



Mr. Thomas R. Seidenstein
IAASB Chairman
529 5th Avenue
10017, New York
USA

Submitted via the website

Brussels, 12 September 2019

Subject: IAASB Discussion Paper on Audits of Less Complex Entities

Dear Mr Seidenstein,

Accountancy Europe is pleased to provide you with our comments on the Discussion Paper *Audits of Less Complex Entities*.

We support the work launched by the IAASB on the topic of the audit of less complex entities (LCE), and we urge the IAASB to come up with a solution for such audits as soon as possible. The trend of increasing audit thresholds 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 promptly and deliver a solution in the short term.

The IAASB has to find a solution for LCE audits which will be internationally accepted. This solution should satisfy stakeholders' demands and put a stop to the development of solutions at a national level. Furthermore, in order to ensure adoption by different markets, this solution has to be principles-based.

Whilst acknowledging the need for a solution for LCE audits, we firmly believe in using the existing ISA framework in developing it. This will ensure the same audit approach and consistency across the profession.

We have therefore listed the following priorities as our preferred approach to be pursued by the IAASB on the issue of LCE audits:

- Priority 1: Work on developing a separate standard for LCE audits. This separate standard should be fully standalone, based on the existing ISAs and provide the same level of assurance and have the same objectives as the ISAs.
- Priority 2: Start revising the ISAs following a think simple first approach, using clear and unambiguous language and making good use of technology. The work done on developing a separate standard could serve as a basis for the revision of the ISAs using the think simple first approach.
- Priority 3: Anticipate and plan the convergence of both of the above exercises.

Knowledge and experience of countries which are already using a separate standard at a national or regional level could serve as a starting point for the IAASB's work. 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 this exchange and

potential collaboration. We remain committed to helping the IAASB further in finding a solution for LCE audits.

In addition, the IAASB has to factor into this project that any solution may depend on the outcome of the Monitoring Group's reform of the standard setting environment.

We welcome the close engagement launched between the IAASB and national standard setters as announced earlier this year. We agree that the IAASB should continue to engage in closer cooperation and better coordination with national standard setters and regulators. Tackling the issue of LCE audits requires a joint effort.

Taking into account that SMEs / LCEs make a critical contribution to the economy¹, it is in the public interest to find an efficient way to deal with audits of these entities. The IAASB could therefore also play a role in promoting the role and value of services provided to SMEs and LCEs, to society. In particular, the IAASB could do this by focusing on the importance of providing trust to the users of the financial statements, including those of LCEs.

We remain at your disposal for further exchange on this project. For further information on this comment letter, please contact Noémi Robert via email noemi@accountancyeurope.eu or on +32 (0)2 893 33 80 or Júlia Bodnárová via email julia@accountancyeurope.eu or on +32 (0)2 893 33 83.

Sincerely,



Florin Toma
President



Olivier Boutellis-Taft
Chief Executive

ABOUT ACCOUNTANCY EUROPE

Accountancy Europe unites 51 professional organisations from 36 countries that represent 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).

¹ In Europe, SMEs account for 66,4% of employment and generate 56,8% 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 2017/2018*; available at <https://publications.europa.eu/en/publication-detail/-/publication/a435b6ed-e888-11e8-b690-01aa75ed71a1>

Question 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 are supportive of the definition of an LCE being based on qualitative characteristics. The IAASB should aim for a principles-based description of an LCE outlining qualitative characteristics which should, however, be indicative and not prescriptive. Such flexibility in defining LCEs will ensure widespread acceptance of the IAASB's developed solution for auditing LCEs. These indicative qualitative characteristics should, in the absence of firm criteria at national level, be clear for the auditor to enable them to use their professional judgement and identify on a case-by-case basis if a given entity can be audited as an LCE or not. In addition, the IAASB should consider adding in the description that the LCE solution was developed under the premise that listed or public interest entities would be unlikely to meet the LCE definition.

The qualitative characteristics listed in the discussion paper draw on the definition of smaller entities as currently included in the ISAs. However, to provide an adequate description of an LCE, there is a need to build the complexity aspect more clearly within these characteristics. The IAASB should consider further aspects which could indicate the level of complexity of an audit, such as the accounting and financial reporting regime applied, the structure of the audited entity, the risk of the occurrence of fraud, restatements etc.

At an international level, we do not think it is achievable to set quantitative criteria as part of the definition of an LCE due to differences amongst national markets, i.e. a 'small' entity in one national market might be 'big' in another one. Setting quantitative criteria to define particular groups of entities in order to govern the application of auditing standards should be done at a jurisdiction or regional level at the discretion of national standard setters. Importantly, national standard setters have to make sure that they define an LCE in a way that suits their markets and that is clear to stakeholders, including practitioners. The IAASB could help national standard setters by providing guidance on the development of quantitative criteria, but definitely not to define them.

The description of LCEs will need to be discussed further as this project progresses. It is important that the description fits the solution that the IAASB adopt.

Question 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.*
- 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?*

The IAASB has to acknowledge that, more than individual factors, it is rather their combination that makes the application of the ISAs difficult, in particular to LCE audits (but not only).

LANGUAGE AND LENGTH OF STANDARDS

A lot of the difficulty and challenge in applying the ISAs is linked to the complex, imprecise and sometimes ambiguous language used and also to the length of the standards. This undermines the understandability of the ISAs and also makes the translation process burdensome and time consuming.

The possible root causes of such developments are as follows:

- Lack of use of plain English which might be a result of the lack of writing guidelines or rules applied when drafting or revising the ISAs over the years
- Lack of clarity of thought that has translated into a lack of clarity in the drafted text, e.g. objectives in the ISAs are just a list of requirements
- Duplications and overlapping requirements as a result of ad hoc requirements added over time

All of these root causes link back to the way the IAASB responds to calls for more clarity / less room for interpretation in the ISAs. In all projects undertaken, instead of using concise, precise and understandable language, the IAASB adds more prescriptive details not only in requirements, but also in contextual information that represents a methodology and should not be included in the standards themselves. The focus of the recent projects has also been on PIE/listed entities' audits.

All of this has led to the ISAs becoming longer and longer, but also less principles-based, which makes their application more difficult and heavier for less complex circumstances. We refer to our recent comment letters, especially the ones commenting on ISA 540, ISA 315 and the quality management standards. As these standards have not been implemented yet, the practical problems associated with their application would need to be considered further as well.

Although difficulties with applying the ISAs are more prominent in audits of LCEs, they are not unique to LCEs and are encountered in audits of other entities too. Therefore, tackling these issues should have a positive impact on all ISA audits.

DOCUMENTATION AND LACK OF CLARITY AS TO WHAT NEEDS TO BE DONE AND WHY

Compliance approach leads to over documentation

Auditors perceive the need to document why they have not carried out an audit procedure linked to a specific requirement within the ISAs as excessively onerous in an LCE audit. The practice of documenting the reasons why a specific requirement does not apply has created a compliance approach for ISA audits. This is not a desirable development as it draws the auditor's focus away from applying professional judgement and from the ultimate objective of evaluating the true and fair view of the financial statements.

In addition, in many jurisdictions, the lack of clarity leads to variations in regulators' expectations and demands when it comes to audit procedures and documentation. These expectations and demands seem to be disproportionate, especially for LCE audits. However, to avoid receiving negative regulatory feedback, auditors often end up documenting more than necessary. Such an approach to documentation not only adds costs and inefficiencies, but is not seen as adding value, which makes the audit a less attractive service to stakeholders.

The issue of the compliance approach associated with ISA audits and over documentation has been a key factor in driving some jurisdictions to reject the ISAs for the audit of smaller entities. As further explained below, some countries have developed national solutions for such audits or raised audit thresholds to exempt smaller entities from the statutory audit requirement. We provide more detail on this in our response to Question 4 and 5 and in Appendix 1 and 2.

To avoid such unnecessary documentation, it would be helpful to clearly state in the ISAs that where the auditor has evaluated a requirement not to be applicable in a particular audit, the auditor does not have to document every such assessment. Instead, the auditor should apply professional judgement and document, if deemed necessary, in the particular circumstances. This could be stated, for example, in ISA 200 as well as ISA 230. Currently, paragraph 22 and 23 of ISA 200 state that the auditor has to comply with each ISA requirement unless it is conditional; this would need to be revised. In addition, it would be helpful to add a general statement in ISA 230 clarifying what has to be and

what does not have to be documented. More generally, and drawing on the root causes explained above, there is a need for the IAASB to review the documentation requirements and rationalise what the auditor has to document or not.

Internal controls in LCEs

The internal controls in place in LCEs are intended to be proportionate to the size and complexity of their business and activities and are generally appropriate. However, it may not be formalised to provide enough comfort to rely on for the audit. For this reason and for these entities, it seems disproportionate to require the auditor to identify and assess the risks of material misstatement in the financial statements through understanding the entity's internal control and documenting this, as currently proposed in ED ISA 315 (Revised).

We agree that there is a need to understand certain controls as part of obtaining an understanding of the entity and identifying risks of material misstatement, but what is currently required in the ISAs is disproportionate to the simplicity of many LCEs.

Question 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?

In general, we encourage the IAASB not only to observe the developments in the areas listed as not within the control of the IAASB, but to engage with relevant stakeholders and actively advocate for desirable changes in these areas.

We welcome the close engagement launched between the IAASB and national standard setters as announced earlier this year and agree that the IAASB should continue to engage in closer cooperation and better coordination with national standard setters and regulators.

Given how SMEs / LCEs make a critical contribution to the global economy, The IAASB could play a role in promoting the role and value of services provided to SMEs and LCEs more generally. These supporting actions could be done in collaboration with IFAC.

Question 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:

- c) *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.*
- d) *Are there any other possible actions that have not been identified that should be considered as we progress our work on audits of LCEs?*
- e) *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.*

First and foremost, the IAASB has to find a solution for LCE audits which will be internationally accepted. This solution should stop the development of solutions at national or regional levels. Furthermore, to ensure adoption by different markets, this solution has to be principles-based.

In addition, we need to factor into this project that any solution may depend on the outcome of the Monitoring Group's reform of the standard setting environment.

IMPLICATIONS / CHALLENGES

Revising the ISAs

Rewriting the ISAs to ensure scalability would in theory be the most desirable solution. However, this proposal would take a long time and would encounter the challenges identified in our response to Question 2. Therefore, this option may not be a feasible solution in the short term as it might come too late to satisfy the demand for a timely solution.

Developing a separate auditing standard for audits of LCEs (based on a different framework / existing ISAs)

The main challenge with pursuing this option is to make sure that we do not end up with two different audit approaches which would create a two-tier auditing profession and decrease the mobility of auditors between the two tiers.

This is why the IAASB should base the potential separate auditing standard for LCEs on the current framework of the ISAs, having the same level of assurance and the same objectives as the ISAs. By sticking with the ISA framework, we avoid developing two different audit approaches, and ultimately a two-tier profession.

Developing guidance for auditors of LCEs or other related actions

At this point, we are convinced that newly developed or revised guidance will not be enough to respond to the challenges faced by auditors, who may see it as even more material being added. Further, the status of such guidance would not be clear and could therefore give rise to potential issues with regulators. It could also be a source of legal uncertainty. In addition, there is already an IFAC Guide² available, and it has not proven capable of resolving the issues that we are debating now.

Although guidance on its own is not the answer to the problem, we support considering it as part of any solution for LCE audits that the IAASB pursues.

ACTIONS TO BE PURSUED BY THE IAASB AS A PRIORITY

We have identified the following actions to be pursued by the IAASB as a priority:

- Work on developing a separate standard for LCE audits. This separate standard should be fully standalone, based on the existing ISAs and provide the same level of assurance and have the same objectives as the ISAs. When developing this standalone standard, the IAASB would need to make sure that it does not just cross refer to individual ISAs but includes what are the key requirements from an ISA that need to be followed by LCEs to meet the ISA objectives.
- Start revising the ISAs following a think simple first approach, using clear and unambiguous language and incorporating technology.
- Anticipate and plan convergence of both of the above exercises.

Developing separate standard for LCE audits based on the existing ISAs

There is an urgent need for a solution for LCE audits. It is demonstrated by recent developments in several European countries which have created their own national or regional solutions – see table below and Appendix 2 for more details.

Table: European countries with national solutions for smaller entity / LCE audits

² <https://www.ifac.org/publications-resources/guide-using-international-standards-auditing-audits-small-and-medium-sized-18>

	Countries with a separate standard for audits ³ of small entities or LCEs	Countries with national guidance on proportionate application of the ISAs	Countries with IT tool for audits of small entities or LCEs
Number of countries⁴	5	8	13
List of countries	Belgium, Bulgaria, Denmark, France, Switzerland	Austria, Belgium, Bulgaria, Germany, Hungary, Italy, Slovak Republic, Switzerland	Belgium, Bulgaria, Denmark, Estonia, Finland, France, Germany, Greece, Iceland, Latvia, Netherlands, Norway, Switzerland

To make sure that audit remains harmonised across all entities, and of equally recognised quality at a global level, we call on the IAASB to set as its main priority the development of a separate standard for LCE audits.

Within the remit of this project, the IAASB should work on identifying the essence of an ISA audit. The IAASB would need to make sure that it does not just cross refer to individual ISAs but includes what are the key requirements from an ISA that need to be followed by LCEs to meet the ISA objectives. This analysis would be very useful and informative to demonstrate the value of audit for LCEs. It could be used as input to the project on revising the ISAs following a think simple first approach referred to below. It should also be used as the basis of discussions with the regulatory community and national standard setters. As emphasised at the May 2019 Paris Conference by speakers from Italy and Sweden in particular, audits are valuable also for LCEs and help support growth, tax recovery, financial crime deterrence, etc.

While coordinating with regulators and national standard setters, the IAASB will need to clarify the applicability of the separate standard. We refer to our response to Question 1.

The knowledge and experience of the various countries already using a separate standard at a national level could serve as a starting point for the IAASB's work. Considering that several European countries have come up with their own national solutions, Accountancy Europe as a body that represents these countries at a European level, could act as a platform for this exchange and potential collaboration. Following our previous work on this topic⁵, we are committed to helping the IAASB further in finding a solution for LCE audits.

Revising the ISAs following a think simple first approach with clear and unambiguous language and incorporating technology

The IAASB should embark upon an exercise to revise the ISAs. As stated above, revising the ISAs would be the most desirable solution, but this project will take a long time. However, the IAASB could begin with revising the most fundamental ISAs first, i.e. ISA 200, 230, 315, 330 and 540 and with rationalising the documentation requirements.

To ease the application of the ISAs, in relation to LCE audits and for the benefit of all audits, ISAs cannot continue to evolve as they have done recently and should be revised using clear language and following a think simple first / building blocks approach. This means that the core of the ISAs would

³ This also includes engagements other than statutory audit. See Appendix 2 for country specific details

⁴ This also includes countries where the adoption or development of a national solution is still work in progress or a country is considering starting this work

⁵ See our thought-leadership publication *Simplifying auditing standards for small or non-complex entities* (2018) available at <https://www.accountancyeurope.eu/publications/simplifying-auditing-standards-small-non-complex-entities/> and a summary of a related event we organised <https://www.accountancyeurope.eu/events/simplifying-auditing-standards-small-non-complex-entities/>

consist only of the most fundamental requirements applicable in all audits. The ISAs would then be expanded 'in blocks' as needed to address more complex audit areas and circumstances.

Any further complexity added to each individual ISA and its requirements should be systematically conditional based on the size and complexity of the audited entity and its circumstances. This means that the auditor would address any applicable requirements depending on facts and conditions linked to a particular audit of an entity. The newly developed separate standard for LCE audits could serve as a starting point for this work, i.e. it would be the fundamental building block.

In addition, the revision of the ISAs should include setting better quality objectives which are genuinely objectives, not just a summary of requirements. This would then be the same for a separate standard which, as said, should have the same objectives as the ISAs.

Revising the ISAs using understandable language and following the think simple first approach would help to revert to standards that are principles-based and therefore scalable for audits of all entities. This would allow for the convergence of the separate standard for LCEs with the revised ISAs over a longer term.

For the ISAs to stand the test of time, they need to enable practitioners to remain relevant by auditing in new and more effective ways.

Furthermore, the IAASB should make sure that the ISAs become technology-based, for example by integrating software to help practitioners navigate and link to the individual ISAs.

Additionally, given the issues of language identified in our response to Question 2, we urge the IAASB to develop strict drafting guidelines for use going forward.

Ultimate goal: Convergence of separate standard with revised ISAs

The creation of newly revised ISAs, which are principles-based and rewritten in simpler language based on a think simple first approach, would allow potential convergence with the separate standard. This should be feasible as the separate standard would in fact be the first building block of the revised ISAs.

Through developing a separate standard in the short term and using it as the basis for revising the ISAs in the medium term, we would ideally go back to having one set of standards for all audits at some point in the future.

Question 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?

SMEs / LCEs ARE KEY STAKEHOLDERS

SMEs / LCEs are the backbone of the economy⁶ and it is therefore in the public interest to find an efficient way to deal with audits of these entities.

At a global level, an increasingly complex regulatory environment has resulted in very detailed ISAs dealing with regulatory issues related predominantly to listed and public interest entities (PIEs). As a result, the ISAs have become over-engineered for smaller entities and/or LCEs.

In countries where the ISAs are used for all statutory audits, some argue that the current requirements of the ISAs are excessively burdensome in audits of smaller entities / LCEs, especially when it comes

⁶ In Europe, SMEs account for 66,4% of employment and generate 56,8% 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 2017/2018*; available at <https://publications.europa.eu/en/publication-detail/-/publication/a435b6ed-e888-11e8-b690-01aa75ed71a1>

to the disproportionate amount of documentation required. As a result, the benefit of the current ISA approach for an LCE audit is not always obvious or clear and this forms the basis of the argument for exempting smaller entities / LCEs from the full ISA audit requirement. Given that audit brings trust and can have a positive impact on the economy as well as on a particular entity⁷, this is not a desirable outcome.

When looking across Europe, we note that the audit thresholds have increased in 20 countries in the last decade.⁸ In the shorter term⁹, we have also noticed that changes in the audit thresholds in the last three years clearly demonstrate an upward trend (see Appendix 1 for more detailed information on audit thresholds and their recent changes in Europe).

We urge the IAASB to take these regulatory developments into account when deciding on the way forward. The current trend of further increasing audit thresholds, together with the fact that countries have started developing their own solutions for LCE audits at a national level, demonstrate that the IAASB has to act promptly and deliver a solution shortly.

PROMOTING THE ROLE AND VALUE OF AUDIT IN THE SOCIETY, INCLUDING IN LCEs

The IAASB could play a role in promoting the role and value of audit, including LCE audit, to society. In particular, the IAASB could do this by focusing on the importance of providing trust to the users of the financial statements, including those of LCEs.

As detailed below, taking into account what has happened in Italy or Sweden, where the positive effects of audit have recently been rediscovered, clearly demonstrate the value of audit and could serve as helpful examples.

Italy: Audit helps prevent business insolvency

Italy has recently significantly lowered the audit exemption thresholds¹⁰ 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 thresholds apply since June 2019.

Sweden: Audit prevents accounting errors and helps tackle financial crime

In Sweden, the impact of its 2010 reform that raised the audit exemption thresholds has recently been evaluated, 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*¹¹ published by the National Audit Office, an independent body of the Swedish Parliament¹², 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.

⁷ Impact assessment of legislation in Sweden provides more detail on this; 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>

⁸ Detailed analysis of changes is available at <https://www.accountancyeurope.eu/about-us/evolution-of-sme-audit-in-europe-from-the-perspective-of-the-legislation-and-auditing-standards/>

⁹ Overview of currently applicable audit exemption thresholds is provided in Appendix 1

¹⁰ Detailed information on the changes is included in Appendix 1

¹¹ https://www.riksrevisionen.se/download/18.26c2548c1616574394b157/1518435480894/RiR_2017_35_REVISI_ONSPLIKT_SUMMARY.PDF

¹² 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

This Swedish impact assessment outlines numerous downsides of abolishing the audit obligation for small limited companies and shows that in Sweden, the companies' competitiveness and growth have not been enhanced by the 2010 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.

APPENDIX 1

RECENT CHANGES IN AUDIT THRESHOLDS IN EUROPE

SIGNIFICANT DECREASE OF AUDIT THRESHOLDS ONLY IN ITALY

Italy has recently significantly 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.

Italy	Balance sheet (EUR)	Net turnover (EUR)	No. of employees
New thresholds	4,000,000	4,000,000	20
Previous thresholds	4,400,000	8,800,000	50

SIGNIFICANT INCREASE OF AUDIT THRESHOLDS IN DENMARK¹³, FRANCE¹⁴ AND IRELAND

In the last three years, Denmark, France and Ireland have significantly increased their audit thresholds, exempting many entities from audit. Please see the details of the changes in their thresholds in the tables below:

Denmark	Balance sheet (EUR)	Net turnover (EUR)	No. of employees
New thresholds	6,000,000	12,000,000	50
Previous thresholds	4,837,000	9,674,000	50

France	Balance sheet (EUR)	Net turnover (EUR)	No. of employees
New thresholds	4,000,000	8,000,000	50
Previous thresholds (SASs)	1,000,000	2,000,000	20
Previous thresholds (SARLs & SNCs)	1,550,000	3,100,000	50

Ireland	Balance sheet (EUR)	Net turnover (EUR)	No. of employees
New thresholds	6,000,000	12,000,000	50
Previous thresholds	4,400,000	8,800,000	50

In addition, Slovakia is currently considering doubling its thresholds for balance sheet as well as net turnover¹⁵. This would lead to exemption of a significant number of entities from audit, decreasing the number of entities with mandatory audit from 3% to just 1% of all.

¹³ Denmark also has review thresholds in place: EUR 537,000 for balance sheet, EUR 1,075,000 for net turnover and 12 for employees

¹⁴ With the new thresholds, the legal form of a company (e.g. SASs etc.) does not play a role anymore and the new thresholds apply to companies of all legal forms

¹⁵ See the currently applicable thresholds in the table below

Furthermore, Cyprus is considering changing from mandatory ISA audit¹⁶ to mandatory review for smaller entities that fall under certain thresholds. This comes due to calls arguing that the application of the ISAs in smaller entity audits is too burdensome.

AUDIT EXEMPTION THRESHOLDS IN 28 EU MEMBER STATES, NORWAY, ICELAND, SWITZERLAND AND TURKEY IN AUGUST 2019¹⁷

Country		Balance sheet total (EUR)	Net turnover (EUR)	Number of employees
Austria		5,000,000	10,000,000	50
Belgium ¹⁸		4,500,000	9,000,000	50
Bulgaria		1,000,000	2,000,000	50
Croatia		2,000,000	4,000,000	25
Cyprus		0	0	0
Czech Republic		1,500,000	3,000,000	50
Denmark	a ¹⁹	537,000	1,075,000	12
	b ²⁰	6,000,000	12,000,000	50
Estonia	a ²¹	800,000	1,600,000	24
	b ²²	2,000,000	4,000,000	50
Finland		100,000	200,000	3
France		4,000,000	8,000,000	50
Germany		6,000,000	12,000,000	50
Greece		4,000,000	8,000,000	50
Hungary		Not applicable	965,000	50
Iceland		1,400,000	2,800,000	50
Ireland		6,000,000	12,000,000	50
Italy		4,000,000	4,000,000	20
Latvia		800,000	1,600,000	50
Lithuania		1,800,000	3,500,000	50
Luxembourg		4,400,000	8,800,000	50
Malta ²³		46,600	93,000	2
Netherlands		6,000,000	12,000,000	50
Norway ²⁴		2,500,000	625,000	10

¹⁶ Currently all entities are required to have an ISA audit

¹⁷ Data obtained from Member bodies of Accountancy Europe. Figures in currencies other than EUR were converted to EUR at the time when the data was obtained

¹⁸ Thresholds are determined on a consolidated basis for groups, which leads to mandatory statutory audit for smaller entities in the group although individually they fall under the thresholds

¹⁹ Above these thresholds, there is a choice between extended review or audit

²⁰ Above these thresholds, statutory audit is mandatory

²¹ Thresholds applicable for statutory review

²² Thresholds applicable for statutory audit

²³ No audit exemption threshold for tax purposes

²⁴ Limited-liability companies exempt from statutory audit if all three limits are not exceeded

Country	Balance sheet total (EUR)	Net turnover (EUR)	Number of employees
Poland ²⁵	2,500,000	5,000,000	50
Portugal ²⁶	1,500,000	3,000,000	50
Romania ²⁷	3,500,000	7,000,000	50
Slovakia ²⁸	1,000,000	2,000,000	30
Slovenia	4,000,000	8,000,000	50
Spain	2,850,000	5,700,000	50
Sweden	150,000	300,000	0
Switzerland ²⁹	18,203,000	36,405,000	250
Turkey	5,500,000	11,000,000	175
United Kingdom ³⁰	6,541,000	13,082,000	50

²⁵ Exemption does not apply if an entity prepares its financial statements under IFRS

²⁶ No audit exemption threshold for SAs (sociedades anónimas)

²⁷ In January 2018, the thresholds in Romania were lowered by Order 470/2018. Based on the current legislation, public interest entities (PIEs) are required to have statutory audit regardless of thresholds. For large and medium-sized non-PIEs, the specific thresholds set by Order 1802/2014 are denominated in RON (used to be in EUR in the past). For this publication, the average exchange rate used for conversion to EUR is 4.6 RON/EUR

²⁸ There is currently a draft legislative proposal in Slovakia to double the threshold for balance sheet as well as net turnover

²⁹ The thresholds in Swiss Francs are CHF 20,000,000 for balance sheet and CHF 40,000,000 for turnover. Entities that do not exceed two of the three threshold criteria in two consecutive years are subject to a statutory limited examination (negative assurance engagement). Shareholders of entities with no more than ten employees can decide to opt out of any audit or review obligation

³⁰ The thresholds in British Pound (£5,100,000 for balance sheet and £10,200,000 for turnover) were converted to EUR using an exchange rate set in the original legislation transposing the 2013 EU Accounting Directive

APPENDIX 2: SURVEY

SEPARATE STANDARD FOR LCE AUDITS / NATIONAL GUIDANCE / IT TOOLS FOR PROPORTIONATE APPLICATION OF THE ISAs³¹

Country	Separate standard developed/ considering to develop for audit of smaller or less complex entities (LCEs)?	National guidance on proportionate application of the ISAs developed/ currently working on or considering?	Software/ IT tool for audits of smaller entities or LCEs available or considering to develop?	Details
	Yes/ No	Yes/ No	Yes/ No	
Austria	No	Yes	No	In April 2017, the IWP issued <i>Guidance No 27</i> on the audits of smaller entities. This guidance summarises the 'Considerations Specific to Smaller Entities' which are described in the Application and Other Explanatory Material in the ISAs. The Guidance is applicable to all types of audit engagements.
Belgium	Yes – but the Common SME Standard is not applicable for statutory audit	Yes	Yes	The Common SME Standard is applicable for contractual engagements and shared engagements requiring a review/audit according to the Belgian Company law. The Institute of Registered 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:

³¹ Based on the information received from Accountancy Europe's members

			<p>http://www.icci.be/fr/publicaties/downloads/Pages/listesdecontrole-matrices.aspx</p> <p>http://www.icci.be/nl/publicaties/Downloads/Pages/isa-checklists-entemplates.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:</p> <p>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</p> <p>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 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> <p>Revidocs is a user-friendly computer tool designed to facilitate the preparation of various documents, in French and Dutch, such as the auditor's report. In the first phase launched in March 2019, the Revidocs tool is used to develop the auditor's report in which an unmodified opinion is expressed for various types of businesses. The sample text of the auditor's report is generated automatically according to the model included in the complementary standard (revised in 2018), based on a series of answers resulting from questions previously asked.</p>
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Bulgaria	Yes – considering	Yes	Yes	<p>According to the Bulgarian Independent Financial Audit Law, the ISAs were adopted in Bulgaria in 2003. Since 2003 ISAs have been applied for all statutory audits in Bulgaria by law.</p> <p>At ICPA's Technical Audit Committee level the possible development of a separate audit standard for LCEs is being discussed.</p> <p>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, Audit Practice Alerts, 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 has started 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> <p>National guidance on proportionate application of ISAs has been applied since 2003. ICPA is constantly providing guidance on ISAs application through its Technical Audit Committee.</p> <p>A software/IT tool for audits of smaller or less complex entities is in a process of final development.</p>
Croatia	No	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 3. <i>Guide to Quality Control for SMPs</i>, Third Edition, August 2011
Cyprus	No	No	No	<p>There is no national guidance on proportionate application of the ISAs. Full application of the ISAs is required for audits for all companies.</p> <p>The Institute of Certified Public Accountants in Cyprus provides support to its members through publication of circulars and articles as well as organisation of seminars.</p>
Czech Republic	No	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</p> <p>https://www.kacr.cz/metodicka-pomucka-pro-smesmp</p>
Denmark	Yes – but not applicable for statutory audit	No	Yes	<p>Extended review</p> <p>The amendment of the Danish Financial Statements Act passed by the Danish Parliament on 6 December 2012 made it possible for companies of reporting class B to opt for a so-called extended review. Companies of reporting class B are characterised by being small and medium sized enterprises/holding companies.</p> <p>The new assurance standard was introduced as an element in the Danish Government's relaxation of the administrative burdens of small companies to make it easier to start up</p>

			<p>and operate a business. In Denmark the threshold for mandatory audit is very low (1.07 million euro in turnover). The extended review makes it possible for smaller companies with turnover between 1.07 and 12 million euro to have something less than a full audit.</p> <p>The Danish Business Authority has issued a standard on the audit light/extended review. This standard was developed together with FSR – Danish Auditors. The purpose of the audit light is that the auditor is able to express, on the basis of the acts performed, an opinion as to whether the financial statements give a true and fair view in accordance with the financial statements and give a statement on the financial statements as a whole and communicate in accordance with the requirements of this standard.</p> <p>Extended review is based on review actions (ISA 2400). The big difference between a review and an extended review is the additional actions that the auditor goes through. The actions that the auditor goes through in an extended review are as follows:</p> <ul style="list-style-type: none"> • Obtaining information from the registration authority regarding real estate, personal obligations etc. per balance sheet date. • Obtaining a statement of commitments from all the company's banks per balance sheet date. • Obtaining information from the company's lawyer associations. • Obtaining documentation for correct reporting in relation to different contributions regarding salaries, taxes, value added tax and payroll tax. A minimum of three samples must be taken for each, if possible. <p>These additional actions are what allows the auditor to give a positive conclusion in this statement.</p> <p>The development shows an increased use of the extended review and it is expected that the use will grow.</p> <p>The development shows that the higher the complexity of the enterprise and its accounting items, the lower the assurance obtained by the accountant from an extended review. Especially for enterprises in which the key accounting items are inventories, receivables and payables, the accountant risks to lose in terms of the procedures eliminated in an extended review. The extended review may be relevant especially for property companies as the supplementary procedures carried out in an extended review</p>
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				<p>are directed precisely at the key items in the financial statements of such companies. The level of assurance obtained by the accountant is therefore considered very close to the assurance obtained from an audit.</p> <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	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	No	Yes	<p>There is ongoing discussion about whether SMEs should be able to choose a review (ISRE 2400) instead of a statutory audit. In addition, a so-called extended review (as in Denmark) is being discussed. The extended review could be seen as a local standard even though it would probably be included in the Finnish Audit Law.</p> <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 Authorised Public Accountants launched an Excel based workbook for SME audits.</p>
France	Yes	No	Yes	For the statutory auditors (commissaires aux comptes)

			<p>A new law (loi Pacte) has been voted in France on April 11, 2019 and promulgated on May 22, 2019 that leads to raising the statutory audit thresholds for all companies. Only the companies that are above 2 of the 3 following thresholds (EUR 4 million total assets, EUR 8 million turnover, 50 employees) are now subject to statutory audit. There are 2 exceptions to that rule:</p> <ul style="list-style-type: none"> • A company which is the head of a group where the group is above the threshold (EUR 4 million total assets, EUR 8 million turnover, 50 employees) is subject to statutory audit even though the group does not prepare consolidated financial statements. • The significant subsidiaries of such groups which are above 2 of the 3 following thresholds (EUR 2 million total assets, EUR 4 million turnover and 25 employees) are also subject to statutory audit. <p>Following the raising of the statutory audit thresholds, the Ministry of Justice issued on 6 June 2019, two standards for the audit of small companies (ie the audit of companies which are below the statutory audit thresholds). These standards have been elaborated jointly by the H3C (the audit oversight) and the CNCC. The reason why there are two standards is purely technical because of the way the French law is drafted, but in substance the two standards result in the same adaptation of the work effort to the less complex substance of the small entities.</p> <p>The standard is stand alone, principles based, about 8 pages long, it leaves an important part to the use of Professional judgement by the auditor in deciding which procedures are most efficient to obtain the assurance needed and simplifies the documentation requirements.</p> <p>At the end of the audit, it leads to issuing a traditional audit opinion (reasonable assurance) to the public and a management letter to management on the main risks of the company.</p> <p>It should be noted that before the issuance of this new standard on the audit of small entities, France already had a standard on the audit of small entities for statutory auditors (NEP 910) which was not stand alone but referred to all the other standards and was more of a guidance on how to apply the standards in a context of small entities.</p> <p>For the professional accountant (expert-comptable)</p>
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Germany	No	Yes	Yes	<p>There is no separate standard, however, the IDW is currently planning to develop authoritative material for LCEs in Germany.</p>

			<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 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. • 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>³². These publications
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³² Note 26 was withdrawn in June 2018.

				<p>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.</p> <ul style="list-style-type: none"> The IDW is planning to develop authoritative material primarily addressed towards the needs of SMPs, which will focus on the application of ISAs for a standardised non-complex entity. This material is intended to provide a basis upon which specific elements could be added (i.e. driven by one or more entity-specific complexity/ies).
Greece ³³	No	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	No	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 national guidance on SME audit has no other specific emphasis on the proportionate application of the NSA/ ISAs. The guidance was prepared, on the basis of the clarified ISAs, in 2011, but no updates have been made yet. It is planned to prepare and issue a new SME audit guide in the near future. In addition to that, the IFAC Guide to Using International Standards on Auditing in the Audits of Small- and Medium-Sized Entities (Fourth Edition, published 17 July, 2018) is currently being translated and the Hungarian translation is expected to be published in 2019.</p>
Iceland	No	No	Yes	<p>There is no separate standard developed or national guidance on proportionate application of the ISAs.</p>
Ireland	No	No	No	<p>The previously applicable FRC Guidance was withdrawn in June 2018. FRC 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>.</p>

³³ 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/>

Italy	No	Yes	No	<p>In 2012, the National Board of Professional Chartered Accountants (Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili, CNDCEC) developed guidelines for the application of clarified ISAs to SMEs. These guidelines, available only in Italian, derive from the <i>IFAC Guide to Using International Standards on Auditing in the Audits of SMEs</i>. The guidelines were updated in April 2018 (previous editions have been issued in December 2015 and February 2012). The latest edition of the guidelines (April 2018) also contains a sample quality control manual designed to assist a sole practitioner to establish and implement a system of quality control in compliance with ISQC 1.</p> <p>In view of entry into force of the new legal thresholds for mandatory audit in Italy³⁴, a new release of guidelines is necessary and CNDCEC starts to work on this.</p> <p>In addition, the CNDCEC has performed and made publicly available the translation into Italian of the IFAC Guide (third edition) and of the IFAC Guide to Quality Control for Small and Medium Sized Practices (third edition).</p>
Latvia	No	No	Yes	<p>There is no national guidance on proportionate application of clarified ISAs.</p> <p>The <i>IFAC 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	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>

³⁴ In Italy audit is now mandatory when: a) the entity is required to prepare consolidated financial statements; b) the entity controls a subsidiary subject to mandatory audit; c) when, after two consecutive years, the entity has exceeded one of the following three thresholds: 1. Total assets > 4 million euros; 2. Total revenues > 4 million euros; 3. Average number of employees during the year > 20. The audit is not mandatory if after three consecutive years the entity has not exceeded none of the three thresholds.

				<ul style="list-style-type: none"> • <i>Guide to Using International Standards on Auditing in the Audits of SMEs, Volume 1 - Core Concepts, Third Edition, November 2011</i> • <i>Guide to Using International Standards on Auditing in the Audits of SMEs, Volume 2 - Practical Guidance, Third Edition, November 2011</i> • <i>Guide to Quality Control for SMPs, Third Edition, August 2011</i> <p><i>Translation of fourth edition of Guide to Using International Standards on Auditing in the Audits of SMEs is planned to be published in September/October 2019.</i></p>
Luxembourg	No	No	No	There is no national guidance on proportionate application of the ISAs but the adoption of certain ISAs (especially ISA 701 on KAM) was limited to EU PIEs.
Malta	No	No	No	<p>There is no national guidance on proportionate application of the ISAs.</p> <p>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.</p> <p>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:</p> <p><i>“Compliance with ‘generally accepted auditing standards’ shall mean adherence to international auditing standards:</i></p> <p><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></p> <p><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></p>

Netherlands	No	No	Yes	<p>There is no separate standard for LCEs or national guidance on proportionate application of the ISAs.</p> <p>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.</p> <p>The translated IFAC Guide is available at http://www.nba.nl/Actueel/Nieuws/Nieuwsarchief/Handleiding-Nederlandse-controlestandaarden-bij-controles-in-het-mkb1//</p> <p><u>The French solution for software/IT tool for audits of smaller or less complex entities is implemented but the usage is unknown.</u></p>
Norway	No	No	Yes	<p>The Nordic federation developed a draft standard SASE for audits of SMEs but the standard ended up not being implemented. The reason for not implementing was that the profession wanted an international solution to the issue.</p> <p>The institute had a guide with a corresponding example on how to document an audit of an SME in accordance with the ISAs. This guide has been discontinued.</p> <p>There is no national guidance on proportionate application of the ISAs.</p> <p>The Norwegian Institute of Public Accountants (Revisorforeningen / DnR) 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 ³⁵	No	No –but an ISA manual based on a proportionate principle is provided to auditors	No	<p>There is no national standard for smaller entities or LCEs nor is there 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>

³⁵ Please note that this information is from early 2018 and might have changed since then.

				<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	No	There is no national guidance on proportionate application of the ISAs.
Romania	No	No	No	<p>There is no separate standard or specific national guidance on the proportionate application of the ISAs for SMEs or less complex entities in Romania.</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>. In 2012 the updated version of this guide was translated and published by the Chamber. It is meant to help financial auditors, CAFR members, in the design and documentation of audit procedures, for compliance with the ISAs and is used by a large number of small and medium-sized entities in their performance of audit engagements. The Chamber is currently in the process of translating the 2018 version of the Procedures for quality Audit issued by ICAS. The Romanian translation is expected to be published in 2019.</p> <p>The Romanian translation of the IFAC <i>Guide to Using International Standards on Auditing in the Audit of SMEs, 4th edition</i> is in progress by the Chamber of Financial Auditors of Romania.</p> <p>ISAs application has constantly been included in the Annual CPD Program for Chamber’s members. In 2019 there will be a specific subject included in the CAFR members’ mandatory CPD, centered on ISAs approach in the audit of SMEs.</p>

Slovak Republic	No	Yes - 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	No	<p>There is no separate standard, national guidance on proportionate application of the ISAs or IT tool developed.</p>
Spain	No	No	No	<p>There is no national guidance on proportionate application of the ISAs. 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 & Answers – Applying ISAs Proportionately with the Size and Complexity of an Entity</i>

				<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	No	There is no national guidance on proportionate application of the ISAs.
Switzerland	Yes – separate standard applicable for limited statutory examination	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 audits in less complex environments. 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	No	No	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 entities.

			<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>ICAS has developed the Procedures for Quality Audit (PQA) which is aimed at auditors of SMEs. This is a toolkit which offers comprehensive work programmes covering all stages of the audit process from planning, right through the fieldwork and completion. Fully ISA compliant the work programmes are designed to lead auditors through the process of compliance in an efficient and structures manner.</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>The previously applicable FRC Guidance was withdrawn in June 2018. FRC 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>.</p>
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