



The Chair  
Auditing and Assurance Standards Board  
PO Box 204, Collins Street West  
Melbourne Victoria 8007 AUSTRALIA  
Email: [enquiries@auasb.gov.au](mailto:enquiries@auasb.gov.au)

Our ref      Comment submission on IAASB  
                 Discussion Paper  
Contact      Tony Batsakis  
                 (+61 3 9288 6032)

19 August 2019

Dear Sir

**Comment submission on IAASB Discussion Paper, 'Audits of Less Complex Entities: Exploring Possible Options to Address the Challenges in Applying the ISAs'**

We are pleased to have the opportunity to respond to the International Auditing and Assurance Standards Board (IAASB) Discussion Paper regarding the audits of less complex entities. The letter represents the views of KPMG Australia.

Our responses to the specific questions posed by the IAASB in the Discussion Paper are set out in Appendix 1 below.

Should you wish to clarify any aspect of KPMG Australia's submission, I would be pleased to discuss. My contact details are [tbatsakis@kpmg.com.au](mailto:tbatsakis@kpmg.com.au) or +61 3 9288 6032.

Yours faithfully

A handwritten signature in blue ink, appearing to read 'T. Batsakis', written in a cursive style.

Tony Batsakis  
*Partner*

**Appendix 1 – KPMG Australia’s responses to the specific questions posed to respondents in the IAASB Discussion Paper ‘Audits of Less Complex Entities (LCEs): Exploring Possible Options to Address the Challenges in Applying the ISAs’.**

**Questions for Respondents**

- 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?**

Yes, the definition is appropriate. No other characteristics noted.

- 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.**

Particular aspects of the ISAs that in our view are difficult to apply include:

- *ASA 240 The Auditor's Responsibilities Relating to Fraud in an Audit of a Financial Report*, specifically in relation to journal entries testing.
- *ASA 315 Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*, specifically in relation to the required understanding of the entity and its environment, including internal control and the IT environment.
- *ASA 500 Audit Evidence*, specifically guidance in relation to information used as evidence regarding information produced by the entity and information produced by a management’s expert.
- *ASA 540 Auditing Accounting Estimates, Including Fair Value Accounting Estimates, and Related Disclosures*. Auditing estimates in general and the extent of audit work required over more routine estimates that do not give rise to significant risk.
- *ASA 620 Using the Work of an Auditor's Expert*, specifically the criteria for reliance on a specialist.

- 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 out work on audits of LCEs?**

The underlying causes of these challenges are the language of the current standards and understanding practically what is required for compliance, as well as extent of audit documentation. There is also a lack of guidance and examples that are relevant to LCEs. Within KPMG Australia these challenges have been addressed via our internally developed interpretation of the auditing standards, which includes additional guidance and examples to aid with compliance.

In our view there are no other broad challenges that have not been identified.

**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?**

In our view this focus should be on:

- i. Regulatory and commercial considerations regarding the determination of audit fees, as audit fee pressures ultimately have an impact on audit quality;
- ii. Value of an audit. In particular for LCEs, an audit is viewed as a regulatory requirement rather than a service that provides value to the entity and those charged with governance; and
- iii. Public expectations, including a better understanding of the audit process and the auditor's role.

**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?**

Refer to ii. below.

**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.**

In our view, actions A Revising the ISAs and C Developing Guidance for Auditors of LCEs or Other Related Actions would appropriately address the challenges outlined above.

With respect of B Developing a Separate Auditing Standard for Audits of LCEs, in our view this would only work to further increase the complexity, as it creates a different compliance framework for different entities.

**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?**

None noted.

**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.**

In our view, action A Revising the ISAs should be pursued as a priority. This could include signposting the requirements that are applicable and specific to LCEs within the ISAs.

In particular, in respect of action A Revising the ISAs, we strongly support the adoption of a format that prescribes the minimum compliance requirements for all types of entities, along with the inclusion of additional requirements for more complex entity audits, enabling the ISAs to be more scalable and clearer for LCE audits than the current version of these standards. By way of example, in testing an IT general controls environment for an LCE, where an LCE is largely reliant on off the shelf IT software packages, requirements may be limited to review of the design and implementation of IT controls.

**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?**

None noted.