



**Australian Government**  
**Auditing and Assurance Standards Board**

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12 September 2019

Mr Tom Seidenstein  
Chair  
International Auditing and Assurance Standards Board  
International Federation of Accountants  
529 5th Avenue, 6th Floor  
New York, New York 10017 USA

Dear Tom,

***AUASB Submission on The IAASB's Discussion Paper Audits of Less Complex Entities: Exploring the Possible Options to Address the Challenges in Applying the ISAs***

The Australian Auditing and Assurance Standards Board (AUASB) is pleased to have the opportunity to comment on the IAASB's Discussion Paper on Audits of Less Complex Entities. The AUASB strongly supports the IAASB's initiative to explore possible options to address challenges in applying the auditing standards on audits of Less Complex Entities.-

The AUASB is a non-corporate Commonwealth entity of the Australian Government, responsible for developing, issuing and maintaining auditing and assurance standards in Australia. The AUASB's role and mandate extends to liaison with other standard setters and participation in global standard-setting initiatives.

In formulating our response, the AUASB has considered feedback gathered from its stakeholders in two principal ways:

1. An Australian specific survey of auditors of Less Complex Entities; and
2. Comments provided directly to the AUASB on the questions in the IAASB's Discussion Paper.

The Australian survey received 145 responses, with 77% of those responses from auditors and 23% from other stakeholders including financial statement users, regulators and academics.

Detailed responses to the questions in the Discussion Paper are attached as Appendix 1.

Overall, the AUASB is very supportive of the IAASB's initiative and encourages them to explore each possible option outlined in Section III of the Discussion Paper. It is important that at this early stage the IAASB avoids landing on a single solution until all options are fully explored.

Whilst the AUASB encourages the IAASB to continue to explore all options in the Discussion Paper, at this early stage the AUASB's preference is a revision of the ISAs. This option addresses the growing complexity of recently updated standards which has been highlighted in our submissions on recent IAASB Exposure Drafts and would benefit all auditors (not just those who audit LCEs).

Finally, the AUASB considers it important that the IAASB not focus too much attention on the definition of an LCE at this information gathering and research stage of the project. There is likely to be varied feedback across jurisdictions and even within jurisdictions from different stakeholder groups on what is an appropriate definition of an LCE. For the purposes of exploring the challenges and possible responses, the current definition is sufficient.

Should you have any queries regarding this submission, please do not hesitate to contact myself or Matthew Zappulla at [mzappulla@auasb.gov.au](mailto:mzappulla@auasb.gov.au).

Yours sincerely,

Ms Robin Low  
Deputy Chair

**IAASB 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?**

Overall, the feedback received from AUASB stakeholders is that a principles-based definition is an appropriate way to describe an LCE. In the Australian survey 52% of respondents preferred a principles-based approach compared to size-related thresholds (15%) and splitting entities between public interest and non-public interest (33%).

Whilst Australian stakeholders raised concerns over several of the specific characteristics of an LCE outlined in the Discussion Paper, the AUASB considers that the current definition is sufficient for the scoping of the project. There is likely to be varied feedback across jurisdictions and even within jurisdictions from different stakeholder groups on what is an appropriate definition. The AUASB considers it important that as this project is still in its information gathering and research phase, the IAASB not spend significant amounts of time and effort debating the appropriate definition of an LCE.

**IAASB Question 2 – 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?**

As part of its [AUASB International Strategy](#), the AUASB reviews and discusses IAASB standards over the course of their development and provides comments to the IAASB through feedback to IAASB members, IAASB Task Forces and formal submissions. Drawing on the most recent submissions the AUASB has provided to the IAASB, the key recurring themes have been:

- Increasing complexity of the standards, leading to diminished understandability (ISA 315, ISQM 1);
- Growing length of the standards (ISA 315, ISA 540, ISQM 1)
- Impact on scalability (ISA 315, ISA 540)
- Moving away from being principles based and increased prescriptiveness (ISA 315 and ISA 540).

In Australia 35% of survey respondents viewed ISA 315 as the standard which was the most difficult to apply, followed by the ISAs in the 500 series (25%), in particular ISA 540. The standards and aspects of the standards that Australian stakeholders raised as most challenging when auditing an LCE included:

- ISA 240 – Journal entry testing and the presumption of a significant revenue risk due to fraud.
- ISA 315 – Understanding and documenting control activities relevant to the audit, especially obtaining audit evidence of the control environment as smaller entities often do not formally document controls.
- ISA 330 – Testing a material balance even if there is no risk of material misstatement.
- ISA 500 – Information produced by a management’s expert.
- ISA 520 – Determining the acceptable difference from expected values which does not require further investigation.
- ISA 540 – Extent of work for more routine estimates which are not a significant risk.
- ISA 620 – Criteria for reliance on a specialist.

Some respondents to the Australian survey (15%) also raised that challenges were largely being driven by increasing complexity in the accounting standards and auditors finding it difficult to appropriately satisfy the auditing standards requirements in conjunction with them.

Overall, over 60% of respondents to the Australian survey considered that all the possible underlying causes listed in Section II of the Discussion Paper were significant contributors to the challenges with the auditing standards. Specifically, Australian stakeholders viewed that the most significant contributors were:

- Requirements which result in procedures being performed solely to comply with auditing standard requirements with no additional assurance or measurable increase in audit quality (90% of respondents);
- There is a lack of clarity and different interpretations as to what, and how, certain matters are documented (84% of respondents);
- There is insufficient application or inadequate application material in the auditing standards addressing scalability and proportionality considerations (84% of respondents);
- Documentation requirements are extensive and onerous (83% of respondents);
- The auditing standards are long and voluminous (81% of respondents); and
- There is a lack of separate implementation support/ guidance in respect of the application of the auditing to the audit of LCEs (83% of respondents).

**IAASB 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?**

*Commercial considerations relating to an audit*

The global pressure on the level of audit quality and the related commercial considerations including audit fees impacts on how the ISAs are viewed by the market but more importantly impact on audit quality at all levels of the market. We encourage the IAASB to undertake activities to enhance the perceived value of their product – the ISAs.

*Technology/methodology*

Technology is viewed in the Australian market as a major barrier to improving audit efficiency and effectiveness with the standards being perceived as the major blockage to its use particularly by small and medium practitioners. We would encourage the IAASB to consider how they could revise the ISAs to better consider technology and address the perceived barriers.

*Enhanced accessibility of the ISAs*

This should be pursued as a priority by the IAASB. Enhancing the accessibility of the ISAs particularly through the use of technology may be a short-term solution to address some of the challenges related to the size and complexity of the standards.

*Value of an audit and public expectations*

Globally there are issues with the audit expectation gap. Audits, particularly in the LCE market, are in some cases considered purely as a compliance exercise with no value added. Whilst individual jurisdictions can work on addressing the gap, the IAASB should have an opinion and should identify actions to improve understanding of the audit process and the auditor's role at a global level.

The AUASB considers that there should be greater focus by the IAASB on the impact the growing complexity of accounting standards has on auditing requirements. The AUASB encourages the IAASB to work with the IASB to clarify the evidentiary requirements and the responsibilities of preparers when it comes to complex accounting standards, which in turn would assist in the implementation of auditing standards and improve audit quality.

**IAASB 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:**

- a) **For each of the possible actions (either individually or in combination):**
- a. **Would the possible action appropriately address the challenges that have been identified?**
  - b. **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.**
- b) **Are there any other possible actions that have not been identified that should be considered as we progress our work on audits of LCEs?**
- c) **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.**

The AUASB encourages the IAASB to explore all possible options outlined in section III of the Discussion Paper. It is important that at this early stage the IAASB avoids landing on a single solution until all options are fully explored.

Overwhelmingly, 97% of respondents to the Australian survey considered that guidance needs to be developed for auditors of LCEs. Respondents to the AUASB survey were split on whether revising the standards or developing a separate standard should be explored, although respondents rated both options as highly important to pursue (greater than 75%).

Whilst the options are not mutually exclusive respondents considered the type of LCE guidance developed should be:

- An enhanced comprehensive guide on applying auditing standards for audits of less complex entities (45%);
- Focused “implementation packs” for new and revised auditing standards specifically for audits of LCEs (26%); or
- Guidance for the application of specific areas within the auditing standards or a specific auditing standard (19%).

Australian stakeholders considered that if the standards were to be revised, that a ‘building-block’ approach should be pursued (41%). This was supported by comments that a ‘building-block’ approach which starts out with the base requirements and builds in complexity for more complex audits may result in greater compliance with the standards throughout all audits. These stakeholders viewed that developing a separate framework would be counterproductive as it increases complexity through creating different frameworks for different entities.

48% of Australian stakeholders considered that if separate LCE standards were developed it should be based on the existing risk-based framework, whilst 42% considered it should be based on a different framework.

Overall, the AUASB considers that guidance should be pursued as a priority in the short-term. Guidance is not mutually exclusive to the other options and should be completed as an interim solution whilst the project is further developed.

Whilst the AUASB encourages the IAASB to explore all possible options, at this early stage the AUASB’s preference is a revision of the ISAs. The AUASB has raised in submissions on recent IAASB Exposure Drafts that the growing complexity of the standards is becoming problematic and may be leading to issues with confidence in the standards by the assurance profession. In particular, the AUASB raised in the ISA 315 submission that a different approach to the development of new and revised auditing standards should be considered by the IAASB to address the impact that the growing complexity has on small and medium assurance practitioners. A revision of the standards may have benefit for all users of IAASB standards, not just auditors of LCEs.

Whilst a separate standard may be appealing for some jurisdictions as it allows the current ISAs to retain their complexity, there will likely be more complex implementation issues in Australia as a result of auditing standards having force-of-law. A separate framework comes with a number of possible challenges such as negative impact on the audit expectation gap and the difficulty in maintaining two frameworks. We have seen the International Accounting Standards Board (IASB) struggle to maintain both IFRS and IFRS for SMEs. In particular, IFRS for SMEs has not been updated since 2015 even though a number of fundamental changes have occurred in IFRS. The challenge of balancing multiple frameworks is also relevant to National Standard-Setters who will be required to implement and maintain the separate standards.

**IAASB 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?**

No further matters to raise.