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

We welcome the opportunity to comment on this discussion paper (DP).

Moore Global is a leading mid-tier network with over 260 member firms in 112 countries. All of our member firms have significant numbers of 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 DP is a very significant and important one in the context of the global economy.

At this time of significant global economic uncertainty, it is vital that the IAASB provides leadership and support for the global community of with low complexity, in the public interest. This is a perfect opportunity for the IAASB and all its stakeholders to address this longstanding difficulty for entities of low complexity and their external auditors.

We believe that the IAASB and its stakeholders must take decisive steps towards establishing principles-based, internally consistent audit standards that are, *as a whole,* fit for purpose for the audits of all sizes of entity, rather than just the PIE sector of the market. If this is not delivered by the IAASB and all its stakeholders, as part of a wider smart regulation initiative, the less complex entity business community will be let down, against the public interest. Doing nothing is not an option.

Moore Global Network Limited

Key Points

1. Small and medium sized entities and entities of low complexity are the engines of national and global economic growth and development. It is therefore crucial, in the public interest, that the IAASB addresses the concerns of this very important business sector of the world economy at this time.

2. As a global network of independent firms, many of our member firms perform audits of large and/or highly complex entities, and all perform audits of entities which are small and/or possess low complexity. We are therefore significantly impacted by the current challenges and difficulties caused by having to apply one set of international auditing standards across all of our members firms in 112 jurisdictions in a consistent manner, without any sufficient additional guidance from the IAASB for the entities of low complexity.

3. It is vital that the IAASB take the lead and, where possible, define both the issue and the key arguments. Critically, something must be done to address the issues of scalability of the current ISAs, not all of which have been written with the concept of thinking small first at the forefront of the process.

4. To preserve the cohesiveness of the audit profession, a solution to the scalability and fitness of purpose issue must be framed within the context of maintaining a common core between differentiated standards, preserving conceptual consistency and ensuring that the unintended consequence of creating two different 'classes' of auditor do not come to pass.

   We note that the majority of audit trainees in many jurisdictions gain their early experience as members of audit engagement teams working on audits of entities of low complexity. If the audit profession were to experience fragmentation with a further significant loss of audit firms, this could involve significant and unwelcome reductions in the attractiveness of the profession to new entrants. We believe the public interest lies in having a sufficient population of good quality firms staffed by competent professionals performing consistent audits which can be trusted. If performing audits for entities of low complexity were to become an unattractive entry route to the audit profession, it is difficult to see how many audit firms would be able to survive unless they lowered their standards in recruitment. This again would obviously run counter to the public interest.

5. Our preferred option for dealing with the issues identified both in the DP and by several national standard setters, amongst others, would be Option A, 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 still persists and which can no longer usefully be applied to auditing given its iterative nature. However, we accept that this is not a feasible short- or medium-term solution.

6. Given that root and branch revision is not feasible as a solution to the problems of today or indeed tomorrow, we would support option B with the following provisos:

    a. The new standard should not simply be a compendium of ISAs 'minus'.
    b. The new standard should be written from the ground up, taking as its base all relevant existing ISA objectives and then articulating in very simple and easily understandable terms the manner in which those objectives should or could be achieved in an audit where there is low complexity. It is not unreasonable to expect that key audit objectives would be easier to achieve, requiring less work effort and therefore attracting simpler requirements for that work effort, in an audit of an entity with low complexity.
    c. The new standard should, in addition to maintaining a link with existing ISA objectives, feature 'off ramps' which would make it easier – and the sensible thing to do – for auditors to refer to extant ISAs where specific issues arose which needed a more nuanced approach.
    d. 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. It would be wise to remember that for many auditors of entities of low complexity it is the 'how' rather than the 'what' which is contentious. The drafting process should be done with operationalisation in mind.

7. As indicated above, we believe that in an ideal world all ISAs would be rewritten from the ground up, thinking low complexity first and building in additional requirements or options for entities or areas where complexity increases or emerges, in a manner which would reflect the varying nature and circumstances of entities that are audited, the iterative nature of auditing, and modern methods of publishing and communication. The paper paradigm (regarding each standard as if it was printed on paper and limited in its construction by an imposition of linearity that does not reflect reality as a result of that imaginary paper-based existence) needs to be abandoned. The opportunities offered by modern methods of communication and publishing to more fully reflect the iterative nature of auditing and the interconnectedness of much of the work that auditors do, should no longer be ignored. This would be a substantial project and take time to achieve, it would also be hard to do, but that is not a reason not to do it. If IAASB adopts option B and a new standard for LCEs/entities of low complexity is developed, it would be an ideal opportunity to explore new ways of articulating and presenting material to achieve

the maximum utility and benefit for all concerned. This could then be applied to the bigger, longer term but no less necessary project of reimagining all the ISAs.

Specific questions

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?**

As set out above, our ideal solution to the problems IAASB is seeking to address with this discussion paper, would be to rebuild ISAs from the ground up, using a building block approach, starting 'Low Complexity First'. If that were to be the approach then the idea of identifying the basic building block, or the entry level entity audit client, would be approached differently, with the focus instead being on identifying nature and circumstances which called for 'more' or 'different' audit effort or requirements, rather than identifying nature and circumstances which called for less.

However, as also set out in our introduction, we accept that this approach could not reasonably be regarded as short or even medium term, therefore it is appropriate to progress with providing our views on issues at the heart of option B.

We agree that, when considering the challenges of applying ISAs, and the appropriateness of continuing to do so for all entities, the key focus should be on characteristics of the entity other than size. However, we have an issue with the terminology that has been adopted in this discussion paper and we believe it could lead to problems, inconsistencies and confusion at some point in the future.

The terminology that has been adopted – Less Complex Entities (LCEs) - is not really very helpful, when considered closely. It begs the question…'less complex than what?' It also leaves itself open to selective interpretation and misapplication. After all, an entity may be less complex than the largest of global entities and yet still be complex itself. There need to be easy to understand thresholds even though they may not be wholly or even partially number based in nature.

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 better 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.

While this may seem a pedantic point, we believe that imprecise and opaquely defined concepts are contributors to the problem many auditors have with applying ISAs at present. The lack of clarity and precision in the articulation of the population for whom any new solution might apply, is a very good example of why we need a solution in the first place.

The description of qualitative characteristics which may be present in entities of low complexity seems a reasonable starting point for consideration however more thought should be given to the interactions between some of the characteristics suggested. For example, an entity may have few lines of business… that does not guarantee low complexity. An entity may have simple record keeping which is actually unfit for purpose. Similarly, the absence of internal controls is no guarantee of low complexity. We would suggest that IAASB also gives some thought to complexity of circumstance. An entity which has on the face of it low complexity as a result of its basic nature, may still be complex as a result of its circumstances…for example, past history of fraud, problematic management, external factors, complex accounting policies, external stakeholders… such factors might make ISAs a more suitable framework for an audit. There may be some justification for considering whether assessed audit risk should be a factor in determining or confirming whether a new standard for entities of low complexity is appropriate for use in any given audit.

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?

In our view, the issue is not that ISAs are necessarily inherently difficult to apply as such. They can be, and are being, applied by auditors of entities of low complexity all over the world. The issues are more that:

- Documentation requirements are both confusing for some and also in some cases onerous. For any potential solution to the issue of the audit of entities of low complexity, the provision of practical guidance and examples relating

to documentation will be vital. We believe that the fee pressure experienced in many jurisdictions relating to this type of audit can give rise to significant quality risks relating to documentation, as a result of the confusion (and actual disagreement) around how much documentation is enough, and what constitutes appropriate documentation. As things stand there is a clear risk that auditors could easily fall into the trap of both over and under documenting and this situation does not promote audit quality.

- There is in some standards a 'think complex' mentality which in some cases leads auditors to believe that they need to justify why they are not doing something which would be overkill in an audit of a non-complex entity.
- The language in some more recent standards is neither clear nor straightforward and does not necessarily translate well.
- The manner in which the ISAs are set out (see our comments on the paper paradigm above) and the duplication that this sometimes gives rise to makes the whole task of understanding what must be done and how it should be done more difficult to grasp than it should be.

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?**

If IAASB wishes to focus on engagement with and gentle persuasion of other stakeholders in the audit process, then useful points of focus could be:

- Regulators; and
- Providers of audit software and audit training.

We believe that while there are issues with the applicability of ISAs to audits of all levels of complexity, these can in some cases be exacerbated by regulatory climate and by the providers of audit tools and audit training.

We would hope that all stakeholders would encourage regulators to take a proportionate risk-based approach to monitoring, focussing the bulk of their regulatory effort on the PIE sector and taking a lighter touch approach to monitoring the audit of LCEs, commensurate to their lower risk. This would include taking a practical/pragmatic approach to reviewing these engagements, and to assessing the sufficiency of audit documentation. We do not believe that regulators enforcing early (pre effective date) adoption of standards, when third party software and methodology providers have not yet updated the products which many

auditors of entities of low complexity use to perform their audits, is in the public interest. We also believe that the regulators of firms that operate in this segment of the market could be more consistent in their approach.

If IAASB does move forward with option B getting regulatory support will be crucial.,

A good audit tool does not make a good auditor. But a poor audit tool can hamper the effectiveness, efficiency and quality of a good auditor. Timely engagement with the providers of audit software, to ensure they have the best possible opportunity to update their products with sufficient time remaining to ensure the users can be fully trained, would bring benefits to audit quality across the board, Similarly for engagement with providers of training. IAASB does a lot already, providing a wealth of materials via the website… but this is somewhat arm's length. IAASB has in the past conducted outreach activities and the Paris conferences are good examples of these, however the level of actual engagement (as opposed to managed messaging) could be improved.

As regards the issue of the value of audit, we believe that if IAASB cannot articulate why audit is valuable then it may be that nobody can. We also believe that if IAASB is not prepared to stand up for the value of audit then it may be that nobody else will. We believe that it is crucial for IAASB to collaborate with the professional accountancy bodies, national standard setters (and regulators if appropriate) to drive the evolution of audit, in terms of transparency, audit technology and methodology to ensure that today's profession is not left behind. We believe it is absolutely in IAASB's remit to enhance the public's understanding of the value of audit.

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.**
   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.**

Option A

This would be our preferred option in an ideal world. We would like to see 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 still persists and which can no longer usefully be applied to auditing given its iterative nature.

We accept that this is not an ideal world and Option A is not a feasible short- or medium-term solution. We would however like to see Option A explored for the medium to long term. As part of this, we believe it is absolutely vital for IAASB to move beyond the paper paradigm and explore the extent to which modern, innovative electronic methods/processes for standard setting, communication and publication can be used to better reflect the iterative nature of auditing and to make a suite of standards constructed bottom up, which are more easy to use and understand.

Option B

We support option B with the following provisos:

- The new standard should not simply be a hastily written compendium of ISAs 'minus'.
- The new standard should be written from the ground up, taking as its base all relevant existing ISA objectives and then articulating in very simple and easily understandable terms the manner in which those objectives should or could be achieved in an audit where there is low complexity. It is not unreasonable to expect that key audit objectives would be easier to achieve, requiring less work effort and therefore attracting simpler requirements for that work effort, in an audit of an entity with low complexity.
- The new standard should, in addition to maintaining a link with existing ISA objectives, feature 'off ramps' which would make it easier – and the sensible thing to do – for auditors to refer to extant ISAs where specific issues arose which needed a more nuanced approach.
- 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. The drafting process should be done with operationalisation in mind.

Option C

We believe that guidance is often helpful. However, we also believe that a lack of guidance is not in fact the key reason that many auditors of entities of low complexity have issues with using ISAs to perform those audits.

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?**

Going forward we would like to see greater representation from SMPs on the relevant working party.

We believe that a key aspect of whatever is done will be an appropriate amount of research and outreach to relevant stakeholders to try and arrive at the best possible articulation of what is meant by low complexity. It is inevitable that some jurisdictions will seek to add their own spin to any definition which is finally coined but the less this happens the better since divergent definitions will of course lead to further inconsistency which, as we have said above, is not in the public interest.

Finally, we would also like to stress once again to IAASB that this is an opportunity which, if not grasped, may not be presented again. Not least because if IAASB does not grasp the opportunity it seems likely that others will.