

We welcome the opportunity to respond to the International Auditing and Assurance Standards Board's Exposure Draft of the Proposed International Standard on Auditing of Financial Statements of Less Complex Entities ("the Proposed Standard").

About us

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Answers to specific questions

We have answered only those questions considered of most relevance to us and our clients.

Question 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?

We agree with the general principle that the Proposed Standard should stand alone, albeit with the clear link to the ISAs that IAASB has maintained. We believe that the latter is essential if the Proposed Standard is to enable reasonable assurance to be expressed, which we believe to be the correct approach.

Paragraph 26 of the Explanatory Memorandum says that: "... if there is a circumstance that has not been contemplated in the design of ED-ISA for LCE as addressed in the Authority of the proposed standard (Part A), relevant ISA requirements cannot be used to "top-up" ED-ISA for LCE in order to address the circumstance." We cannot find this requirement in the Proposed Standard itself, and believe this may inhibit auditors from drawing on their existing knowledge of ISAs if appropriate when making judgements. This seems an artificial boundary to draw, and appears to conflict with the requirement in paragraph 2.2.2 of the Proposed Standard that "The auditor shall design and perform audit procedures that are appropriate in the circumstances for the purpose of obtaining sufficient appropriate audit evidence."

Possible obstacles that may impair the "standalone" approach are:

- **Difficulty in distinguishing work effort between the Proposed Standard and the ISAs.** We believe that it is currently not sufficiently clear what auditors would do differently under the Proposed Standard compared to the ISAs. As noted above, it is important

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that the Proposed Standard is clearly linked to the ISAs, but if there is little difference in practice between the nature and extent of procedures and documentation required under both, there is little incentive for the profession to adapt methodologies and train staff for the Proposed Standard. The mapping document suggests that very few requirements of the ISAs have been substantially modified or deleted. Coupled with the proposed exclusion of all group audits from the scope of the Proposed Standard (see question 22) and the requirement to transition to the ISAs if certain “complexities” are discovered during the audit (see question 13), it is unlikely that we would adopt the Proposed Standard as it stands. We are also concerned that future changes to the ISAs will not be robustly assessed before inclusion in the Proposed Standard, ie the default position is to include new ISA requirements in the Proposed Standard. This is the approach which the IAASB has taken with the newly-developed ISA 315 in the Proposed Standard.

- **Regulatory and client challenge.** The subjective nature of some of the scope criteria will inevitably lead to challenge from regulators and clients regarding whether a particular audit should be scoped in or out. As auditors, we are used to using our professional judgement and justifying the position taken, and we do not suggest that the qualitative criteria in the Proposed Standard are inappropriate. We simply observe that this is an additional factor that, in combination with those outlined above, may make the Proposed Standard less attractive.
- **Perception.** A separate standard aimed at the audit of less complex entities risks being perceived by stakeholders as an “easier”, less robust audit. Clear messaging from the IAASB will be required to counter such perceptions. In getting that messaging right, it will be important for the IAASB to articulate what the benefits of the Proposed Standard are, so that stakeholders are clear what it is trying to achieve.

Question 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

(b) Qualitative characteristics.

We do not agree that the specific prohibitions should include all entities whose function is to provide post-employment benefits. The majority of such entities that we audit provide benefits to few people and have little complexity.

We find the drafting of paragraph A.9 confusing, in that it starts with an explicit prohibition: “the [draft] ISA for LCE *is inappropriate* for the audit of the financial statements if an entity exhibits *one or more* of the following characteristics” [our emphasis], but goes on to say that “Each of the qualitative characteristics *may on its own not be sufficient* to determine whether the [draft] ISA for LCE is appropriate or not in the circumstances, therefore the matters described in the list are intended to be considered *both individually and in combination*. *The presence of one characteristic* exhibited by an entity *does not necessarily exclude the use* of the [draft] ISA for LCE for that entity” [our emphasis]. This appears contradictory: either one characteristic is sufficient for exclusion or it is not. We agree that one characteristic may not be sufficient on its own to warrant exclusion, and therefore the first part of the paragraph needs to be amended to refer more generally to factors to consider.

Question 5: Regarding the Authority Supplemental Guide:

(a) Is the guide helpful in understanding the Authority? If not, why not?

(b) Are there other matters that should be included in the guide?

The table in paragraph 28 of the Authority Supplemental Guide (“the Guide”) refers to characteristics that are commonly not associated with an LCE. One of these is “Products and services that may result in... legal liability or reputational risk”. We believe this to be too broad: all products and services offered by entities, LCEs or not, will fall into these categories to a greater or lesser extent. This description needs to be refined.

We note that there appears to be a large amount of duplication between the Guide and the proposed Standard, which obscures the message that the Guide is trying to convey.

Question 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?

Even when auditing a less complex entity, an issue may arise during the audit that management had not informed the auditor of at the planning stage. The Proposed Standard would require the auditor to transition to the ISAs if such an issue was “complex”. We reiterate the point made in our answer to question 4, that we believe that one “complex” factor should not necessarily mean that the entity is outside the scope of the Proposed Standard. This principle should be extended to the transition requirements, such that a single “complex” issue discovered later in the audit should not automatically mean transitioning to the ISAs.

Clearly, as with any audit, the auditor should assess the issue and consider whether changes to risk assessments, materiality etc are required and plan relevant additional work accordingly.

Question 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 believe that group audits should be included in the scope of the Proposed Standard.

Being a member of a group is not necessarily a proxy for complexity. We audit a number of straightforward groups where there are few entities, all are within the same jurisdiction and no component auditors are involved. We would not consider these complex.

Question 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?

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

Excluding the sorts of groups described in our answer to question 22 from the scope of the Proposed Standard would make it unlikely that we would adopt it. We do not believe that the

number of audits falling within the proposed scope is enough for it to be worthwhile for us to adapt our methodology and train our staff.

Common examples of group structures and circumstances within our practice which would be considered a less complex group include:

- non-complex holding companies with a single non-complex subsidiary;
- a “shell” holding company with several non-complex subsidiaries undertaking different types of business, and sometimes with further dormant subsidiaries; and
- charitable companies with trading subsidiaries.

Question 24: If group audits are to be included in the scope of ED-ISA for LCE, the IAASB is looking for views about 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 do not believe that these two options are mutually exclusive - please see our answer to question 25 below.

Question 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?

We believe that group audits could be incorporated into the scope of the proposed standard in the same way as single entity audits, ie using a similar mixture of proxies for complexity and qualitative characteristics of complexity.

Question 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.

We can see the advantages and disadvantages of both options. On balance, we believe it will be better to present the requirements pertaining to group audits within each relevant part, so as to support the “flow of the audit” presentation. This will mean that the group audit requirements need to be highlighted clearly so that they can be ignored by those not performing group audits, as is recognised by the IAASB.