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OUR REF: ICAG/TRD/ED/2019/Q3

YOUR REF:

The Technical Director

International Auditing and Assurance Standards Board (IAASB)

New York

11<sup>th</sup> September, 2019

Dear Sir,

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

We are grateful to the IAASB for the opportunity given us to comment on the Discussion Paper (DP); “Audits of Less Complex Entities: Exploring Possible Options to Address the Challenges in Applying the ISAs”. We welcome the initiative of the IAASB in trying to identify challenges of auditing Less Complex Entities, and come out with some possible solutions to the challenges auditors face in applying the ISAs.

Below are our responses to the questions raised in the Discussion Paper.

- 1. 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?**

**Comment**

The description and qualitative characteristics in the Discussion Paper (DP) on a smaller entity, or a Less Complex Entity (LCE) fit very well, and are appropriate, bearing in mind the intention of scalability of the audits of such entities. The description provided was not based on the size of an entity but rather factors such as complexity of the entity’s transactions and its record keeping, lines of business, levels of management and internal control considerations.

We agree that there are small sized entities that are complex and these small sized entities should be excluded from consideration. A smaller entity that has complex transactions with many product lines or business lines may be considered as a complex rather than a less complex entity. Other entities that are larger may have less complexities involved in their operations. Such entities can be considered as LCEs.

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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.**

**Comment**

**These factors need to be considered:**

Internal controls – In understanding the system of internal control of entities, requirements of ISA 315 (Revised) involves complexities that may not be applicable to LCEs. This makes application of the ISAs difficult, particularly on the extent and nature of audit evidence required to conclude on the design, implementation and effectiveness of such controls.

The auditor's considerations in relation to fraud—complying with the requirements of ISA 240 when auditing involves a lot of effort. The standard does not provide a clear guidance on the level of work to be performed for audit of LCEs. Since LCEs have less complex transactions, structure or reporting lines, a lot of time and effort may be spent by auditors when auditing LCEs in other to comply with the requirement of the standard than what would be appropriate in the circumstances.

In general, the vast majority of ISAs are extremely lengthy. The way they are structured is to provide the reader with virtually every single alternative so as to address as many scenarios as possible in a world-wide audience. The problem is that given the fast pace of business and even we accountants fall prey to information overload and as such, if we are not able to capture the significant salient points of a standard in a timely fashion, what ends up happening is we tend to gloss over the standards and sometimes do not even get to the basic important aspects of the standards.

In generally, the complete reading of the standard is the most difficult. Our suggestion to address this would be to suggest that auditors read the summary, purpose and objective of any particular standard then decide to read further to get more detail if by this stage in their judgment the standard is deemed directly and materially necessary for their various engagements.

Whilst ISA 240 (Fraud) appears to be the most significant standard, and as such there is so much documentation and procedures required, we have to wonder what are the basic requirements for an LCE in order to proceed. It's a matter of determining how much effort to employ.

ISA 250 is another problematic standard. When/how does an auditor decide that this is significant for the audit? ISA 260 also requires further clarification. Which engagements is this standard absolutely required? The requirements of this standard are not applicable in about 95% of engagements. ISA 265 should have been combined with ISA 260.

ISA 300 is the most vital ISA. The guidance makes reference to simplification in the preparation of a memo, however, it would be beneficial if an example of such a memo was provided for LCE. The main thing is to provide more guidance to simplify key ISAs.

- b. The underlying cause is the absence of a clear and easy mechanism to interpret the main and basic relevance of the standard to the audit process and if it is directly relevant to your audit of an LCE. Most auditors are educated and skilled enough to apply the standards once they ascertain/determine that this is relevant to the audit.
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?**

#### **Comment**

Commercial Considerations Relating to an Audit – Focus should be placed on this as issues relating to audit fees and cost - benefit of performing an audit can lead to auditors finding other ways of performing the audit procedures. Such approaches may not be in line with the requirement of ISAs and the ethical code of conducts.

Education and people – This is critical for ensuring proper execution of audit engagement with appropriate level of professional competence and application of the provisions of ISAs and IFRSs.

The focus should be on empowering National Standard Setters (NSSs), in the case of Ghana, the Institute of Chartered Accountants (ICAG) to be in a stronger position to influence legal and other requirements for an audit, introduce technology tools and or methodologies to help apply ISAs in the general audits, and most importantly, the audit of smaller entities, to assist in training auditors, and also enhance the public perception of the value of audits and their expectations.

We strongly back this focus because, NSSs already have jurisdictional power, as well as a better understanding of peculiar happenings in the region. Challenges would be more easily identified and resolved appropriately. Further to that, the general public and even the practising accountants would easily buy in, once the actions are locally initiated.

Enhanced accessibility of the ISAs is an easy fix that will have immediate effects. In order to promote and improve higher standard audits, the IAASB needs to take a commanding role in this arena.

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):

- 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.

**Comment**

i) **The following factors should be considered:**

**Revising the ISAs** – Revising the ISAs will not appropriately address the challenges that have been identified as this could lead to a more detailed and voluminous standard that becomes difficult to read or navigate. Moreover, there could be difficulties in interpreting standard's requirements for LCEs if clear distinctions are not appropriately set in the revised ISAs. Auditors may then end up performing procedures irrelevant to LCEs or even perform procedures that do not meet the minimum requirements for LCEs.

**Developing a separate auditing standard for audit of LCEs** – This would be a better approach to addressing the challenges. A separate standard for LCEs will provide a clearer, less voluminous, and easy to navigate auditing standards. The approach will better mitigate challenges such as ISAs noted as problematic (e.g ISA 240, ISA 315, ISA 540), lack of clarity, level of documentation, language and basic approach and the length of the standards. For instance, the development of IFRS for SMEs from the main IFRSs to a large extent has helped provide a clearer view and application requirements of the IFRS standards for small entities. A similar approach for the ISAs may be appropriate.

**Developing Guidance for Auditors of LCEs or Other related actions** – This would not be an appropriate approach to addressing the challenges as a standalone strategy but should be considered in combination with the two approaches mentioned above. Preferably, guidance should be provided on peculiar situations in order to provide further clarity on the application of standards.

ii. We do not believe revising the ISAs is fruitful as we will now have two sets of standards that could confuse the auditor, and as voluminous as they will be, will open the door for contradictory messages.

The development of a separate auditing standard for LCEs in our opinion would be a good idea but it should be large enough to anticipate all scenarios and not to create any deficiencies.

We believe the development of guidance would work best if combined with development of separate standards for LCEs. There should of course be a significant education available to all the supreme auditing institutions to enable this filter down, and we believe this is important to improve the quality of audits of LCEs.

- 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?

**Comment**

We have not identified any possible actions that are not considered.

- 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.

**Comment**

In our view, **developing a separate auditing standard for audit of LCEs** should be pursued by the IAASB and a guidance for auditors of LCEs should be provided for peculiar situations as and when such issues are noticed. This approach will best address the current challenges in applying the ISAs on audit of LCEs.

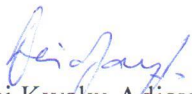
5. Are there any other matters that should be considered by us as we deliberate on the way forward in relation to audits of LCEs?

**Comment**

Provision of illustrative examples under different and complex scenarios will be ideal for proper understanding of the standards. This will help the practitioners to execute their work well and form the right opinion on the audit assignment executed.

We hope the IAASB finds these comments helpful in further developing its consultations on Audits of Less Complex Entities. In turn, we are committed to helping the IAASB in whatever way possible to build upon the results of this Discussion Paper. We look forward to strengthening the dialogue between us. Please do not hesitate to contact us should you wish to discuss any matters raised in this submission.

Yours Sincerely,



Osei Kwaku Adjaye-Gyamfi  
**DIRECTOR, TECHNICAL AND RESEARCH**