

Brunel Business School, Brunel University London welcomes the opportunity to comment on the consultation on **EXPOSURE DRAFT, PROPOSED INTERNATIONAL STANDARD ON AUDITING OF FINANCIAL STATEMENTS OF LESS COMPLEX ENTITIES**, published by IAASB on 23 July 2021, a copy of which is available from this [here](#).

Brunel University London is a world-leading research institution, integrating academic rigour with the needs of governments, industry and the not-for-profit sector to help inform policy-makers, legislators and regulators through drafting and promoting policy briefs, and identifying best practice to inform debates, policy projects and policy think-tanks.

This response of 31 January 2022 has been prepared by the undersigned members of **Accounting and Auditing Research Group (AARG)** of Brunel Business School involved in assurance, corporate governance and corporate social responsibility in large and small business entities research and advisory roles of government, professional and regulatory bodies internationally.

OVERVIEW

Audit plays a critical role in the global business environment and we fully support the majority of ED-ISA for LCE. We believe it enhances the efficiency of SME audits and allows auditors and SMPs to provide other value advice to SMEs in other business practices.

To develop this standard IAASB has used the requirements in the ISAs as the basis for the requirements within the ED-ISA for LCE, by replicating and adapting requirements from ISAs that are core to an audit, for the less complex entities. Audit procedures that are not relevant to an LCE are not included within ED-ISA for LCE (e.g. procedures specific to listed entities).

It would be a decision for the Financial Reporting Council to decide whether any future finalised standard would be introduced in the UK. We're committed to playing our part in consultations by continuing to engage with standard setters, regulators and supervisory bodies to ensure access to independent high quality evidence in reform decisions and further targeted research.

ANSWERS TO SPECIFIC QUESTIONS

Overarching Positioning of ED-ISA for LCE

Q1: Do you agree with the standalone ("self-contained") nature of the ED-ISA for LCE?

We are largely in favour of the standalone standard and the title proposed. This standard, if applied and implemented effectively, should encourage more volunteer audits by exempt entities.

However, we are somewhat concerned with the level of judgement involved in identifying LCEs and the cost of implementation to SMPs and professional accountancy organisations.

Authority (or Scope) of the Standard

Q2. Is the Authority (or scope) of the proposed standard clear (i.e., adequately describe for which types of entities the use of the ED-ISA for LCE is inappropriate)? Please add comments on why, and what further refinement is needed.

The Authority is clearly set out. However, we have some reservations as to Authority because the LCE concept with its qualitative criteria will be difficult to implement and may result in inconsistent application.

Q3. Are the specific prohibitions for use of ED-ISA for LCE (e.g., listed entities, entities with public interest characteristics, audits of group financial statements etc.) appropriate? Please add any comments on why and what changes (clarifications, additions or amendments) need to be made to the specific prohibitions.

The audit of group financial statements should be considered and scoped in because many groups are less complex and if excluded will significantly limit the extent to which the standard can be used and many LCEs forming part of a group may have to conduct audits following the full ISAs.

Q4. Do the qualitative characteristics set out in ED-ISA for LCE sufficiently describe a typical LCE? Please add any comments on why and what changes (clarifications, additions or amendments) need to be made to the qualitative characteristics.

More context and definition is required regarding public interest entities and those entities with distinct nature such as charities, trusts, etc. where external stakeholders may be impacted by adoption of LCEs.

Key Principles Used in Developing ED-ISA for LCE

Q5. Do you agree with the approach to how the ISA requirements have been incorporated in the proposed standard (i.e., including requirements within the ISAs that are considered core to an audit and relevant in an audit of an LCE, adapted to suit the nature and circumstances of LCEs)?

We largely agree with ED-ISA for LCE as a whole. It has been put together from full ISAs and appears a reengineered version; not necessarily following proportionality and 'Think Small First' approach. Hence, there is room for further work, revisions and improvements to achieve the desirable approach.

However, this said, we believe this standard is a very good first step and the benefits of it being issued sooner rather than later, outweighs any need for improvement at this stage.

General Content of ED-ISA for LCE

Q9. Do you agree with the approach to the ordering of the standard (i.e., the order of Parts follow the flow of an audit engagement rather than by subject matter or topic like the ISAs)? Please add any comments.

The order of the standard is adequate and fit for purpose. However, an alternative order could also be considered as follows:

Part 1 – Fundamental Concepts and General Principles

Part 2 – Acceptance or Continuance of an Audit Engagement and Initial Audit Engagements

Part 3 – Planning

Part 4 – Risk Identification and Assessment

Part 5 – Responding to Assessed Risks of Material Misstatement

Part 6 – Concluding

Other Matters

Q13. What are your views on future updates and maintenance of the proposed standard once finalized? Please add any comments to clarify your answer.

- a. Continuous Updating - as the ISAs are updated consideration given to updating the ISA for LCE standard
- b. Stable platform – collecting changes for a period (say every 3 years), and updating all during that period

We believe in the initial stage of adoption, option (a) of continuous updating should be used to allow feedback from early adopters and audit firms and improvement of the standard. This can then be changed to option (b) in later years/phases of adoption.

Q14. Once the standard is revised for future updates, should early adoption be allowed?

Yes. We believe early adoption should be allowed (first as a pilot and then full adoption).

Q15. Do you believe the proposed standard CAN be effectively used for audits of less complex entities in your jurisdiction?

We believe that this standard has the potential to be used effectively in the UK.

Further guidelines and standards by any jurisdiction may not follow the Think Small First' approach or they may be in conflict with ED-ISA for LCE's objectives.

Q17. Are there any other matters related to ED-ISA for LCE that the IAASB should consider as it progresses the proposed standard to finalization?

Provision should be made for inclusion of a lighter version of KAM in the reports as auditors see fit.

Group Audits

Q18. Do you agree that group audits should be excluded from the scope of ED-ISA for LCE? Please add any reasons for your answer.

As discussed to in Q3 audit of group financial statements should be considered and scoped in because if excluded, it will significantly limit the extent to which the standard can be used.

Q19. If group audits are to be included in the scope of ED-ISA for LCE, how should this be done? Please explain your answer.

- Option A: The IAASB establishes a "proxy" for complexity, to limit use to basic group audits (i.e., there is no judgment involved).
- Option B: Evaluation of qualitative characteristics for complexity specific a group audit (i.e., it is determined using the auditor's judgment).
- Option C: Other – an alternative way (please specify).

Option B appears consistent with other qualitative characteristics for determining LCEs and should be used in case of group audits.

NEXT STEPS

We recommend further work on some important challenges to be considered and addressed for practitioners:

- Users such as banks, investors, creditors may regard an LCE audit as less valuable
- Applying judgment to determine whether the LCE standard is appropriate increase the risk that errors will be made (by using it when not appropriate)
- Running two sets of standards increase the risk of errors by staff switching between two requirements
- Audit partners and staff need to be familiar with two sets of standards, the LCE and full ISAs as clients will be a mix of these
- Provisions are required for training of audit firms on the new requirements of the standard
- The initial training, implementation and switch will require higher resources and initial expenditure by audit firms which can be burdensome for smaller practices/firms
- Adoption could see a fall in number of SMPs and increase in concentration of accounting firms
- Method/standard to allow distinguishing groups on the basis of their complexity

RESPONSE PREPARED BY:

Prof Robin Jarvis, Prof Kevin McMeeking, Prof Peter Jelfs, Dr Vinay Utham, Dr Grigorios Theodosopoulos, Dr Ahmed Elamer, Dr Monomita Nandy, Sue Hardman, Dr Olayinka Uadiale, Dr Amama Shaukat and Dani Saghafi (dani.saghafi@brunel.ac.uk).