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14 January 2022

Attention: Bill Edge
Chair
Auditing and Assurance Standards Board
Podium Level
Level 14, 530 Collins Street
Melbourne Victoria 3000

By email: enquiries@auasb.gov.au

Dear Bill

AUASB Consultation on Exposure Draft (ED) of the IAASB's Auditing for Audits of Financial Statements of Less Complex Entities (ISA for LCE); and Consideration of Possible alternative options for Australian LCE audits

CPA Australia welcomes the AUASB's outreach to address how the IAASB's proposed ISA for LCE could be implemented in Australia. CPA Australia represents the diverse interests of more than 168,000 members working in over a 100 countries and regions around the world. We make this submission on behalf of our members and in the broader public interest.

We note that the AUASB's consultation is divided into two parts: Appendix 1 relating to the ED ISA for LCE Consultation and Appendix 2 on further Australian options. CPA Australia has not finalised its submission to the IAASB at the date of this letter and therefore cannot provide the definitive positions it will submit to the IAASB. Therefore, the responses to Appendix 1 are preliminary and may be subject to change.

If you require further information on the views expressed in this submission, please contact Claire Grayston, Policy Advisor Audit and Assurance at claire.grayston@cpaaustralia.com.au.

Your sincerely

Dr. Gary Pflugrath
Executive General Manager, Policy and Advocacy

Attachment

Attachment

Preliminary Responses to Appendix 1 – Questions on ED ISA for LCE Consultation

As our submission to the IAASB on the ISA for LCE has not yet been finalised, we provide our preliminary views below which may be subject to change.

Overarching

1. Does the standard meet your needs for an engagement that enables the auditor to obtain reasonable assurance to express an audit opinion? If not, why not?

Yes, we believe it would result in reasonable assurance on an LCE audit, although we are of the view that the LCE auditor may refer to other guidance to supplement the standard.

2. Is the separate standard for use in Australia an appropriate solution? Please explain your response.

We consider that the LCE standard, if issued in Australia, could be useful for LCE auditors to more easily navigate and identify relevant requirements. By issuing the standard it also enables it to be trialled and a post-implementation review conducted to identify and address any apparent problems. The standard could be issued as one which is voluntary in terms of its use.

3. Do you support the adoption of ED ISA for LCE? Please explain your response.

We support the adoption of ISA for LCE but not as a stand-alone standard. Instead, we believe it should be issued as an additional auditing standard to be applied only for LCEs, and which enables reference to the ISAs as needed.

4. Do stakeholders support that the proposed standard is to be implemented without additional reference to the full suite of standards? That is, where a more complex area arises, auditors do not ‘dip in to’ the full suite of standards to understand additional audit procedures. Please detail any areas of concern.

We are concerned that a stand-alone standard would be too restrictive. To be useful in Australia it would need to be issued as an auditing standard as most audits are required to be conducted under the auditing standards in accordance with legislation, regulation or by the charter or rules of the entity. It should be possible to dip into the full suite of standards during an LCE audit, at the least to clarify discrete complex matters.

5. Do stakeholders expect there to be a reduction in audit effort as a result of using the LCE Standard?

If the auditor’s report states that the audit has been conducted in accordance with Australian auditing standards, which will be possible if the LCE standard as an ASA, one would not expect there to be a stakeholder perception of less audit effort. Such perceptions are likely to arise if the auditor’s report wording refers only to the LCE standard. We do not see the need for it to refer to the LCE standard specifically, if the audit outcome is intended to be the same under both the LCE standard and the full suite of ISAs.

Authority of the standard

6. Is the Authority of the standard able to be implemented? If not, why not?

We consider the authority is able to be implemented (see our comment to Q8).

7. Do you agree with the proposed limitations relating to the use of ED ISA for LCE? Are there specific types of entities or industries in Australia that should be specifically allowed to, or prohibited explicitly from using such a standard (in addition to the prohibitions suggested by the IAASB)?

No further restrictions identified for Australia.

8. Are there any specific thresholds or criteria that would be appropriate to establish in Australia for when such a proposed standard may be used?

While we have not identified specific thresholds or criteria, we note that if the AUASB decides to introduce Australia-specific thresholds or criteria, those must be clearly defined. The clearer the criteria in the authority the more consistently the LCE standard will be applied.

Essential Explanatory Material

9. Do you support the approach to Essential Explanatory Material (EEM) including the content and sufficiency thereof? Specifically, is there sufficient EEM to help an auditor who does not regularly use the full suite of ASAs to perform a high-quality audit?

We suggest that the format of the LCE standard should be the same as the existing ISAs/ASAs, with the same paragraph numbering style and naming of guidance as “application material” rather than “essential explanatory material”. Using this new term EEM with shaded boxes suggests it is authoritative as it is not only called “essential” but also stands out from the requirements. This may simply serve to confuse. The EEM does not need to repeat all that is already stated in the application material in the ISAs, but reference to that material should be permitted to benefit from that additional guidance when needed.

Auditor Reporting

10. Do you support the approach taken in relation to auditor reporting including the approach to including a specified format and content of an unmodified report as a requirement?

We do not see the need to include the wording of the auditor’s report as a requirement, particularly as there are typically legislative or regulatory requirements which necessitate bespoke wording in the auditor’s report. We consider that an appendix is appropriate.

11. Do you support the auditor’s report referring to the ISA for LCE? Do you believe there may be a change in the users’ perception of the level of assurance provided in an audit performed using the proposed standard?

We consider that the auditor’s report should refer to the auditing standards but not the LCE standard. Referring to a different standard is likely to negatively impact perceptions of the

assurance provided. As the intention is for audits under both the ISAs and LCE standard to be the same and result in the same outcome, they do not need to be differentiated.

Group Audits

12. Should group audits be excluded from the scope of ED ISA for LCE? Please provide reasons for response.

We consider that there may be specific circumstances which could be articulated, for example, when the group is not complex and one auditor conducts the audit of the group entities, for which use of the LCE standard could be suitable. Another example is when a different entity is used for each office or location but these entities operate much like branches rather than separate entities and use centralised management and systems. Such structures can arise frequently for charities with different entities in each state or territory.

13. If group audits are to be included in ED ISA for LCE, should all requirements pertaining to group audits be in a separate part or should requirements be contained within each relevant part of the standard?

Some separate requirements addressing group audits could be provide as they would not be applicable in all cases.

Response to Appendix 2 - Questions on Australian options to further explore

General

- 1. Besides the matters identified in paragraph 26 of this Consultation Paper, what other options or matters, should the AUASB consider as it deliberates the direction of its work in this area?**

We consider that the options and matters outlined in the consultation are comprehensive. We have no further matters to add.

- 2. If the most appropriate way forward is a combination of options, how should the AUASB prioritise them?**

We consider that a combination of options is necessary to address LCE assurance effectively. The timeframes and work effort will vary considerably, so some activities may be able to be done in parallel, subject to resourcing.

We suggest prioritising the option which are quickest to implement, followed by the option which will provide the most benefit or impact for auditors, LCEs and users.

The quickest to implement would be adopting the ISA for LCE, even if for voluntary use. In order to be able to readily apply the standard in Australia without legislative change, we suggest that the standard is issued as an Australian Auditing Standard (ASA) and be directly linked to the ASAs. The LCE standard is intended to provide the same product, an audit, which requires the same work effort based on reasonable assurance as provided by an audit applying the ASAs. In our view, an audit product which reports under a different standard or suite of standards will serve to create confusion and suggest a lower, or at the least a different, level of assurance has been obtained. This may undermine the confidence and trust which an audit is intended to provide.

The second priority, we suggest, should be revision of the review engagements standard/s to provide greater clarity regarding the work effort required to obtain limited assurance and to provide greater confidence in the comparability of review reports. A more robust approach to review engagements and a clearer articulation of what they provide would help to build the uptake of reviews, where permitted, instead of an audit.

Standard-Setting Activities - AUASB

- 3. Please rank the relative importance of the topics outlined in paragraph 26 (a) of this discussion paper (with 1 being the highest priority). Please provide your rationale and views on the needs and interests that would be served by undertaking such work, why certain topics are relatively more important to you or your organisation and any other relevant information to the AUASB.**

Whilst all 4 options have merit, we recommend the following ranking of the actions listed in paragraph 26(a) *Standard-Setting Activities – AUASB*:

1. Adopt ISA for LCE – We recommend a modified approach by issuing it as an ASA, allowing reference to the suite of ASAs if complexity arises. Also, auditor reporting should

describe that the audit has been done in accordance with the Australian auditing standards rather than referencing the LCE standard. Our rationale is that the ISA for LCE will help many practitioners navigate the standards more effectively but should not be perceived as an audit that obtains a different level of assurance than an audit done under the ISAs. If the standard is implemented and trialled widely across the globe this will create a collective focus on refining the standard, as needed, based on the post-implementation review. In this way it is more likely that the standard will be fit for purpose and have a positive impact on audit quality in due course.

2. Revision of the review standard – In Australia review engagements are available instead of audits for many entities, including medium charities, associations and companies limited by guarantee. However, uptake is low despite the potential cost savings and efficiencies. We understand that one driver of this low uptake is the lack of clarity regarding the extent of work effort required to obtain limited assurance. Consequently, practitioners may do more work than is warranted as they are cautious about the risks of missing something. As a result, the work effort and cost may get too close to that of an audit to make a review be of value. Standards which provide much greater detail of what is required, in order to drive a consistent and comparable approach, and which provides confidence and trust for users would be beneficial.
3. Education regarding review and multi-scope type engagements, may be more helpful for those setting the requirements for assurance, whether that be grant providers, lenders, Government legislators and policy makers, than the auditors or users.
4. Limited targeted revisions to the ASAs – This may not help auditors of LCEs navigate the standards but actually simply serve to increase their length. Instead, other tools, such as diagrammatic flowcharts or other representations and digital linkages between the auditing standards and the LCE standard, may be helpful in navigating the flow of the standards.

4. Do you consider making limited, targeted revisions to the ASAs, specific to LCEs, is an appropriate possible solution? If yes, please provide specific reference to specific requirements within the standards where attention is needed (i.e. standard x, paragraph y). Please explain your reasoning.

Given that the LCE standard has been drafted, it may be more pragmatic to use that standard and add links between the relevant ASA and the LCE requirements, rather than seeking to insert further LCE specific requirements or application material in the standards. However, if such targeted revisions to the ASAs were to be made, then the requirements in the LCE standard which amended the ISA requirements would be the logical starting point.

5. Do you consider developing targeted non-authoritative guidance, specific to LCEs, is an appropriate solution? If yes, please provide specific details as to the form and required content of such guides.

If guidance was developed for LCE audits, then we suggest a user-friendly succinct format using diagrams, flowcharts and tables to present the information with hyperlinks to navigate the guidance. Alternatively, development of a generic audit methodology for LCE audits has been

suggested by stakeholders and may be very useful for LCE auditors. We suggest avoiding the use of lengthy, wordy guidance.

- 6. Recognising the AUASB standards currently facilitate reasonable assurance, limited assurance and agreed-upon procedures engagements, do you consider users, including legislators, understand the range of services that can be provided? If not, what can be done to assist users in understanding the 'right service'?**

This is an on-going issue, which we note is addressed in the AUASB publication: [A guide for Prescribing Assurance and Related Services](#). Feedback could be sought on the effectiveness of this publication and updates made to that if needed. Communication to disseminate this Guide, especially within Commonwealth and State Governments and their agencies, would be helpful.

Other Activities with a linkage to AUASB standards

- 7. Please rank the relative importance of the topics outlined in paragraph 26 (b) of this discussion paper (with 1 being the highest priority). Please provide your rationale and views on the needs and interests that would be served by undertaking such work, why certain topics are relatively more important to you or your organisation and any other relevant information to the AUASB.**

Our ranking of the other activities with a linkage to AUASB standards listed in paragraph 26(b) is:

1. Targeted non-authoritative guidance: The type of tools suggested (practice aids, work programs, templates, software solutions) should be practical tools that support auditors of LCEs and help them to improve audit quality.
 2. Education and training: It is not specifically the AUASB's role to provide education and training. However, it could suggest topics for which training is needed to the professional bodies and other training providers.
 3. Investigation of a new / different level of assurance product: We do not support this option as there are already two levels of assurance, one of which is underutilised and not well understood. Adding another level of assurance is likely to increase confusion about the different engagements. We suggest that before other levels of assurance are considered, limited assurance needs to be properly identified and where it sits with respect to reasonable assurance needs to be better articulated.
- 8. Do you consider developing specific industry guides / practice aids, work programs, templates, software solutions, specific to LCEs, is an appropriate solution? If yes, please provide specific details as to the form and required content of such guides as well as the bodies that should be involved in undertaking such work.**

A generic methodology for LCEs may be helpful to aid auditors of LCEs. We suggest it would be most useful if presented in a digital form which links to the relevant requirements, application material and illustrative examples or other available resources.

- 9. Do you consider education and understanding of the scalability of the ASAs impacts LCE auditors? If yes, what form of education would be beneficial?**

As suggested in question 7 above we suggest the AUASB has a limited role with respect to education but can communicate needs identified for others to pursue. Additionally, the AUASB could publish guidance statements, bulletins and/or other material to support auditors.

10. The AUASB standards provide for reasonable and limited assurance engagements. Should a different tier of assurance should be further explored?

As explained in answer to question 7 we do not consider another level of assurance is warranted.

Activities outside of standard setting

11. Please rank the relative importance of the topics outlined in paragraph 26 (c) of this discussion paper (with 1 being the highest priority). Please provide your rationale and views on the needs and interests that would be served by undertaking such work, why certain topics are relatively more important to you or your organisation and any other relevant information to the AUASB.

Our ranking of the activities outside of standard setting detailed in paragraph 26(c) is:

1. Engage with legislative drafters: This has been an on-going issue since the AUASB was established. We would welcome pro-active measures to ensure that a proper due process is established by Commonwealth and State Governments, that requires appropriate vetting of relevant legislative and regulatory requirements to align them with the AUASB Standards. AUASB approval should also be required before assurance requirements are imposed.
2. Introduce a level of auditor other than RCA: We consider this would be beneficial not only to alleviate the pressure on the demand for RCAs, but more importantly to better manage audit quality for LCE audits and reduce the proliferation of different registration schemes. Currently there are a number of registrations required for auditors in specific industries, such as Registered Organisation Commission entities, legal practitioner trust accounts, SMSFs, QBCC licensees and the Clean Energy Regulated schemes.
3. New auditing or assurance reporting thresholds: We see this as the lowest priority as there has been significant revisions to reporting and assurance thresholds, which are only just being implemented and which have reduced the number of entities that require an audit.