

REF#751227

12 September 2019

Submitted electronically at www.iaasb.org and to WillieBotha@iaasb.org

Mr. Willie Botha
Technical Director
International Auditing and Assurance Standards Board (IAASB)
529 Fifth Avenue

New York
10017 USA

Dear Willie,

SAICA COMMENT LETTER ON THE IAASB DISCUSSION PAPER ON AUDIT OF LESS COMPLEX ENTITIES: EXPLORING POSSIBLE OPTIONS TO ADDRESS THE CHALLENGES IN APPLYING THE ISAs

The South African Institute of Chartered Accountants (SAICA) is the home of chartered accountants in South Africa. We currently have over 44 000 members globally from various constituencies, including members in public practice, business, the public sector, education, and others. In meeting our objectives, our long-term professional interests are always in line with the public interest and responsible leadership. SAICA is currently the only professional accountancy organisation that has been accredited by the audit regulator in South Africa, the Independent Regulatory Board for Auditors (IRBA).

We thank you for the opportunity to comment on the Discussion Paper on **Audit of Less Complex Entities: Exploring Possible Options to Address the Challenges in Applying the ISAs (Discussion Paper)**.

Please do not hesitate to contact us, should you wish to discuss any of our comments. The contact person is Jeanne Viljoen (jeannev@saica.co.za).

Yours sincerely,

Signed electronically

**Jeanne Viljoen
Project Director: Practice**

INTRODUCTION

1. The International Auditing and Assurance Standards Board (IAASB) has recognised the challenges faced by practitioners in applying the International Standards on Auditing (ISAs), in particular for engagements where entities being audited are less complex.
2. SAICA agrees that in many countries small- and medium-sized entities (SMEs) are crucial contributors to the economy. In South Africa, SMEs¹ represent the majority of businesses, and they are a critical part of the national economy, with government looking at SMEs to be a major source of employment and drivers of growth in the economy².
3. SAICA recognises that in order to achieve the consistent application of audit practice throughout the world, enhance quality, and strengthen public confidence in the global auditing and assurance profession, the IAASB develops and maintains one set of auditing standards. With the challenge faced by practitioners in applying the ISAs, we commend the IAASB on this initiative to consider the situation holistically and to determine the best way forward.

SAICA'S APPROACH TO RESPONSE

4. SAICA's approach to informing our members about the Discussion Paper and its contents, and to gather information to inform our comment letter can be summarised as follows:
 - a. A SAICA internal working group studied and debated the Discussion Paper, and prepared initial thoughts and input pertaining to the questions that have been posed.
 - b. The internal working group proceeded to prepare a supplementary survey (SAICA survey), which is included in Appendix 1 to this comment letter, to the International Federation of Accountants (IFAC) [Audits of Less Complex Entities Survey](#) (IFAC survey). This survey was used to obtain the views of the wider membership in relation to questions posed in the Discussion paper not included in the IFAC survey.
 - c. We further issued communication requesting SAICA members to provide their input relating to the Discussion Paper by completing first the IFAC survey, and from mid-August the SAICA-developed survey. This was sent through internal communication to the members, specific member groups and SAICA committees.
 - d. Results of both the IFAC and SAICA surveys were used to provide a response to this comment letter.
 - e. Various discussions were held with members throughout the country during an outreach to obtain both input and create awareness of the Discussion paper. During the outreach an overview was provided of the Discussion paper and the three possible options were discussed in detail.
 - f. An internal task group was also established that consisted of members from the SAICA Assurance Guidance Committee (AGC). In addition to providing certain inputs to this comment letter, this task group focused specifically on:
 - i. the questions relating to particular aspects of the ISAs that are difficult to apply,
 - ii. the underlying causes of the challenges in Section II of the Discussion Paper; and
 - iii. if there are any other broad challenges that have not been identified but that should be considered by the IAASB and others.

¹ SME South Africa, An assessment of South Africa's SME Landscape: Challenges, Opportunities, Risks and Next Steps <https://www.smesouthafrica.co.za/sme-landscape-report-2018/>

² News24 article: ANC's Jeff Radebe insists it will reach its 2030 NDP targets <https://www.news24.com/SouthAfrica/News/ancs-jeff-radebe-insists-it-will-reach-its-2030-ndp-targets-20170702>

Results of the surveys

5. To avoid duplication, SAICA survey respondents were asked whether they had completed the IFAC survey, and if so, they only were directed to complete the SAICA specific questions, as represented by questions 15 to 27 of the SAICA survey.
6. The SAICA survey was completed by 66 respondents, of which 15 indicated that they have completed the IFAC survey, and six (6) were unsure. The 66 respondents represent 117 members, as the SAICA survey was completed by four (4) groups. A total of 90 South African respondents³ completed the IFAC survey. The majority of respondents for both the IFAC and SAICA surveys were members in public practice. The majority of these respondents also consider their audit clients to be less complex entities (LCEs) with a percentage allocation of clients being LCE above 91%.
7. Throughout this comment letter we present the results from the surveys by referring to either “**SAICA survey respondents**” or “**IFAC survey respondents**”. If reference is made to the consolidated response, reference will be made to “**survey respondents**”.
8. The survey results have not been analysed statistically and cannot be extrapolated. The results are presented as perceptions and views that have been expressed, and although not necessarily representative of a general or common view, they provide some insights into the issues and possible actions in the Discussion Paper.

³ As at 21 August 2019

SAICA's COMMENTS

Our comments are presented in the sequence of the questions as they have been included in the Discussion Paper. We have responded to all five questions.

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?

9. Entities that are considered to be an LCE are included within the scope of the Discussion Paper and any consequential amendments that may follow. The identification of an LCE is therefore a critical part of this project. To ensure that the efforts of the IAASB are appropriately directed in addressing the types of entities, any description, definition and / or other considerations must be simple and easy to use and apply, thereby achieving consistent application across all affected parties, as well as different jurisdictions. Clarity will be needed by all parties (i.e. regulators, firms and audit clients) about when the definition is applied, and when not.
10. ISA 200⁴ paragraph A66 sets out qualitative characteristics that a “smaller entity” typically possesses. In line with the view that it is appropriate to focus on the complexity of the entity, rather than the size, SAICA believes that this will best be achieved by outlining qualitative, rather than quantitative considerations in defining and / or describing an LCE. We therefore agree with the approach of the IAASB in describing an LCE, to focus on the qualitative aspects rather than the quantitative aspects of an entity, as there will be different interpretations based on the jurisdiction if quantitative aspects were to be considered.
11. 91% of **SAICA survey respondents** indicated that they believe the LCE description to be appropriate. At various discussions during our outreach with members the same view was expressed; the current definition describing the qualitative characteristics of a “smaller entity” is appropriate for that of an LCE.
12. The SAICA task group, however felt that “*straightforward or uncomplicated transactions*” should carry more weight.
13. It was suggested that the definition for an LCE should read as follows:
“*An entity which typically possesses qualitative characteristics such as:*
a) *Concentration of ownership and management in a small number of individuals (often a single individual – either a natural person or another enterprise that owns the entity provided the owner exhibits the relevant qualitative characteristics); and*
b) *With straightforward or uncomplicated transactions; and*
c) *One or more of the following:*
 - i. *Simple record-keeping;*
 - ii. *Few lines of business and few products within business lines;*
 - iii. *Few internal controls;*
 - iv. *Few levels of management with responsibility for a broad range of controls;*
 - v. *Few personnel, many having a wide range of duties; or*
 - vi. *Few related-party transactions.**These qualitative characteristics are not exhaustive; they are not exclusive to smaller entities, and smaller entities do not necessarily display all of these characteristics.”*
14. As the above definition will determine when an LCE audit should be applied, specific guidance is suggested to explain what is meant with various aspects of the definition, for example

⁴ ISA 200: Overall objectives of the independent auditor and the conduct of an audit in accordance with International Standards on Auditing

“straightforward and uncomplicated transactions”, as this could be interpreted differently by auditors, dependent on the type of industry they operate in.

15. It is further suggested that when reference is made to “few”, guidance in terms of relative measure be provided in explaining “few” in relation to what would suggest that an entity is an LCE.
16. Further potential disqualifying entity characteristics should also be included. This could include listed entities, public interest entities (this will be very much jurisdiction-dependent) and group audits.
17. When **SAICA survey respondents** were asked which characteristics they deem not to be an appropriate description of an LCE, 44% respondents indicated *“few personnel, many having a wide range of duties”*. The reason provided was that the number of personnel is quantitative measure that relates the size of the entity and not complexity. Businesses could still be complicated even though they have few personnel; while certain sectors/industries may require a higher number of personnel, even though the entity might not be complex.
18. Other characteristics indicated by **SAICA survey respondents** to be considered included:
 - a. Legislation;
 - b. Limited stakeholders;
 - c. The type of industry; and
 - d. Accounting framework applied.
19. Considering that business has become more complex, and this directly impacts the way an audit is performed, reference was also made to the fact that where an entity opts to use an accounting framework that is less complex, for example the International Financial Reporting Standards for Small and Medium entities (IFRS for SMEs), the entity could be deemed to be less complex.

Question 2

Section II describes challenges related to the 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 reference 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 to address 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?

20. Over the past few years the tendency seems to have been that the standards are moving away from being truly principle-based, to being longer and more rules-based. This adds to the complexity and amount of detail contained in the standards that would inherently not be suitable in the application of SME audits.
21. It is suggested to consider the length and the complexity of the standards, in particular core standards, for example the recently-revised/proposed revisions to standards such as ISA 540 (Revised)⁵, ISA 315 (Revised)⁶ and ISQM 1⁷.

⁵ ISA 540 (Revised), Auditing Accounting Estimates and Related Disclosures

⁶ Proposed ISA 315 (Revised), Identifying and Assessing the Risks of Material Misstatement

⁷ Proposed International Standard on Quality Management (ISQM 1) (previously International Standard Quality Control (ISQC 1) – Quality Management for firms that perform audits or review or financial statements, or other assurance or related service engagements

22. It appears that the ISAs have been developed primarily with the larger/listed/public interest entities in mind. The approach followed in drafting the ISAs is predominantly a “top down” approach, covering all possible scenarios. This has resulted in the auditor documenting why certain requirements contained in the ISAs are not applicable, making complying with the ISAs onerous and unnecessarily time consuming.
23. A more appropriate approach is for a “bottom up” or “building-block” approach to be applied. Here the ISAs will include the minimum requirements that auditors must apply in the performance of an audit and only when certain other circumstances are present, will the other more onerous and complex requirements apply.
24. The scalability of requirements contained in the standards is not always clear in terms of assisting practitioners on what is applicable in an LCE audit and what not. It is suggested to include signposting and specific examples throughout all the standards. We do commend the IAASB where this is already contained in standards, but do believe that there should be more.
25. **IFAC survey respondents** rated the top four most significant issues that make ISAs a challenge to apply as:
- a. *“Requirements result in certain procedures being performed solely to comply with the ISA requirements, with no additional assurance or measurable increase in audit quality;”*
 - b. *“Documentation requirements are extensive and onerous;”*
 - c. *“The ISAs are long and voluminous;”* and
 - d. *“There is a lack of separate implementation support/guidance in respect of the application of the ISAs to the audit of LCEs.”*
26. **SAICA survey respondents** had a somewhat different view, and rated the top four most significant issues as:
- a. *“The language is complex and difficult to understand;”*
 - b. *“The ISAs are long and voluminous;”*
 - c. *“Documentation requirements are extensive and onerous;”* and
 - d. *“There is a lack of separate implementation support/guidance in respect of the application of the ISAs to the audit of LCEs.”*
27. Three of the four significant issues identified by both survey respondents are similar. The only discrepancy lies in what the two groups’ rate as the most significant issue.
28. Question 2(a) of the Discussion paper request particular aspects of the ISAs that are difficult to apply. The SAICA task group and **SAICA survey respondents** indicated the following:
- a. General
 - i. The identification and assessment of risk is sometimes a challenge. There is uncertainty whether the assessment of risks of material misstatement at the assertion level means that the assessment has to be performed for each assertion for all material classes of transactions, account balances and disclosures. The root cause of this is that the standard is not clear on what is the actual requirement here. Based on reading the application material provided in paragraph A129 of ISA 315 (Revised), it can be assumed that when identifying and assessing risk of material misstatement at assertion level each individual assertion must be considered. The preference is for the requirements of the standard to be sufficiently clear in this regard, with the application material only used to expand on the individual assertions.
 - b. ISA 240⁸
 - i. There is a significant risk of management override of controls in smaller entities. This is only addressed briefly in the application material of the standard, where examples of techniques that can be used to commit fraud are provided. Further guidance is required specific to smaller/less complex entities.

⁸ ISA 240, The Auditor’s responsibilities relating to fraud in an audit of financial statements

- c. ED-ISA 315 (Revised)
 - i. During our outreach the complexity of the proposed standard was raised with specific reference to the difficulty to read and navigate through the standard. Due to the length of the standard a concern was also expressed in determining what is applicable and what not.
 - ii. Although the standard provides for reduced documentation, a concern was raised that it is not clear what is meant by reduced documentation and how much should be included. This is very open for interpretation and guidance is needed to ensure consistent application.
 - iii. Inconsistency was also noted in documenting and understanding the relevant controls, as well as in judging what is relevant and what is not.
- d. ISA 500⁹ and ISA 530¹⁰
 - i. Audit sampling techniques and procedures are similar for both LCEs and larger entity audits. A question was raised if this is appropriate and if different techniques should be considered for LCEs.
- e. ISA 540 (Revised)
 - i. Limited guidance is provided in the standard when considering management bias for a smaller/less complex entity.

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?

29. When this question was raised to **SAICA survey respondents** the majority (79%) of respondents indicated that the local regulator should play a key role. This is consistent with the message that was received from our outreach activities in relation to the possible interpretation gap between the regulator/inspector, the auditors and the standards. Possible reasons provided were:
- a. The same set of principles applies to all audits, without distinction between small and large, complex and less complex entities; and
 - b. Regulation is necessary; however, overregulation discourages participation.
- All of the above directly relates to the audit fee and the value of an audit.
30. The other two prominent role players identified by **SAICA survey respondents** were:
- a. The local Public Accounting Organisation (PAO) - SAICA, and
 - b. Local government.

Reference was made to local legislation (for example the Companies Act) regulating audits of small entities and the need for government to understand the role an audit plays for these smaller entities (the value of an audit). This was also linked to the high cost of an audit, due to the amount of work required for a smaller/less complex entity being equal to that for their larger/complex counterparts.

31. From the above it is clear that local jurisdictions play a key role in the audit of LCEs to increase the value of an audit among smaller entities, by encouraging audits. However, due to the high compliance cost associated with audits of LCEs, the application of the standards of LCEs lies within the control of the IAASB and local regulators. This will increase the perceived cost benefit of an audit as not being merely a grudge payment to ensure compliance.

Question 4

To be able to develop an appropriate way forward, it is important that we understand 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:

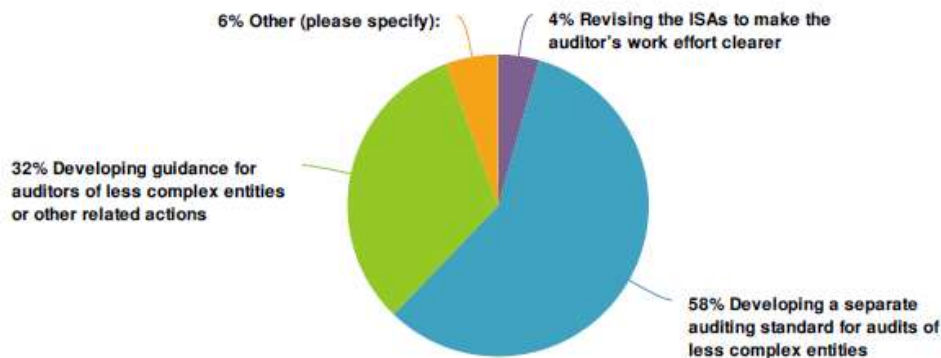
- a) For each of the possible actions (either individually or in combination):*

⁹ ISA 500, Audit evidence

¹⁰ ISA 530, Audit sampling

- 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.
- b) Are there any other possible actions that have not been identified, but 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 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.

32. Responses from the **IFAC survey respondents** can be summarised by the graph below:



The majority of **IFAC survey respondents**, similar to the **SAICA survey respondents**, indicated that developing a separate auditing standard for audit of less complex entities should be the action pursued as a priority by the IAASB.

33. A similar view was expressed by members during our outreach. However, the main reason for selecting a separate standard was due to the perception that “revising the ISAs” will take too long, and developing a separate standard would be much quicker to implement.

Revising the ISAs

34. From SAICA’s point of view, revising the ISAs would be the “ideal” solution, maintaining the concept of an “audit is an audit” and not creating further confusion in the market.
35. It is suggested that a bottom-up/“building block” approach is used, to start with a simple yet effective way of complying with the ISAs. ISA 315 (Revised) was mentioned numerous times by members, with concern expressed about the complexity of the proposed revised standard. We urge the IAASB to take this in consideration when finalising the standard.
36. For the other standards, a rolling approach is suggested, starting with the core standards. It was also noted that some standards will not need to be revised, due to the type of entity lending it to be an LCE as per the definition.
37. Shorter, clearer sentences are encouraged to ensure consistent application and not leaving meanings open for interpretation.

38. Although revising the ISAs will not bring immediate relief, we do encourage the IAASB to consider the most relevant standards first, referred to in paragraph 21 of this document, if this approach is selected. This would have the biggest impact.
39. From the limited number of respondents to both the IFAC and SAICA surveys that selected to revise the ISAs, the majority were in favour of the approach of setting out the basic requirements for all audits, then expanding as needed to address more complex circumstances (building-block approach).

Developing a Separate Auditing Standard for Audits of LCE

40. As stated in paragraph 8 of this document, the definition of an LCE is key, even more so when considering the application of a separate standard to ensure consistent application thereof across jurisdictions and audits.
41. One of the risks of a separate LCE standard is the perception of audit quality under a separate LCE standard compared to the audit of financial statements under the “full ISAs” and the potential impact of a two-tier audit marketplace.
42. Although “*Public Expectations*” are scoped out of the exploratory activities related to the audits of LCEs, a separate auditing standard could increase the expectation gap between what the auditors are required to do and what stakeholders expect auditors to do, due to multiple definitions of what is considered as reasonable assurance.
43. Many smaller practitioners do opt for a separate standard due to the perception that a separate standard can be developed in a timelier manner than revising all the ISAs. The question, however, still remains if this is the best solution. The mere fact that this can be done “quicker” might not mean that it is the best solution.
44. It should be highlighted that to maintain a separate standard as the ISAs change will take additional time and resources from the IAASB to update the standard when the ISAs are revised. It should be determined if these amendments, although fewer, will be done as a separate project or part of the ISA that is being revised. In this regard, reference can be made to the International Financial Reporting Standards (IFRS) for SMEs and full IFRS.
45. Respondents to both the IFAC and SAICA surveys who selected a separate standards option were roughly 60:40 divided in support of basing the separate standard on the existing ISAs. This is interesting, as no clear indication was provided in the Discussion Paper about what the IAASB foresee another framework, if pursued, would be.

Developing Guidance for Auditors of LCEs or Other Related Actions

46. The **survey respondents** had mixed views on this option relating to guidance. The three top options with roughly equal support were:
 - a. An enhanced comprehensive guide on applying ISAs for audits of less complex entities;
 - b. An International Auditing Practice Note (IAPN) for Audits of Less Complex Entities; and
 - c. Focused “implementation packs” for new or revised ISAs specifically for audits of LCEs.
47. During discussions held with members, it was noted that much guidance was already available, and the question was if further guidance was really needed. The timing of when such guidance would become available was raised as a concern and possible remedy. It was suggested that when standards are revised, guidance is issued at the same time as the final approved ISA. This allows for easier implementation and understanding of the standard. The types of guidance referred to during discussions as being useful include first-time application material and staff discussion papers to assist with the application and understanding of the revised standards.
48. It is clear, following our engagement and based on the points raised above, that guidance on its own is not a suitable solution, but should rather be seen in combination with one of the other

solutions. A lot of guidance is non-authoritative, and due its nature does not raise some of the challenges identified. It should be clearly stated whether the material is authoritative or non-authoritative. It would still be open for interpretation by each jurisdiction – which could result in inconsistent application.

49. The amount of material available is probably also worth noting, especially where firms have limited resources. Additional guidance alone would only add to the burden and not provide a stand-alone solution, especially for small and medium practices (SMPs).
50. A final point that was also raised is that: if guidance is considered as a solution on its own, the standards will remain complex and not scalable – thus not providing the intended relief.

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?

51. Although “*commercial considerations relating to an audit*” is a factor that is not within the control of the IAASB (as described in the Discussion Paper), audit fee pressure and competition are key factors that should not be excluded when we deliberate on the way forward.
52. Certain procedures undertaken in an audit can be seen to not add value or enhance audit quality, but rather as exercises to satisfy regulators of compliance with the standards. There can be a perceived interpretation gap between regulators/inspectors, auditors and the intention of the standard. To this point, an example was given by the SAICA task group members:
 - a. ISA 230¹¹ paragraph 3 states that audit documentation serves the purpose to enable the conduct of external inspections in accordance with applicable legal, regulatory and other requirements.
 - b. ISA 230 paragraph 8 states that the auditor shall prepare audit documentation that is sufficient to enable an experienced auditor, having no previous connection with the audit to understand:
 - i. The nature, timing and extent of the audit procedures performed to comply with the ISAs and applicable legal and regulatory requirements;
 - ii. The results of the audit procedures performed, and the audit evidence obtained; and
 - iii. Significant matters arising during the audit, the conclusions reached thereon, and significant professional judgements made in reaching those conclusions.
 - c. Interpretation/judgement differences arise where inspectors and regulators report that the standard is not followed (if a requirement is merely not documented), if it is not applicable in an LCE audit.
53. This results in undue focus by auditors on compliance and documentation, and not providing a quality audit. This also results in unnecessary costs, where documentation is created to satisfy the inspector/regulator. In applying a “building block approach”, documentation is probably the most significant area for application.
54. A suggestion was made by the SAICA task group that the IAASB should obtain input from regulators, specifically around what inspectors require to be documented, due to the perceived interpretation gap that may exist.
55. The **survey respondents** were requested to rate a list of matters in order of significance of how these impact the audit environment for less complex entities. For both surveys “*audit fee pressure*” came out as the most significant matter impacting the environment.
56. **IFAC survey respondents** indicated that the second challenge was the “*expectation gap between what is required of an auditor and what is expected by some stakeholders*” and the third was that “*users do not value audit as a service*”. Interestingly, this was not the same response as that of the

¹¹ ISA 230, Audit Documentation

SAICA survey respondents. They indicated that “national legislation requires audit for small (less complex) entities” and “audit technology/software tools not available, too expensive, inadequate or not easily scalable” to be the second and third challenges.

57. During the SAICA task group meeting some time was spent discussing undue pressure from clients impacting the broader profession (both auditors and accountants). As “fees” is included in the International Ethics Standards Board for Accountants (IESBA) project, this should also not be excluded when considering the way forward.
58. Another point raised by members of the task group was that of an experienced auditor as defined in the “*Glossary of Terms*” and referred to in ISA 230 paragraph 8.
59. The length and complexity of the standards, together with the fast pace of change, present challenges to comply with the requirement of an experienced auditor to have a reasonable understanding of the various elements of an audit. Where limited resources exist within a firm, the levels of knowledge, training, education and (lack of) understanding all contribute to the challenges of applying the ISAs to LCE audits.
60. A final question raised by the SAICA task group was whether a scenario would exist where only certain ISAs require LCE application: that, on transaction level, audit standards are applied rather than the type of entity. For example, hedging could possibly be seen as a characteristic of a complex entity. Even if an entity performed only one such transaction in a year, this could mean that the entity is considered to be a complex entity. However, this might not be a true reflection of the situation. If this is possible, what would be the impact if a separate standard is developed for LCE audits? Then revising the ISAs would probably be the better solution.

Appendix 1 Survey Audits of Less Complex Entities

Exploring Possible Options to Address the Challenges in Applying the ISAs (DP- LCE)

Introduction

The International Auditing and Assurance Standards Board (IAASB) issued the [DP-LCE](#) in April 2019. The DP-LCE notes the ongoing challenges relating to complexity and difficulty in applying the ISAs in auditing LCEs and indicates that they hear the calls for action. The purpose of the DP-LCE is to obtain input on the challenges and to help them determine future actions in relation to audits of LCEs.

This survey includes extracts from the DP-LCE to provide sufficient background for those participants who have not managed to work through the DP-LCE to provide meaningful and informed answers to the survey questions. It is not mandatory for participants to read through all background information if not considered necessary.

Your response will contribute global insights to the IAASB's DP- LCE. All responses will be kept confidential and only aggregated data will be reported on. Please complete this survey by **Wednesday, 21 August 2019.**

This "Audits of Less Complex Entities - SAICA Questionnaire" includes extracts from the "Discussion Paper, Audits of Less Complex Entities" of the International Auditing and Assurance Standards Board, published by the International Federation of Accountants (IFAC) in April 2019 and is used with the permission of IFAC. Contact permissions@ifac.org for permission to reproduce, store or transmit, or to make other similar uses of this document.

Below is an extract of the **Audit of Less Complex Entities** survey sent to members for completion by IFAC. Members who have completed this survey are requested to indicate so in question 1 and complete additional questions relating to the **Audit of Less Complex Entities** survey. Members who have not completed the **Audit of Less Complex Entities** survey, can complete it as part of this survey with additional questions relating to this topic.

Audits of Less Complex Entities Survey

This survey contains 6 short primary questions, as well as 3 demographic questions and should take less than 5 minutes to complete. The questions with an asterisk (*) are required.

Your response will contribute global insights to the [International Auditing and Assurance Standards Board \(IAASB\) Discussion Paper – Audits of Less Complex Entities: Exploring Possible Options to Address the Challenges in Applying the ISAs \(the DP\)](#). This survey is aimed at stakeholders who are not intending to respond to the DP.

Please note that all individual responses are confidential and will not be attributed to you.

Pour accéder à cette enquête en français, cliquez sur l'icône du globe située dans le coin supérieur droit de la page.

Para acceder a esta encuesta en español, haga clic en el icono del mundo en la esquina superior derecha de la página.

1. What are the most significant matters impacting the audit environment for less complex entities? (You may select up to 3 with 1 being the most significant)

*

We require some demographic information, for reporting purposes.

Please note that all responses are confidential and will not be attributed to an individual.

Name:

Surname:

Email address:

1 Have you completed the [Audit of Less Complex Entity Survey](#) from IFAC?

Yes

No

Unsure

2 Are you completing this questionnaire on behalf of a group?

No

Yes (Please indicate the size of the group)

3 Constituency:

- Academia IFAC Member Organization Investor or Analyst
 National Standard Setter Preparer of Financial Statements
 Public Practice Public Sector

Regulator or Audit Oversight Body

Those Charged with Governance

Other (Please Specify)

4 Capacity (Is this role?)

5 If you have selected Public Practice in Q3, please indicate the size of your practice?

- Global Network (or firm within such a network) National or regional firm (2 or more partners & staff) Sole practitioner

NA

Audit of Less Complex Entities survey by IFAC

Your response will contribute global insights to the International Auditing and Assurance Standards Board (IAASB) [Discussion Paper – Audits of Less Complex Entities: Exploring Possible Options to Address the Challenges in Applying the ISAs](#) (the DP). This survey is aimed at stakeholders who are not intending to respond to the DP.

6 What are the most significant matters impacting the audit environment for less complex entities? (please rank the below options from 1 - 9 with 1 being the most significant)

- National legislation requires audits for small (less complex) entities
- Audit fee pressure
- Audit technology/ software tools not available, too expensive, inadequate or not easily scalable
- Inadequate amount of education and training in the application of the ISAs
- Difficulties recruiting next generation talent
- Low awareness or perceived value of other financial reporting services (e.g. review, compilation and Agreed-Upon Procedures (AUP) engagements)
- Users do not value audit as a service
- An expectation gap between what is required of an auditor and what is expected by some stakeholders
- Financial reporting standards continue to evolve and require more interpretation and judgment

7 What are the most significant issues that makes the ISAs a challenge to apply to audits of less complex entities (LCEs)? (please rank the below options from 1 - 9 with 1 being the most significant)

- The language is complex and difficult to understand
- The ISAs are long and voluminous
- Documentation requirements are extensive and onerous
- There is a lack of clarity and different interpretations as to what, and how, certain matters are documented
- Requirements result in certain procedures being performed solely to comply with ISA requirements with no additional assurance or measurable increase in audit quality
- The standards are not clear about the nature and extent of work required

SAICA SUBMISSION ON THE
*Discussion Paper Audit of Less Complex Entities:
Exploring Possible Options to Address the Challenges in Applying the ISAs*

- There is insufficient or inadequate application material in the ISAs addressing scalability and proportionality considerations
- There is a lack of separate implementation support/ guidance in respect of the application of the ISAs to the audit of LCEs
- It is difficult to identify the relevant requirements for an LCE audit

- 8 What areas of the ISAs are most difficult to apply in audits of less complex entities? (Please describe the specific ISAs and the particular requirements)

- 9 The IAASB are exploring a range of potential possible actions to address the challenges. Which action should be pursued as a priority?
(you can only select one, further details are included in [Section III](#) of the DP)

Revising the ISAs to make the auditor's work effort clearer

Developing a separate auditing standard for audits of less complex entities

Developing guidance for auditors of less complex entities or other related actions

Other (Please Specify)

10 Which approach should be explored?

- Greater focus on more clearly setting out what the auditor needs to do
- Setting out the basic requirements for all audits then expanding as needed to address more complex circumstances (building-blocks approach)
- Featuring more scalability and proportionality considerations in the application material
- Including considerations specific to audits of less complex entities in a separate section within each ISA

11 Which approach should be

A separate standard based on the existing ISAs

Developing a standard based on a different framework (e.g. not risk-based)

Other (Please Specify)

12 Which approach should be explored?

An enhanced comprehensive guide on applying ISAs for audits of less complex entities

An International Auditing Practice Note (IAPN) for Audits of Less Complex Entities

Guidance for the application of specific areas within the ISAs or specific ISAs

Focused “implementation packs” for new and revised ISAs specifically for audits of LCEs

Other (Please Specify)

- 13 If you are a practitioner, what percentage of your audit clients would be considered as less complex entities (LCE)?

(The IAASB have used the current definition of a “smaller entity”, which sets out many of the qualitative characteristics that could be attributable to an LCE. Please see [page 4](#) of the DP ‘What is a Less Complex Entity?’)

Less than 50%

51 – 60%

61 – 70%

71 – 80%

81 – 90%

Over 91%

Not applicable

- 14 Are there any other matters that should be considered by the IAASB as it deliberates on the way forward in relation to audits of less complex entities?

Additional questions 1

Please complete the following additional questions regarding the Audits of Less Complex Entities.

A fundamental part of this IAASB project is what is meant by a LCE. As a starting point, they have looked at the current definition of a smaller entity, which sets out many of the qualitative characteristics that could be attributed to a LCE; as follows:

An entity which typically possesses qualitative characteristics such as:

- Concentration of ownership and management in a small number of individuals (often a single individual – either a natural person or another enterprise that owns the entity provided the owner exhibits the relevant qualitative characteristics); and
- One or more of the following:
 - Straightforward or uncomplicated transactions
 - Simple record-keeping
 - Few lines of management with responsibility for a broad range of controls;
or ○ Few personnel, many having a wide range of duties

These qualitative characteristics are not exhaustive, they are not exclusive to smaller entities, and smaller entities do not necessarily display all of these characteristics.

15 In your view, is the description of a LCE above appropriate for the types of entities that would be the focus of the IAASB work in relation to audits of LCE?

Yes

No

16 Which qualitative characteristics **are not** appropriate

(You may choose more than one option)

Concentration of ownership Concentration of management Straightforward or uncomplicated transactions

Simple record-keeping Few lines of management with responsibility for a broad range of controls; or Few personnel, many having a wide range of duties

Not applicable

17 Please provide a reason for you answer:

18 Are there any OTHER characteristics that should be included?

Yes

No

OTHER characteristics

19 Please provide details of additional characteristics that should be included:

The IAASB are exploring a range of potential possible actions to address the challenges.

ACTION 1: Revising the ISAs to make the auditor's work effort clearer. Broadly this may involve one or more of the following:

- Greater focus on more clearly setting out of **WHAT** the auditor needs to do with appropriate application material to support applying the requirement effectively and efficiently.
- Adopting an approach of revising the standard by setting out the basic requirements for all audits, then expanding as needed to address more complex circumstances (building-blocks approach)
- Considering how the application material could feature more scalability and proportionality considerations
- Better signposting within the application material about **HOW** to apply the requirements

ACTION 2: Developing a separate auditing standard for audits of LCEs

From the IAASB outreach it is clear that the level of assurance for the audit opinion issued in accordance with any standard should be the same as the ISAs, however what reasonable assurance means may vary by context and may need to be explored further.

It has also been highlighted that any separate standard developed should retain a similar robustness as the ISAs.

A separate standard can be based on the existing ISAs or developed based on a different framework. **As with the ISAs, local laws and regulations would prescribe when such a standard could be used in a particular jurisdiction.**

ACTION 3: Developing guidance for auditors of LCEs or Other Related Actions

Development of guidance and other support developed specifically for audits of LCEs that is outside of the ISAs, so the nature of such material would be non-authoritative. Options may include:

- A comprehensive guide about how to apply the ISAs in circumstances where the nature and circumstances of the entity being audited are less complex
- An International Auditing Practice Note (IAPN) for Audits of LCEs
- Guidance for the application of specific areas within the ISAs, or particular ISAs specifically for challenges identified related to audits of LCEs Focused 'implementation packs' for new and revised ISAs specifically for audits of LCEs.

20 Do you believe that a project relating to the audit of LCEs should be included on the work plan of the IAASB?

Yes.

No. The ISAs are principles based and capable of being applied to audits of any entities.

No. The current guidance available is sufficient to enable me to proportionately apply the requirements of the ISAs to audits of LCEs.

Additional questions 2

No. There challenges relating to the audit of LCEs relate to matters that standard-setting activities will not address.

21 Please indicate preferred individual or combined action identified in the DP-LCE. (You may choose more than one option)

Revising the ISAs to make the auditor's work effort clearer

Developing a separate auditing standard for audits of LCEs

Developing guidance for auditors of LCEs

Not applicable

22 Please indicate the possible implications or consequences if action is undertaken:
Please provide detail for your answer

23 Are there any broad challenges that have not been identified that should be considered?

Yes

No

Challenges

24 Please provide detail of the additional challenges that should be considered:

Additional questions 3

Factors driving challenges that are not within the control of the IAASB:

- *Legal and other requirements for an audit:* The IAASB does not set the requirements for which entities require an audit as this is prescribed by each jurisdiction's laws and regulations or influence in any way where an entity voluntarily elects to have an audit undertaken.
- *Commercial considerations relating to an audit:* Audit fee pressure, driven by market forces and other environmental influences that may lead to questions around the cost-benefit of performing the required audit procedures.
- *Technology / Methodology:* Access to technology tools or methodology may be limited in an audit of LCEs *Education and people:* ISAs set out the principle to be complied with in an audit, but do not prescribe how auditors are trained (auditors' knowledge of the ISAs contributes to the effective execution of an audit). Attracting and retaining talented people has been scoped out.

25 With regards to the factors driving challenges that are not within the scope of the IAASB as indicated above, if the IAASB were to focus on encouraging others to act, who should that be?

(You can select more than one option)

- | | | |
|---|---|---|
| <input type="checkbox"/> The International Accounting Education Standards Board | <input type="checkbox"/> International Ethics Standards Board for Accountants | <input type="checkbox"/> International Accounting Standards Board |
| <input type="checkbox"/> International Forum of Independent Audit Regulators | <input type="checkbox"/> IFAC member bodies, such as SAICA | <input type="checkbox"/> IRBA |
| <input type="checkbox"/> Government | | |

Other (Please Specify)

26 Please provide a reason for your answer:

27 Are there any other matters that should be considered by the IAASB as it deliberates on the way forward in relation to audits of LCEs?

Thank you for completing the questionnaire. Please submit your responses by clicking on the "submit" button below