

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

**Response from the Chartered Institute of  
Public Finance and Accountancy (CIPFA)**

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**CIPFA, the Chartered Institute of Public Finance and Accountancy**, is the professional body for people in public finance. CIPFA shows the way in public finance globally, standing up for sound public financial management and good governance around the world as the leading commentator on managing and accounting for public money.

Further information about CIPFA can be obtained at [www.cipfa.org](http://www.cipfa.org)

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

CIPFA is pleased to present its comments on this discussion paper which has been reviewed by CIPFA's Accounting and Auditing Standards Panel.

CIPFA is a professional accountancy body whose principal focus is promoting high standards in public sector governance and public financial management, and also encompassing wider public services delivered by non-profit bodies. CIPFA therefore responds to consultations which affect these sectors or where there are implications for accountancy generally that would impact on the public sector or non-profit sector

**Comment**

We would note that CIPFA has an ongoing interest in the development of ISA standards which are readable and understandable. In our view, a key element of this is that

- ISAs should use a principles based approach to explain how the audit objectives should be achieved
- This should allow ISA requirements to describe how to obtain assurance in simpler cases first; the detail of how to deal with more complex situations should be built around the simpler case.

In CIPFA's view, this approach would improve the ISAs in all circumstances, including the audit of highly complex entities, because it would make the ISAs more understandable.

CIPFA is also interested in this consultation because many public sector audits are of less complex entities. In particular, the need for public accountability means that in many jurisdictions there is a statutory requirement for audit for public sector entities which are quite small in financial terms. The affairs of many of these entities are very simple.

Against this background we would agree with suggestions that the development of ISAs has come to be dominated by the requirement to cope with the circumstances of the largest and most complex audits. While ISAs often allow for proportionate application to simpler and less complex cases, this is obscured by the current drafting approach.

Additionally we would note that similar considerations apply to the charity sector in the United Kingdom, and more generally to not for profit entities in other jurisdictions.

For the reasons above, CIPFA would support initiatives which support the achievement of audit in a proportionate manner for the circumstances of less complex entities.

In an ideal situation we would support Option A. However, we are concerned that this might not be achievable in a reasonable timescale. Against this background we therefore make the following comments:

CIPFA is content with the proposal in Option B that the IAASB should work on developing a separate standard for LCE audits. We would anticipate this being a separate standalone standard based on the existing ISAs, and designed to provide comparable assurance to 'full ISA audit', having regard to the lower risk profile of less complex entities.

The definition of Less Complex Entities in the Discussion Paper is not applicable to public sector or not for profit entities. The definition should be revisited to provide for its application to public sector and not for profit entities.

Additionally, we suggest that IAASB should over time revise the ISAs following a think simple first approach. At some time in the future this might render the LCE standard unnecessary.

We hope this is a helpful contribution to IAASB standards development.