

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

28 August 2019

IAASB,

Thank you for the opportunity to provide input to IFAC’s discussion paper on *Audits of Less complex Entities: Exploring Possible Options to Address the Challenges in Applying the ISAs*. Please see our responses to your questions listed on page 18 below:

<u>1</u>	<p>The definition of LCEs may need to be more stringent and possibly include quantitative measures too (although this might be difficult as a single currency will probably need to be used). One possible solution could be to define a metric which could be applied to each entity for purposes of determining the extent to which the “public” is exposed to adverse developments in the entity. This is a concept which has been used in South Africa, and is known as the “Public Interest Score” (see https://www.saica.co.za/News/NewsArticlesandPressmediareleases/tabid/695/itemid/3443/language/en-ZA/Default.aspx). The Public Interest Score serves to establish the appropriate financial reporting standards that should be applied, and whether an entity must be audited or independently reviewed, amongst other things. The principal is that an entity with a higher public interest score would need to comply with a more onerous set of regulatory and reporting requirements. At present, with the definition based on purely qualitative factors, there could be a vast divergence in what is considered an LCE in practice.</p>
<u>2</u>	<p>a. For LCEs there is usually a very unsophisticated internal control environment. During the risk assessment process and documenting our understanding of management’s response to identified risks, most of the time there are inadequate controls in place to address these risks due to the simplicity of the entity as well as the limited number of staff. Often this technically results in significant control deficiencies which requires communicating in writing to those charged with governance (ISA 265 para 9).</p> <p>b. The cause of the above is usually due to the client having limited resources and/or not being familiar with new accounting pronouncements. This has been managed by issuing control weakness letters to those charged with governance which, more often than not, upsets the client because it is due to their resource constraints (especially where control weakness letters are required to be submitted to the regulators along with the audited financial statements).</p>

3	<p>One area the IAASB could focus on is with the regulators and potentially having them approve the LCE auditing framework as being appropriate. If an audit is required for regulatory purposes, then having the regulators agree and approve that the entity is an LCE would help reduce the inconsistent application of the definition. However, it is acknowledged that this would be an additional burden on the regulators who quite often already have their own resource constraints.</p>
4	<p>a. i. Yes, for all 3 actions a. ii. The cost of Action B (developing a Separate Auditing Standard for LCEs) will probably exceed the benefit. In our view, Action C (guidance for Auditors of LCEs) seems to be the most sensible approach. b. What would be helpful for users (which could be incorporated into Action C) is a summary of what specific procedures/requirements may not be necessary for LCEs under each standard. c. Finalizing the definition of an LCE is a priority and identifying ways that will help reduce the inconsistent application of this definition in practice.</p>
5	<p>None identified.</p>

Thank you again for the opportunity to provide this feedback to the Board.

Sincerely,



Sheree Ebanks
Chief Executive Officer