

Response to exposure draft for audits of less complex entities

Overall:

As a firm based in the UK that works with many charities and not for profit entities, we are very supportive of these proposals to have a framework for audit of less complex entities.

Charities in the UK can be subject to a statutory audit at a threshold of £1,000,000 of income. The fact that charities are often spending money gifted by individuals means that it is in the public interest to ensure audits are done at this lower threshold however the increase in the complexity and requirements of auditing standards in recent years mean that the auditor struggles to add significant value to their audits when costs are already becoming an increasing burden on charities' funds.

While we did not have comments in all areas, we have included all questions to which we have responded below.

1. Views are sought on:

(a) The standalone nature of the proposed standard, including detailing any areas of concern in applying the proposed standard, or possible obstacles that may impair this approach?

The one concern we would have in the stand alone nature of the standard is how you would manage a situation where you had intended to use the Standard for Less Complex entities for performing the audit but part way through the audit you identify a single more complex area. While you would hope any complex areas might emerge at planning, this may not always be the case.

In this instance the scope of the audit would change, potentially leading to the need to reperform work already completed. Consequently this could lead to the risk already identified in the ED of inappropriate use of ED-ISA for LCE when the ISAs were appropriate.

See further in comments on question 13.

4. Do you agree with the proposed limitations relating to the use of ED-ISA for LCE? If not, why and what changes (clarifications, additions or other amendments) need to be made? Please distinguish your response between the:

(a) Specific prohibitions; and

We disagree with the view noted in paragraph 62 that the group audits inherently exhibit characteristics of complexity within an entity meaning that all group audits are excluded from use of ED-ISA for LCE. Charities in the UK may run a small number of activities through a trading subsidiary for taxation purposes but in reality this adds very little complexity to the systems or financial processes of group operations. These activities are usually accounted for using the same systems and control processes – they are just run through a separate ledger to provide compliance with the tax rules.

Therefore excluding groups would exclude a number of charities that are no more complex than similar single-entity companies.

(b) Qualitative characteristics.

Agree with this and understand the limitations in being able to provide specific examples.

13. Please provide your views on transitioning: (a) Are there any aspects of the proposed standard, further to what has been described above, that may create challenges for transitioning to the ISAs?

(b) What support materials would assist in addressing these challenges?

This is certainly an area of concern about the standard and we are pleased to see it reflected so prominently in the guidance. We have not noted anything in particular that could be added to the guidance. The key risk remains not identifying these issues sufficiently early in the process but this just highlights the importance of effective planning procedures. It also shows the importance educating clients on the rules around ED-LCE as much as auditors.

22. The IAASB is looking for views on whether group audits should be excluded from (or included in) the scope of ED-ISA for LCE? Please provide reasons for your answer.

We disagree with the view noted in paragraph 62 that the group audits inherently exhibit characteristics of complexity within an entity meaning that all group audits are excluded from use of ED-ISA for LCE. Charities in the UK may run a small number of activities through a trading subsidiary for taxation purposes but in reality this adds very little complexity to the systems or financial processes of group operations. These activities are usually accounted for using the same systems and control processes – they are just run through a separate ledger to provide compliance with the tax rules.

23. Respondents in public practice are asked to share information about the impact of excluding group audits from the scope of ED-ISA for LCE on the use of the proposed standard. In particular:

(a) Would you use the standard if group audits are excluded? If not, why not?

Yes, as it is still likely to be a good value option for our not-for-profit clients so more resources can be spent on their delivery activities.

(b) Approximately what % of the audits within your firm or practice would be group audits that would likely be able to use ED-ISA for LCE (i.e., because it is likely that such group audits could be considered less complex entities for the purpose of the proposed standard) except for the specific exclusion?

Unsure at this time as .

(c) What common examples of group structures and circumstances within your practice would be considered a less complex group.

Noted above, the structure where a charity parent has a trading subsidiary that is used for running a small number of activities for taxation purposes but these activities are all run by the same team using the same systems as the parent entity.

24. If group audits are to be included in the scope of ED-ISA for LCE, how should be done (please provide reasons for your preferred option):

(a) The IAASB establishes a proxy(ies) for complexity for when the proposed standard may be used ("Option 1 – see paragraph 169); or

(b) ED-ISA for LCE sets out qualitative characteristics for complexity specific to groups (Option 2 – see paragraph 176), to help users of the proposed standard to determine themselves whether a group would meet the complexity threshold.

We feel that the advantages and weaknesses for each approach have already clearly been identified in the ED.

On reflection it feels as if the proxy might be the clearer option to provide stricter rules in this. While this does introduce the risk that some more straightforward groups could be caught and excluded by the rules, it reduces the risk of inconsistency between auditing firms within one jurisdiction and organisations being able to 'shop around' to find an auditor who might be willing to take the LCE approach when others do not.

25. Are there other ways that group audits could be incorporated into the scope of the proposed standard that is not reflected in the alternatives described above? For example, are there proxies for complexity other than what is presented in paragraph 169 that the IAASB should consider?

Another potential proxy for complexity could include the levels on control within a group i.e. whether subsidiaries are held directly by a parent or if control is through another member of the group.

26. If group audits are included in ED-ISA for LCE, how should the relevant requirements be presented within the proposed standard (please provide reasons for your preferred option):
(a) Presenting all requirements pertaining to group audits in a separate Part; or
(b) Presenting the requirements pertaining to group audits within each relevant Part.

No strong preference but it may be easier if within a separate part so that the specific requirements for group audits could easily located and checked in one place rather than spread through the ISA.