

This series presents the PricewaterhouseCoopers Point of View on a range of auditing, accounting and regulatory issues affecting our clients and our profession. These positions represent the collective view of our network of firms.

Generally Accepted Auditing Standards for large and smaller entities

Big GAAS, little GAAS

What are the issues?

Auditing standards used in the audit of entities—from the largest listed to the smallest non-listed entities—have traditionally been the same in the same jurisdiction. In part, this is because an audit, no matter the size of an entity, is designed to provide reasonable assurance that the financial statements taken as a whole are free from material misstatement. Today, there is significant discussion about whether there should be a simplified, self-contained set of accounting principles for smaller, non-listed entities based on full IFRS. In light of that discussion, it is appropriate to consider whether there should be simplified auditing standards for smaller entities.

What is our response?

We support a single set of principles-based auditing standards that are scalable to all entities. Principles-based standards allow audit processes to be scaled appropriately for both small and large entities through the exercise of well-reasoned professional judgment by the auditor. A single set of auditing standards for all entities is also consistent with the concept that audits, no matter the size of the entity, are intended to provide a similar level of assurance to users of the audited financial statements. These users, whether they are reviewing financial statements of a large listed entity or financial statements of a small, non-listed entity, have the same expectation as to the level of assurance that the audit provides. A separate set of simplified auditing standards for smaller entities would only contribute to the gap that exists today between the expectations of users of audited financial statements regarding the level of assurance provided by an audit and the level of assurance actually provided under current auditing standards.

We believe the unique characteristics of small and medium sized entities should be fully

considered in setting auditing standards. In appropriate circumstances, we will support differences in audit requirements that will not have an adverse effect on the level of assurance provided by the audit. For example, it may be appropriate for auditing standards to include a different set of required auditor communications to those who are charged with governance of smaller, non-listed entities than for larger or listed entities. This is because those charged with governance in smaller entities often have an active role in their day-to-day operations. Another example might be to have different audit documentation requirements for audits of smaller, non-listed entities. This would recognise that audit documentation requirements for larger, listed entities might also be used by regulators to facilitate their inspection processes. Such differences, if properly designed and implemented, might reduce the costs of audits for smaller entities without sacrificing audit quality.

What does this mean?

We will actively support a model of a single-set of principles-based auditing standards scalable to all entities. We will support differences in auditing standards for smaller entities that do not conflict with the principles of the single-set of auditing standards. Such situations would include those where differences in the auditing standards do not have an adverse impact on or exacerbate the expectations gap regarding the level of assurance provided by the audit. We will also support differences that avoid unnecessary costs.

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