January 28, 2022

International Auditing and Assurance Standards Board (IAASB)
529 Fifth Avenue
New York, NY 10017

Via website:  www.iaasb.org

Re:  Exposure Draft: Proposed International Standards on Auditing for Audits of Financial Statements of Less Complex Entities

Dear Members and Staff of the IAASB:

The National Association of State Boards of Accountancy (NASBA) appreciates the opportunity to comment on the Proposed International Standards on Auditing for Audits of Financial Statements of Less Complex Entities (the Exposure Draft). NASBA’s mission is to enhance the effectiveness and advance the common interests of the Boards of Accountancy (State Boards) that regulate all Certified Public Accountants (CPAs) and their firms in the United States and its territories, which includes all audit, attest and other services provided by CPAs. Our comments on the Exposure Draft are made in consideration of the Boards’ of Accountancy charge as regulators to protect the public interest.

In furtherance of that objective, NASBA offers the following comments on the Exposure Draft.

General Comments

The discussion paper, issued by the IAASB in 2019 to explore possible options to address the challenges in applying the International Standards on Auditing (ISAs) to audits of Less Complex Entities (LCEs), resulted in proposed various actions that the IAASB could undertake on the audits of financial statements of LCEs:

- Revise the ISAs to address scalability more explicitly and make the auditors work effort clearer.
- Develop a separate auditing standard for audits of LCEs that provides the same level of assurance as the ISAs; and
- Develop guidance for auditors of LCEs or other related actions on how the ISA requirements apply in the circumstances of LCEs.

Based on the feedback from the discussion paper and other input from outreach, the IAASB developed the Exposure Draft as a separate auditing standard for audits of LCEs and accelerated the timeline of the project due to a stated urgent need for action.
NASBA appreciates the significance of small and medium-sized entities (SMEs) globally and that many jurisdictions mandate an audit through law or regulation (i.e., statutory audit). Even when there is not a statutory requirement for an audit, many SMEs are required to have an audit for another reason or may choose to have an audit for management purposes. The ISAs are designed to be applied to a wide variety of entities with differing circumstances and sizes, ranging from those whose nature and circumstances are simpler and more straightforward to those entities whose nature and circumstances are more complex. As noted in the explanatory memorandum, at present, approximately 130 jurisdictions have adopted or partially adopted the ISAs and thus the impact of this proposal is broad.

NASBA also appreciates the challenge faced by the IAASB as various jurisdictions or regions have undertaken their own initiatives targeted at audits of less complex or smaller entities and the desire of the IAASB to protect the relevance and consistency of the standards on a global scale.

With that being said, NASBA does not support having a separate stand-alone standard for audits of financial statements of LCEs. We are concerned about the negative impact that separate standards for audits of LCEs could have on audit quality and the possibility of widening the expectation gap that already exists with users of the financial statements. Currently, there is difficulty in communicating with the users of the financial statements and ensuring that the users have an appropriate understanding of what an audit is and its limitations. Introducing a different tier of standards which apply to some but not all entities will add more complexity and potential confusion for the users. In addition, an audit standard that is viewed as less stringent is fraught with risks of being misused and ultimately reducing audit quality. To have one set of high-quality auditing standards that are appropriately scalable is better for practitioners, the users of the financial statements, regulators and the public interest.

NASBA would prefer that the IAASB revise the ISAs to address the scalability for LCEs more explicitly and make the auditor work effort clearer. We do recognize that a large-scale revision of the ISAs to directly address scalability for LCEs is fraught with challenges particularly given the urgency attached to this project. As an alternative, we believe that further consideration should be given to developing guidance for auditors of LCEs on how the ISA requirements apply in the circumstances of LCEs.

We believe that the detailed Mapping Documents, provided to illustrate how the requirements from the ISAs have or have not been incorporated within the separate LCE standard, provide a solid basis for guidance to address scalability.

**Additional Comments**

As previously stated, we do not support the separate stand-alone auditing standard for LCEs; however, if the IAASB proceeds, the following are additional items for consideration:
We do not believe that the authority as noted in Part A of the proposed standard (Authority) is implementable as presented. We are concerned that the parameters contained in the Authority are complex and will require that extensive use of judgement be employed in establishing applicability of the LCE standards. We believe that there is a risk that differing conclusions could be reached when evaluating the same or substantially similar fact patterns.

A stated reason for the separate standard for LCEs is that a global solution is preferable to increasingly fragmented solutions. However, the Authority guidance seems to embrace the possibility that jurisdictions will modify the proposed standard and put their own versions into practice. This would ultimately result in various national standards instead of the desired global standards.

Finally, with respect to the Authority, we are concerned about the potential for situations in which a practitioner initiates an audit under the LCE standards and then discovers a fact that disqualifies the engagement from further use of the LCE standards. The Exposure Draft directs the practitioner to then follow the full ISAs. At a minimum, such occurrences could be disruptive to the audit process and adversely impact the auditors, the auditees, and the users of the financial statements. Beyond that, it begs the question of what the auditor’s report will state in terms of the standards followed. We believe more guidance should be provided on those considerations and what the audit report would state about what standards were followed.

The Exposure Draft indicates that the effective date for the standard would be for financial reporting periods beginning at least eighteen months after the approval of a final standards. Earlier application would be permitted and encouraged. Given the significant changes and impact of this standard and in an effort to avoid confusion, we do not believe that early adoption should be permitted.

* * *

Again, we appreciate the opportunity to comment on the Exposure Draft.

Very truly yours,

W. Michael Fritz
NASBA Chair

Ken L. Bishop
NASBA President and CEO