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12 September 2019

International Auditing and Assurance Standards Board (IAASB)
529 Fifth Avenue, 6th Floor,
New York, NY 10017
United States of America

Submitted via website: www.iaasb.org

Dear Sir/Madam

**DISCUSSION PAPER, AUDITS OF LESS COMPLEX ENTITIES: EXPLORING POSSIBLE
OPTIONS TO ADDRESS THE CHALLENGES IN APPLYING THE ISAs**

The Institute of Certified Public Accountants of Uganda (ICPAU) appreciates the opportunity to respond to the **Discussion Paper, Audits of Less Complex Entities: Exploring Possible Options to Address the Challenges in Applying the ISAs.**

We greatly thank the Board for this move since some practitioners in Uganda have challenges with application of ISAs during the audits of Less Complex Entities (LCEs). ICPAU is more inclined to the option of review of the existing standards as well as development of guidance material for auditors of LCEs and as such recommends that the Board considers these options.

Our detailed comments are herein attached.

We hope you will find our comments helpful.

Yours sincerely,



CPA Charles Lutimba
MANAGER, STANDARDS AND TECHNICAL SUPPORT
Institute of Certified Public Accountants of Uganda

Encl (ICPAU's comments)

Appendix: Comments to the Discussion Paper, Audits of Less Complex Entities: Exploring Possible Options to Address the Challenges in Applying the ISAs.

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Appendix: ICPAU's Comments on the IAASB Discussion Paper- Audits of Less Complex Entities: Exploring Possible Options to Address the Challenges in Applying the ISAs

ICPAU's approach to the call for comments on the discussion paper

ICPAU is mandated to maintain and regulate the standards of accountancy in Uganda. One of our critical objective through which this is achieved is by encouraging and supporting the delivery of high-quality audits by accounting firms to the general public. The ICPAU Council is an independent standard-setting board that establishes standards on auditing, review, other assurance, quality control, and related services in Uganda. Our experience through various interactions with stakeholders over time has revealed that some small and medium-sized practices (SMPs) experience challenges in auditing LCEs. Based on the debate around how to make the auditing standards more suitable for LCEs, the ICPAU developed an e-survey to obtain the views from its members in relation to the proposals included in the IAASB discussion paper. The link to the survey was distributed to members via email and social media between May and August 2019. Additionally, views were obtained internally within the Professional Standards Directorate of ICPAU. The survey was completed by over 44 respondents, hereafter referred to as survey respondents.

The comment letter is designed to reflect the results of the e- survey. As such the comment letter is a presentation of the perceptions and views of the respondents on the issues emphasized in the discussion paper.

ICPAU'S COMMENTS

Question 1: We are looking for views about how LCEs could be described. 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?

Comment:

ICPAU generally agrees with the characteristics of LCEs described in the discussion paper. 100% of the survey respondents agreed with the description for the types of entities that should be focused on in relation to audits of LCEs as stated in the discussion paper.

The respondents concurred with the Board that "smaller entities" does not appropriately capture the type of entities for which practitioners experience scalability challenges in performing audits. Rather, a more accomodatable term "less complex entities" could be more ideal. However they tended to agree more strongly with some descriptions as shown below:

- 51% of the respondents stated that these are entities with straightforward or uncomplicated transactions
- 42% of the respondents stated that these are entities with concentration of ownership and management in a small number of individuals.
- 40% stated that these are entities with a simple record keeping.
- 33% stated that these are entities with a few lines of business and few products with business lines.

- 21% stated that they are entities with a few internal controls.
- 14% stated that they are entities with few levels of management with responsibility for a broad range of controls.
- 16% were of the view that these are entities with a few personnel, many having a wide range of duties.

Overall there was less support for the last three descriptions above.

Based on the above statistics, ICPAU believes that the description contained in the discussion paper are appropriate description for LCEs.

The survey respondents also suggested that some more characteristics could be included in the description of LCEs including;

- Simple organizational structures
- Inadequate supervision and poor management style
- Operations in a limited geographical area

Question 2: Section II describes challenges related to audits of LCEs, including those challenges that are within the scope of our work in relation 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? Include references to the specific ISAs and the particular requirements in these ISAs that would be problematic in an audit of an LCE.**

Comment:

ICPAU's comment on this question is based on the feedback from members who participated in the survey. 73% of the survey respondents stated that the following as the particularly difficult aspects of the ISAs to apply:

- **ISA 240: The Auditor's responsibilities relating to Fraud in an Audit of Financial Statements.** The respondents believed that the extent and nature of work relating to fraud most particularly rebutting the presumption that there is always a risk of material misstatement due to fraud related to revenue recognition and developing relevant testing of journal entries to meet the prescribed requirements when the risk of management override of controls is assessed as being low.
- **ISA 265: Communicating deficiencies in internal control to those charged with governance and management** because these entities usually have no or very weak internal control systems.
- **ISA 315 (Revised): Identifying and assessing the risks of material misstatement through understanding the entity and its environment.** Understanding the entity, its mode of operations and real owners might be a challenge for the type of entities described as LCEs. In addition where internal controls may not be relied upon, some respondents expressed that the audit evidence obtained from understanding

the client's internal controls does not contribute to the auditor's overall conclusion or opinion.

- ISA 320: Materiality in planning and performing an audit.
Determining levels of materiality and sample sizes is always a challenge in most audits.
- ISA 500: Audit evidence.
The procedures for obtaining audit evidence required by ISA 500 are cumbersome for the audits of LCEs.
- ISA 505: External confirmations.
Most external confirmations are not responded to and the performance of alternative procedures as required by the standard in this case does not usually provide the audit evidence the auditor requires.
- ISA 540: Auditing accounting estimates, including fair value accounting estimates and related disclosures.
The auditing of accounting estimates is always problematic even in other types of audits because it involves significant use of professional judgment.
- ISA 570: Going concern.
Assessment of going concern in these types of entities with very weak structures is difficult since their survival tends to depend on the availability of the owners.
- ISA 700 (Revised): Forming an opinion and reporting on financial statements.
There is a high risk of type II error when forming an opinion during the audits of these entities.

Overall the respondents believed that challenges in applying the ISAs occur most commonly in the planning phase of the audit and often relate to determining the applicability or scalability of the requirements in the respective applicable ISAs to an entity at hand.

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?

Comment:

From interactions with practicing accountants in Uganda, ICPAU suggests the following as the underlying causes of the challenges mentioned in 2(a) above:

- Burdensome documentation of transactions which makes application of procedures recommended by the different ISAs difficult. Significant time is thus spent documenting and supporting which standards and requirements are not relevant to an audit engagement.
- ISAs are complicated to interpret and apply in a logical and sequential order of a risk based audit.
- LCEs offer low audit fees making the performance of all procedures required by the different ISAs impossible and or uneconomical.
- Owners do not separate business transactions from personal transactions making it hard to trace each and every transaction.

- Most of the ISAs are framed to be applied in large well-structured organizations with big volumes of transactions which is not the case with LCEs. Therefore applying the ISAs for the audit of LCEs becomes unrealistic.

The extent to which these challenges are managed depends on the resources available to an individual accounting firm. Small and medium practices (SMPs) continue to have serious challenges in the audits of LCEs since they have not found lasting solutions to the challenges above.

Question 3: With regard to the factors driving challenges that are not within our control, or have been scoped out of our explanatory 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?

Comment:

In regards to challenges to audits of LCEs that are not within the IAASB's control, ICPAU suggests that the Board focusses on the following:

- Training of auditors.

The IAASB should come up with different avenues through which the auditor's understanding of existing, new or revised ISAs can be enhanced. This will help to equip the auditors with knowledge about the prescribed requirements in the different ISAs and thus make the execution of the audits of LCEs more effective. This training may take the form of frequent webinars or publication of articles aimed at addressing the challenges highlighted above.

- Guidance material

The IAASB should develop guidance material that is specific to the audits of LCEs. This will go a long way to ease the work of the practitioners during these audits. This is especially needed in situations of planning, documenting and reporting of these audits.

Question 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 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?

Comment:

61% of the respondents to ICPAU's survey were supportive of either developing a separate auditing standard for audits of LCEs or developing guidance for auditors of LCEs. 20% of the respondents supported the idea of revising the existing ISAs to cater for audits of LCEs. A similar proportion of survey respondents were in support of having a separate standard for audits of LCEs, but believed this standard would be complimentary to the existing framework.

The respondents who supported the idea of revising the existing ISAs and were against having a separate standard explained that:

- a) It would be difficult for audit practitioners to keep abreast with changes to two sets of auditing standards;
- b) It may cause challenges to differentiate when to apply the auditing standard for LCEs and when to apply the ISAs; and most importantly that
- c) A separate auditing standard for LCEs may be perceived by the public as either an inferior standard or one that results into a lower audit quality than an audit conduct in accordance with ISAs.

Whereas the survey respondents seemed deadlocked between the two alternatives described above, ICPAU suggests that the review of existing standards as well as development of guidance material for auditors of LCEs would be the most appropriate approach.

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.

Comment:

ICPAU believes that developing a separate auditing standard for the audits of LCEs may create a perception gap and may be viewed by the public as either an inferior standard or one that results into a lower audit quality than an audit conducted under the ISAs.

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?

Comment:

- No comment

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.

Comment:

ICPAU suggests that the IAASB should promote awareness and provide guidance on the application of ISAs in the audits of LCEs. This is because the basic procedures within the ISAs are unlikely to change even when a separate standard is developed for LCEs. Aspects like going concern assessment, sampling, auditing of accounting estimates, materiality and formation of an opinion need to be addressed through guidance material, webinars etc. so that auditors of LCEs can find it easier to perform these procedures.

Additionally, the IAASB should engage the public to appreciate the relevance of auditing. This will help to encourage small business owners to appreciate the importance of proper book

keeping which will in turn make audits of LCEs much easier. It will also help to narrow the expectation gap between the auditors and the owners of LCEs.

Question 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?

Comment:

Small and medium sized practices mostly deal with SMEs and LCE clients. Efforts should be focused to empower them by providing due support mechanism. This could be done through such initiatives like creating "Practice Support Centers and or "Practitioners Foras" taking care of basic needs of SMPs in terms of technical, regular training, technology and resources at minimal cost or no charge at all. Professional Accountancy Organizations should closely interact with SMPs within their jurisdictions to ensure continued support overtime.