

**RE: Discussion Paper: Audits of Less Complex Entities: Exploring Possible Options to Address the Challenges in Applying the ISAs**

Dear Sir/Madam

We thank you for providing us with the opportunity to present our views on your discussion paper on *Audits of Less Complex Entities: Exploring Possible Options to Address the Challenges in Applying the ISAs*. Views are presented per question as contained in the discussion paper.

Question 1: 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 agree with the proposed definition of an LCE, however point (a) in the definition may cause some restriction in the application of the definition. It states that the entity in question may be owned by another enterprise, provided that the owner exhibits the same qualitative characteristics. We are unsure as to how the qualitative characteristics of the owner can result in the entity in question being more complex.

The South African regulations allow any entity, whether it be a juristic person or not, to own an entity, such as family trusts. In this regard, we believe that the definition should be wide enough to include any type of owner.

Question 2a: 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.

Whilst we do not have any specific ISAs that we believe are most difficult to apply in the audit of less complex entities, we believe that the documentation required to ensure that the requirements of ISA 230, specifically paragraphs 8 and 9, are met, results in auditors losing sight of the big picture, especially with regards to less complex entities.

Question 2b: 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?

The auditing profession is under constant scrutinization as stakeholders become more involved in entities in which they have an interest/stake in. Accordingly, to a certain extent,

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audits are becoming more compliance-based and less risk-based. Auditors are trying to tick boxes instead of relying on their judgement as to where the real risks lie in any audit and appropriately responding to those risks.

To try and apply the full ISAs to the audit of a less complex entity, will potentially result in the auditor focusing on the wrong areas of an entity and risk not identifying those areas where special auditor's attention must be given.

Question 3: 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?

It is our view that all stakeholders must be appreciative of the time and expertise involving a quality audit. Stakeholders are increasingly demanding more from auditors for less compensation. We believe that the IAASB can be instrumental to changing users of our reports' views on fees. This will reduce the burden placed on auditors to perform quality audits for reduced fees. Educating the users of our reports are key.

Question 4: 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:

Question 4a: For each of the possible actions (either individually or in combination):

Question 4a(i): Would the possible action appropriately address the challenges that have been identified?

Question 4a(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.

Question 4b: Are there any other possible actions that have not been identified that should be considered as we progress our work on audits of LCEs?

Question 4c: 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.

Our response addresses all the sub-questions in question 4.

The ISAs may become more complex/longer if separate sections dealing with audits of less complex entities are inserted.

We are of the opinion that a separate standard must be developed dealing with the audit requirements of less complex entities. We do not believe that guidance alone will be sufficient (possible action 3) but reference can be made to other ISAs, where appropriate, such as quality control at engagement level etc. The main focus of the audit of less complex entities should be the most efficient and effective manner in which to complete the audit (and the resultant documentation). We believe the overall objective should be to reduce the onerous documentation requirements of some of the ISAs but still maintaining the level of quality expected from an audit.

Question 5: Are there any other matters that should be considered by us as we deliberate on the way forward in relation to audits of LCEs?

When developing the separate standard (as per our recommendation in question 4), cognisance must be taken of the qualitative characteristics of less complex entities, such as the internal control environment. These types of entities tend to not have formal internal controls in place, which makes it difficult to accurately and completely assess it in order to assess the risks of the entity.

We trust that you find our comments detailed above in order.

Yours truly

Minette van der Merwe (PKF SA Head of Technical)

Date: 12 September 2019