

ED: Proposed International Standard on Auditing for Audits of Financial Statements of Less Complex Entities

We welcome the opportunity to comment on this exposure draft (ED).

Moore Global is a leading mid-tier network with over 260 member firms in 112 countries. Most of our member firms have significant numbers of audit clients that are entities which fall within the scope of entities of low complexity. The national and global population of business entities that, broadly speaking, fall into the subset being addressed in this ED is a very significant and important one in the context of the global economy.

We have gathered input from our network member firms across the globe and we set out the key points we wish to make relating to the ED below.

Key Points

When considering the issues identified, we remain of the view that the best solution would be a full rewrite of all ISAs using a building block approach, thinking low complexity first, reforming the use of language to ensure that objectives and requirements are clearly and understandably articulated and freeing the approach from the paper paradigm which persists, and which can no longer usefully be applied to auditing given its iterative nature.

If this cannot be a feasible solution, we have the following key comments on the existing Exposure Draft.

1. The standard should use very simple and easily understandable terms to articulate the objectives that should or could be achieved in an audit where there is low complexity.

In terms of the “standalone” nature of the standard, the proposed standard should maintain a link with existing ISA objectives, to make it easier for auditors to refer to extant ISAs where specific issues arise which needs a more nuanced approach. This will be of particular importance if there is no change to the proposed requirement that any complexities identified during the course of an audit would result in a transition to ISAs during the engagement.

The new standard should make good use of simple language, bullet points, diagrams (e.g. flowcharts) and should focus primarily on “what/how”. “Why” could be addressed in application guidance or other accompanying material.

2. The use of the terminology “Less Complex Entity” has not been explained sufficiently. Such entities should be considered as standard, with entities that are very complex in nature classified as such to apply more stringent procedures. This will aid in the understanding of users of the reports.
3. The classifications of the “Less Complex Entities” are not broad enough to include entities that are slightly larger, but well run and not complex. Organisations such as estate agents will for example be left out due to the trust accounts, although such entities are generally not complex in nature.
4. In terms of the exclusion of Group Audits, we do not agree with the decision to scope them out wholesale. We believe that if the idea of a differentiated subset of requirements is principles based then blanket exclusion off all group audits undercuts that. There might be less complex groups that could apply the LCE standard effectively. The proposal further considers whether groups falling within certain defined criteria should be included and requests thoughts on setting

thresholds for groups via option (a) complexity by proxy or (b) qualitative criteria. We believe it is worth exploring both these ideas further and encourage the IAASB to take some time to properly evaluate the options.

5. We strongly believe that a specific reference to the LCE standard in the audit report is dangerous. If the LCE standard is intended to be an articulation of how to perform an ISA compliant audit for entities with low complexity, then an audit conducted using the LCE standard complies with ISAs and no specific reference should be needed. The current proposed audit report wording might lead users of the audit report to believe that an LCE audit is of a lesser value than a non LCE audit. We do not believe this was the original intention of the project.
6. The relief given by the standard is not sufficient to warrant the additional work required to justify the use of the LCE standard vs the full ISAs. Auditors will be required to develop or source:
 - a. training on the new standard
 - b. a new methodology for the LCE standard specifically, (or adapt an existing methodology)
 - c. a new audit tool (or adapt an existing one)

This could have a significant impact on the planning of resources especially for smaller firms with tight budgets.

7. The transitional requirements within the ED have significant practical challenges which are also likely to have significant resources implications, such as having to re-visit the audit under the ISAs, changing methodology and possibly changing software tools part-way through engagements. These challenges could act as a barrier to adoption of the standard
8. In response to the initial discussion paper, we raised the danger of an unintended consequence of creating two different “classes” of audit and therefore auditor. We do not believe that the ED has sufficiently negated this threat.

Our biggest concern, as a global network, is that as things stand there may be jurisdictions which do not adopt or allow the use of the LCE standard. This will threaten engagement performance consistency and thus quality. We strongly believe that IAASB should take some time to consider how to avoid or mitigate this threat.

Specific questions suggested per the draft response

Section 4A – Overarching Positioning of ED-ISA for LCE

- (a) **The standalone nature of the proposed standard, including detailing any areas of concern in applying the proposed standard, or possible obstacles that may impair this approach?**

Response: As noted above in the key points, the standard should maintain a link with existing ISA objectives, to make it easier for auditors to refer to extant ISAs where specific issues arose which need a more nuanced approach. The current proposed standard will result in the entity no longer being classified as a LCE when the user needs to apply any aspects outside of this standalone standard. We do not agree that a complexity arising during the engagement should lead to the declassification of an entity as a LCE, rather than applying the particular ISA the complexity is relevant to. Additionally, the potential need for transition part-way through the engagement could lead to unnecessary complications as discussed earlier in this letter.

- (b) **The title of the proposed standard.**

Response: As noted in key points, the terminology “Less Complex Entities” still raises questions and concerns, including that of a two-tier approach to audit. We would prefer to

see the terminology changed to 'Entities of Low Complexity' (ELC). We believe this would be easier to understand and would produce a more consistent approach. We believe that what constitutes 'low complexity' could be more easily defined than what constitutes 'less complex' and further we believe this would not prove a barrier to individual jurisdictions determining their own definition of low complexity if they so wished.

- (c) [Any other matters related to ED-ISA for LCE as discussed in this section \(Section 4A\).](#)

Response: Topping up the standard might be appropriate in certain instances. However, how this could be managed will have to be set out carefully as part of the proposed standard. Currently, if not set out clearly in the standard, auditors will fall back naturally on the knowledge they have as auditors of ISAs, without referring to the standards that they are applying.

Section 4B – Authority of the Standard

4. [Do you agree with the proposed limitations relating to the use of ED-ISA for LCE? If not, why and what changes \(clarifications, additions or other amendments\) need to be made? Please distinguish your response between the:](#)
- [Specific prohibitions; and](#)
 - [Qualitative characteristics.](#)

[If you provide comments in relation to the specific prohibitions or qualitative characteristics, it will be helpful to clearly indicate the specific item\(s\) which your comments relate to and, in the case of additions \(completeness\), be specific about the item\(s\) that you believe should be added and your reasons.](#)

Response:

The decision regarding an entity being a LCE as proposed is based on qualitative measures, which could lead to indecision or inconsistencies in decision making amongst users as opposed to using measurable elements only.

The exclusion of groups is also a concern, as there could be a less complex group structure, for example a group for investment properties.

5. [Regarding the Authority Supplemental Guide:](#)

- (a) [Is the guide helpful in understanding the Authority? If not, why not?](#)

Response: Not sufficiently, it is still unclear exactly how relief has been given. The full comparison between the ISAs and the LCE is nearly too detailed to establish on an executive level what the broad approach was to save time or effort for the audit.

- (b) [Are there other matters that should be included in the guide?](#)

Response: Summary of what the "relief" is in using the LCE vs the full ISAs.