

IAASB Audits of Less Complex Entities: Exploring Possible Options to Address the Challenges in Applying the ISAs

Request for Comments

Duncan & Toplis Limited

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Comments due by 12 September 2019

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Comments

Q1: 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?

R1: We believe that the characteristics are a good start point for defining a LCE. We also believe that any definition should clearly exclude certain types of entity. For example, PIEs or entities receiving a significant proportion of its income from public sources.

We believe that any formal LCE definition would have to be explicit, or at least require the auditor to clearly demonstrate on the audit file how an entity meets the criteria of being a LCE against a standard set of requirements (not all having to be met).

Further characteristics could include;

- A limit on the number of material income streams.
- Simple financing, no complex financial instruments.
- Simple remuneration / no complex share-based payment arrangements.

Q2: 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?**

R2:

- a. We would agree with the ISAs identified in the report as being those that pose the greatest issues. Particularly ED-315 and ISA 540 (revised). Although both revised standards suggest that they are scalable, this needs significant clarification. Simply saying that they are scalable is not considered to be sufficient for the user.
- b. The underlying cause of the issues relates to the need for complex considerations (and therefore complex audit requirements) for more complex entities. The same considerations not being required for LCEs. We have not identified any additional broad challenges.

Q3: 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?

R3: We believe that internationally aligning audit thresholds (legal requirement) would be an area of focus. The current state, with widely-varying requirements for an entity to have a statutory audit would be further complicated by specific changes in relation to LCEs. For example, in some jurisdictions there may be no requirement for any entities considered to be LCEs to be audited and therefore this work would only have a limited impact.

An alignment of the audit requirement would enable greater consistency and ease of implementation of standard changes.

Q4: 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:

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

R4:

- a. Revising the ISAs
 - (i) This would be considered to be the weakest option. Revising the ISAs would likely create confusion across auditors, entities and local audit regulatory bodies.
 - (ii) Revision of the ISAs to enable differences in auditing for LCEs would likely add to the size and complexities of the standards as a whole. Being cautious, many auditors and regulatory authorities would be more likely to lean towards the full implementation of ISAs still. Conversely, revising ISAs could lead to the under-auditing of more complex entities.
- a. Developing a separate auditing standard
 - (i) Yes, this could appropriately address the challenges raised.

- (ii) This would give the opportunity to clearly differentiate between what is required in the audit of LCEs compared to other entities. We believe that this would be the strongest solution. However, this would be dependent upon the definition / requirement of what a LCE is to be clear.
- a. Developing guidance for auditors of LCEs
 - (i) We consider that this could work well.
 - (ii) Presented alongside the current ISAs this could act as a happy medium between a full additional standard and amending the text of the current ISAs. Again, a clear definition of what a LCE is would be required. All entities would use the same standards, but specific interpretative guidance would be available for the auditors of LCEs.
 - b. We have not identified any additional possible actions not covered by the report, at this stage.
 - c. We feel priority should be given to clear guidance available for the use of the existing ISAs by LCEs. We also believe that the definition of what a LCE is key.

Q5: Are there any other matters that should be considered by us as we deliberate on the way forward in relation to audits of LCEs?

R5: There is another underlying issue here that must be considered alongside the audit of LCEs. That issue relates to financial reporting standards. Perhaps different financial reporting standards are required, in addition to those currently in existence, specifically covering smaller entities. Of course, there are standards in certain jurisdictions that offer reduced disclosure for smaller entities, but investigations should be made into looking at significantly different accounting treatments of certain items for LCEs (and not just based on size criteria).