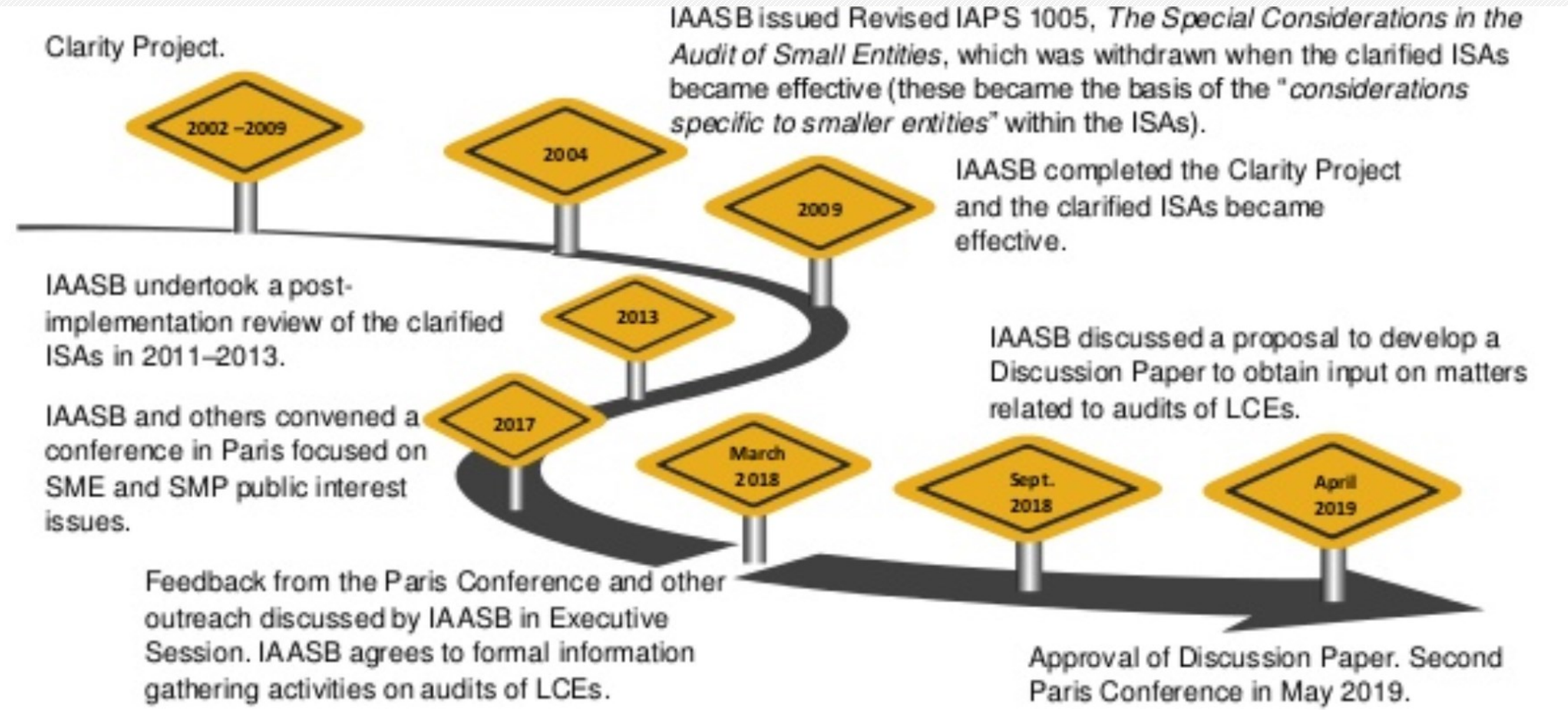


NZAuASB Webinar

Audits of Less Complex Entities

August 2019
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The history of the project



The IAASB Discussion Paper



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

Published on 29th April 2019,
Comments to the NZAuASB due by **22 August 2019**

The IAASB has not yet decided on a future course of action and remains open minded

What is a Less Complex Entity?



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. One or more of the following:
 - i. Straightforward or uncomplicated transactions;
 - ii. Simple record-keeping;
 - iii. Few lines of business and few products within business lines;
 - iv. Few internal controls;
 - v. Few levels of management with responsibility for a broad range of controls; or
 - vi. 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.

Poll Questions 1 and 2



- Do you believe that entities that are required to be audited by a Licensed Auditor (e.g. FMC Reporting Entities) can be less complex entities?
 - Yes
 - No
 - Not Sure.
- Do you agree that the qualitative characteristics included in the definition of an LCE makes auditing them less complex?
 - Yes
 - No
 - Not Sure.

Poll Questions 3 and 4



- Do you believe that there are also audit characteristics that can be included (e.g. whether the audit needs to be completed very close to balance date VS when it is needed to be completed by a later date, the expected length of an audit, etc)?
 - Yes
 - No
 - Not Sure.
- Are there any other characteristics that you think needs to be included in the definition of a LCE?
 - Yes
 - No

Challenges related to applying ISAs in Audits of LCE

Challenges not within the IAASB's control or within the scope of the IAASB's work of audits of LCE include:

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

- Legal and other requirements for an audit
- Commercial considerations relating to an audit
- Technology/methodology; and
- Education and people

Those scoped out of exploratory activities related to audits of LCEs:

- Engagements other than audit
- Enhanced accessibility to ISAs
- Value of an audit
- Public expectations

Poll Questions 5 to 7



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- Are you being asked about value of audits?
 - Yes
 - No
 - Not sure
 - Do you believe that the fee pressure is higher for audits of smaller entities than for other audits?
 - Yes
 - No
 - Not Sure
 - Is the New Zealand legal requirement for entities to have an audit(e.g. for Tier 3 charities over \$1m) appropriate?
 - Yes, about right.
 - No, the audit thresholds are too low. More entities should be exempted from statutory audits.
 - No, the audit thresholds are too high. More entities should be required to have their financial statements audited.
 - Not sure

Challenges related to applying ISAs in Audits of LCE (Cont.)



Challenges within the scope of the IAASB's work of audits of LCE include:

- Language and Basic Approach to the Standards
- Length of the Standards
- Documentation
- Lack of Clarity as to What Needs to be Done or Why
- Not Enough Guidance Within/Outside of the ISAs
- ISAs Noted as Particularly Problematic (e.g. risk assessment and understanding of internal controls, fraud, accounting estimates etc.)

Possible actions to be Explored



Revising the standards

By:

- Providing greater clarity on what the auditors need to do
- Setting out basic requirements and then building on these for more complex situations
- Enhancing scalability considerations in the application material

How:

- **Revising all of the ISAs** as part of one substantial project
- Revising the ISAs on a **rolling or phased basis**
- Making **targeted changes** when an ISAs is being revised.

Possible actions to be Explored (Cont.)



Developing a separate auditing standard for audits of LCEs

- **Separate auditing standard** based on the existing ISAs
- Separate auditing standard developed based on a **different framework**

Possible actions to be Explored (Cont.)



- Developing guidance for auditors of LCEs or other related actions
 - 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

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- Which of these proposed approaches should be pursued as a priority? Please select one:
 - Revising the ISAs
 - Developing a separate auditing standard for audits of LCEs
 - Developing guidance for auditors of LCEs or other actions

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- The IAASB discussion paper can be accessed via the XRB website, under Assurance Standards/Standards in development.

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We would like to hear from you



Online
Survey



We are conducting an online survey to address the questions included in the IAASB discussion paper. The survey can be accessed via the XRB website.

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