

Wednesday, December 8, 2021

Auditing and Assurance Standards Board
PO Box 204, Collins Street West
Melbourne Victoria 8007 AUSTRALIA

Dear Board Members

RE: Auditing for Audits of Financial Statements of Less Complex Entities

Preamble:

For the past 10 years, we have operated as a home business providing auditing services throughout Queensland and Australia. Our services primarily include not-for-profit organisations registered under the Australian Charities and Not-for-Profits Commission and Incorporated Associations under the Associations Incorporation Act 1981. These organisations range from churches, netball clubs, soccer clubs, and bowls clubs with gaming machines to parents' and citizens' associations. Most clients are either small or medium organisations under the Australian Charities and Not-for-Profits Commission Act 2012. Jason O'Connor (B. Comm CA) is a Chartered Accountant, has a Bachelor of Commerce from the University of Southern Queensland majoring in accountancy, and has over 20 years' experience in assurance services, including external and internal audits. Jennifer O'Connor (B. Bus) has a Bachelor of Business majoring in accountancy from the Queensland University of Technology and has over 20 years' experience in assurance services, including external and internal audits.

Sources of legislation:

1. Collections Act 1966 (Queensland)¹
 - a. Section 31 Financial Statements and audit
 - b. Section 31(f) causes the accounts (including the financial statements), moneys, and property of the charity or association or, in the case of an appeal for support, raised by or resulting from the appeal for support to be audited.
2. Associations Incorporation Act 1981 (Queensland)²
 - a. Division 2 Financial reporting for incorporated associations
3. Australian Charities and Not-for-Profits Commission act 2012³
 - a. Division 60 – Reporting
 - b. Subdivision 60-C Annual financial reports
4. Corporations Act 2001⁴
 - a. Part 2M.3 – Financial reporting
 - b. Division 3 – Audit and auditor's report

¹ <https://www.legislation.qld.gov.au/view/pdf/inforce/current/act-1966-007>

² <https://www.legislation.qld.gov.au/view/pdf/inforce/current/act-1981-074>

³ <https://www.legislation.gov.au/Details/C2021C00153>

⁴ <https://www.legislation.gov.au/Details/C2021C00536>

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Note: Throughout this document, IAASB's Auditing for Audits of Financial Statements of Less Complex Entities is referred to as the 'LCE Standard'.

Questions on Consultation:

Appendix 1 – Questions on Consultation

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, the standard provides a holistic conceptual framework for a sole practitioner to operate under. A single standard for Less Complex Entities (the LCE Standard) will ensure that audit programs, templates, and letters are revised for completeness when the standard is revised with efficiency and accuracy. A single standard has the benefit of uplifting quality assurance and compliance with APES 110 Code of Ethics for Professional Accountants⁵ due to the holistic conceptual framework of a single standard.

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

Yes, the standard for less complex entities in Australia is an appropriate solution for having auditing and assurance standards that are clearly stated and easy to understand for small- and medium-organisations. During the past 20 years, the complexity of financial reporting and auditing has increased dramatically from the Royal Commission into HIH Insurance and the Corporate Law Economic Reform Program Act 2004 to the present day.

The proposed LCE Standard presents opportunities for innovation to different stakeholders within the financial reporting and audit sector from universities to increased competition within the sector whilst improving the quality assurance of the audits undertaken. With the proposed LCE Standard, universities will be able to redesign their degrees and subjects to offer minors specifically in auditing that will enable their graduates to fully understand the conceptual framework of the LCE Standard. Currently, a graduate does not have a comprehensive understanding of all auditing standards; however, the LCE Standard would present graduates with the skills and knowledge to be aware of the broader auditing standards. For example, under paragraph 1.4.5 Professional Scepticism of the LCE Standard, a graduate would be able to further broaden their knowledge by going to Auditing Standard ASA 200 Overall Objectives of the Independent Auditor and the Conduct of an Audit in accordance with Australian Auditing Standards. Through innovation within the postgraduate sector, competition within the financial reporting and audit sector for small- and medium-organisations can be increased by providing comfort to the newly qualified professional accountants that they have attained the necessary competencies of the LCE Standard to undertake audits for small- and medium-organisations.

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

Yes, the adoption of the LCE Standard will simplify our compliance with quality assurance for my practice. Our audit programs, templates, and letters will only need to be revised when the LCE Standard is revised. This will uplift our quality assurance for our practice, lower our risk, and improve our efficiency.

- 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.**

Yes, it is my professional opinion that our clients do support the proposed LCE Standard without additional reference to the full suite of standards. In general, our clients are concerned about our qualifications and that our audits are conducted in accordance with the standards required.

⁵ <https://apesb.org.au/standards-guidance/apes-110-code-of-ethics/>

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I am in agreeance with the statement the ‘auditor do not “dip in to” the full suite of standards as one is changing between different conceptual auditing frameworks.

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

No, I do not expect there to be a reduction in audit effort because of the LCE Standard. On the contrary, I expect an increase in the amount of audit work undertaken and for audit fees to increase in the short term. It is my professional opinion that the LCE Standard will increase the amount of work undertaken by auditors across the industry and uplift the quality assurance of the industry from sole practitioners and small firms to medium firms due to the holistic approach of the LCE Standard. This assumption is based on publicly available reports from the Australian Securities and Investments Commission and the professional accounting bodies that outline the current non-compliance with the Australian Auditing Standards.

Authority of the standard

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

The Australian Auditing Standards Board of Australia has the authority under Part 12 of the Australian Securities and Investments Commission Act 2001⁶ and de facto authority under the bylaws of professional accounting bodies that require their members to comply with the Australian Auditing Standards to implement the LCE Standard. Specifically, the proposed LCE Standard complies with section 224 (b) of the Australian Securities and Investment Commission Act 2012 that states:

- b) auditing and assurance standards should require the provision of information that:
 - i. provide Australian auditors with relevant and comprehensive guidance in forming an opinion about, and reporting on, whether financial reports comply with the requirements of the Corporations Act 2001.*
 - ii. require the preparation of auditors’ reports that are reliable and readily understandable by the users of the financial reports to which they relate; and**
- c) the Australian financial reporting system should:
 - i. facilitate the Australian economy by reducing the cost of capital and enabling Australian entities to compete effectively overseas.*
 - ii. facilitate the Australian economy by having accounting and auditing and assurance standards that are clearly stated and easy to understand.*
 - iii. maintain investor confidence in the Australian economy, including its capital markets.**

7. Do you agree with the proposed limitations relating to the use of ED ISA – 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)?

Yes, I am in agreeance with the proposed limitations relating to the use of the LCE Standard. I do envision situations where clients with public interest issues will need to apply the full suite of Australian Auditing Standards. For example, a medium-size organisation registered under The Corporations (Aboriginal and Torres Strait Islander) Act 2006 operating in a remote location would fall under the ‘Public Interest’ doctrine whilst a netball club that is a medium-size organisation registered under the Associations Incorporation Act 1981 (Qld) and operating in a capital city would not fall under the ‘Public Interest’ doctrine.

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?

Yes, there should be specific thresholds and criteria set out in the LCD Standard. The Corporations Act 2001, Australian Charities and Not-for-Profits Commission Act 2012, and Associations Incorporation Act 1981 (Qld) all provide a hierarchical structure for financial reporting and audits. The LCE Standard should only apply to small- and medium-organisations in parallel to the financial reporting and audit requirements contained in the above-

⁶ <https://www.auasb.gov.au/admin/file/content102/c3/AASB-AUASB Board Charter 10-19.pdf>

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mentioned legislation. This will ensure that the legislators' intentions to protect public interest are maintained whilst providing regulatory relief to small- and medium-organisations.

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?

Yes, if the Essential Explanatory Material (EEM) is kept separate from the LCE Standard. If the EEM is added to the LCE Standard the conceptual framework of the LCE Standard may be lost to the volume of the pages.

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?

Yes, the conceptual framework of the LCE Standard is maintained and holistic.

11. Do you support the auditor's report referring the ISA – 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?

Yes, the conceptual framework of the LCE Standard is maintained and holistic.

Group Audits

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

Yes, group audits should be excluded from the ICE Standard due to different conceptual frameworks. If group audits were allowed to adopt the ICE Standard material items (based upon group materiality), a subsidiary or location may not be able to obtain the same level of assurance as the parent entity due to the risk of perceived complexity. For example, a single lease for a subsidiary in isolation may be perceived as less complex; however, for the group, leases may be material and complex. Another example is fraud and the application of ASA 240 The Auditor's Responsibilities Relating to Fraud in an Audit of a Financial Report. For a subsidiary, fraud may be perceived as less complex due to the limited number of payments and receipts along with salaries being paid from the group head office. However, for the group, fraud consideration would need to be given to transfer pricing, foreign currency, hedging, and taxation as fraud may be from a subsidiary where the management of the subsidiary has made misrepresentations or errors in these areas to increase the subsidiary profits or their bonuses.

13. If group audits are to be included in ED ISA – 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?

As mentioned above in point 12, this would create a risk of perceived complexity and should not be allowed.

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Appendix 2 - Questions on Australian options to further explore

All questions relate to paragraph 26 of this Consultation Paper

General

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

I am satisfied with the Australian Auditing Standards Board adopting the LCE Standard. Firms and individual auditors will then need to make professional decisions on whether to use the LCE Standard or the scalability of the full suite of the Australian Auditing Standards.

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

I am satisfied with the Australian Auditing Standards Board adopting the LCE Standard.

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.

- a) Adopt the ISA LCE Standard when issued by the IAASB, subject to modifications under the compelling reason test.

I am satisfied with the Australian Auditing Standards Board adopting the LCE Standard.

- b) Revision of the Review Standard to increase the level of robustness of procedures.

I see a limited benefit to the industry in the revision of the review standards as small- and medium-clients, as defined by the Australian Charities and Not-for-Profits Commission, are either required to have an audit under the Collections Act 1966 (Queensland) or have activity requested an audit due to past fraud within their organisations.

- c) Limited targeted revisions to the ASAs subject to the compelling reason test. For example, where practitioners experience significant challenges in applying a requirement in an ASA to an entity's less-complex elements, the ASA could possibly be revised to deal with the challenge by including additional application and other explanatory material focused on describing considerations specific to LCEs.

With the recent changes and codifying of auditor's independence to the APES 110 Code of Ethics for Professional Accounts along with the Australian Accounting Standards Board abolishing special purpose financial statements, the auditing sector is already adjusting its business models to comply with these changes. There would be a limited benefit or increased competition with this approach. This matter would be best dealt with by the professional accounting bodies through continual professional education.

- d) Education regarding review and multi-scope type engagements, so the product of such engagements is better understood to meet user needs.

I see a limited benefit to the industry in education regarding review and multi-scope engagements, as small- and medium-clients, as defined by the Australian Charities and Not-for-Profits Commission, are either required to have an audit under the Collections Act 1966 (Queensland) or have activity requested an audit due to past fraud within their organisations.

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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.**

Yes, an appendix for each standard mapping the paragraphs and exemptions specifically to 'Less Complex Entities' would be helpful.

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.**

No, there would be a limited benefit or increased competition with this approach. This matter would be best dealt with by the professional accounting bodies through continual professional education.

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'?**

In general, our clients' are concerned about our qualifications and that our audits are conducted in accordance with the standards required. Constantly, we have government departments, both state and federal, questioning the validity of the format of our audit reports. Even though we provide explanations to these government departments that our audit report is drafted in accordance with the Australian Auditing Standards, they continue to question why we have not used the department-issued audit report from over 20 years ago.

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.**

No, there would be a limited benefit or increased competition with this approach. This matter would be best dealt with by the professional accounting bodies through continual professional education.

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.**

No, there would be a limited benefit or increased competition with this approach. This matter would be best dealt with by the professional accounting bodies through continual professional education.

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?**

No, there would be a limited benefit or increased competition with this approach. This matter would be best dealt with by the professional accounting bodies through continual professional education.

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

No, there would be a limited benefit or increased competition with this approach. This approach would make quality assurance for our firm and our risk profile more complex.

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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.

- a) Engage with those responsible for drafting legislation, at Commonwealth and State levels to consider the needs of users in specific market segments with appropriate regulators e.g., SMSFs with ASIC and ATO, small NFPs/charities with ACNC. Investigation whether there may be a need in some scenarios for a multi-scope engagement for example, reasonable assurance over cash balances and the related internal controls, but limited assurance over the remainder of the financial report.

Yes; however, this would require a legislative approach at both federal and state levels. The time frame for this venture may extend beyond 5 or 10 years as the states are slow to review and change their legislation in this area.

- b) Consider introducing a level of audit practitioner other than a Registered Company Auditor. For example, SMSF auditors are approved SMSF auditors as approved by ASIC. This may alleviate the pressure on the diminishing pool of registered company auditors.

Yes; however, this would require a legislative approach at both federal and state levels. Eventually, due to the diminishing pool of registered company auditors, the state governments will be forced to revisit their legislation. The introduction of the IAASB's Auditing for Audits of Financial Statements of Less Complex Entities (LCE Standard) would accelerate this process by providing the states with comfort that the auditor has attained the necessary competencies under the LCE Standard.

- c) Consider further revision or introduction of new auditing or assurance reporting thresholds / consideration of alignment with some accounting framework thresholds, thereby reducing the number of entities that require an audit.

Yes; however, this would require a legislative approach at both federal and state levels.

Please feel free to contact me should you wish to discuss any of the topics covered in this submission.

Yours faithfully



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