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12 September 2019	DP LCE	KvH	1 – Dutch results survey

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Dear Mr. Seidenstein,

The NBA appreciates the opportunity to share our thoughts and ideas relating to the IAASB Discussion Paper *Audits of Less Complex Entities: Exploring Possible Options to Address the Challenges in Applying the ISAs*.

It will not come as a surprise to the IAASB that this subject is dear to us. When the IAASB held her meeting in Amsterdam in 2018 and celebrated her 45th anniversary we introduced our local heroes 'Jip and Janneke' to the IAASB and plead for using plain English in the ISA's. On several occasions we have discussed in our response letters (eg. ISA 540) that the standards became too educational leading to far too much application material. Therefore in our response to the strategy for the coming period we have applauded the ISA 315 taskforce and the IAASB on the work that is done on a new structure for the application material. In our response to the strategy we recommend to apply the approach of draft revised ISA 315 where "what needs to be done" is separated from "why" and "how" to all standards.

To us the statement 'Practice what you preach' is important. Therefore we have decided not to provide answer to all the questions, but to share our general thoughts and experiences in a short response.

Based on our understanding the need for a short single standard in certain countries results from the fact that in these countries a statutory audit is needed for (almost) all limited liability companies. In the Netherlands, for smaller and/or less complex entities mainly compilation engagements are performed. These engagements are valued by banks, investors and fiscal authorities. Only for medium sized or large companies, using the maximum thresholds from the EU, statutory audits are obliged. There are voluntary audits for smaller entities, but these entities make a conscious choice for an audit together with their stakeholders. Therefore the need for a single standard is not felt as much in the Netherlands.

At the same time we doubt whether the market will except a separate standard, with the intention to provide the same level of assurance, but with less clarity on the sound basis for the auditor's opinion. Based on our understanding, applying a short standard could only be done successfully by an experienced auditor, with a sound knowledge of the ISA's. To us it is not clear how the auditors performing this knowledge would gain this experience.

Royal Netherlands
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Accountants



It might not be so easy to provide a clear definition of what a LCE is. The current criteria are subjective and leave room for interpretation. A simpler business doesn't necessarily mean an easier audit. On the contrary, if there are fewer internal controls (e.g. unable to segregate duties), the auditor faces challenges to perform the audit and has increased areas of attention. If various countries will have different boundaries for less complex entities, this will make it even more complicated. Therefore we feel that a local definition with seize as a distinguishing parameter is not the answer. And thus it might not be clear who might apply the separate standard.

But our most important issue is that the current set of ISA's is written so complex. All involved: auditors standard setters, inspectors and stakeholders have a problem understanding the ISA's. In many situations we need to read a sentence three or four times to be able to understand the full meaning of the sentence. Thereby scaling down is more difficult than scaling up. A better approach would be to explain what every auditor must do and then elaborate the requirements as the size and complexity of the audited entity increases. It is important that standards have a simple basis from which they can build up, rather than starting with complex issues and expecting auditors of less complex entities to work out what to remove. It would make it easier for the auditor of a less-complex entity to find the specific requirements that apply to their situation, instead of having to distil complicated standards into more basic procedures.

Our stakeholders in the Netherlands have experienced the same problem with our own regulation. We have learned that in most cases these issues can be solved by writing short sentences, using plain language and where relevant, taking a 'think small first' approach.

We have experienced that trying to write standards and guidance in this way leads to questions about what we really want to achieve. Questions that need to be answered before leading to clearer and better standards. This might even help to bridge the expectation gap a bit.

With regards to providing separate guidance we see that as a sub-optimal solution. It takes more effort writing and approving the standards first, then writing the guidance on how to apply the standards. But we have experienced that in a number of occasions going through this process, we felt the need to make changes to the standards. This as a result from the questions that came to mind clarifying the standards. We have learned that it is worth the effort to get it right the first time.

Our response is built on our experience with regards to the standards for quality systems (ISQC1). We have tried all options. We had separate standards for small and large firms and learned that practitioners had a lot of questions since they were somewhere in between. We now have a standard using the 'think small first' approach but learned that our text was not clear enough. We provided guidance leading to a need to change the standard in certain areas.

Therefore to us the answer to the LCE problem is:

- one set of standards for all entities including LCE's;
- ISA's developed on the concept of think small first;
- using plain English;
- taking full advantage of technology and develop Standards not necessarily for book-format, but for electronic format.

We fully accept that such a project will be challenging and difficult to fit within the current workplan of the IAASB. To us this should be a parallel project involving a project team with a clear direction and mandate of the board.



This project team might be sourced by National standard setters, since they will directly benefit from the outcomes. In principle the project should be based on the concept of system replacement. Nevertheless the project will lead to questions that will need to be answered by the board.

This is the most important project for the next coming years.

Closing Remarks

For further information, please contact Jan Thijs Drupsteen (j.th.drupsteen@nba.nl).

Yours sincerely,

NBA, the Netherlands Institute of Chartered Accountants,

signed by,

Marco van der Vegte
Chair of the NBA

signed by,

Anton Dieleman
Chair of the Dutch Assurance and Ethics Standards Board-
NBA

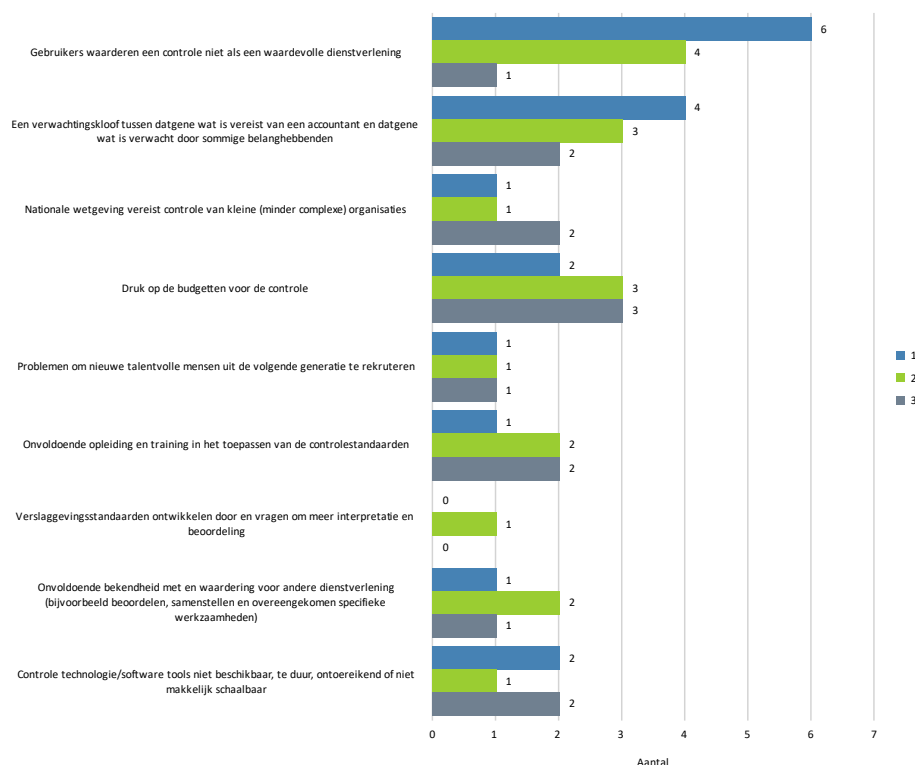


Survey IAASB – Audits of Less Complex Entities

We have translated the survey of Audits of Less Complex Entities into Dutch. Below you will find the results from the Netherlands. In the overviews relating to Q1 and Q2 it was not possible to translate the results back into English. However, at the end of both overviews the descriptions are presented in Dutch as well as in English. In the individual Q&A all results are translated back into English.

1. What are the most significant matters impacting the audit environment for less complex entities? (You may select up to 3 with 1 being the most significant)

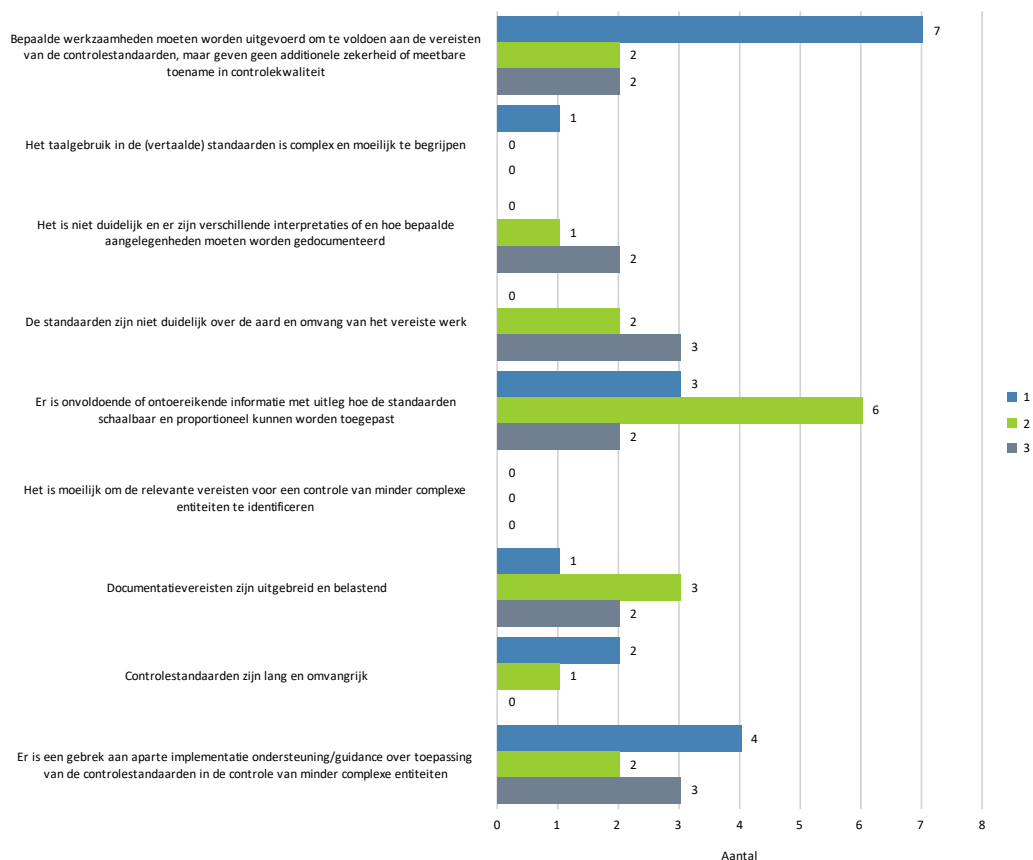
Wat heeft de belangrijkste impact op de controle-omgeving bij minder complexe organisaties? (U mag er maximaal 3 selecteren met 1 als meest belangrijke.)



	1	2	3	N
<i>Users do not value audits as a service</i>	6	4	1	11
Gebruikers waarden een controle niet als een waardevolle dienstverlening				
<i>An expectation gap between what is required of an auditor and what is expected by some stakeholders</i>	4	3	2	9
Een verwachtingskloof tussen datgene wat is vereist van een accountant en datgene wat is verwacht door sommige belanghebbenden				
<i>National legislation requires audits for small (less complex) entities</i>	1	1	2	4
Nationale wetgeving vereist controle van kleine (minder complexe) organisaties				
<i>Audit fee pressure</i>	2	3	3	8
Druk op de budgetten voor de controle				
<i>Difficulties recruiting next generation talent</i>	1	1	1	3
Problemen om nieuwe talentvolle mensen uit de volgende generatie te rekruteren				
<i>Inadequate amount of education and training in the application of the ISAs</i>	1	2	2	5
Onvoldoende opleiding en training in het toepassen van de controlestandaarden				
<i>Financial reporting standards continue to evolve and require more interpretation and judgment</i>	0	1	0	1
Verslaggevingsstandaarden ontwikkelen door en vragen om meer interpretatie en beoordeling				
<i>Low awareness or perceived value of other financial reporting services (e.g. review, compilation and Agreed-Upon Procedures (AUP) engagements)</i>	1	2	1	4
Onvoldoende bekendheid met en waardering voor andere dienstverlening (bijvoorbeeld beoordelen, samenstellen en overeengekomen specifieke werkzaamheden)				
<i>Audit technology/software tools not available, too expensive, inadequate or not easily scalable</i>	2	1	2	5
Controle technologie/software tools niet beschikbaar, te duur, ontoereikend of niet makkelijk schaalbaar				

11. What are the most significant issues that makes the ISAs a challenge to apply to audits of less complex entities (LCEs)? (You may select up to 3 with 1 being the most significant)

Wat zijn de belangrijkste redenen die maken dat de controlestandaarden moeilijk toe te passen zijn bij controles van minder complexe entiteiten? (U mag er maximaal 3 selecteren met 1 als meest significant.)



	1	2	3	N
<i>Requirements result in certain procedures being performed solely to comply with ISA requirements with no additional assurance or measurable increase in audit quality</i>	7	2	2	11
Bepaalde werkzaamheden moeten worden uitgevoerd om te voldoen aan de vereisten van de controlestandaarden, maar geven geen additionele zekerheid of meetbare toename in controlekwaliteit				
<i>The language is complex and difficult to understand</i>	1	0	0	1
Het taalgebruik in de (vertaalde) standaarden is complex en moeilijk te begrijpen				
<i>There is a lack of clarity and different interpretations as to what, and how, certain matters are documented</i>	0	1	2	3
Het is niet duidelijk en er zijn verschillende interpretaties of en hoe bepaalde aangelegenheden moeten worden gedocumenteerd				
<i>The standards are not clear about the nature and extent of work required</i>	0	2	3	5
De standaarden zijn niet duidelijk over de aard en omvang van het vereiste werk				
<i>There is insufficient application material or inadequate application material in the ISAs addressing scalability and proportionality considerations</i>	3	6	2	11
Er is onvoldoende of ontoereikende informatie met uitleg hoe de standaarden schaalbaar en proportioneel kunnen worden toegepast				
<i>It is difficult to identify the relevant requirements for a LCE audit</i>	0	0	0	0
Het is moeilijk om de relevante vereisten voor een controle van minder complexe entiteiten te identificeren				
<i>Documentation requirements are extensive and onerous</i>	1	3	2	6
Documentatievereisten zijn uitgebreid en belastend				
<i>ISAs are long and voluminous</i>	2	1	0	3
Controlestandaarden zijn lang en omvangrijk				
<i>There is a lack of separate implementation support/guidance in respect of the application of the ISAs to the audit of LCEs</i>	4	2	3	9
Er is een gebrek aan aparte implementatie ondersteuning/guidance over toepassing van de controlestandaarden in de controle van minder complexe entiteiten				

21. What areas of the ISAs are most difficult to apply in audits of less complex entities? (The specific ISAs and the particular requirements would be helpful)

Welke onderwerpen / gebieden in de controlestandaarden zijn het moeilijkst toe te passen bij de controle van minder complexe entiteiten? (Graag de specifieke controlestandaarden en de vereisten aangeven.)

Individual answers are stated below:

All paragraphs relating to IT, considering mainly outdated IT implications. Examples are the lack of description of dealing with block chain, artificial intelligence, operating in the cloud, etc. ISA 315 paragraph 18 is an example of a paragraph that is not concrete. It does not specify the boundaries of an information system. Does this mean that everything in the cloud is included? Even in the upper layers of the cloud?

It is almost impossible to state this at the level of individual ISAs and/or requirements. The problem is mainly focused on the subjectivity of risk assessment in general, how to deal with internal control in an 'imperfect' control environment and what to do if the combination of audit procedures (tests of controls and substantive testing) do not lead to sufficient and appropriate audit evidence. Further interpretation per ISA and requirement requires more investigation.

-Auditing estimates. The overview/diagram in the new ISA 540 is not easy to understand for small entities.

-The difference between tests of controls and substantive tests are not easy to identify in the ISAs and these concepts are difficult to apply in practice. For smaller entities tests of controls are often not possible. What is the impact if the internal control is inadequate? The explanation in the ISAs is brief.

-The use of substantive samples is insufficiently explained in the ISAs, especially what needs to be done when misstatements are found in the samples. Wat additional audit procedures need to be done?

Primarily the "umbrella" standards that are not directly related to the audit of the financial statements where the considerations are always important (claims, related parties, group relationships, etc.). Thereafter there should be a go/no-go moment.

ISA 230

ISA 260/265

ISA 315/320/330

Especially making the requirements scalable is difficult.

ISAs 300-499 Risk assessment and risk responses are very elaborate for smaller companies and not always relevant.

Furthermore, ISAs regarding communication and reporting are not always practicable for smaller entities, because of the lack of a supervisory body or when there is an owner-manager.

ISA 330 Identifying key controls to rely upon. In which situation the auditor can establish that a key control operates effectively, often this is not documented within an organization.

Extensive requirements in the ISAs relating to understanding internal control. For example risk assessment procedures or estimation procedures within organizations, while these procedures are not well developed within small organizations. How can the auditor comply with the ISAs in these situations. This relates to ISA 315, 540, but also to ISA 260 because there are no persons charged with governance.

How to deal with entities that need a lot of support to deliver 'auditable' financial statements with auditable evidence. For smaller entities it is economically not feasible to pay for external support to prepare estimations and position papers that can be audited. This relates to ISA 540 and 570.

Impact on audit procedures of imperfections in internal control that appear frequently in smaller entities.

ISA 330: Testing of internal control due to lack of visible monitoring controls.

ISA 315 paragraphs 20 and 21: The effect of limited General IT controls on audit procedures. The effect of limited controls on audit procedures.

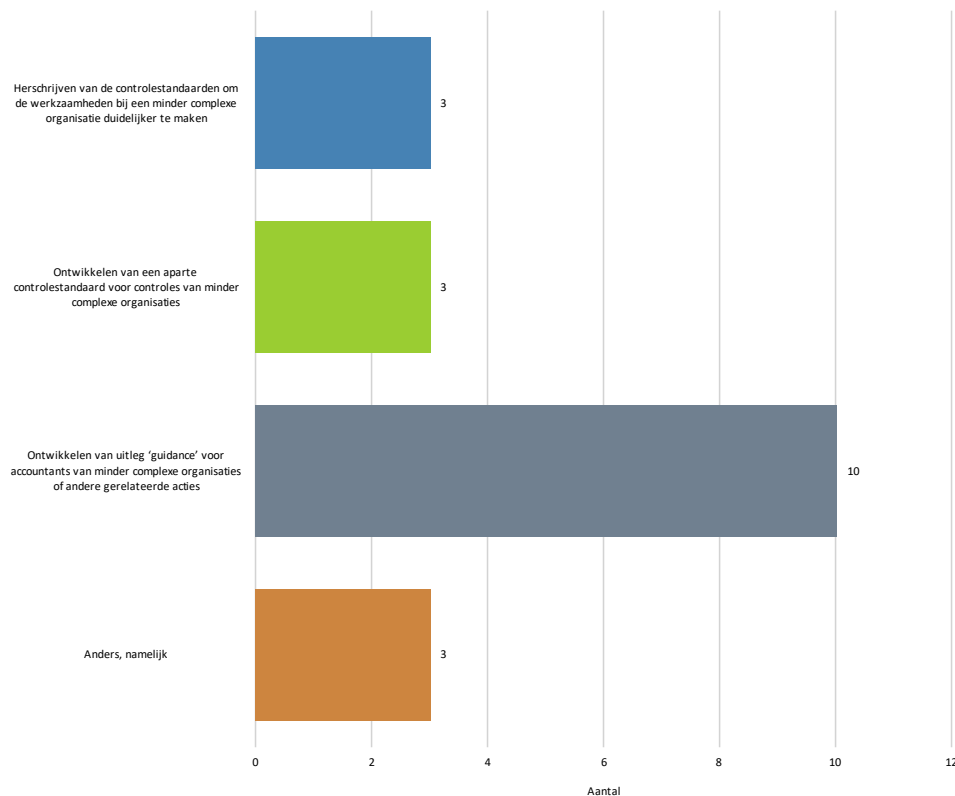
ISA 315: Understanding internal control including IT. Often there is no clear internal control structure or IT environment with separate functions for the various procedures.

ISA 240, 250 and 260, 315, 530 and 540

Internal control is often limited for less complex entities. As a result, there can be insufficiently relied upon tests of controls. Substantive tests within less complex entities can often not be arranged on a statistical basis as the administration lacks the required stratification. As a result, substantive tests are very time-consuming. If substantive procedures are performed, the added value is often limited in relation to the additional costs. This is especially difficult when there is only a limited number of stakeholders.

22. The IAASB are exploring a range of potential possible actions to address the challenges. Which action should be pursued as a priority? (you can select only one). Further details are included in *Section III* of the DP.

De IAASB onderzoekt een aantal mogelijke acties om de uitdagingen te adresseren. Welke actie moet met prioriteit worden nagestreefd? (U kunt er één selecteren.) Nadere details zijn opgenomen in Sectie III van het discussie document van de IAASB.



Order	Number of responses
<i>Revising the ISAs to make the auditor's work effort clearer</i>	
Herschrijven van de controlestandaarden om de werkzaamheden bij een minder complexe organisatie duidelijker te maken	3
<i>Developing a separate auditing standard for audits of less complex entities</i>	
Ontwikkelen van een aparte controlestandaard voor controles van minder complexe organisaties	3
<i>Developing guidance for auditors of less complex entities or other related actions</i>	
Ontwikkelen van uitleg 'guidance' voor accountants van minder complexe organisaties of andere gerelateerde acties	10
<i>Other (please specify)</i>	
Anders, namelijk	3
N	19

Individual answers are stated below:

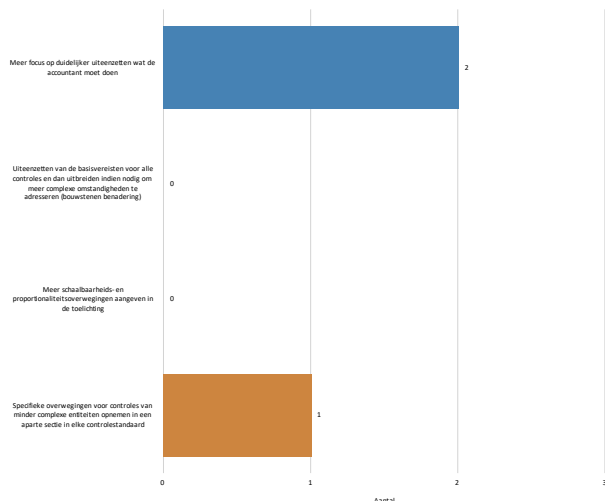
Difference between application for all entities versus only complex entities.

Separate audit standard for limited audit engagements. For example auditor's report on minimal required equity.

Rewriting of the ISAs is required anyway. In rewriting it could be stated specifically which matters and procedures are important for less complex entities and especially which procedures do NOT have to be performed. Then the risk assessment shifts to the question whether an entity is less complicated. A separate ISA (before 315) could be written in which is explained which parts of ISA 315 and other ISAs do NOT have to be performed. This means that there is no separate standard for less complex entities, but a standard within a standard. The process and conclusion relating to reviewing whether an entity is a less complex entity, should be monitored during the audit and documented in the audit file. A checklist or guidance could be developed regarding the 'preconditions' of a less complex entity.

23. Which approach should be explored (select one)

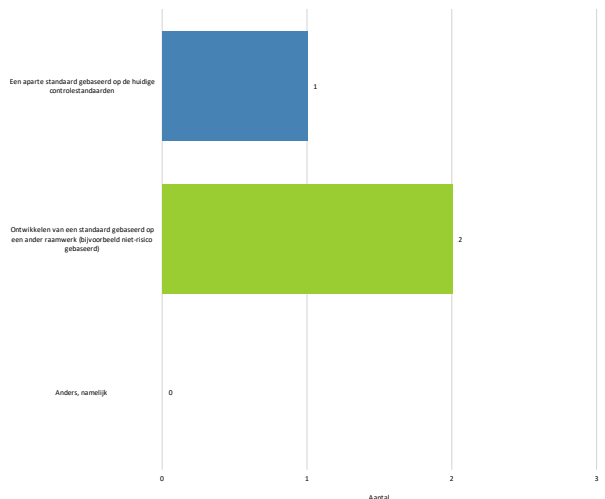
Welke aanpak moet onderzocht worden (kies er één):



Order	Number of responses
Greater focus on more clearly setting out what the auditor needs to do Meer focus op duidelijker uiteenzetten wat de accountant moet doen	2
Setting out the basic requirements for all audits then expanding as needed to address more complex circumstances (building-blocks approach) Uitbreiden van de basisvereisten voor alle controles en dan uitbreiden indien nodig om meer complexe omstandigheden te adresseren (bouwstenen benadering)	0
Featuring more scalability and proportionality considerations in the application material Meer schaalbaarheids- en proportionaliteitsoverwegingen aangeven in de toelichting	0
Including considerations specific to audits of less complex entities in a separate section within each ISA Specifieke overwegingen voor controles van minder complexe entiteiten opnemen in een aparte sectie in elke controlestandaard	1
N	3

24. Which approach should be explored (select one)

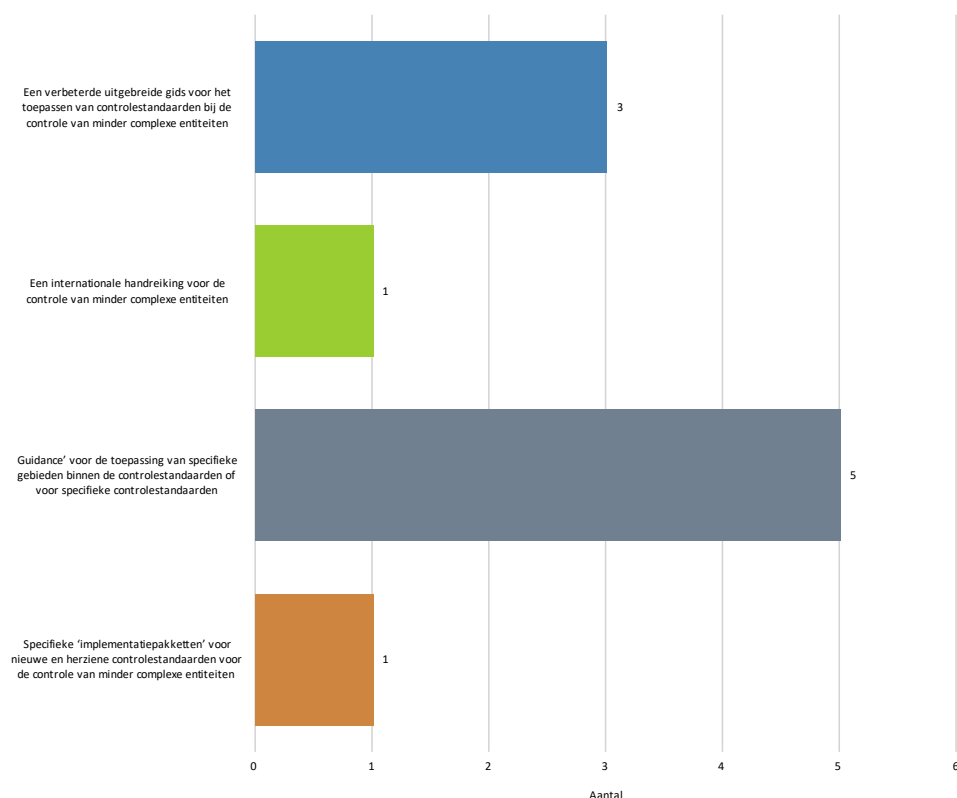
Welke aanpak moet onderzocht worden (kies er één):



Order	Number of responses
A separate standard based on the existing ISAs Een aparte standaard gebaseerd op de huidige controlestandaarden	1
Developing a standard based on a different framework (e.g. not risk-based) Ontwikkelen van een standaard gebaseerd op een ander raamwerk (bijvoorbeeld niet-risico gebaseerd)	2
Other (please specify) Anders, namelijk	0
N	3

25. Which approach should be explored (select one)

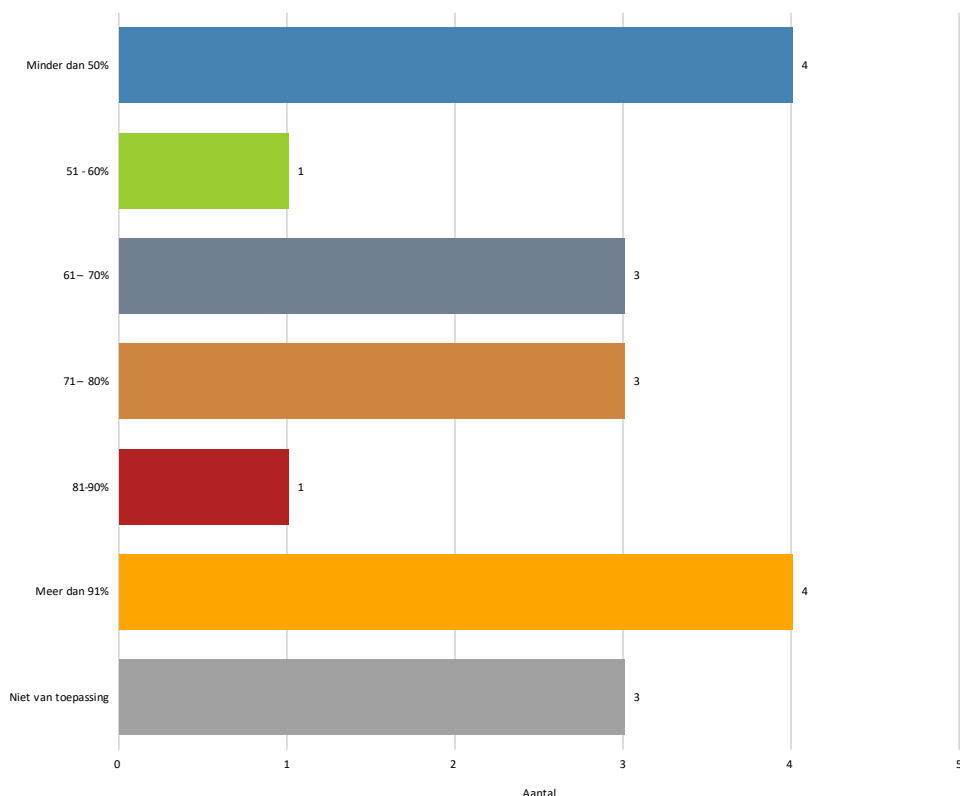
Welke aanpak moet onderzocht worden (kies er één):



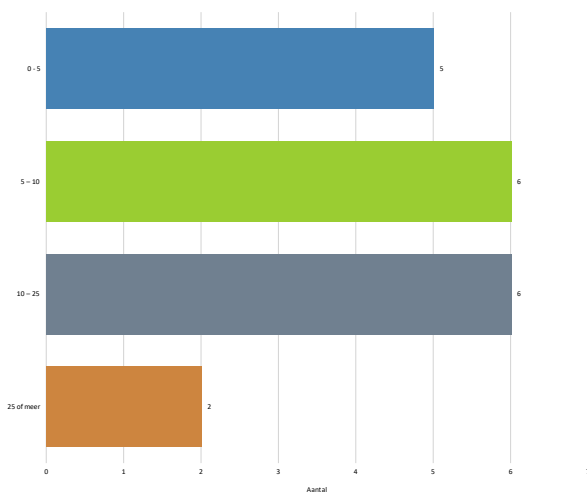
Order	Number of responses
<i>An enhanced comprehensive guide on applying ISAs for audits of less complex entities</i> Een verbeterde uitgebreide gids voor het toepassen van controlestandaarden bij de controle van minder complexe entiteiten	3
<i>An International Auditing Practice Note (IAPN) for Audits of Less Complex Entities</i> Een internationale handreiking voor de controle van minder complexe entiteiten	1
<i>Guidance for the application of specific areas within the ISAs or specific ISAs</i> 'Guidance' voor de toepassing van specifieke gebieden binnen de controlestandaarden of voor specifieke controlestandaarden	5
<i>Focused "implementation packs" for new and revised ISAs specifically for audits of LCEs</i> Specifieke 'implementatiepakketten' voor nieuwe en herziene controlestandaarden voor de controle van minder complexe entiteiten	1
N	10

26. If you are a practitioner, what percentage of your audit clients would be considered as less complex entities (LCE)? (The IAASB have used the current definition of a “smaller entity”, which sets out many of the qualitative characteristics that could be attributable to an LCE. Please see page 4 of the DP ‘What is a Less Complex Entity?’)

Indien u een beroepsbeoefenaar bent, welk percentage van uw controlecliënten zouden beschouwd worden als minder complexe entiteiten? (De IAASB heeft de huidige definitie van een ‘kleinere entiteit’ gebruikt die veel van de kwalitatieve karakteristieken die kunnen worden toegeschreven aan een minder complexe entiteit uiteenzet. Zie pagina 4 van de ‘discussion paper’.) Wat is een minder complexe entiteit?



Order	Number of responses
Less than 50%	4
51 - 60%	1
61 – 70%	3
71 – 80%	3
81-90%	1
Over 91%	4
Not applicable	3
N	19

27. How many audits of financial statements do you perform?**Hoeveel jaarrekeningcontroles voert u uit?**

Order	Number of responses
0 - 5	5
5 - 10	6
10 - 25	6
25 or more	2
N	19

28. Are there any other matters that should be considered by the IAASB as it deliberates on the way forward in relation to audits of less complex entities**Zijn er andere aangelegenheden die de IAASB moet beschouwen bij de weg voorwaarts inzake de controles van minder complexe entiteiten?**

Individual answers are stated below:

The IAASB should realize that less complex entities can also represent very large financial interests. This should be better explained in the ISAs. With ongoing automation it is possible that many (manual) functions disappear.

The boundaries for statutory audits.

Especially a lot less regulation. It is too much and too complex. Possibly another risk definition could be used (but this means a change in law).

Clarification and modernization of audit methodology in general. Clarification and objectification of the concept of 'sufficient and appropriate audit evidence'. Clearer and more accessible language in the standards and other regulation.

Less risk based and more 'data driven'.

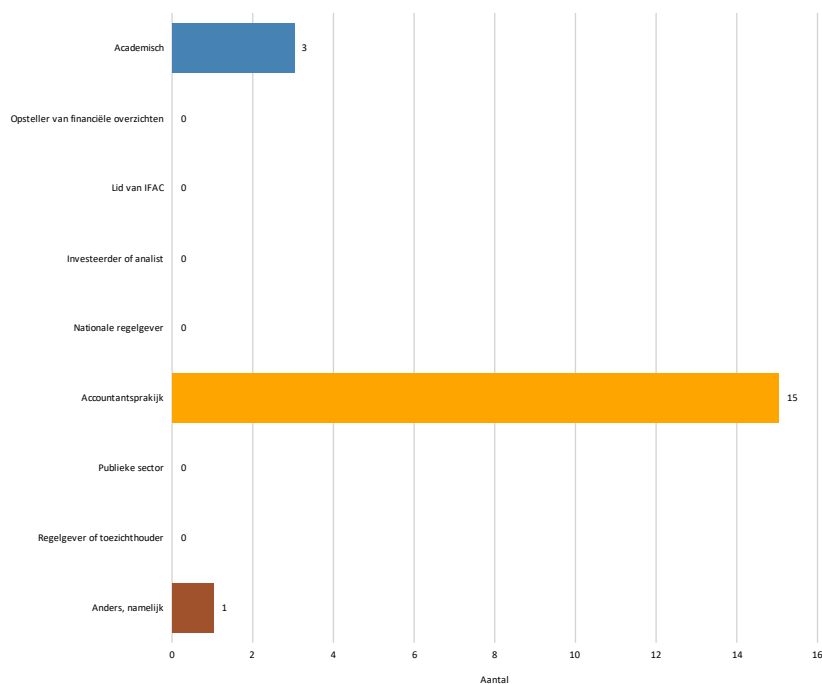
Full application of data analytics in the audit, also for less complex entities

Stakeholders such as banks, suppliers and employees are especially interested in the assumption of going concern of the entity. Possibly an auditor's report can be formulated that assumes a minimum required equity and results.

I think that the procedures in a small entity should reflect the risks that users/stakeholders are exposed to in a small entity and should at the same time be proportional instead of applying the bar for documentation/filing for public interest entities. Nevertheless, we do have a standard that delivers the same product to users, which is an auditor's report relating to the financial statements. Maybe users or supervisors at small entities could give the auditor a specific engagement or specific areas of attention to make the audit more specific. This could lead to a different engagement which could possibly be against the law.

29. In what country are you located?**In welk land werkt u?**

All respondents are working in the Netherlands.

30. Which stakeholder constituency are you responding from?**Welke groep van belanghebbenden is het meest op u van toepassing?**

Order	Number of responses
Academia Academisch	3
Preparer of Financial Statements Opsteller van financiële overzichten	0
IFAC Member Organization Lid van IFAC	0
Investor or Analyst Investeerder of analyst	0
National Standard Setter Nationale regelgever	0
Public Practice Accountantspraktijk	15
Public Sector Publieke sector	0
Regulator or Audit Oversight Body Regelgever of toezichthouder	0
Other-Please Specify Anders, namelijk	1
N	19

Other:

Service

31. Please submit your name and email address**Geef aub uw voornaam, achternaam en e-mailadres op**

Individual email addresses are known to the NBA.
