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Dear Sir or Madam

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

On behalf of the Wales Audit Office I welcome the opportunity to provide feedback on this helpful contribution to the debate about the audit of small and less complex bodies.

The Wales Audit Office provides staff and other resources to support the Auditor General for Wales in undertaking his work. The Auditor General is the auditor of most Welsh public sector bodies, whose expenditure ranges from £15 billion to under £1 million.

Our responses against each of the consultation questions are set out below.

***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 agree that the emphasis should not simply be on size, although in practice there is often (but not always) a correlation between size and complexity.

We believe that there is a challenge in defining an LCE, as the definition of an LCE and the response to risks at such bodies are not mutually exclusive. For example, a body with few internal controls may prima facie appear to be an LCE, but the absence of those controls may pose significant audit risks.

In contrast, we are aware of small bodies in the public sector that have audit committees, strong governance arrangements, well developed control frameworks including internal audit functions, that might be characteristic of larger bodies in the private sector.

We set out a potential solution to this challenge in response to question 4.

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

**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 believe that ISA 315 (and to a lesser extent ISA 240) are major challenges for the audit of LCEs. These standards are complex, difficult to interpret and place quite demanding requirements on the auditors of small bodies and LCEs, which are difficult to scale for LCEs.

**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?**

No comments.

**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.**

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

***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.***

As we explain in response to question 1, the definition of an LCE and the audit response to risks are not mutually exclusive.

One option to dealing with this would be for the ISAs to start by setting out what is expected for low-risk / low-complexity bodies and to then provide guidance on what is expected of auditors as size, complexity and risk increase.

***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?***

No

I hope that this response is helpful, but please let me know if you need anything further.

Yours faithfully,

Anthony Barrett

**Assistant Auditor General**