



---

Sue Almond  
Global Head of Assurance  
**Grant Thornton International Ltd**  
20 Fenchurch Street  
Level 25  
London EC3M 3BY  
United Kingdom  
T +44 (0)20 3882 0162  
[www.GTI.org](http://www.GTI.org)

International Auditing and Assurance Standards Board  
International Federation of Accountants  
529 Fifth Avenue  
New York, NY 10017

September 12, 2019

Via IAASB website at [www.iaasb.org](http://www.iaasb.org)

Dear Board Members and Staff:

Grant Thornton International Ltd appreciates the opportunity to provide input on the International Auditing and Assurance Standard Board's (IAASB) Discussion Paper, Audits of Less Complex Entities: Exploring Possible Options to Address the Challenges in Applying the ISAs (the Discussion Paper).

We support the IAASB exploring further, the provision of targeted practical guidance (Option C presented in the Discussion Paper), including consideration of how best to update the existing IFAC 'Guide to Using International Standards on Auditing in the Audits of Small- and Medium-Sized Entities' and through other external guidance. This guidance would be most useful if it includes practical examples that encompass a broad range of less complex entities, in terms of size, complexity and of the industry in which the entity operates. We also support the IAASB exploring the possibility of undertaking a comprehensive project to make targeted changes to those ISAs, or aspects of the ISAs, that have been identified as particularly problematic.

We acknowledge that there is a fine balance to drafting standards that are sufficiently robust for complex entities, especially those that are of a public interest, and that are sufficiently scalable for less complex entities (LCEs). However, we do believe that this can be achieved in the existing ISAs without the need to develop a new standard (or set of standards) specific to the audits of LCEs (Option B presented in the Discussion Paper). As outlined in our detailed response, we are of the view that this option would result in adverse consequences that would far outweigh the potential benefits. In particular, we highlight as the most important adverse consequence, the confusion a second set of auditing standards may cause in the marketplace.

We are of the view that a project to revise all the ISAs (Option A presented in the Discussion Paper) will not be sufficiently responsive to the need for immediate action either as a holistic project or as a more narrow project that includes making targeted changes to an ISA when that ISA is being revised as part of the IAASB current Strategy and Work Plan.

As outlined in more detail in our attached response, we are of the view that a timely response to scalability issues is critical, not only to address the immediate issues identified in the Discussion Paper, but also to keep the ISAs relevant in the longer term for the audits of both listed and non-listed

---

entities. If the IAASB does not address the scalability issues specific to the audits of less complex entities in a timely manner, local jurisdictions may go down a path of developing their own solutions. A situation where local jurisdictions revert to developing their own standards without, at a minimum, a strategy of converging with the ISAs will not promote consistent, high-quality audits across the globe.

We attach our detailed responses to the Discussion Paper, which elaborate on the points highlighted above. We would be pleased to discuss our comments with you. If you have any questions, please contact Sara Ashton at [sara.hm.ashton@uk.gt.com](mailto:sara.hm.ashton@uk.gt.com) or at +1 646 825 8468.

Sincerely,



Sue Almond  
Global Head of Assurance  
Grant Thornton International Ltd

Enc: Responses to the Discussion Paper – Audits of Less Complex Entities: Exploring Possible Options to Address the Challenges in Applying the ISAs

## Responses to IAASB's Discussion Paper – Less Complex Entities: Exploring Possible Options to Address the Challenges in Applying the ISAs

The following provides our detailed response to the IAASB's request for comments to the Discussion Paper – Audits of Less Complex Entities: Exploring Possible Options to Address the Challenges in Applying the ISAs.

### QUESTIONS

**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?**

We are of the view that the current definition of a smaller entity used by the IAASB would be an appropriate basis from which to describe less complex entities (LCEs), however we would suggest the following changes in respect of the characteristics of the entity:

- Ownership – Part a. of the definition could be deleted, and the concentration of ownership included with the other factors. We do not believe that concentration of ownership is a pre-requisite for all LCEs and may have an unintended consequence of scoping out entities that are less complex but are more broadly owned. For example, a cooperative by its nature would typically have a broad ownership but may not otherwise be complex.
- Selection of accounting policies –The applicable financial reporting framework and the way in which management applies that framework to the entity through the selection of accounting policies allowed can impact complexity. For example, the framework may allow for an investment in a subsidiary to be recorded at cost or to be consolidated into the financial statements. The former option being a less complex accounting policy choice than the latter

Further, the audit of an LCE can be characterised by its simplicity. For example, in understanding the entity and its environment, it is likely that a simpler risk assessment process will be appropriate to determine the appropriate nature, timing and extent of procedures to be performed and less reliance will be placed by the auditor on internal controls in designing further audit procedures.

It should be clear that not all of the qualitative characteristics identified need to be met for an entity to be classified as an LCE, i.e., the absence of one of the characteristics of an LCE does not automatically mean that the entity cannot be classified as an LCE. Professional judgment will always be required to make this determination.

A suggested description of an LCE, for the IAASB's consideration is as follows:

A less complex entity is an entity that may possess one or more of the following characteristics:

- i. Concentration of ownership and management in a small number of individuals;
- ii. Straightforward or uncomplicated transactions;
- iii. Simple record-keeping;
- iv. Accounting policies selected by management that are straightforward;
- v. Internal controls that, although established, may not be documented;

- vi. A simple organizational structure with few levels of management with a responsibility for a broad range of controls;
- vii. Few personnel with a wide range of duties.

Less complex entities do not necessarily need to possess all of these qualitative characteristics and professional judgment is required to determine whether an entity possesses the relevant qualitative characteristics to be classified as a less complex entity.

The audit of a less complex entity is characterized by a simple risk assessment process necessary to design appropriate responses.

**Q2. Section II describes the challenges related to audits of LCE's, including those challenges that are within the scope of our work in relation to the 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 the audit of an LCE.**

We have identified the following ISAs and aspects of ISAs that are difficult to apply in audits of LCEs:

- ISA 260 (Revised)<sup>1</sup> paragraph A40, which allows communication to those charged with governance for smaller entities to be less structured than those for larger or listed entities, lacks clarity as to how this actually adapts the requirements.
- ISA 300<sup>2</sup> paragraph A11; the application for smaller entities of the requirement to establish an overall strategy could be simplified by allowing for a memorandum prepared at the completion of the previous audit, updated as necessary for discussion with the owner-manager, to serve as the documented audit strategy. Such a memorandum would include issues identified during the previous audit and address the specific matters in paragraph 8 of ISA 300.
- ISA 315 (Revised)<sup>3</sup>
  - Lack of clarity of the impact on the audit of certain requirements, i.e., 'why' the procedure is required. In particular, understanding internal control, especially the control activities, is often regarded as a disproportionate requirement for an LCE.
  - Segregation of duties is often an issue in the audit of an LCE. Often the risk associated with a lack of segregation of duties can be mitigated by higher-level controls performed by management. However, there is a lack of clarity between ISA 315 (Revised), ISA 265<sup>4</sup> and ISA 330<sup>5</sup> about whether the auditor can reduce control risk if the auditor plans to test such higher-level

<sup>1</sup> ISA 260 (Revised), *Communication with Those Charged With Governance*

<sup>2</sup> ISA 300, *Planning an Audit of Financial Statements*

<sup>3</sup> ISA 315 (Revised), *Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and Its Environment*

<sup>4</sup> ISA 265, *Communicating Deficiencies in Internal Control to Those Charged With Governance and Management*

<sup>5</sup> ISA 330, *The Auditor's Responses to Assessed Risks*

controls. ISA 265 paragraph A3, which provides an example of such a higher level control and ISA 315, paragraph A105, through reference to 'strong control ... lessening or removing the need for more detailed control activities,' suggests that it is possible to reduce control risk by testing higher-level controls. Conversely, ISA 315, paragraph 13 suggests the contrary by requiring the evaluation of the design of controls as a precondition to testing. Further even if the auditor tests the higher-level controls fulfilling the requirements of ISA 330 paragraph 10 may be challenging given these higher-level controls are often not formal or not documented.

- Risk assessment analytics are often merely a documentation exercise on the smaller LCEs for the following reasons:
  - The initial trial balance on which the risk assessment analytics are performed is often subject to many adjustments as the financial statements are finalised.
  - The financial statements may be very simple, for example, may comprise of a single asset or of only a few classes of transactions and account balances.
- ISA 320<sup>6</sup> and ISA 530<sup>7</sup>
  - These standards include broad requirements for the auditor to determine materiality and, where sampling is employed as an audit procedure, to determine a sufficient sample of items to test. Absent further standardisation applying these requirements in a manner that achieves a high-quality, yet an efficient audit is particularly difficult in audits of LCEs.
- ISA 330<sup>8</sup>
  - Many smaller entities have simple standardised accounting environments, for example, many such entities will use standardised accounting packages, which enables extensive use of whole population data analysis. This is not acknowledged or taken into account by the ISAs.
- ISA 520<sup>9</sup>
  - Audits of LCEs should be prime candidates for using analytical procedures because of the simplicity of transactions. However, in our experience, analytical procedures are not generally used in audits of LCEs because the requirements are viewed as too onerous to comply with. For example:
    - Obtaining appropriate audit evidence relevant to management's response when investigating differences – it can be challenging to corroborate management's responses when those responses result from management's involvement in the day-to-day operations, rather than from a formal process.

---

<sup>6</sup> ISA 320, *Materiality in Planning and Performing an Audit*

<sup>7</sup> ISA 530, *Audit Sampling*

<sup>8</sup> ISA 330, *The Auditor's Responses to Assessed Risk*

<sup>9</sup> ISA 520, *Analytical Procedures*

- ISA 540 (Revised)<sup>10</sup>
  - The revised standard includes requirements to perform audit procedures that are not necessarily needed for simple estimates. For example, some LCEs do not have a formal process for making estimates and the elements of estimation uncertainty are less important given the straightforward nature of the estimate. In such situations, the requirement to understand management's process becomes difficult to apply. Also performing a retrospective review on a simple estimate may not be needed to perform appropriate risk assessment procedures.
- Documentation
  - There is a lack of clarity, and also inconsistency across the ISAs, on the extent of documentation needed for the audits of LCEs. Additionally, as it is not always clear which of the requirements are applicable to audits of LCEs, auditors are focusing efforts on considering and on documenting why they believe specific requirements are not applicable to the audit of a specific entity. This is further exacerbated by different interpretations of the documentation requirements by regulators. This lack of clarity and consistency may lead to unnecessary audit documentation.

**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?**

We generally agree with the challenges that have been identified in the Discussion Paper. In particular, we highlight the following matters:

- A move away from the clarity drafting principles established by the IAASB's 2008 Clarity Project, including:
  - Requirements are being drafted in a manner that includes guidance on how to perform the requirement rather than just what is required;
  - Application material is becoming more voluminous and is not always necessary to assist the auditor in understanding or applying specific requirements in the respective ISAs;
  - The language is becoming increasingly complex through a combination of terminology, sentence structure and length, which is particularly problematic for translation of the ISAs.
  - Introductory sections of the standards are becoming increasingly lengthy.
- Less conditionality is being included in the requirements.
- Examples provided in the application material are generally those at the extreme ends of the spectrum, making them less useful because they are not reflective of the most common scenario.
- External inspections are driving how requirements are being implemented in practice. Regulators can have a different interpretation of the requirements, and also often treat application material as 'de facto' requirements, thus causing either

---

<sup>10</sup> ISA 540 (Revised), *Auditing Accounting Estimates and Related Disclosures*

additional procedures or additional documentation that arguably are unnecessary, but which auditors perform to 'pass' the external inspection.

**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?**

We are of the view that in encouraging others to act, the focus should be on the following groups:

- External inspectors – to facilitate a more consistent interpretation of the requirements of the ISAs and the authority of application material, appendices and external guidance.
- Member bodies – to facilitate the provision of relevant guidance on the local application of the ISAs and to make available current and relevant training.

**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**

We set out below our views on each of the options presented in the Discussion Paper. The key considerations in formulating these views included:

- Timeliness of the outcome – stakeholders are asking for change now and national auditing standard setters have already started working on projects.
- Disruption to the practice – the more fundamental the changes, the more complex they will be to implement by auditors, resulting in increased audit costs.
- Confusion to users of financial information – changing what an audit is would create confusion.

#### *Option A – Revising the ISAs*

To fully evaluate this option, additional explanation would be needed on what the revision would encompass and the expected timeline to completion. However, based on the information provided in the Discussion Paper, we are of the view there is the potential that this option may lead to requirements that become broader in nature, resulting in increased inconsistency of interpretation and therefore not addressing the needs expressed. The impact to firms is also a consideration. For example, would the cost of updating methodologies either by using internal resources or through sourcing from external service providers be proportionate to any potential benefit from a wholesale revision of the ISAs? Further, a key point to consider is that the demand is for changes to the ISAs now. A project of this potential magnitude would take a long time to complete and would therefore not be responsive to this demand and may lead to individual jurisdictions developing their own responses in the intervening period. Inconsistent jurisdictional auditing standards would not be an optimal outcome.

Similarly, the proposed targeted approach to changes when an ISA is being revised as part of the IAASB's existing Strategy and Work Plan is not an optimal solution. Revising ISAs on a rolling basis, only when they form part of the IAASB's Strategy and Work Plan, could result in an extended timeline before issues in relation to LCEs are addressed. Such a piecemeal approach is also more likely to result in inconsistencies across the ISAs as they are being updated. We believe that the IAASB undertaking a discrete, separate project to address problematic ISAs or aspects of the ISAs that have been identified through this Discussion Paper and through other research, would be preferable. See our response to part b. below for an alternative type of targeted approach to updating the ISAs.

#### *Option B – Developing a Separate Auditing Standard for Audits of LCEs*

A separate auditing standard may address some of the challenges to applying ISAs to LCEs. For example, it would provide the opportunity for the ISAs to be drafted using a 'building blocks' approach that starts with the minimum requirements and builds in layers of complexity. However, we view the following implications and consequences as outweighing any potential benefits:

- Firms may perform audits of entities that are less complex and entities that are not less complex. In these instances, two methodologies would need to be created and implemented and personnel would then either need to be trained and remain up to date on both methodologies or be forced to specialize in either audits of LCEs or audits of entities that are not LCEs.
- A perception will be created that a different or lesser level of assurance will be provided by the standard, irrespective of whether or not the same level of assurance is actually provided by the new standard. This will likely increase confusion amongst the user group and will also risk further decreasing the perceived value of an audit.
- If application material is developed by national auditing standard setters on a jurisdictional basis, there may be many different interpretations of how to apply the requirements to which the application material pertains.
- There is the potential that the underlying ISAs will change as the new separate auditing standard is being developed. This creates an added layer of complexity to finalizing and obtaining approval of a new standard.
- A separate standard may achieve the goal of being simple at inception, but similar to how the ISAs have progressed since the Clarity Project, has the potential to become more complex over time as amendments are made to address requests for clarification.

#### *Option C – Developing Guidance for Auditors of LCEs or Other Related Actions*

This option would likely be the timeliest potential solution. Whilst arguably guidance currently exists, it does not appear to be satisfying the needs of those auditing LCEs. Collaboration with IFAC to critically evaluate, update and adapt its 'Guide to Using International Standards on Auditing in the Audits of Small- and Medium-Sized Entities,' would be beneficial. Consideration could be given to reducing the existing volume of guidance and to incorporating or updating the guidance for the aspects of ISAs that have been identified as particularly problematic.

We are also of the view that the other forms of guidance highlighted in the Discussion Paper should be further explored. For the guidance to be effective, we are of the view that it should be clear and concise and written in simple, straightforward language that is more easily understood and is more easily translated. The guidance should avoid

including broad principles, should be practical and include examples that are not just at the extremes of the spectrum, but that are representative of audits of those entities that sit somewhere in the middle.

However, to respond to the demand for solutions now, this guidance would need to be provided in a timely manner. We would therefore recommend that consideration be given as to whether due process principles can be developed to expedite the process of developing and publishing implementation and application guidance.

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

An alternative targeted approach to updating the ISAs could be explored. This would involve identifying the ISAs that are the most problematic to apply in audits of LCEs, through feedback from this Discussion Paper, review of the existing Companion Manual: Guide to Quality Control for SMPs; Guide to Using the ISAs in the Audits of SMEs; Guide to Review Engagements; Guide to Compilation engagements; and through further outreach, with a view to undertaking a single project that addresses the issues identified in the ISAs. Subject to the IAASB identifying appropriate resources, this could reduce the timeline to completion of the project and provide the most value through addressing those areas determined to be the most problematic.

Consideration could also be given to developing interpretations in a similar manner to those provided by IFRIC.<sup>11</sup> These interpretations could include the specific aspects of the ISAs that have been identified, through research, as particularly troublesome to apply. Such interpretations could have the same authority as the requirements or application material in the ISA itself, based on the aspect of the ISA to which it applies. We believe that this can be provided through a rapid response mechanism to emerging issues.

**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?**

The IAASB should work with the national auditing standard setters to determine whether changes contemplated based on the responses to this Discussion Paper will work in the jurisdictions in which the ISAs are adopted. It would be unfortunate if some jurisdictions, currently committed to adopt the ISAs, change their views as a result of the IAASB's approach to the audits of LCEs.

The IAASB would also need to confirm that the changes contemplated can be operationalised by firms and by audit software providers. For example, if a separate auditing standard for LCEs is a preferred option based on the feedback to this Discussion Paper, firms may need to develop two separate methodologies, one for the audits of LCEs and one for the audits of all other entities. Many firms have developed 'audit tools' that integrate methodologies and documentation of audit procedures performed. It is possible that these audit tools will not have the capability to allow for the simultaneous operation of two audit methodologies. As such, the IAASB will need to consider the impact to firms of a separate standard as part of its further exploration.

We also recommend consideration of the current due process required for standards and guidance to be issued by the IAASB. We are of the view that there is opportunity for a more expedited due process particularly in the area of non-authoritative and implementation guidance.

---

<sup>11</sup> International Financial Reporting Interpretations Committee

Finally, we recommend that the IAASB give careful consideration to the resources that the options presented will require and the availability of such resources to successfully complete the chosen route.