee-shows-that-european-countries-increasingly-move-towards-international-standards-on-auditing-isas/>

| Country | National guidance on proportionate application of the ISAs developed? Yes/ No | Software/ IT tool for audits of smaller entities available? Yes/ No | Details |
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| | | | Ireland for smaller entity audit engagements. |
| Italy | Yes | No | <p>In February 2012, the National Council of Chartered Accountants (CNDCEC) developed guidelines for the application of clarified ISAs to SMEs. These guidelines, available only in Italian, derive from the IFAC <i>Guide to Using International Standards on Auditing in the Audits of SMEs</i>. The guidelines were updated in December 2015. At the moment, the public consultation about the new draft is closed and in the following weeks, the CNDCEC will publish the final document. In addition, the CNDCEC has performed and made publicly available the translation of the IFAC Guide into Italian.</p> <p>Before 14 November 2018, the Italian Government is expected to update the civil code to introduce lower thresholds that will make auditing mandatory for limited liability companies. Consequently, the number of mandatory audits will increase together with the rise of the national interest in the proportionate application of the ISAs.</p> |
| Latvia | No | Yes | <p>There is no national guidance on proportionate application of clarified ISAs.</p> <p>The IFAC <i>Guide to Using International Standards on Auditing in the Audits of SMEs</i> has been translated into Latvian.</p> <p>In addition to compulsory audit, Latvia has a compulsory review (performed in accordance with Revised ISRE 2400) for smaller entities.</p> <p>Software developed by the Estonian Auditors' Association (EAA) for the audit of small and medium entities is also used in Latvia.</p> |
| Lithuania | No | No | <p>There is no national guidance on proportionate application of the ISAs. Full application of all relevant ISAs is requested for audits of all types and sizes of companies.</p> <p>The Lithuanian Chamber of Auditors (LAR) organises the continuing professional development training of certified auditors regarding implementation of the ISAs and ISQC 1.</p> <p>As of 2014, the Lithuanian translation of the IFAC Guides is available for the LAR's members, as follow:</p> <ul style="list-style-type: none"> • <i>Guide to Using International Standards on Auditing in the Audits of SMEs</i>, Volume 1 - Core Concepts, Third |

¹⁶ Practice Note 26 (Revised) [https://www.frc.org.uk/getattachment/9a350690-e61f-45ce-952c-54a1e527c066/PN-26-\(Revised\)-Guidance-on-Smaller-Entity-Audit-Dec-2009.pdf](https://www.frc.org.uk/getattachment/9a350690-e61f-45ce-952c-54a1e527c066/PN-26-(Revised)-Guidance-on-Smaller-Entity-Audit-Dec-2009.pdf)

| Country | National guidance on proportionate application of the ISAs developed? Yes/ No | Software/ IT tool for audits of smaller entities available? Yes/ No | Details |
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| | | | Edition, November 2011 <ul style="list-style-type: none"> • <i>Guide to Using International Standards on Auditing in the Audits of SMEs</i>, Volume 2 - Practical Guidance, Third Edition, November 2011 • <i>Guide to Quality Control for SMPs</i>, Third Edition, August 2011 |
| Luxembourg | No | No | There is no national guidance on proportionate application of the ISAs. |
| Malta | No | No | There is no national guidance on proportionate application of the ISAs. The Companies Act Cap. 386 (http://www.justiceservices.gov.mt/DownloadDocument.aspx?app=lom&itemid=8853) specifies that the auditor's report shall be drawn up in accordance with generally accepted auditing standards. Furthermore, the Accountancy Profession (Accounting and Auditing Standards) Regulations S.L. 281.02 (http://www.justiceservices.gov.mt/DownloadDocument.aspx?app=lom&itemid=9726&l=1) states as follows: <i>"Compliance with 'generally accepted auditing standards' shall mean adherence to international auditing standards:</i> <i>Provided that international auditing standards as adopted by the EU on a particular subject-matter shall apply instead and to the exclusion of international auditing standards covering the same subject-matter:</i> <i>Provided further that in conducting the statutory audit of small undertakings, the application of the auditing standards is to be proportionate to the scale and the complexity of the activities of such undertakings. The Board may take measures in order to ensure the proportionate application of the auditing standards of the statutory audits of small undertakings."</i> |
| Netherlands | No | No | There is no national guidance on proportionate application of the ISAs. The IFAC <i>Guide to Using ISAs in the Audits of SMEs</i> has been translated into Dutch. Although proportionate application is not explicitly mentioned in this guide, the principle is applied in it. The translated IFAC Guide is available at http://www.nba.nl/Actueel/Nieuws/Nieuwsarchief/Handleiding-Nederlandse-controlestandaarden-bij-controles-in-het-mkb1// |

| Country | National guidance on proportionate application of the ISAs developed? Yes/ No | Software/ IT tool for audits of smaller entities available? Yes/ No | Details |
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| Norway | No | Yes | <p>There is no national guidance on proportionate application of the ISAs.</p> <p>The SASE standard for audits of SMEs has been developed in Norway. However, it is not in use.</p> <p>The Norwegian Institute of Public Accountants (Revisorforeningen) has developed an audit software Descartes that is now used by most SMPs. This software supports the practitioner in performing audits of smaller entities in compliance with the ISAs. Descartes was sold to the software provider Visma in March 2017.</p> |
| Poland | No – but an ISA manual based on a proportionate principle is provided to auditors | No | <p>There is no national guidance on proportionate application of the ISAs.</p> <p>However, in the Polish Statutory Audit Act there is a legal requirement saying that the Quality Assurance Department of the Polish Chamber of Statutory Auditors (PIBR), when inspecting the statutory audits of ‘non-big entity’, has to take into account the scale of audit firm’s activity and the proportionality of the ISAs.</p> <p>‘Big entity’ is an entity that meets two of three of the following criteria: PLN 85 million of assets, PLN 170 million of revenue and 250 full-time employees. ‘Non-big entity’ can be PIE or non-PIE.</p> <p>The Statutory Audit Act does not provide any definition of ‘proportionality of the ISAs’. However, the intention of the regulator is to use the approach embedded into the ISAs by the IAASB.</p> <p>The PIBR supports its members by providing the global and local guidance. The PIBR published in local language the IFAC guidance on application of the ISQC 1 and ISAs in SMPs and smaller audits. It also developed and provided to its members the ISAs Manual which is based on a proportionate principle.</p> |
| Portugal | No | No | <p>There is no national guidance on proportionate application of the ISAs.</p> |
| Romania | No | No | <p>There is no national guidance on proportionate application of the ISAs.</p> <p>The Chamber of Financial Auditors of Romania (CAFR), in cooperation with the Body of Expert and Licensed Accountants of Romania (CECCAR), translated and published the 3rd edition of the IFAC publication <i>Guide to Using International Standards on Auditing in the Audit of Small- and Medium-Sized Entities</i> in 2012.</p> <p>In May 2010, the CAFR published, under the copyright granted by the Institute of Chartered Accountants in Scotland (ICAS), the <i>Procedures for Quality Audit</i>. This</p> |

| Country | National guidance on proportionate application of the ISAs developed? Yes/ No | Software/ IT tool for audits of smaller entities available? Yes/ No | Details |
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| | | | <p>guidance is meant to help financial auditors, the CAFR's members, in the design and documentation of audit procedures, for compliance with the ISAs.</p> <p>The IFAC <i>Guide to Using International Standards on Auditing in the Audit of SMEs</i> has been translated into Romanian by the CECCAR and published with the help of the CAFR. It represents the Romanian translation of the guide available in English on the IFAC website.</p> <p>This guide is available for the professional institutes' members only in printed format, not in electronic format. Only the CECCAR has this material in electronic format.</p> |
| Slovak Republic | In progress | No | <p>Guidance in terms of simplified procedures for the audit of SMEs has been prepared by the Slovak Chamber of Auditors (SKAU) and is currently under the commenting process by the public oversight body UDVA. The guidance covers 3 areas:</p> <ul style="list-style-type: none"> • use of the ISAs • auditor's documentation • use of ISQC 1 <p>This guidance is based on:</p> <ul style="list-style-type: none"> • communicating with and experience of the German Institute of Public Auditors (IDW) and the French National Association of Statutory Auditors (CNCC) • the IFAC Handbooks: <i>Guide to Quality Control for Small- and Medium-Sized Practices</i> and <i>Guide to Using International Standards on Auditing in the Audits of Small- and Medium-Sized Entities</i> – latest English editions have been translated into Slovak and distributed to auditors <p>In 2016 and 2017, the SKAU organized series of trainings with the topic 'Use of audit tools in audit in SMEs'.</p> |
| Slovenia | No | No | There is no national guidance on proportionate application of the ISAs. |
| Spain | No | No | <p>There is no national guidance on proportionate application of the ISAs.</p> <p>However, the Institute of Chartered Accountants of Spain (ICJCE) has prepared, besides the seminars and courses provided to its members on the ISAs and ISQC1, some practice aids and illustrative materials on several Audit and Quality Assurance topics. It has also collaborated in the translation and publication of several IAASB publications dealing with this issue, including:</p> <ul style="list-style-type: none"> • Translation into Spanish of the <i>Staff Questions &</i> |

| Country | National guidance on proportionate application of the ISAs developed? Yes/ No | Software/ IT tool for audits of smaller entities available? Yes/ No | Details |
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| | | | <p><i>Answers – Applying ISAs Proportionately with the Size and Complexity of an Entity</i></p> <ul style="list-style-type: none"> • Translation into Spanish of the <i>Staff Questions & Answers - Applying ISQC1 Proportionately with the Nature and Size of a Firm</i> <p>Other publications:</p> <ul style="list-style-type: none"> • <i>Quality Control for SMPs implementation Guide</i> based on the <i>IFAC Guide to Quality Control for Small - and Medium- Sized Practices – Third Edition</i> • Publication of several circulars, articles and other documents containing illustrative examples and guidance to help SMPs to apply the ISAs and ISQC1 (as adopted in Spain) |
| Sweden | No | No | There is no national guidance on proportionate application of the ISAs. |
| Switzerland | Yes | Yes | <p>Within the Swiss Company Law, two distinct assurance engagements have been established. Large entities as well as listed entities are subject to a full scope audit (including an attestation on the design and implementation of internal controls over financial reporting), whereas SMEs are subject to a so-called limited statutory examination, i.e. a negative assurance engagement.</p> <p>While a separate standard has been established for the limited statutory examination, the full scope audit is performed applying Swiss auditing standards. These standards represent the ISAs with certain add-ons for Swiss-specific issues.</p> <p>To deal with the complexity of the ISAs, in 2013, the Swiss professional body EXPERTsuisse issued an audit recommendation which deals with the particularities of SME audits. This recommendation is not a substitute for the ISAs/ Swiss auditing standards, but gives guidance on how to apply these standards in the context of small or non-complex entity audits. The audit recommendation especially aims at showing how an audit in the context of small or non-complex entities can be adequately documented. As such, the audit recommendation includes a case study for illustration purposes.</p> <p>EXPERTsuisse is supporting an audit software package, in which the above-mentioned audit recommendation has been embedded.</p> |
| UK | Yes | No | The UK's professional bodies have long recognised that guidance and training are needed to help auditors apply the ISAs efficiently and effectively to the audits of smaller |

| Country | National guidance on proportionate application of the ISAs developed? Yes/ No | Software/ IT tool for audits of smaller entities available? Yes/ No | Details |
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| | | | <p>entities.</p> <p>The publication <i>Right first time with the clarified ISAs</i> by the Institute of Chartered Accountants in England and Wales (ICAEW), a modular publication produced in both UK and international versions, has recently been updated and it is just one example of the non-authoritative guidance provided. The ICAEW also runs road shows covering developments in the ISAs specifically directed at smaller firms.</p> <p>Training is also provided by commercial entities to practitioners and the professional bodies interact with those entities on developments in the ISAs. The ICAEW, for example, holds annual meetings with training providers to update them specifically on developments in the ISAs and their application in the UK.</p> <p>When the UK's standard setting body (FRC) implemented the EU Audit Directive and Audit Regulation, it determined that the same standards should apply to audits of entities of all sizes and that the FRC's standards are designed to enable them to be applied proportionately.</p> <p>Nevertheless, the FRC has provided additional guidance to assist the application of the ISAs to the audit of smaller entities by clarifying the documentation requirements in <i>Practice Note 26, Guidance on Smaller Entity Documentation</i>¹⁷.</p> |

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¹⁷ Practice Note 26 www.frc.org.uk/apb/publications/pub2193.html



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