Audits of Less Complex Entities
Q1 Views about description of LCEs

Q1 Agree

4. Accounting Firms

Crowe Global - 86

We consider the description presented in the Discussion Paper to be appropriate. Risk ought to be the determinant of “complexity” rather than size.

We agree with the qualitative characteristics set out on page 4 of the Discussion Paper and see these as a basis for development.

As an observation about qualitative characteristics, we have no issue with regarding a small, thinly traded and narrowly held quoted company with straightforward activities (such as a mineral resource prospector that has no revenue) as “less complex”.

6. Member Bodies and Other Professional Organizations

The Institute of Chartered Accountants of Ghana - 71

The description and qualitative characteristics in the Discussion Paper (DP) on a smaller entity, or a Less Complex Entity (LCE) fit very well, and are appropriate, bearing in mind the intention of scalability of the audits of such entities. The description provided was not based on the size of an entity but rather factors such as complexity of the entity’s transactions and its record keeping, lines of business, levels of management and internal control considerations.

We agree that there are small sized entities that are complex and these small sized entities should be excluded from consideration. A smaller entity that has complex transactions with many product lines or business lines may be considered as a complex rather than a less complex entity. Other entities that are larger may have less complexities involved in their operations. Such entities can be considered as LCEs.

8. Individuals and Others

Chartered Accountants Academy - 66

We agree with the description.

It is appropriate, in that it can easily be used together with legal definitions being used in other jurisdictions since it is based on qualitative characteristics that are not exhaustive or prescriptive. Those auditors in jurisdictions without any guidance currently, will be able to use the description as guidance while still exercising professional judgement in consideration of these and any other additional characteristics.

Q1 Agree but with further comments

3. National Audit Standards Setters

American Institute of Certified Public Accountants (AICPA) - 27

In addition to the characteristics listed on Page 4 of the discussion paper, possible additional characteristics include:
Involvement of the owner and/or manager in day to day operations.

There are a limited number of accounting estimates and they are not complex or highly subjective.

We agree with the notion of using complexity rather than entity size. Additionally, as noted above, while we agree that developing the characteristics of an LCE is an important part in scoping the potential changes or development of audit standards for those entities, an exact global definition is not as critical as first determining what aspects of the standards are more challenging for LCEs to apply. If the term Less Complex Entity is used, it should be consistently used in all ISA standards and guidance.

Austrian Chamber of Tax Advisors and Public Accountants (KSW) - 20

Answer: We support the description of an LCE, which is based on qualitative characteristics rather than size. Although the IAASB should consider more risk-based factors.

On the other hand, the IAASB should think about a different approach in general, where a description of a LCE would not be needed. Having in mind the audit procedures to be performed in order to achieve the required assurance level, the consideration of complexity should be performed on an audit area or cycles level of an entity, for example revenue cycle or purchasing cycle. Entities could have simple transactions in one cycle and therefore to be considered as less complex, but complex transactions in another cycle.

We suggest the classification of the entity as an LCE should be performed in the course of the client/engagements acceptance procedures because a basic, but sufficient understanding of the entity would be attained at this early stage.

Canadian Auditing and Assurance Standards Board - 81

We support the IAASB’s direction to focus on complexity as a driver of scalability and proportionality of the ISAs. However, we believe that the characteristics of an LCE as presented in the Discussion Paper may be indicative, but not determinative, of an LCE partly because each characteristic is subject to a wide range of interpretation. For example:

The characteristic of “concentration of ownership and management” does not define the complexity of an entity. An entity with a simple business model and less-complex operations and financial statements may have a wide range of ownership or many stakeholders. Conversely, an entity with a single shareholder could have operations and financial statements that are complex.

We agree with the caveats currently included in the LCE description in the Discussion Paper stating that the list of characteristics is not exhaustive, the characteristics are not individually exclusive to LCEs, and that an LCE will not necessarily display all of the listed characteristics.

The use of the LCE description

We believe that the description of an LCE should not to be viewed or used as a checklist, nor a “bright-line” definition of a less complex entity. Determination of complexity should be:

judgement based, and driven by the facts and circumstances of an entity’s operations and financial statements;

a continuous assessment that could change over time; and

a continuum that, based on the auditor’s judgment, may affect the nature, timing, and extent of the audit procedures performed.
As such, we recommend that the description of an LCE should be used only as a frame of reference to the IAASB’s work in addressing the challenges in applying the ISAs.

The challenges practitioners encounter in applying the ISAs are not unique to LCEs and arise regardless of whether an entity meets or does not meet the characteristics of an LCE (however defined). Audits of most entities involve some elements of complexity and some elements of simplicity. It is only the very simplest of entities that have no elements of complexity.

Accordingly, we believe that the challenges in applying the ISAs require a solution that focuses on the complexity of the elements of an entity’s operations and financial statements rather than on the complexity of the entity. Therefore, the most effective solution is to address within each ISA the ability to scale or modify requirements for the less complex elements of an entity’s operations and financial statements.

Characteristics which recognize the complexity of elements of an entity’s operations and financial statements include:

- the nature of the organizational structure,
- the entity’s decision-making process,
- geographic location(s),
- the type and nature of accounting transactions,
- management judgments and estimates, or
- financial reporting requirements.

In our discussion with stakeholders, there was no specific entity definition or description that guided the conversation. Instead, stakeholders described difficulty scaling the ISAs for the less complex elements of an entity’s operations and financial statements.

The characteristic of “few internal controls” does not define the complexity of an entity. Recognizing that “few” can mean a different number to different people, an entity having less-complex operations and financial statements may have more than a “few” internal controls. Also, an entity may have few internal controls, but those controls may not be sufficient to support the entity.

Finally, we have a concern concerning the criterion of ownership concentration which, in our view, should be analyzed carefully. As an example, some large State owned companies, cannot be considered as less complex entity even though they have just one shareholder: the State.

We fully support the approach retained by the IAASB to focus on LCEs. We consider that, at international level, it is not desirable to set quantitative criteria to define a small entity, since such criteria are intrinsically linked to the characteristics of the national markets. Thus, one entity can be considered small in one national market and not in another one. We believe that setting quantitative criteria to define specific groups of entities should remain the responsibility of the national authorities.

We therefore fully support the definition of an LCE that is based on qualitative characteristics. The qualitative characteristics listed in the discussion paper are those developed in ISA 200 to consider “smaller entities” (paragraph A66). However, we believe that the IAASB should also consider the following additional qualitative characteristics:

- Non-complex accounting estimates;
Simple business model;
Limited diversification of economic activities;
Limited use of external service providers;
Stability in the entity’s business, i.e. the entity’s strategy is not to be sold in the short term;
Limited volume of transactions;
Non complexity in the entity’s environment, i.e. an entity may not be complex but may evolve in a complex environment (e.g. certain PIEs);
Non complexity in the financing of the entity (e.g. no agreement with complex covenants, no complex loans with several banks, no banking pool);
No cash flow difficulties with potential going concern issues;
Whether the entity uses a professional accountant in public practice to assist in preparing its financial statements;

Hong Kong Institute of Certified Public Accountants - 74
In general, we consider that the description is appropriate for the types of entities that would be the focus of the IAASB's work in relation to audits of LCEs.

We consider that the description is fit for the purpose as a starting point for discussion. However, the IAASB should tailor the characteristics when developing the guidance or standards and provide more parameters on how to determine LCEs. A clear definition of LCEs will be important to enable the auditor to determine whether an entity is a LCE and which auditing standard should be applied for the audit of such entity.

Other than the characteristics set out in the DP, we consider that LCEs should explicitly exclude listed entities or public interest entities (“PIEs). Listed entities or PIEs normally have a large number and wide range of stakeholders, additional regulatory or legal requirements are applied to these entities to address the perception concerns. Therefore, these entities usually have more complex internal controls and more levels of management with responsibility for a broad range of controls.

Korean Auditing and Assurance Standards Board (KAASB) - 23
In addition, the scope of LCEs will be eventually prescribed by each jurisdiction’s laws and regulations, but still it is necessary for the IAASB to provide a clear-cut definition on LCEs in the ISAs and relevant guidance, thereby making it possible for the ISAs to be consistently applied in the world.

We believe the current definition of a “smaller entity,” set out in the extant ISAs, provides sufficient characteristics, in general, of LCEs. We suggest further consideration be given into whether to include group audits and entities using service organizations.

Malaysian Institute of Accountants (MIA) - 30
We believe that the term “less complex entity” (LCE) is appropriate. However, we are of the view that the term “few” in the qualitative characteristics set out in the DP has ambiguity in its meaning as different assessments of what would be considered as few internal controls, few lines of business, few levels of management or few personnel in an entity may occur.

We would like to highlight that currently, the accounting standards: only provide a definition of Small and Medium Size Entities (SMEs) rather than LCEs. IFRS for SMEs defines SMEs as entities that do not have
public accountability and publish general purpose financial statements for external users. It would be beneficial for the IAASB to consider harmonising the definition of LCEs with the IASB to avoid confusion in terminology and allow effective implementation of audit of LCEs.

We also wish to highlight possible consequences in applying the definition of LCE which are as follows:

We believe the following characteristics could be added for consideration in describing LCEs:

The audit does not involve the use of experts and specialists.
The entity does not operate in a complex or highly regulated industry.
The entity operates in a simple IT environment.
The entity’s owners and management are the same individuals.
The entity does not actively seek third party finance.
The entity has no or few significant judgements and estimates in accounting.
Stakeholders may be confused by what constitutes an LCE and a non-LCE.
It may be difficult to achieve consensus on the definition of LCE similar to the definition of public interest entities (PIE) where there is no global consensus reached to date on what ought to be classified as PIE.
There is a possibility for stakeholders to force the definition of a LCE to a non-LCE and vice versa which may further create confusion.

Given the description of LCE on page 4 of the DP, stakeholders may assume an entity as LCE by fulfilling the concentration of ownership or management criteria with only one of the criteria listed in part (b) of the definition. For example, a technology company may have few levels of management with responsibility for a broad range of controls but transactions could be complex or complicated. In this case, the IT company will meet the LCE definition which may not be appropriate.

The entity is not a component of a public interest entity (PIE).
There are no significant minority interests.
The organizational structure is not complicated or unusual.

New Zealand Auditing and Assurance Standards Board - 53

Another concern raised by New Zealand constituents is that certain types of smaller entities may use certain types of transactions that are particularly complex to account for, because of their small size. For example, startup entities use share-based payments to remunerate their employees. Such payments are required to be measured in accordance with IFRS 2 Share-based Payment. Amongst other things this would require determining the fair value of the entity’s shares. While this is rather a straightforward matter for a listed company with an active share market, a small entity without an active market for its shares may find it very difficult to determine the fair value of its shares. The entity has no in-house expertise to deal with this matter and engaging an external expert to undertake the valuation is very expensive.

Furthermore, some of the NZAuASB’s constituents question the feasibility of conducting an audit of a very small entity in accordance with the ISAs from an economic perspective (in the New Zealand context a common example of a very small entity is a Registered Charity with annual expenditure less than NZD 250,000). The feedback indicates there may be a need to distinguish between an LCE and what some refer to as a micro entity.
The NZAuASB agrees with the Working Group’s observation that complexity is not only about size. The NZAuASB appreciates that this project is work in progress and that the discussion paper has used the existing definition of a small entity (i.e. applying a size criteria) as a convenient starting point although this may be somewhat contradictory to the point that complexity is not only about size.

The NZAuASB believes that instead of using size oriented qualitative characteristics, it may be more useful to consider what constitutes the main attributes of a Less Complex Entity, by establishing how those attributes impact the risks of material misstatements in the entity’s financial statements. Such characteristics can be divided in the following two categories.

The qualitative characteristics that affect the complexity of the risks of material misstatements in an audit engagement. These may include:

- The applicable financial reporting framework and its impact on risk of material misstatements (e.g. a primarily fair value measurement based financial reporting framework vs a financial reporting framework with a historical cost basis of measurement).
- Whether the entity is publicly accountable.
- The nature of the entity’s business, its transactions, assets and liabilities.
- Applicable legal and regulatory requirements.
- The extent and importance of transactions with related parties.

The characteristics that underline the nature, quality and type of audit evidence to address the risk of material misstatements. These may include:

- Whether an entity requires a sophisticated and highly integrated information system to be able to meet its financial reporting obligations (including disclosures and information required for various tests such as impairment, going concern, fair value measurements etc.).
- The competency of key individuals responsible for the preparation of the entity financial statements.
- The extent of the availability of relevant and reliable evidence from external sources other than the entity’s information system or other forms of evidence generated by the entity to support the entity’s key assertions in the financial statements.
- The extent of assertions in the financial statements that cannot be adequately addressed without using information produced by the entity.
- The required timing of the entity’s financial reporting.
- The quantity or volume of the entity’s transactions and other information relevant to the entity’s financial statements.

The NZAuASB’s consultation with its New Zealand stakeholders also indicates that some of the characteristics of a smaller entity may be less relevant in today’s evolving corporate governance than a decade ago.

For example, there is an increased level of independent directors’ involvement in the governance of closely held entities with one or few shareholders. This may indicate the concentration of management and governance may not be a very accurate proxy for size, except for very small entities (e.g. micro entities).
The Japanese Institute of Certified Public Accountants - 41

In our view, it should be understood that listed entities are excluded from the definition of LCEs because of the characteristic a. (i.e., “concentration of ownership and management in a small number of individuals”). We believe that non-listed entities that have significant public interest (e.g., unlisted banks) should also be excluded from the definition of LCEs; however, it is not clear from the definition on page 4. We suggest “no significant public interest as it does not have a large number of stakeholders” be included as an essential qualitative characteristic similar to a.

We agree that it is difficult to establish a threshold for the size of entities that can be applied globally, and we also agree that the size is not the only issue in today's environment. However, whether the entity is less complex is a relative concept, which is determined based on a subjective judgment. Therefore, in order to ensure an appropriate degree of consistency, we suggest that the IAASB provide typical examples of entities that the IAASB considers to be LCEs. We also believe that inclusion of a description that indicates the size (such as annual sales and number of employees) in the examples would be beneficial for fostering a common understanding about what are envisaged as LCEs. Without a common assumption about the size, it would be difficult to reach a consensus on what should be required for audits of LCEs. For example, the extent of understanding of the entity’s system of internal control that the auditor is required to obtain depends not only on complexity, but also largely depends on the size of the entity. Therefore, an indication about the size of the entities for LCEs will be beneficial to make a discussion fruitful.

We believe some non-profit organizations may fall under the category of LCEs. However, non-profit organizations do not have the concept of "ownership" described in a. and it is therefore unclear whether a non-profit organization may fall under the definition of LCEs. We believe that the definition should clarify that non-profit organizations may fall under the category of LCEs.

We believe that the qualitative characteristics described on page 4 are generally appropriate for the description of the types of entities that would be the focus of the IAASB's work in relation to audits of LCEs. We also believe that the definition of LCEs should be principle-based as described on page 4, so that each jurisdiction can decide how to apply the definition in light of its circumstances.

However, we believe that it is necessary to have a common understanding across the globe of what types of entities fall under the definition. From these perspectives, we have the following comments.

4. Accounting Firms

BDO International - 60

While we largely agree with the characteristics described in parts a and b, we note that certain points could be clarified further and/or additional characteristics included. We suggest the following points that provide further clarity on the characteristics of LCEs and therefore could be incorporated into the definition of LCEs:

• A business model that is easy to understand
• Business risks that are easy to identify and assess
• A control environment that is easy to comprehend
• A possible lack of segregation of duties and established procedures due to limited numbers of staff employed by the client
• Less complex financial reporting standards (e.g. IFRS for SMEs)
• Stable legal and regulatory environment
• Operations that are less likely to be impacted by rapid technological change

• An entity that is less likely to be subjected to public scrutiny.

The shift in focus from ‘size’ to ‘complexity’ is a positive one, reflective of the fact that smaller entities may still be complex and larger entities may not be complex. Standards are intended to be scalable based on risk and we agree that risk relates much more to complexity than size.

We welcome the change in terminology from small and medium-sized entity (SME) to less complex entity (LCE). However, with respect to the definition of LCEs provided on page 4, we note that this definition has been carried over from the previous SME definition and has not been changed. The characteristics therefore continue to focus on size and volume as opposed to complexity.

It is unclear if the ‘complexity’ determination is considered from the entity’s perspective or from the auditor’s perspective. For example, a simple, straightforward entity with a control environment where there are few controls may actually result in complexities for the auditor in how to approach the audit. We believe that the term ‘complexity’ refers to the entity itself rather than whether the audit may be complex.

A useful consideration when rewriting the LCE definition could be to differentiate between internal factors based on the nature of the entity (i.e., control environment, stakeholders) and external factors (i.e. industry, legal and regulatory environment, accounting frameworks, technology changes).

The LCE definition will be critical when deciding on the appropriate course of action. For example, if the IAASB decides to adopt a single standard for LCEs, then we must have a clear way of determining the audits that could be scoped into this standard

Duncan & Toplis Limited - 15

Further characteristics could include;

A limit on the number of material income streams.

Simple financing, no complex financial instruments.

Simple remuneration / no complex share-based payment arrangements.

R1: We believe that the characteristics are a good start point for defining a LCE. We also believe that any definition should clearly exclude certain types of entity. For example, PIEs or entities receiving a significant proportion of its income from public sources.

We believe that any formal LCE definition would have to be explicit, or at least require the auditor to clearly demonstrate on the audit file how an entity meets the criteria of being a LCE against a standard set of requirements (not all having to be met).

Ernst & Young Global Limited - 25

Finally, we believe that it would be helpful to highlight in the definition or in application guidance to the definition whether an entity that has multiple subsidiaries (i.e., an audit subject to ISA 600) could be considered an LCE or whether a component of a group audit could be considered an LCE.

We are supportive of the overall direction of the use of overarching principles in the definition of LCEs. This would allow auditors to use their professional judgment, taking into account an entity's nature and circumstances, to determine whether an entity meets the criteria of an LCE. However, we believe the definition of an LCE that is proposed in the Discussion Paper needs enhancement to make it capable of consistent application. The definition, as currently drafted, is open to great interpretation as to which entities
would meet the definition of an LCE. We recommend that the IAASB develop a framework to support the application of the definition and that includes factors for consideration to help determine whether the entity is less complex, along with examples on how to apply the framework. Examples of high-level factors to consider in determining an entity’s complexity could include the following:

Lack of complexity of the entity’s business model, which means that it has few sources of income or activities (e.g., a limited range of products, services and locations)

Simplicity of the entity’s business processes, financial reporting processes and IT processes

Few regulatory considerations

For the high-level factors, detailed considerations could also be provided. For example, in considering an entity’s IT environment and whether it is less complex, detailed considerations could consist of the following:

Low reliance on IT at the entity. The IT application used by the entity is a purchased and unmodified IT system from a reputable vendor, or otherwise of low complexity.

Another example for determining complexity could be around the use of experts. If the entity is making extensive use of specialized skills involving tax, or extensive use of management experts (e.g., for valuation of complex derivative instruments, actuarial valuations or internally generated estimates), then the entity’s business and financial reporting processes are probably complex and would not qualify as an LCE.

We support the IAASB’s effort to create a definition for LCEs. We agree with the IAASB’s starting point of adapting the current definition in the ISAs of a smaller entity to become the definition of an LCE. However, how LCEs are described in the Discussion Paper can be enhanced. We believe that it would be critical for the definition of LCEs to be clear and capable of consistent application should the IAASB take an approach involving differential auditing requirements for LCEs versus other entities. For approaches involving guidance or supplemental implementation materials, the definition also will remain important to guide appropriate use of that guidance or materials. Our specific feedback on how LCEs are described in the Discussion Paper is included in our response to Question 1 below.

Grant Thornton International Limited - 62

A suggested description of an LCE, for the IAASB’s consideration is as follows:

A less complex entity is an entity that may possess one or more of the following characteristics:

Concentration of ownership and management in a small number of individuals;

Straightforward or uncomplicated transactions;

Simple record-keeping;

Accounting policies selected by management that are straightforward;

Internal controls that, although established, may not be documented;

A simple organizational structure with few levels of management with a responsibility for a broad range of controls;

Few personnel with a wide range of duties.
Less complex entities do not necessarily need to possess all of these qualitative characteristics and professional judgment is required to determine whether an entity possesses the relevant qualitative characteristics to be classified as a less complex entity.

The audit of a less complex entity is characterized by a simple risk assessment process necessary to design appropriate responses.

Further, the audit of an LCE can be characterised by its simplicity. For example, in understanding the entity and its environment, it is likely that a simpler risk assessment process will be appropriate to determine the appropriate nature, timing and extent of procedures to be performed and less reliance will be placed by the auditor on internal controls in designing further audit procedures.

It should be clear that not all of the qualitative characteristics identified need to be met for an entity to be classified as an LCE, i.e., the absence of one of the characteristics of an LCE does not automatically mean that the entity cannot be classified as an LCE. Professional judgment will always be required to make this determination.

Selection of accounting policies – The applicable financial reporting framework and the way in which management applies that framework to the entity through the selection of accounting policies allowed can impact complexity. For example, the framework may allow for an investment in a subsidiary to be recorded at cost or to be consolidated into the financial statements. The former option being a less complex accounting policy choice than the latter.

We are of the view that the current definition of a smaller entity used by the IAASB would be an appropriate basis from which to describe less complex entities (LCEs), however we would suggest the following changes in respect of the characteristics of the entity:

Ownership – Part a. of the definition could be deleted, and the concentration of ownership included with the other factors. We do not believe that concentration of ownership is a pre-requisite for all LCEs and may have an unintended consequence of scoping out entities that are less complex but are more broadly owned. For example, a cooperative by its nature would typically have a broad ownership but may not otherwise be complex.

HLB International - 57

The current starting point uses (a) Concentration of ownership and management by a small number of individuals (often a single individual

– either a natural person or another enterprise that owns the entity provided the owner exhibits the relevant qualitative characteristics).

It may be more appropriate to look at public accountability rather than ownership or to consider both criteria. Looking to ‘ownership’ might create difficulties when applying the definition to charities and other not-for-profit organizations (incorporated without share capital) which could potentially, and depending on the circumstances, also be appropriately considered less complex entities. Using ‘public accountability’ would help scope out more complex entities, like for profit enterprises with publicly traded shares or debt, and not for profit entities (above a certain revenue threshold or with a public sector purpose like local governments).

It seems to us that one of the main issues with definitions such as LCE and scalability is that they are open to a wide variety of interpretations. What we consider to be a less complex entity often depends on the market conditions in a jurisdiction, the portfolio the firm or the engagement partner is dealing with and other
parameters which can be difficult to define across the board. It is therefore paramount that auditors in all jurisdictions can be confident that their interpretation is fully aligned with that of regulators. It is our hope that including ‘public accountability’ as a criteria might help improve this process.

We agree with the qualitative characteristics noted in part (b) of the description.

HW Fisher - 17

The existing definition of a small entity does cover the main characteristics which are relevant to the current project (and does not make specific reference to measures of size). Many of the factors are interrelated but we would highlight “few internal controls” as the key factor. We do not think that auditing standards should assume a level of internal control which less complex entities see no need for, while in circumstances where such controls are relied upon by the client a more efficient approach will often be to test them.

However, we do not support the development of a separate set of requirements for smaller or less complex entities so that we do not believe that this definition, or a separate definition of less complex entities, is necessary to progress the project.

MGI Worldwide - 18

An LCE may also include an entity that operates significantly only in one territory as cross-border operations, whether through branches, subsidiaries or exports, may potentially increase the risk to the entity.

The qualitative characteristics outlined in b. are also relevant, although we consider that an LCE should always have “straightforward or uncomplicated transactions”, with the other points listed being more ancillary. An entity may concentrate responsibilities and controls in the hands of few individuals, or indeed, have few such controls, but the key should be that the underlying accounting is straightforward so that this “lack” of control does not present a heightened risk to the audit or can be addressed through appropriate substantive testing.

“Simple record keeping” needs to be defined to help SMPs consider whether their clients will meet the criteria. Will this exclude ERP systems and those that are bespoke to a client? Will “off-the-shelf” packages only apply? The focus (as noted above) should be on the complexity of the accounting, not necessarily the record keeping.

When considering complexity in our members’ client base, we agree that the focus should firstly be on the ownership/management structure. The historic rationale for an audit is based on the potential separation of the ownership and stewardship of a limited company and the need to report robustly on the results to the owners. Where there is in fact no separation (an owner-managed company or wholly-owned subsidiary company under parental control), the entity itself can present a lower inherent risk for audit.

Moore Global - 78

As set out above, our ideal solution to the problems IAASB is seeking to address with this discussion paper, would be to rebuild ISAs from the ground up, using a building block approach, starting ‘Low Complexity First’. If that were to be the approach then the idea of identifying the basic building block, or the entry level entity audit client, would be approached differently, with the focus instead being on identifying nature and circumstances which called for ‘more’ or ‘different’ audit effort or requirements, rather than identifying nature and circumstances which called for less.
However, as also set out in our introduction, we accept that this approach could not reasonably be regarded as short or even medium term, therefore it is appropriate to progress with providing our views on issues at the heart of option B.

The description of qualitative characteristics which may be present in entities of low complexity seems a reasonable starting point for consideration however more thought should be given to the interactions between some of the characteristics suggested. For example, an entity may have few lines of business… that does not guarantee low complexity. An entity may have simple record keeping which is actually unfit for purpose. Similarly, the absence of internal controls is no guarantee of low complexity. We would suggest that IAASB also gives some thought to complexity of circumstance. An entity which has on the face of it low complexity as a result of its basic nature, may still be complex as a result of its circumstances… for example, past history of fraud, problematic management, external factors, complex accounting policies, external stakeholders… such factors might make ISAs a more suitable framework for an audit. There may be some justification for considering whether assessed audit risk should be a factor in determining or confirming whether a new standard for entities of low complexity is appropriate for use in any given audit.

We agree that, when considering the challenges of applying ISAs, and the appropriateness of continuing to do so for all entities, the key focus should be on characteristics of the entity other than size. However, we have an issue with the terminology that has been adopted in this discussion paper and we believe it could lead to problems, inconsistencies and confusion at some point in the future.

The terminology that has been adopted – Less Complex Entities (LCEs) - is not really very helpful, when considered closely. It begs the question… ‘less complex than what?’ It also leaves itself open to selective interpretation and misapplication. After all, an entity may be less complex than the largest of global entities and yet still be complex itself. There need to be easy to understand thresholds even though they may not be wholly or even partially number based in nature.

We would prefer to see the terminology changed to ‘Entities of low Complexity’ (ELC). We believe this would be easier to understand, and would produce a more consistent approach. We believe that what constitutes ‘low complexity’ could be better defined than what constitutes ‘less complex’ and further we believe this would not prove a barrier to individual jurisdictions determining their own definition of low complexity if they so wished.

While this may seem a pedantic point, we believe that imprecise and opaquely defined concepts are contributors to the problem many auditors have with applying ISAs at present. The lack of clarity and precision in the articulation of the population for whom any new solution might apply, is a very good example of why we need a solution in the first place.

PKF International Limited - 69

In our view, the current definition of a “smaller entity” does set out the typical qualitative characteristics that could be attributable to a less complex entity. However, the word “often” in point (a) relating to ownership and management in the definition of a smaller entity, could be interpreted as must, thereby scoping out smaller entities who do not have a single individual as the owner or manager. We would prefer that the ownership and management characteristic read as follows:

“concentration of ownership and/or management in a small number of individuals (either by natural persons, owner-managed configurations, trust structures or another enterprise that owns the entity provided the owner exhibits the relevant qualitative characteristics); and”
The definition also does not cater for ownership and management structures for not-for-profit, co-op’s or mutual organizations where most of the decision making comes mainly from a single authority within the organization.

It is important to also consider that some jurisdictions have size classifications for entities based on certain quantitative criteria, such as number of employees, revenues and average assets. Although the size classification impacts the magnitude and extent of many of the qualitative characteristics, it does not have a direct relationship to complexity. The qualitative characteristics should address this misunderstanding.

The term “relevant qualitative characteristics” would also need to be defined from the perspective of a parent-subsidiary/joint venture situation.

PKF South Africa - 82

We agree with the proposed definition of an LCE, however point (a) in the definition may cause some restriction in the application of the definition. It states that the entity in question may be owned by another enterprise, provided that the owner exhibits the same qualitative characteristics. We are unsure as to how the qualitative characteristics of the owner can result in the entity in question being more complex.

The South African regulations allow any entity, whether it be a juristic person or not, to own an entity, such as family trusts. In this regard, we believe that the definition should be wide enough to include any type of owner.

PwC - 84

Specifically, to avoid ambiguity, we suggest the IAASB address the question of whether any form of listed entity can be considered an LCE. There are many entities that may be simple holding companies, or entities with very simple operations, but that have issued listed debt. Perhaps such entities could still be included in the definition of an LCE if they otherwise exhibit characteristics of an LCE.

There will inevitably be circumstances where the decision as to whether the definition applies to an entity is a matter of judgement. Should the IAASB choose to move forward with a separate standard, which is not our preferred solution, it may be necessary to develop more directive guidance as to factors that need to be given greater weight, or that may indicate it may not be appropriate to determine an entity as being an LCE, to assist the auditor in documenting their professional judgement and rationale in making that determination. This would help to mitigate potential risks to audit quality that could arise if a separate standard was applied to an entity that should not be considered an LCE.

Within the context of our overall view that a single set of standards should be maintained, as described in our cover letter, using the current definition of smaller entity as a starting point is sensible. The majority of entities that will be considered less complex will be smaller. However, we suggest the definition could be further enhanced in a number of respects.

With respect to part (a) of the definition, there are likely to be many entities that exhibit the characteristics set out in the definition of smaller entity but that are owned by larger, non-complex organisations. The reference to “another enterprise that owns the entity provided the owner exhibits the relevant qualitative characteristics” may therefore cause confusion as to whether this restricts the application of the definition to the stand-alone (statutory) audit of that entity. Separate considerations would also apply as to what standards may need to apply in the context of an “audit” of a less-complex component as part of a complex group audit.
Similarly, reference to having “one or more of the following” characteristics may need to be clarified to make clear that exhibiting one specific characteristic does not mean the entity can be considered an LCE if other characteristics indicate otherwise (e.g., an entity that has few lines of business and product lines, but whose transactions are complex, would be unlikely to be deemed to be an LCE). There may be merit in combining, in addition to clarifying, these two characteristics.

We also suggest that it would be more appropriate to replace the term “few” in several of the qualitative characteristics. By way of example, the fact that there are “few controls” is only appropriate if the nature of the entity means that there is not a need for many controls, as distinct from an inadequate system of internal control. Likewise, the breadth of the range of management and personnel responsibilities itself may not always be a reliable indicator of complexity. In smaller organisations, an individual may have a broad range of responsibilities, some of which may involve one or more complex matters.

Consideration of the entity’s industry and the basis of accounting used may also be relevant in the determination of whether an entity is an LCE.

In addressing the issue that there are larger entities that may have very simple, less complex business models or operations, and smaller entities that are complex, it will be important to expand upon the final sentence of the definition to illustrate this point more clearly. This could be through appropriate guidance materials or application material accompanying the definition, should it be incorporated into any future separate standard.

RSM International Limited - 65

We are aware that benchmarks are sometimes used or referred to as a means of identifying smaller or less complex entities. However, we do not consider that it is practical to set such benchmarks at a global level, eg based on revenue, expenses or employee numbers, because it would not be appropriate for use in all countries, given the differing business environments.

The definition on page 4 is appropriate but could be expanded to specifically exclude Public Interest Entities as defined by the IESBA Code as these tend to carry higher overall risk. It could also be made more clear that “small entities” are scoped in to LCEs.

In addition some clarity could be added regarding groups. In our view, groups which involve component audits are not suitable for an LCE approach because the involvement of component auditors inherently makes the group more complex. However, where the group auditor also audits all components then an LCE approach might be suitable, taking account of the other factors listed on page 4.

6. Member Bodies and Other Professional Organizations

Accountancy Europe - 83

The qualitative characteristics listed in the discussion paper draw on the definition of smaller entities as currently included in the ISAs. However, to provide an adequate description of an LCE, there is a need to build the complexity aspect more clearly within these characteristics. The IAASB should consider further aspects which could indicate the level of complexity of an audit, such as the accounting and financial reporting regime applied, the structure of the audited entity, the risk of the occurrence of fraud, restatements etc.

At an international level, we do not think it is achievable to set quantitative criteria as part of the definition of an LCE due to differences amongst national markets, i.e. a ‘small’ entity in one national market might be ‘big’ in another one. Setting quantitative criteria to define particular groups of entities in order to govern the
application of auditing standards should be done at a jurisdiction or regional level at the discretion of national standard setters. Importantly, national standard setters have to make sure that they define an LCE in a way that suits their markets and that is clear to stakeholders, including practitioners. The IAASB could help national standard setters by providing guidance on the development of quantitative criteria, but definitely not to define them.

The description of LCEs will need to be discussed further as this project progresses. It is important that the description fits the solution that the IAASB adopt.

We are supportive of the definition of an LCE being based on qualitative characteristics. The IAASB should aim for a principles-based description of an LCE outlining qualitative characteristics which should, however, be indicative and not prescriptive. Such flexibility in defining LCEs will ensure widespread acceptance of the IAASB’s developed solution for auditing LCEs. These indicative qualitative characteristics should, in the absence of firm criteria at national level, be clear for the auditor to enable them to use their professional judgement and identify on a case-by-case basis if a given entity can be audited as an LCE or not. In addition, the IAASB should consider adding in the description that the LCE solution was developed under the premise that listed or public interest entities would be unlikely to meet the LCE definition.

ASSIREVI - 3

Lastly, we do not support the adoption of statutory thresholds for the definition of LCEs regardless the decisions taken at each jurisdiction level to define when an audit is required or not.

We agree upon the qualitative characteristics identified in the foreword of the Discussion Paper and we acknowledge that these characteristics are neither exhaustive nor exclusive to smaller entities. We are fairly convinced that quantitative thresholds are not appropriate in all circumstances; rather, we believe that professional judgement should be required for the identification of LCEs. Concentration of ownership and management in a small number of individuals (often a single individual – either a natural person or another enterprise that owns the entity provided the owner exhibit the relevant qualitative characteristics) might represent an indicator; however, we believe that IAASB should not assign prominence to that characteristic.

Belgium Institute of Registered Auditors (IBR-IRE) - 11

In addition, the IAASB should consider adding in the description that it is unlikely that listed or public interest entities would meet the LCE definition.

In general, we believe the suggested qualitative characteristics are appropriate and helpful to support the professional judgment in considering the complexity of the entity, and therefore the complexity of the audit.

Regarding the suggested qualitative characteristics, we would suggest to better define the paragraph a) concerning the “concentration of ownership or management”. Indeed, the notion of less complex entities is generally independent of the type of ownership or management.

We agree that, due to differences amongst national markets, it is not desirable to set quantitative criteria at a global level, but it could be suggested that the auditor or his network or the national standard-setter determine as best practice some quantitative criteria, e.g. some financial factors of the audited entity.

We believe the qualitative characteristics should more clearly indicate where the complexity of each of them lies. We note that the proposed definition is the same as the one that currently exists in the ISAs and which does not seem sufficient to address the issue of scalability.
We suggest to extend the number of qualitative characteristics (such as the IT systems managed by the entity, significant estimates or complex valuations, the structure of the audited entity, the risk of the occurrence of fraud, restatements etc.) and add sufficient practical examples to illustrate their complexity.

Chartered Accountants Australia and New Zealand (CA ANZ) and ACCA - 51

As noted in our general comments we are supportive of the IAASB’s approach to define LCEs by referring to qualitative characteristics that may indicate complexity rather than simply focusing on size. We are broadly supportive of the description provided on page 4 regarding the types of entities that will form part of LCEs.

In addition to the characteristics mentioned on page 4, we suggest that the following should also be taken into consideration:

As noted in our general comments, we are supportive of the approach taken by the IAASB focusing on the qualitative characteristics of entities rather than their size in defining LCEs. We believe that quantitative characteristics should not be included due to the differences in entity size and the different audit exemption thresholds that are exist individual countries. National standard setters can then impose any quantitative characteristics that are appropriate for their jurisdiction.

It is likely that there will be some LCEs identified that are also PIEs (such as simple ‘letterbox’ listed entities). The Board needs to consider if guidance is required in situations where a PIE is also an LCE or whether such guidance should be provided by local standard setters or regulators.

With a separate single standard for LCEs there is a risk that practitioners may be tempted to try and apply that standard to entities that only meet a few of the characteristics within the definition. Consideration needs to be given to how this can be managed to ensure a separate standard is only used where it is appropriate to do so. The Board might therefore need to reconsider the definition based on the action decided.

Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili - 34

The elements describing LCEs are all appropriate.

In addition, we might include further qualitative characteristics such as:

Informal decision-making process;
Absence of written internal procedures;
Outsourcing of bookkeeping and/or accounting activities to external Firms/Professionals;
The process of evaluation of business risks takes place indirectly through the daily behavior – and with no specific formality - of the persons working within the business with functional responsibilities;
There is no written code of conduct, and business guidance and procedures on ethics, including independence, are based on verbal directions provided by the entrepreneur or business management;
The governance structure does not generally include individuals who are external to and/or independent from the business organization;
Sector where the company operates. In this regard it would be appropriate to exclude from LCEs some specific sectors, such as financial and insurance sector, gambling and gaming sector, garbage sector, etc.;
Simplicity of accounting estimates;
Absence of investments in subsidiaries or associates.
In our opinion, the description of LCE could usefully be complemented by size parameters whose definition should, however, be left at the discretion of the single national legislators.

In Italy, recent regulation has significantly reduced the thresholds requiring a mandatory audit for limited liability companies (while the audit is always mandatory for companies limited by shares and partnerships limited by shares). According to the new mentioned legislation, for Italian limited liability companies the audit is mandatory when the company: a) is required to prepare the consolidated financial statements; b) controls a company whose financial statements are required to be audited; c) has exceeded, for two consecutive periods, at least one of the three following quantitative criteria: 1) total balance sheet assets: 4 million euro; 2) revenues from sales and services: 4 million euro; 3) average number of employees during the period: 20.

**CPA Ireland - 70**

It may also be worthwhile to re-consider the terminology “Less Complex Entities”. Whilst its use is appropriate at this point of the consultation, it may be worth revisiting as the project evolves. There may well be instances where an entity is small and non-complex in terms of its operations but could be complex in terms of other aspects of its activities.

We agree that the description outlined in the discussion paper of an LCE is appropriate and we welcome the qualitative approach taken.

However, we do believe that a focus on qualitative descriptors alone may result in an over reliance on judgement which could result in inconsistencies in application.

Therefore, we believe that in addition to the qualitative measures outlined, that at national level additional criteria be applied, such as turnover levels and balance sheet totals etc. Consultation as to the appropriate levels would be required and it would be essential that consistency in application is achieved.

**Institute of Certified Public Accountants of Uganda - 55**

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 accommodatable 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

Institute of Chartered Accountants of England and Wales (ICAEW) - 24

IAASB should seek to address fears about very large entities being classified as less complex in the description of LCEs. One possible way of doing this would be to suggest that if an entity is listed, or classified as large under local laws and regulation, then it would be unlikely to have the other characteristics set out in the description. Circumscribing the description, with reference to what an LCE is not, may be helpful.

In addition to a lack of complexity in transactions and record-keeping, reference could be made to a lack of complexity in the associated accounting policies, accounting treatments and only straightforward judgements being required. This is already implied but it might be useful to spell it out.

It has been suggested that the term 'less complex entity' is a relative term and that the more absolute description ‘entity of low complexity’ might be operationalised more consistently. This suggestion is worthy of consideration.

It will be important for IAASB to distinguish carefully between factors which make the entity more complex, and circumstances or factors which make the audit more complex or involve a higher level of risk - although they overlap. For example, any new standard would also be less suitable for the audit of an entity with a history of fraud, unsympathetic or critical external stakeholders, or controversial or difficult accounting or other issues such as conflicts between various levels of management and questions over management’s competence. An additional characteristic might therefore be considered: the entity should be free of complexity or significant irregularity in its audit and other compliance, administrative and governance arrangements, and the audit should not involve a high level of assessed risk - based on the auditor's previous experience of the audit or preliminary understanding obtained as part of acceptance procedures. Examples similar to those noted above might be given.

Nevertheless, significant concerns have been expressed about the scoping of any new standard. In practice it seems likely that some regulators will consider the imposition of financial and other criteria, in addition to the criteria set out by IAASB. Alternatively, or additionally, the market and users, particularly banks, may well impact scoping and some might in principle be satisfied with an ‘LCE audit’ for any unlisted entity. We do not believe that this issue should, of itself; be a bar to the exploration of a separate standard.

Significant concerns have also been expressed about how auditors might deal with borderline and emergent cases, i.e. entities that are less complex but are likely to quickly become more complex, and entities that appear at first sight to be less complex but turn out to be more complex. We believe that it should be possible to deal with some of these concerns by noting that if particular issues arise, a specific ISA should be consulted. An electronically linked version of the ISAs would make this much easier.

The description set out on page 4 of the DP has stood the test of time but improvements can be made. The words 'qualitative characteristics' are at odds with the references to ‘few’ business lines, internal controls,
layers of management and personnel, for example. It might therefore be better to refer to 'uncomplicated' or 'straightforward' business lines, products and internal controls. For management and personnel, reference could be made to an uncomplicated management and personnel structure with managers and personnel having a wide range of responsibilities and duties.

We note an emphasis on ‘concentration of ownership’. In addition to size criteria, regulators might also apply additional qualitative criteria, and equate ‘close company’ status (where owners and managers are the same people) with concentration of ownership.

We note in our main points above the need for the range of audits to which a separate standard might apply to be determined at a national level and we support a good quality definition of a less complex entity in qualitative terms.

Any description of an LCE is subject to varying interpretation but we do not believe that this should be a bar to the pursuit of any of the options noted. We agree that the key to scoping is, of necessity, the characteristic of complexity rather than size, although the two are often closely related.

Institute of Chartered Accountants of Nigeria - 6

The descriptions provided for the types of entities that will be the focus of audit of LCEs are appropriate. However, we recommend the inclusion of the following characteristics in the description of LCEs:

Low-to-Medium Risk (Common/Global set of factors in defining risk could be provided, example, entities owned by politically exposed persons)

Minimal regulatory requirements

Owner-Financed Entities

Institute of Chartered Accountants of Sri Lanka - 92

It is to be noted that the definition includes wordings such as “few” and “simple”. These words are subjective and do not provide narrative explanations. Therefore, it is advisable to provide global examples for these two words and based on that each country can agree with their own thresholds in this regard.

Following factors which also affect the applicability of specific ISA and the extent to which those are applicable for an auditee, could be factored in to the LCE attributes explained in Question 1 b.

Accounting framework and mainly the accounting policies adopted/policy choices made by an entity.

E.g. If a company has adopted complex accounting policies such as hedge accounting, fair value measurement of other than level 1 financial instruments including but not limited to biological assets and investment property, auditing of such entities become inadvertently complex. In addition, use of complex estimations in financial reporting by entities also render auditing of such entities complex.

Extent of use of Information Technology (IT) in business – existence of complex IT systems and/or extensive use of IT in business may require the auditor to adopt IT controls reliance-based audit approach that necessitates use of experts by the auditor. Accordingly, use by the entity of complex IT environments would make auditing of such entities, complex. However, in addressing this qualitative aspect, we need to also keep in mind that in today’s context even the companies that have the most simple business models may use IT resources which are mobile applications based and cloud dependent technologies deploying third party IT services extensively.
Level of use of service organizations and subcontracting of certain functions – many entities may obtain services of external service providers in order to reduce the operational burden and to overcome initial capital requirements. This is a normal way of doing business by many start-ups and small and medium size entities. As the use of service organizations by entities may impact the audit strategy, appropriate explanation of to what extent the attributes of LCEs to be assessed given such conditions should be further expanded.

Our Response:

We agree with the proposed definition. However, CA Sri Lanka suggests including a list of entities which cannot apply the proposed International Standard on Auditing for Less Complex Entities ("Proposed LCE Standard").

Eg: We propose the following entities should be excluded, despite they may fit into the qualitative characteristics of Question 1 b., above.

- All Listed Entities
  These are entities whose shares, stock or debt are quoted or listed on a recognised stock exchange or are marketed under the regulations of a recognised Stock Exchange or other equivalent body.

- Any entity defined by regulation or legislation as a Public Interest Entity.

Institute of Independent Auditors of Brazil (IBRACON) - 75

Considering the high degree of subjectivity and judgment involved in setting what is a LCE, additional considerations regarding the definition of LCE should be addressed at a jurisdictional level. Nevertheless, the IAASB can provide further clarity on the characteristics of LCEs such as an application material to illustrate different examples of entities, especially if the Board decides to develop a separate standard.

In addition to the characteristics described in item (b) of the definition (page 4), we believe that regulation is an important aspect that should be considered. Moreover, we recommend setting clearly that a PIE could not be a LCE.

We agree with the change in terminology from Small and Medium-sized Entity (SME) to Less Complex Entity (LCE), as smaller entities can be complex.

Institute of Public Accountants of Australia (IPA) - 91

IPA response

The IPA broadly agrees with the description of LCEs in the CP. However, the IPA believes that restricting the description to an entity with a small number or single owner would result in the omission of entities that many practitioners consider as LCEs. Practitioners would often consider member organisations, unions, charities, and sporting and other community bodies as LCEs.

Institute of Singapore Chartered Accountants - 54

Additional guidance on specific sectors which typically exhibit a mix of characteristics will definitely be helpful in addressing this matter. For instance, charity organisations or not-for-profit entities would typically meet the qualitative characteristic in the DP on low concentration of ownership (in fact, no ownership in many circumstances) and management. However, such entities are arguably accountable to many stakeholders with varying degrees of influence. Also, while such entities may have relatively few internal controls, there is inherently a heavy emphasis, by its stakeholders, on the control environment of these
entities. As these situations are not uncommon, guidance and examples may be viewed as a necessity rather than a good-to-have.

In addition to the qualitative characteristics listed in the DP, we believe that consideration of the complexity of an entity’s IT environment is also meaningful in assessing if an entity is a LCE.

Other considerations

Defining complexity by transactions instead of by entity may result in a wider net being cast given that many entities which meet many of the qualitative characteristics of LCE may enter into the odd complex transaction. A start-up may issue preference shares or derivatives with complex terms. Naturally, there will also be situations where an entity straddles between the characteristics/definition of LCE within a financial period. It may be confusing for the auditor to determine whether such entities should be considered as LCE for the year-end audit.

We also hear concerns in the potential difficulties faced by auditors in the planning stage of such audits. Realisation of certain complex transactions or agreements mid-way through the audit may result in an entity no longer being considered a LCE and cause significant changes to the audit strategy and procedures (again depending on the course of action taken by the IAASB as a result of this DP). Some may take the view that, to avoid risking the progress of the audit, they may need to assess all transactions before being able to determine that an entity is a LCE, which may not be feasible at the planning stage of an audit.

We are of the view that there should be clarity or guidance on how auditors should weigh the importance of each characteristic when determining a LCE. A pertinent concern would be on how auditors deal with situations where there are a mix of characteristics. In this regard, we recognise that it may be challenging to strike a balance between developing sufficient guidance and being too prescriptive. One suggestion we have is that the description of characteristics of LCEs may be further supplemented with examples of characteristics of entities which should not be considered as LCEs.

While we agree with the IAASB’s approach in focusing on the complexity of the entities rather than size, further clarity and guidance would be welcomed given the level of judgment which may be involved based on the current description of qualitative characteristics in the DP. For instance, it would be helpful to provide examples and clarity as to how one assesses if transactions are straightforward or if record-keeping is considered simple. Also, the term ‘few’ appears in several characteristics such as few lines of business/products, few internal controls, few levels of management with responsibility for a broad range of controls and few personnel.

Without sufficient guidance or clarity, the ambiguity of these terms will inevitably lead to divided opinions as there will be heavy reliance on each audit team’s judgment and interpretation. This may also lead to the development of local yardsticks; in Singapore’s context, comparisons may be drawn with one of the Accounting and Corporate Regulatory Authority’s (ACRA) small company qualification criteria for audit exemption of not more than 50 employees. A ‘wrong’ assessment may potentially come with serious ramifications depending on the course of action taken by the IAASB pursuant to this DP. The fear of getting this ‘wrong’ in the eyes of a regulator or internal inspection reviewer may then discourage auditors from adopting the course of action pursuant to this DP and may lead to them reverting to the status quo to be ‘safe’. This is particularly crucial if a separate auditing framework for audits of LCEs is developed as a result of this DP.

Instituto Mexicano de Contadores Públicos, A.C. - 37

We provide comments to some of the proposed criteria:
i. Straightforward or uncomplicated transactions: A definition of these type of transactions may be required, as some transactions may be complex to different users.

ii. Simple record-keeping: Similarly, we consider this needs to be more clearly described.

We consider that additional guidance may be required in order to more clearly detail when an entity can be considered a less complex entity and when the entity cannot be considered as a LCE, so it is clear to interested parties what would be the audit approach.

We also consider that the definition should include certain particular conditions such as when an entity cannot be considered as a less complex entity; for example, where the use of specialists is need, type of technological systems used or if the entity is a public entity or a public interest entity.

iv. Few internal controls: The lack of internal controls in an entity may require a more robust and complex audit procedures.

In our opinion we consider that the definition of LCE is in general terms well understood, however as this definition may be relevant in order to follow a different set of ISAs for LCE, we believe that certain elements, need to be clearer and more objective.

Even if using professional judgment in this regards, we consider that, in some cases, it would be difficult to decide if an entity meets the LCE criteria or not, based on the current proposed LCE description.

Another aspect to consider is to analyze what happens when an entity changes from one period to the following one from being a LCE to an entity that does not meet the criteria to be considered a LCE. Is there a need to re-audit because of possible use of different standards?

Inter-American Accounting Association (IAA) - 47

They do not adopt IFRS but apply GAAP from the jurisdiction.

Yes, we consider that the proposed definition is adequate for the entities to which the study is addressed, although we believe that with the progress of the investigations a different description could arise.

Regarding the characteristics proposed we understand that some such as the following could be added:

Few banking activities (although it may be for significant amounts)

Few or no internal audit structures.

Normally they are not subject to inspection by a state control body, such as the Central Bank, National Securities Commission or similar, of the jurisdiction.

Nature of business

Few users to whom the financial statements and the audit report are addressed

Simple transactions that do not require the participation of specialists or complex calculations for accounting processing.

Some additional factors may be included, according to the criteria established in ISA 315 for the assessment of the risk of material misstatement in the financial statements.

Malaysian Institute of Public Accountants (MICPA) - 10

The Institute is agreeable that as a starting point, the IAASB could look at its current definition of a "smaller entity", which sets out many of the qualitative characteristics that could be attributable to an LCE.
However, an entity which possesses the said qualitative characteristics should not be automatically identified as an LCE and judgement is still required. In other words, the said qualitative characteristics set out are examples of criteria and should not be intended to automatically designate an entity as a LCE just because one or more of the qualitative characteristics are met.

**Nordic Federation of Public Accountants - 58**

Also, we suggest that the definition should state that listed entities, and other public interest entities, are not covered by this definition, since those entities are covered by stricter laws and regulations.

We support the use of the term “less complex entities”, since we agree that it is probably complexity rather than size that should be the defining factor, especially on a global level.

Overall, we also support using the characteristics for “smaller entities” when defining LCEs. However, we would like to emphasize that the most important matter when deciding the characteristics of this term, is that the term is easy to understand and apply. In this regard, we also encourage the IAASB to work closer with the national standard setters.

7. Academics

**Hunter College - 68**

Additionally, we caution the consideration of internal controls in assessing whether to characterize an entity as a LCE. The review of Internal Controls would encourage smaller entities to enhance their internal controls as a cost saving measure and avoid the scale of an audit of a complex entity and instead submit to audit requirements of LCEs. This would prevent additional audit work such as substantive testing. Instead, we recommend considering effectiveness of Internal Controls as part of the audit, but not in determining if an entity should be considered and LCE. We draw your attention to recognizing that LCE’s typically have few personnel that have a wide range of duties and this would encourage them to continue to have these in place. In these scenarios, internal controls can serve more in form than substance but by having more internal controls auditors can have greater assurance.

We generally agree with the qualitative measures the IAASB proposes to use to describe an LCE. We also agree with the general approach to use qualitative measures to describe and LCE. However, we feel that providing only qualitative characteristics without additional guidance on applying this information via examples, the information is vague and ambiguous. For example, the IAASB proposes that entities that have “straightforward or uncomplicated transactions” could be defined as an LCE. We feel that enhancing characteristics to further define what the IAASB considers “straightforward or uncomplicated” would remove ambiguity in this characteristic. We propose that five characteristics to consider as straightforward or uncomplicated are:

Entities that operate with an ownership structure of less than five owners with low inherent risks

Entities that have nexus in a single jurisdiction.

Nexus should be considered physical or virtual presence in a jurisdiction (i.e., brick and mortar presence or goods available for sale in multiple jurisdictions)

Entities with gross revenue of less than 5 million

Entities with no derivatives, business combinations, stock compensation and/or nonmonetary transactions

Entities without a complex capital structure such as options, warrants and/or preferred stock
8. Individuals and Others

Ali Sarehraz - 32

Naming:

I remember the section 105 special consideration on auditing standards, auditing of small entities. As you mentioned the main feature of these entities is not size. The main feature is how these entities are directed by management and how they operate and conduct their activities. So, as the term small entities was not appropriate the term” less complex” does not define these entities.

I believe the definition of less complex entities well categorized in 2 parts but:

Part A: Concentration of ownership and management in a small number of individuals

I believe reference to users of the financial statements of these entities is necessary. As you know, in such entities the users of their financial statements are few users and accordingly the audit risk will be low. These entities often are not listed companies and have not a wide range of users. This feature should be added to this section. The concentration of ownership means these entities’ stocks are not transacted and accordingly there are no potential investors as users.

Part B: One or more of the following

Straight forward or uncomplicated transactions

It needs more explanation. Is it relating to monetary measurement process of transactions? Is it relating to need for estimation? It is better to say Straight forward or uncomplicated accounting transactions.

Simple record keeping

It needs more explanation. Is it relating to accounting treatments? Electronic commerce, start-up business or only to their book keeping systems.

Few lines of product and few products within business lines

What does it mean? Few lines of products. For example, Coca Cola produces drinks in pet and glass bottle or can; it produces diet, classic and reduced calorie. Is it few lines of products?

Few products within business lines relates to size and is not important at all. It is not important how many units the entity produces but it is important how the products have been sold. Are there a lot of customers or the entity sells its products to a sole customer?

Conclusion about the first issue:

Before deciding about future action. we should give a comprehensive definition about less complex entities.

Few internal control

It should be changed to few internal controls or high risk of overriding exist controls by management (in fact the owners).

Few levels of management with responsibility for a broad range of controls.

Few personnel, many having a wide range of duties.

It should be change to few key personnel because it means the personnel that are in decision making position or personnel that have controlling duties. We do not mean production workers. In fact, it means few personnel in key areas of activities such as supervision or controlling the operation.
Audit Assistant Limited - 33

I would add to the characteristics on page 4 another differentiating factor: that the entity has limited or no overseas interests. If the entity has any sort of overseas ownership or subsidiaries or significant trade whereby suppliers or customers relied on the audit work they would be required to produce audit reports in terms of the ISAs.

In my view “Less Complex Entity” is a better description than “Small” as this is can mean very different things in different contexts.

For instance the Nordic Standard ties its criteria for small entities into the mandatory threshold for the UE accounting directive.

In New Zealand many of these “small” entities are not likely to align with “less complex” to any great degree. The criteria on page 4 are better.

This would effectively remove the need for compliance with international standards at all - which changes the whole discussion. I base this on:

One of the issues that IAASB had with the Nordic Standards for Small Entities was that they were just applicable to the Nordic countries and they were wanting to develop an international standard or standards for LCEs (p7). But if one of the criteria for LCEs was that it was only operating within the country of region then maybe it is acceptable for each country or region to adopt their own LCE standards?

It could actually be a good thing for these standards to not be international as the audit requirements can be localised for the specific regional environment and also be easier to maintain without a full international adoption process.

In New Zealand this would probably remove the majority of our audit work from the ISA net without any risk to our international reputation, and enhancing our charities and social services sector and SME sector of our economy.

We gathered informal feedback from auditors in New Zealand and the Pacific Islands that we support with our software, most of which include a large proportion of LCEs in their client base.

From this feedback it seems that the greatest mis-match between ISAs and the needs of the entity are for the audit of smaller not-for-profits, associations, clubs and charities.

The discussion in the paper doesn’t seem to give much regard to these types of entities and their specific needs, but instead concentrates on for-profit LCEs.

In New Zealand this LCE NFP sector represents the bulk of our audit work – more I suspect than in many other jurisdictions.

I would propose therefore that “less complex” in New Zealand could be represented by “Tier 3” and “Tier 4” charities, Associations and Clubs, and For-Profit Entities that qualify for Special Purpose reporting. (i.e those outside of IFRS or large PBE financial reporting standards).

I think that aligning “Less Complex Entity” to the financial reporting requirements makes sense in a New Zealand context with some provisos (see 3-4 below).

Vera Massarygina - 48

For purposes of specific considerations there may appear rational to treat characteristics of LCE in connection with characteristics of their audits such as:
Few personnel (for example a sole auditor or may be no more than two auditors and assistant);
The auditor does not plan to rely on internal control;
Limited use of sampling technique and nearly 100% examination etc.
In my view, the description is appropriate as a whole. But there may appear rational to analyze some additional characteristics such as those mentioned below (see also Comments on question 5 below).
Audits of LCE must not be audits of group financial statements.

Q1 Neither agree or disagree and with further comments

1. Monitoring Group

IFIAR - 88

“Less complex entities” vs. “small entities”

11. We agree that the concept of “less complex entity” is likely to be more relevant than the concept of “small entity” as there are small entities that may nevertheless be complex (and larger entities that may be less complex). The “less complex entity” concept is also better aligned with the risk-based approach of the ISAs. A distinction may be particularly relevant in the context of groups and consolidated financial statements, in which a number of small entities may be included in a complex consolidation. Specific procedures performed on those entities might be needed to address the challenges of the group audit.

12. Regardless of the approach adopted, careful consideration of the definition must be made to ensure that it does not become a checklist-based definition and that the definition appropriately links into the auditor’s understanding of the entity required to be obtained under existing ISAs.

Exclude specific entities

13. While recognizing that the ISAs do not override local laws and regulation, we strongly believe that any standard for less complex entities audits or any specific guidance or application material for those entities should not be applicable to audits of listed entities, irrespective of their size or complexity. As currently defined in the Discussion Paper, we see a risk that some listed entities could potentially be classified as “less complex” and could be audited under what would likely be a less rigorous framework. Similar concerns may exist for some non-listed entities that are considered public interest entities in their jurisdictions.

2. Regulators and Audit Oversight Authorities

Canadian Public Accountability Board - 5

When considering the definition included in the discussion paper, we are also concerned the definition could be applied as a checklist, specifically in evaluating whether “one or more of the following” are present. CPAB believes all of the factors should be considered together in evaluating whether an entity is a less complex entity.

As Canada’s audit regulator, this is a topic that we have discussed internally on a number of occasions, as our audit inspections are of reporting issuers of a wide variety of sizes, ranging from zero revenue development stage entities to large financial institutions. In CPAB’s experience, even a very small entity can, at times, have complex audit issues, as we have encountered in the crypto sector.
Further some of the descriptions such as “few internal controls” should be removed. The absence of internal controls is not an indicator that an entity is not complex, especially where the entity should have a better developed internal control structure to manage its risks.

The public has an expectation that the audits of all public entities are of a uniform level of quality and are comparable across entities regardless of size and complexity. Accordingly, CPAB’s view is that public companies should be specifically excluded from the definition of less complex entities.

Committee of European Auditing Oversight Bodies - 90

We moreover would like to stress that some of the qualitative characteristics listed by the IAASB for LCEs such as “simple record keeping”, “few internal controls” and “few personnel”, many having a wide range of duties” may be indicative of inappropriate systems and controls within some entities. In this context, the determination of whether an entity is an LCE should not only be based on qualitative characteristics, but also on an assessment as to whether they are appropriate to the entity’s circumstances and operations. This also includes considering whether and entity is ultimately part of a more complex group, and how that might impact the role of the group auditor.

The distinction that needs to be made and the interrelationship that needs to be analyzed between the concepts of “smaller entities” and “less complex entities”, since both smaller and larger entities can be complex, or not. In our view, certain entities should not be classified as LCEs, such as entities that are active in a regulated market, e.g. listed companies, banks and insurers. Large private entities and charities, entities raising crowdfunding or other entities defined as public interest entities according to national laws should benefit from special attention during this project, and should not be considered LCEs.

Czech Republic Public Audit Oversight Board - 89

We are of the opinion that less complex entities play an important role in the economies of many countries. They are, however, in many cases part of a broader group, involving both bigger and smaller entities. In case the standards for audits of less complex entities should be developed and approved, this should be done at the international rather than local level. In addition, such standards should be used only for small and less complex entities and in no case they should be used for public interest entities.

Irish Auditing and Accounting Supervisory Authority (IAASA) - 36

Less complex/smaller entities play a core role and make a major contribution to the global economy and represent a high proportion of audits performed. Solutions are needed to reduce the expectation gap between auditors’ current responsibilities and stakeholders’ expectations of auditors of less complex entities.

A distinction needs to be made and the interrelationship needs to be analysed between the concepts of “smaller entities” and “less complex entities”, since both smaller and larger entities can be complex, or not. In our view, certain entities should not be classified as LCEs, such as entities that are active in a regulated market, e.g. listed companies, banks, and insurers. Large private entities and charities or entities raising crowdfunding should also benefit from special attention and should not be considered LCEs.

We moreover would like to stress that some of the qualitative characteristics listed by the IAASB for less complex entities such as ‘simple record keeping’, ‘few internal controls’ and ‘few personnel, many having a wide range of duties’, may be indicative of inappropriate systems and controls within some entities. In this context, the determination of whether an entity is an LCE should not only be based on qualitative characteristics, but also on an assessment as to whether they are appropriate to the entity’s circumstances.
and operations. This also includes considering whether an entity is ultimately part of a more complex group, and how that might impact the role of the group auditor.

3. National Audit Standards Setters

**Auditing and Assurance Standards Board of the Institute of Chartered Accountants of India - 12**

In our view, these qualitative characteristics are subjective in nature and there will be practical difficulties in describing a LCE based on these characteristics. Further, these qualitative characteristics cannot be part of jurisdictional level Acts/Rules/Regulations for classification of entity as small or LCE.

We are of the view that different jurisdictions may apply their own criteria for describing a LCE (or other classification of entities e.g. ‘small entities’ or ‘small and medium entities (SME)’ whichever is most suitable in that jurisdiction). The criteria may be based on local laws and regulations and practices prevalent in that jurisdiction.

In India, various Acts/Rules have prescribed quantitative criteria for classification of entities. Some of these criteria are as under:

**Under the Companies Act, 2013 as amended:** Small companies have been defined as those companies whose capital and turnover does not exceed a specified monetary limit. The specified monetary limit has been prescribed by the relevant Rules. The limit is reviewed and revised after a period of time.

**Under the Companies (Accounting Standards) Rules, 2006 as amended:** Small and medium-sized companies (SMC) have been defined as those companies whose turnover and borrowings (including public deposits) does not exceed a specified monetary limit.

**Under the Micro, Small and Medium Enterprises Development Act, 2006 as amended:** Entities have been classified into 3 categories of (1) micro (2) small and (3) medium. Classification is based on monetary amount of their investment in plant and machinery. The limit is reviewed and revised after a period of time.

**Australian Auditing and Assurance Standards Board - 73**

Overall, the feedback received from AUASB stakeholders is that a principles-based definition is an appropriate way to describe an LCE. In the Australian survey 52% of respondents preferred a principles-based approach compared to size-related thresholds (15%) and splitting entities between public interest and non-public interest (33%).

Whilst Australian stakeholders raised concerns over several of the specific characteristics of an LCE outlined in the Discussion Paper, the AUASB considers that the current definition is sufficient for the scoping of the project. There is likely to be varied feedback across jurisdictions and even within jurisdictions from different stakeholder groups on what is an appropriate definition. The AUASB considers it important that as this project is still in its information gathering and research phase, the IAASB not spend significant amounts of time and effort debating the appropriate definition of an LCE.

**Brazilian Federal Accounting Council (CFC) - 44**

An important aspect is that the recognition of LCE is not easily conceptualized and can generate many inconsistencies around the world. The same occurs for Public Interest Entities (PIE). Therefore, we believe that defining LCE on a global scenario can be extremely complex due to specificities of the countries.
Institut der Wirtschaftspruefer in Deutschland e.V. (IDW) - 49

A more fundamental question that needs to be asked, and answered, is what the purpose of the concept of an LCE is in an auditing standard setting context. There is no doubt that the characteristics currently used to describe a “small entity” in ISA 200.A66 and the IAASB’s Glossary of Terms have provided a useful basis for developing application material for the ISAs that provides guidance on the special considerations of the audits of financial statements of small entities. However, we note that the possible actions being explored by the IAASB in the paper go far beyond just developing additional or revised application material to provide such guidance in the ISAs: the paper also considers revising the ISAs (which implies also revising the definitions and requirements) or developing a separate auditing standard for LCE audits. Such a list of “typical” characteristics that is neither exhaustive nor exclusive to smaller entities, nor provides a definitive set of criteria for identifying such entities, cannot form a basis for a revision of the ISAs or for a separate set of auditing standards.

As we note in the body of our letter, the standard setting issues relating to LCE audits appear to result from regulatory pressure that results in auditing standards that meet regulatory purposes (“regulatory audits”), and that the incorporation of these regulatory purposes in the ISAs then extends these requirements to other audits with the resulting “LCE audit problem”. Consequently, we have become convinced that the distinction between LCEs and non-LCEs is not really useful. Rather, a distinction needs to be made between entities whose financial statement audits are subject to certain regulators (capital markets regulators and prudential regulators) – that is, entities subject to “regulatory audits” – and those entities that are not. We recognize that this might mean that in certain jurisdictions the audits of the financial statements of very small and simple publicly listed entities would be subject to more onerous auditing requirements or standards, but that would be the price they would need to pay for seeking or maintaining their status as listed entities.

Royal Netherlands Institute of Chartered Accountants (NBA) - 85

It might not be so easy to provide a clear definition of what a LCE is. The current criteria are subjective and leave room for interpretation. A simpler business doesn’t necessarily mean an easier audit. On the contrary, if there are fewer internal controls (e.g. unable to segregate duties), the auditor faces challenges to perform the audit and has increased areas of attention. If various countries will have different boundaries for less complex entities, this will make it even more complicated. Therefore we feel that a local definition with seize as a distinguishing parameter is not the answer. And thus it might not be clear who might apply the separate standard.

4. Accounting Firms

Adrian & Partners AB - 26

1. Concerning the definition of a LCE it is extremely hard to define something that will work globally and in a way that concerned parties aren’t unsure of where they belong. Any definition built on judgment will cause problems for not only the auditor but also all stakeholders. Thus we recommend a definition based on quantitative bases.

Baker Tilly International - 43

We believe that it would be more appropriate to define complexity rather than to define what is “less complex”, applying the “full audit” to those entities defined as complex, with the LCE audit being available to other entities. Defining which entities would be subject to a “full audit” would be much more straightforward. On a global level this could be restricted to Listed and Public Interest Entities (as defined on a jurisdictional
basis) and any other criteria that an individual jurisdiction may wish to include relating to privately owned entities (e.g. number of employees, complex group entities operating in several countries or industries etc.). Then, by extension, auditors of other entities may be entitled to apply the LCE approach. This would therefore leave adoption and acceptance of the LCE audit approach with individual jurisdictions, and better reflect the fact that the largest element of the expectation gap is the listed/PIE where there should be no scaling back of requirements except where the requirements are not applicable to an entity. That said, we believe that entities which would otherwise meet the definition of LCE, should have the option to select a “full audit” if they so wish for their own purposes or for the purposes of assurance for stakeholders.

We agree with the IAASB that the focus should be on complexity, rather than size and do not consider that the size of an entity necessarily equates to complexity. We would therefore strongly encourage the IAASB, and individual jurisdictions, to avoid using size as a criterion for defining whether an entity is a LCE. Indeed, on the global level, we do not think it is possible to apply a size criterion.

Straight forward or uncomplicated transactions – At a principles-based level this is likely a core element of the definition, however, it is difficult to define what are straight-forward, uncomplicated transactions, particular in relation to increasingly complex financial reporting standards. For example, under new Revenue Recognition standards any transaction with a service period component, or construction contracts, may be considered complex even though they are routine transactions for the entity.

• Simple record keeping – As above, how do we define “simple” record keeping? Without explanation, example and definition it is difficult to consistently determine and act on. Indeed, the existence of “simple” record keeping may not necessarily be appropriate for a particular entity and may in fact raise the associated risks with the audit, rather than necessarily implying less underlying complexity.

• Few lines of business and few products – While the number of lines of business may indicate greater complexity, the definition of what constitutes a “line of business” is critical to consistent application (e.g. is selling trucks a different line of business to selling cars?). Similarly, with products, a large number of similar products may not necessarily indicate additional complexity.

If we accept the premise that there is a different approach to auditing LCEs then the definition of what comprises an LCE is critical to the success of any changes to standards. We prefer the term “definition” to the “description” used in the Discussion Paper although we do acknowledge that defining what an LCE is on a global basis is extremely difficult.

• Few personnel – As above, limited numbers of staff may be indicative, but not definitive, as to whether the business is complex. This criterion appears to be straying into the “size” of the entity rather than its complexity. The nature of the business and its transactions is more likely to define the complexity of the entity. Also, how do we define “few personnel” and apply this consistently in all jurisdictions? Furthermore, with ever increasing automation the number of employees in an organisation may become less relevant to many businesses.

• Few internal controls; few levels of management – It is difficult to define and apply a term such as “few” consistently. Also, while fewer controls may be an indicator of a less complex entity, an LCE could conceivably still have a number of controls. Furthermore, the description doesn’t take account of the nature of the controls (e.g. are controls documented, designed and operating effectively or are they largely manual without full documentation or consistent application?) or those complex entities which have insufficient controls.
Focusing on the specific description included in the Discussion Paper, we believe that such a description is difficult to apply consistently in practice and may lead to counter-intuitive outcomes. We make the following comments on the individual elements of the description presented: • Concentration of ownership – The description appears to preclude a larger number of individuals from having ownership, but there are many entities which require audit which may have many owners, but which are otherwise a LCE in nature. For example, a golf club which is a simple business but with several hundred “owners” (i.e. members). Similarly, there may be privately owned entities with few owners but which have significant complexity; for example, a large high street chain in the UK with hundreds of stores which, ultimately, ceased to exist, thereby impacting many thousands of jobs and the associated pension schemes.

Dailamipour and Co. - 31

I would like to comment on qualitative characteristics as below:

Paragraph (a) in regards to the ownership and management of any entity, it concentrates on a small number of individuals and gives example of one natural individual or another entity, saying so, in the case of ownership of a single natural person, such business will be categorized as a Sole Proprietorship, and if the business is owned by another entity then it would be consolidated with the parent entity, and these factors should be among our considerations.

In paragraph (b), to define LCE, six qualitative characteristics have been given, regardless of due attention to the specific business environment. In my opinion, we need to consider the business environment at first step and then define LCE. I will refer to this matter later on.

KPMG IFRG Limited - 72

If the IAASB continues to explore an LCE-only solution, premised on the IAASB establishing a means of clearly delineating such entities, we highlight that the decision regarding implementation of the solution ultimately will reside with National Standard Setters, regulators and other bodies, which may not adopt/endorse the solution for use, or may be inconsistent in their approach, for example, there may be jurisdictional variation in terms of which entities are considered to be LCEs, which would not be a helpful outcome in terms of global consistency.

Additionally, since the definition/description is based on factors that primarily focus on the presence versus absence of certain conditions, there may be inherent subjectivity in application in certain situations, and therefore differing interpretations between practitioners and regulators/other supervisory bodies as to whether and when it would be appropriate to use the standard.

Furthermore, if the standard is perceived to be less stringent, in terms of the work effort required to comply, this may encourage inappropriate designation of certain entities as LCEs.

Accordingly, as we note in our overarching comments, we believe that a solution that involves a separate standard should not be restricted to those entities that may be considered to be LCEs, and instead should be available for use by all entities. As a result, we do not believe it necessary or appropriate to develop a definition of LCEs.

However, in the event that IAASB does consider it important to pursue such a solution, and therefore to develop a definition/description of an LCE, we suggest that the IAASB consider inclusion of the following factors, in addition to those set out in the DP, to help indicate that an entity is an LCE:

Definitions/descriptions of LCEs set out in jurisdictional laws, regulations and/or national standards, including financial reporting standards;
A factor that focuses on a limited number of stakeholders/users of the financial statements and auditor's report thereon, and the purpose for which they will use the report (this may be particularly relevant to the development of a separate standard with requirements that are restricted in comparison to the ISAs, or which support a deliverable that is different in nature to an audit);

A factor that focuses on the simplicity versus complexity of IT systems.

We suggest that the IAASB establish size factors such as turnover, net assets and employee numbers that would act as benchmarks rather than establish de minimis limits.

It may also be appropriate to clarify that a definition/description (and its related solution) is intended to be applicable to “repeat” audits, and may not be appropriate to apply in an initial audit, in which broader consideration of the full suite of ISA requirements may be necessary.

We note that a definition/description of an LCE, which is capable of consistent application on a global basis, is important only in the event that a solution is developed that is intended to be specific to entities that meet this definition. We believe that in exploring this potential approach, such a solution likely would involve a deliverable that is restricted in nature/scope in comparison to an ISA audit, but nevertheless based on the ISAs, and we would not be supportive of such a solution, as we describe in our overarching comments and also in our response to Question 4a).

MNP LLP - 8

Further we believe that the classification of an entity in terms of complexity runs on more of a spectrum rather than a distinct cut-off between two classes of entities. Certain entities which are for the most part non-complex may have some complex elements or enter into complex transactions on an infrequent basis. Similarly, an entity which is for the most part complex, may have certain areas of its operations which are not complex.

In our view, an LCE will typically possess some of the qualitative characteristics as described on Page 4 of the DP. We agree that the list is not exhaustive, the characteristics are not individually exclusive to an LCE, and an LCE will not necessarily display all of the characteristics. Additionally, some of the characteristics are more persuasive in their indication that an entity may be an LCE. Therefore, we believe that professional judgment will need to be applied in determining whether an entity is considered an LCE. Accordingly, we recommend that clarity in the wording of the description be included to indicate that determining whether an entity is an LCE is judgment based and requires a weighing of all criteria. We also encourage clarity and guidance to be included to indicate that determining whether an entity is an LCE is a continual assessment that could change over time and not necessarily a one-time assessment.

We note that ISA 315 has updated the description ‘few internal controls’ to ‘simpler system of internal controls’ and agree with this change, as a lack of internal controls does not necessarily indicate an LCE, while a simpler system of controls may be indicative of an LCE.

NEXIA International - 52

For LCE’s the ITC refers to “qualitative characteristics,” however then uses the term “few” business lines, internal controls, layers of management and personnel. Few indicates a “quantitative measurement” as opposed to a qualitative measurement. We suggest using terms like “simple,” “uncomplicated,” “basic,” to describe business lines, internal controls, layers of management and personnel, for example.

It will be important for IAASB to distinguish factors which make the entity more complex versus the audit more complex. For example, a past history of fraud or problems with the audit, a history of controversial or
difficult issues arising (including conflicts between various levels of management), questions over management's competence, or the involvement of unsympathetic or critical external stakeholders can make the audit of a less complex entity more complex. A reference in the new standards, might preclude application to a particularly complex audit.

Pitcher Partners - 7

That said analysis of each of the characteristics if the IAASB is to continue with trying to define LCE also presents challenges:

The current definition of a smaller entity which the IAASB suggests may share many characteristics of a Less Complex Entity “LCE” is:

“An entity which typically possesses qualitative characteristics such as:

Concentration of ownerships and management in a small number of individuals (often a single individual – either a natural person or another enterprise that owns the entity provided the owner exhibits the relevant qualitative characteristics); and,

One or more of the following:

Straight forward or uncomplicated transactions;

Simple record keeping;

Few lines of business and few products within business lines;

Few internal controls; few levels of management with responsibility for a broad range of controls; or

Few personnel, many having a wide range of duties

These qualitative characteristics are not exhaustive, they are not exclusive to smaller entities, and smaller entities do not necessarily display all of these characteristics.”

The above definition of an LCE is challenging in a number of ways, while allowing that the IAASB is not responsible for defining for each jurisdiction what entities may apply any developed LCE approach / guidance or standards (herein referred to as the “minimum” approach). A definition which allows some, all, or even presumably none of these factors to be present but others to be present resulting in an entity being considered LCE renders any definition redundant as it is not a definition but a number of suggestive factors. Therefore, what is the purpose to “defining” an LCE if the IAASB cannot mandate the acceptance of said definition or is it simply a question of acknowledging that the concept exists that there is a minimum audit for LCE and there are higher expectations and requirements for other types of entities. Ultimately local jurisdictions will determine the applicability of the “minimum” approach and what entities require further procedures.

The comments on the definition of LCE does not remove the need for the standards to be revised to address what the minimum requirements of an audit are i.e. to facilitate LCE audit.

Few internal controls; few levels of management – While fewer controls may be an indicator of a smaller and/ or less complex entity, a business could operate in a simple manner but still have a number of controls. Also, the concept of a few is wide ranging is this a few in total? A few in each cycle? Are these documented controls which are documented, designed and operating effectively or are these controls largely manual in nature without necessarily full documentation or absolute operating effectiveness?
Few personnel – similar to the number of internal controls, limited numbers of people may be indicative but not definitive as to whether the business is complex. The nature of the transactions is more likely to define the complexity of the entity. This is something which seems inherently tied to size rather than complexity.

Concentration of ownership – the extant definition appears to preclude a larger number of individuals from having ownership, but there are many entities which require audit in our jurisdiction which may have quite sizeable numbers of “owners” such as companies limited by guarantee but which otherwise are often LCE in substance, therefore adoption of a limited ownership limitation may preclude entities from being included in the use of LCE. An example might be a company limited by guarantee running a golf club, simple business, comparatively small, but potentially with 500 or 1000 “owners” as members. Further the number of owners does not as a default position make any indication that the business itself is complex although it is a reasonable indicator that it may be less complex it should not preclude wider ownership businesses from being considered non-complex.

Straight forward or uncomplicated transactions – At a principles-based level this is likely a core element of the definition, however, in of itself it has no definition i.e. what is straight forward or uncomplicated. A basic cash transaction for a good is likely to be commonly considered to be both straight forward and uncomplicated, but if a service is involved while it can be simple the amendments to the Accounting Standards on revenue recognition potentially mean that any transaction with a service period component would be considered complex, or a split settlement such as for construction contracts, however, for these businesses they are business as usual and would not be considered anything other than straight forward and uncomplicated. A definition using words without clear or defined meaning is likely to lead to dispute on whether the LCE approach is acceptable and therefore potential misapplication.

Simple record keeping – Similar to straight forward transactions, the word simple is an undefined term, or to reverse the question what is complex record keeping? This would be a good conceptual starting point but without explanation, example and definition is difficult to consistently determine and execute on.

Few lines of business and few products – While the number of business lines may indicate greater complexity what a business line is would enhance any definition if this is to be used as a term, e.g. is this something with different accounting treatment, different nature of product different product? Is selling trucks a different line to selling cars? The lack of clarity in the definition of these terms means that a “definition or description” of LCEs may in substance create as many questions as it solves.

Also, without clarity on the consequences of being an LCE it is difficult to fully consider what the definition of an LCE should be. Particularly given that being or not being an LCE is seen as a binary outcome with binary consequences, when in practice there may be many areas of a file where a minimum approach is appropriate to obtain evidence and others where it is not. Without understanding the impact of determining an entity as LCE it is difficult to determine the appropriate definition.

Lastly definitions or examples currently included in the auditing standards are typically interpreted by regulators as the minimum requirements, and therefore essentially render that example or definition a compliance or usage definition. An example of this approach is the rebuttal of the presumption that there are risks of fraud in revenue recognition refer ISA 240 para A30

“the presumption that there are risks of fraud in revenue recognition may be rebutted. For example, the auditor may conclude that there is no risk of material misstatement due to fraud relation to revenue recognition in the case where there is a single type of simple revenue transaction, for example, leasehold revenue from a single unit rental property.”
This has been interpreted by our regulator as being the definition of rebuttal and anything other than this is considered not to be appropriate to rebut the risk of material misstatement due to fraud in revenue recognition.

Therefore, the idea that there is an LCE approach as a concept is crucial to respond to the substantive realities of auditing in a public or listed environment as opposed to a private environment, but the use and acceptance of this should likely be left to the various jurisdictions to determine where and when it is appropriate.

Perhaps it would be substantially easier to define what characteristics absolutely prevent an entity from using only the minimum approach e.g. Listed / Public entities, rather than describing the LCE with a definition which suggests a range of items without clarity on the quantum, or number of those which must be present to determine that the entity is an LCE, and consequently the additional work required for entities which are “not” LCE. This is especially relevant in the current litigious environment where if an LCE approach is a path to less documentation/evidence/work then any debate over the definition of LCE, and therefore whether it is appropriate to use it, is a litigation issue waiting to occur. This would likely leave adoption and acceptance of the LCE approach with the jurisdictions, and better reflect the fact that the largest element of the expectation gap is the listed/public sector where there should be no scaling back of requirements except where they are not applicable to an entity.

In short defining what an LCE is does not appear to be an efficient or effective use of time as the applicability of any such approach will be determined in each jurisdiction, and it is only of practical relevance if the evidence gathering requirements of such an approach requires less audit evidence / effort than complying with the “full” audit standards.

Shahedan and Co - 80

In my opinion, one of the most important characteristics of an LCE, which is recommended to be added to those mentioned in DP is the complexity of estimates (ISA 540). The entities with less complexity in judgments about income recognition and estimates should be considered as LCE.

SRA - 21

We feel that the description of LCE’s should focus on the complexity of the business and supporting processes of the entity. Such a description could include the elements, included under b on page 4 of the Discussion Paper. We feel, that the elements, mentioned under a on said page 4 are not relevant, as they do not influence the audit approach and the nature of the required audit activities.

In discussing the LCE-concept it should be considered how to apply the concept if an entity fits in the LCE-definition for all aspects, with the exception of a single item or stream, for example, one provision. We could envisage that in such cases the requirements for audits of LCE’s could be followed and extra audit work is undertaken for the item, stream or assertion in the financial statements concerned.

5. Public Sector Organizations

U.S. Government Accountability Office (GAO) - 45

Overall, we believe that there are aspects of less complex entities (LCE) definition that raise concerns about how to apply the term. The definition of LCE risks causing confusion in the audit profession, both for auditors in how to define such entities and for those who rely on the audits. Also, the definition focuses more on for-profit entities than non-profit or public sector entities.
Specifically, we believe that the description of LCEs does not sufficiently address the types of entities in the public sector. There may be public sector entities that exhibit characteristics described in the qualitative characteristics of LCEs listed in the discussion paper, but it may not be appropriate to apply a different level of audit as considered for LCEs. There are also descriptions, such as those of ownership or management structure that may be different for public sector entities. These differences are not sufficiently addressed in definition.

In addition, the concept of LCEs is structured around a single audit period and does not consider the changes that may occur in an entity from one audit period to the next. A small- or medium-sized entity may not change significantly from one audit period to another, but an LCE may change in complexity from one audit period to another, or even during the period under audit. Also, the potential of an audit report to change from LCE to non-LCE can create confusion regarding whether the financial statements audit opinions are comparable.

Finally, the interpretation of the characteristics by auditors may be difficult with entities that may be “on the border” of being less complex. One auditor, based on their professional judgement, may determine to audit using the LCE standard while another may not.

Wales Audit Office - 40

We agree that the emphasis should not simply be on size, although in practice there is often (but not always) a correlation between size and complexity.

We believe that there is a challenge in defining an LCE, as the definition of an LCE and the response to risks at such bodies are not mutually exclusive. For example, a body with few internal controls may prima facie appear to be an LCE, but the absence of those controls may pose significant audit risks.

In contrast, we are aware of small bodies in the public sector that have audit committees, strong governance arrangements, well developed control frameworks including internal audit functions, that might be characteristic of larger bodies in the private sector.

We set out a potential solution to this challenge in response to question 4.

6. Member Bodies and Other Professional Organizations

Belgium Institute for Tax Advisors and Accountants (ITAA) - 59

Although ITAA understands the reasoning behind the choice for a qualitative criterion instead of a quantitative criterion, it must be pointed out that the IAASB itself does not give an example of an existing definition that is being used anywhere in the world as an audit threshold. This qualitative criterion is a new and unproven concept. It appears to be subjective and hard to define.

Furthermore, in the discussion paper there are only references to quantitative criteria that are being used in different parts of the world (EU, Australia).

ITAA therefore favors quantitative criteria (balance sheet, net turnover, number of employees), that can be adjusted and may vary according to the scale of the companies of the region, i.e. the (international) area in which the envisaged regulations will be applicable. The quantitative criteria should be set by national or regional standard setters. A quantitative criterion will be more objective than a qualitative criterion.

Finally, SMEs will in general be less complex than larger entities. Because of this correlation between size and complexity, ITAA favors quantitative criteria.

California Society of CPAs - 14
Our Committee had various reactions to the definition. Some thought the proposed description is fine and that staying consistent with the SME definition is a good idea. Others felt that the definition should be more directed towards the expected difficulty of the audit rather than the characteristics of the organization being audited. And others felt that there should be a tie-in to the risk assessment, i.e. an audit with lower risk.

**Cayman Islands Institute of Professional Accountants (CIIPA) - 9**

1. The definition of LCEs may need to be more stringent and possibly include quantitative measures too (although this might be difficult as a single currency will probably need to be used). One possible solution could be to define a metric which could be applied to each entity for purposes of determining the extent to which the “public” is exposed to adverse developments in the entity. This is a concept which has been used in South Africa, and is known as the “Public Interest Score” (see https://www.saica.co.za/News/NewsArticlesandPressmediareleases/tabid/695/itemid/3443/language/en-ZA/Default.aspx). The Public Interest Score serves to establish the appropriate financial reporting standards that should be applied, and whether an entity must be audited or independently reviewed, amongst other things. The principal is that an entity with a higher public interest score would need to comply with a more onerous set of regulatory and reporting requirements. At present, with the definition based on purely qualitative factors, there could be a vast divergence in what is considered an LCE in practice.

**CPA Australia - 67**

Further, CPA Australia believes that the definition of LCE should be sector-neutral and therefore needs to also include the “characteristics” of Not-for-Profit entities (NFPs). Lastly, CPA Australia emphasises that ultimately, what counts is not necessarily the development of a clear-cut definition of the features of LCEs, but the importance of re-emphasis that regardless of the complexity of the entity, the audit needs to provide a consistent level of assurance.

If the definition is only guidance, we support the qualitative characteristics suggested by the IAASB to identify an LCE. With regards to b(iii), however, we doubt that the criterion “few lines of and few products within business lines” necessarily defines an LCE given that a large complex business may in fact provide only one dominant product and/or service. Further, we are concerned that the feature “few personnel, many having a wide range of duties” may be inappropriate, given that the ongoing advancement of emerging technologies, such as Artificial Intelligence (AI), Robotic Process Automation (RPA) and Blockchain Technology (BT), may lead to a reduced number of personnel responsible for certain tasks or processes.

CPA Australia emphasises that the range of characteristics may vary in different countries: what may be considered as less complex in the United States, may be considered complex in Australia. Hence, due to the differences of economic factors among countries, setting quantitative measures at a global scale to determine the complexity of entities might be misleading. We suggest determining quantitative factors taking into consideration economic factors relevant for the specific country context.

One difficulty which may arise is if the assessment of whether an entity is an LCE differs between the auditor and a regulator. Applying any pronouncement/s applicable to LCEs may not necessitate documentation to justify whether the requirements of each ISA are relevant or have been met. Consequently, if the LCE definition is likely to be used by regulators to mandate applicability of ISAs or any LCE pronouncements, consideration would need to be given to whether consistent application requires the definition to be more quantitative than qualitative.

We consider that the purpose of providing a definition of LCE should be to help direct the auditor to the pronouncements which would be of most use to them, but not to mandate which are applicable. We suggest
that the nature of an audit should remain consistent whether the entity is an LCE or a very complex entity. The difference between these engagements should be the complexity or sophistication of the audit response necessary to obtain sufficient appropriate audit evidence given the characteristics of the entity. The auditor should be able to use a pronouncement for LCEs to guide their audit engagement, but if they find a more complex issue arises or the entity’s activities or structure become more complex over time, they can seamlessly transition to apply either the full suite of auditing standards or relevant standards. We suggest that the outcomes of the audit should be the same whether the LCE pronouncement is applied or the full suite of auditing standards. As a consequence, the definition should provide guidance rather than a definitive cutoff between LCEs and non-LCEs.

EXPERTsuisse - 50

A very important aspect is the scope of application of a new LCE audit standard. We surely are aware of the fact that quantitative thresholds are not an appropriate measure to differentiate between complex and less complex. Nonetheless, differentiating between complex and less complex entities must not be arbitrary or random, which would be an argument for setting quantitative thresholds.

We would welcome if the population of "LCEs" would not be defined solely by qualitative criteria, but supplemented or even replaced by quantitative and/or unambiguous criteria. We could imagine that in the future the full ISAs would only apply to PIEs.

IFAC SMPC - 77

There is a risk of a lack of consistency if it is left to individual jurisdictions. Consideration of how many of the descriptions need to be met to qualify as an LCE e.g. more than one as clients may put pressure on which standard to apply due to the need to apply professional judgement.

The definition of an LCE will be critical. It needs to be simple and easy to use to be applied consistently. There is concern about how the definition would be applied in practice and the clarity that will be needed by regulators, firms and audit clients. For example, how it would be applied for subsidiary companies that may classify as an LCE but are part of a group that does not.

Possible changes to elements of the existing definition of “smaller entities” included removing “few internal controls” as LCEs can have more than “few” internal controls, that some LCEs will have wide ownership (i.e. not concentrated in a small number of individuals) and an addition could be “no complex accounting estimates”.

Potential disqualifying characteristics could be listed entities and/ or PIEs, or subsidiary entities of these and linked to higher risk. For instance, if the LCE is involved in public funds or has an impact on society it may not be considered an LCE. A stakeholder matrix may assist the consideration.

Institute of Chartered Accountants of Pakistan - 64

We note that the definition of LCE is same as that of ‘smaller entity’ provided in ISAs. The focus of LCE definition seems to be on the complexity and risk of material misstatement associated with the entity rather than its size and nature.

As a starting point, the LCE definition appropriately outlines the characteristics of less complex entities. However, we believe that the interaction of the LCE related qualitative characteristics (as provided in the definition) with other qualitative factors such as group structure, listing status of the entity, public-interest nature etc would require consideration for the development of an all-encompassing and generally applicable definition.
As far as the definitions and characteristics themselves are concerned, we agree that it is correct for the IAASB to focus on the qualitative characteristics of an LCE in a short, well-defined list. This could also be used to ascertain which specific entities should be automatically scoped out of an LCE audit, such as listed entities or Public Interest Entities. Ultimately, of course, such matters would be primarily for local standard setters or regulators to determine as they best understand the needs of their respective markets.

However, we do not underestimate the challenge of creating a comprehensive definition of a less complex entity. When devising such a definition, the parameters and language need to be sufficiently clear to enable consistent interpretation and application, and importantly, to avoid future regulatory challenge.

In addition to those already listed, we believe that other potential characteristics could include:

- No significant, external third-party debt or financing arrangements.
- Simple and easily understood business model and/or structure.
- No complex financial reporting requirements, for example complex financial instruments.
- No cross-border activity or operations spanning different jurisdictions.

It may be necessary therefore to include some quantitative measures as part of the classification criteria for entities that might be categorised as LCEs. While the IAASB could provide some indicative guidance as to the type of entities that might be considered LCEs, and those which would not, we believe that it would ultimately be a matter for individual regulatory bodies to decide which entities would be considered LCEs based on the market composition and structure in their individual jurisdictions. This is similar to the approach for the application of the IFRS for SMEs.

One final consideration is the need for care to be exerted when creating the definition of an LCE not to unintentionally exclude certain types of entities from the LCE environment as a result of some of the specific aspects of these entities. There is a danger that in certain jurisdictions all charities, for example, because of their specific accounting requirements and public good objectives, might be considered specialist entities and, as a result, judged by some to fail to satisfy the definition of an LCE. Such a blanket approach is to be avoided as it fails to take account of the specific circumstances.

While the description of LCEs on page 4 of the discussion paper is a helpful starting point, as the paper states, these are drawn from the IAASB’s current definition of a smaller entity and excludes the complexity perspective that the introductory section of the discussion paper takes great pains to emphasise. This is an unfortunate omission, or inconsistency, as it might give the impression that the IAASB considers that some of the identified challenges in applying the ISAs sit only with smaller entities. This is not the case in practice as we are aware that audits undertaken on some medium-sized, or even some large, entities, based on the current EU thresholds, also face similar challenges relating to the scalability and relevance of the ISAs.

We support a definition of Less Complex Entities based on qualitative and quantitative criteria.

Currently, the common practice is to use only quantitative criteria to describe LCE, while the complexity and structure of the business are even more significant than the size. In this regard, although we understand that any definition can’t fit all the circumstances in every jurisdiction, the development of general criteria and application material is necessary.
Definition should be principles based and application material should include a wide range of aspects and circumstances.

South African Institute of Chartered Accountants (SAICA) - 63

Other characteristics indicated by SAICA survey respondents to be considered included:

- Legislation;
- Limited stakeholders;
- The type of industry; and
- Accounting framework applied.

When SAICA survey respondents were asked which characteristics they deem not to be an appropriate description of an LCE, 44% respondents indicated “few personnel, many having a wide range of duties”. The reason provided was that the number of personnel is a quantitative measure that relates the size of the entity and not complexity. Businesses could still be complicated even though they have few personnel; while certain sectors/industries may require a higher number of personnel, even though the entity might not be complex.

The SAICA task group, however felt that “straightforward or uncomplicated transactions” should carry more weight.

It was suggested that the definition for an LCE should read as follows:

“An entity which typically possesses qualitative characteristics such as:

Concentration of ownership and management in a small number of individuals (often a single individual – either a natural person or another enterprise that owns the entity provided the owner exhibits the relevant qualitative characteristics); and

With straightforward or uncomplicated transactions; and

One or more of the following:

- Simple record-keeping;
- Few lines of business and few products within business lines;
- Few internal controls;
- Few levels of management with responsibility for a broad range of controls;
- Few personnel, many having a wide range of duties; or
- Few related-party transactions.

These qualitative characteristics are not exhaustive; they are not exclusive to smaller entities, and smaller entities do not necessarily display all of these characteristics.”

As the above definition will determine when an LCE audit should be applied, specific guidance is suggested to explain what is meant with various aspects of the definition, for example “straightforward and uncomplicated transactions”, as this could be interpreted differently by auditors, dependent on the type of industry they operate in.
It is further suggested that when reference is made to “few”, guidance in terms of relative measure be provided in explaining “few” in relation to what would suggest that an entity is an LCE.

Entities that are considered to be an LCE are included within the scope of the Discussion Paper and any consequential amendments that may follow. The identification of an LCE is therefore a critical part of this project. To ensure that the efforts of the IAASB are appropriately directed in addressing the types of entities, any description, definition and / or other considerations must be simple and easy to use and apply, thereby achieving consistent application across all affected parties, as well as different jurisdictions. Clarity will be needed by all parties (i.e. regulators, firms and audit clients) about when the definition is applied, and when not.

Further potential disqualifying entity characteristics should also be included. This could include listed entities, public interest entities (this will be very much jurisdiction-dependent) and group audits.

Considering that business has become more complex, and this directly impacts the way an audit is performed, reference was also made to the fact that where an entity opts to use an accounting framework that is less complex, for example the International Financial Reporting Standards for Small and Medium entities (IFRS for SMEs), the entity could be deemed to be less complex.

ISA 200 paragraph A66 sets out qualitative characteristics that a “smaller entity” typically possesses. In line with the view that it is appropriate to focus on the complexity of the entity, rather than the size, SAICA believes that this will best be achieved by outlining qualitative, rather than quantitative considerations in defining and / or describing an LCE. We therefore agree with the approach of the IAASB in describing an LCE, to focus on the qualitative aspects rather than the quantitative aspects of an entity, as there will be different interpretations based on the jurisdiction if quantitative aspects were to be considered.

91% of SAICA survey respondents indicated that they believe the LCE description to be appropriate. At various discussions during our outreach with members the same view was expressed; the current definition describing the qualitative characteristics of a “smaller entity” is appropriate for that of an LCE.

South African Institute of Professional Accountants (SAIPA) - 56

The term Less Complex Entities could cause confusion as it is not a definitive term. Whilst we understand that the IAASB was is proposing the use of LEC rather than Small and Medium Sized Entities, we find the term more confusing as who determines that this is Complex or Less complex. There could be unintended consequences of entities that should be falling into full ISAS justifying their position as “Less Complex”.

It is our view that the Discussion Paper (DP) and the proposed intervention be clearly termed as Small and Medium sized Entities which is commonly known and understood. This still fits the descriptors that the IAASB has given on page 4 of the DP.

Union of Chambers of Certified Public Accountants of Turkey (TURMOB) - 79

Definition of a “complex entity” should also be made using qualitative characteristics as you suggest in the paper for LCE and should complement the quantitative measures applied in practice to determine “large” entities. Complexity (whether an entity is complex or not) shall be decided by the auditor by using professional judgement based on the qualitative traits set forth by IAASB and size (large or small/medium) shall be decided by regulators in each jurisdiction when establishing audit thresholds based on quantitative criteria. Any entity categorized as complex and/or large shall be subject to current ISAs.

We are of the opinion that the term “Less Complex Entities” is not fit to describe the issue under question. The challenges faced in applying ISAs in audits of “smaller entities” (the term currently used under ISAs)
Pertain to the complexity of audits rather than entities. Complexity of an audit, in many cases, may result from the size of the entity. However, experience suggest that audit of a small entity can often be quite complex for an auditor for a number of reasons such as lack of sufficient internal controls or appropriate use of information technologies to eliminate human error and such.

Furthermore, the term “less complex” is not only a subjective measure against “more complex”, but it also attempts to define a concept (simple) over its opposite (complex).

Therefore, we suggest defining the concept of “complex” rather than “less complex”.

8. Individuals and Others

Alla Ejova - 42

The definition is very general, under this definition can be summed up different categories of business. For example, a Bank owned by an individual, and carrying out only direct banking operations – receiving funds and issuing loans, will fit this definition, in the absence of an extensive representative network.

It seems that it would be good to specify the understanding of "Straightforward or uncomplicated transactions", "Straightforward or uncomplicated transactions", and especially "few personnel". Perhaps a criterion could be added to the definition of an LCE to exclude organizations of public interest.

Cristian Munarriz - 93

I think the qualitative characteristics in b. are more relevant to a faithful representation of "complexity". The characteristics in a. are not representative of "complexity" (but may be relevant for some specific issues, like communications to TCWG as I will explain later). Nonetheless, it should be noted that characteristics in b. may be subjective, so, while simply mentioning qualitative characteristics may be appropriate for issuing guidance, it may not be appropriate to determine the scoped entities in case the “separate standard” approach is selected because different parties may have different ideas about if a specific entity is complex or not for the purposes of this standard. In the latter case, a more objective definition will be necessary.

Gabriel Yepez - 13

1. Within any framework of action taken by the IAASB, it is important that the concept of an LCE could be clearly defined, i.e. the considerations of the discussion paper could be broadened. From our point of view, and in accordance with Latin American reality, there are many medium and small size audit firms, which audit entities listed according to the discussion paper as an LCE, however we believe it is relevant that it is possible consider within this concept those audit commitments on social end projects/programs financed by Multilateral Credit Agencies such as the IDB, or World Bank, or for example financed by non-profit entities such as UNICEF or CHILDREN'S VILLAGES SOS.

The characteristics of these social-ended programmes/projects are that they are tied to audit procedures often established by donors or funders (Terms of Reference), and sometimes, in cases where the application of ISRS 4400, usually the audit approach is purely substantive. In many cases there are short-term programs/projects, with relatively insignificant amounts, but requiring auditing for funder's enforceability.

It is possible that within the action plan in particular the IAASB, consider as part of the concept of an LCE, either a project/program for social purposes, or it could also be an NGO that implements the above-mentioned programmes, as such, normally its operation is normally its operation is relatively simple, and therefore in our view, the implementation of the audits could also be due to a rather practical and, to say not least, strictly substantive approach.
Finally to complete the idea, in many cases even an NGO, it does not use AS a reference framework for IFRS, and its accounting records are based on the cash or cash method, ruling out the principle of accounting accrual, another reason to think than an NGO could conceptually be classified as LCE.

2. We believe it pertinent that although we are faced with an entity defined as an LCE, according to the DP (discussion paper), the application of audit procedures for an LCE should be dismissed, where:

• It is a public interest/listed entity.
• Have external financing/indebtedness with financial sector entities.
• Have clearly defined and developed internal controls within IT systems (automated processes, integrated accounting, and automatic reporting level)

In other words, these types of entities under our analysis should adhere to the requirements of the NIA, and this is because the NIA’s risk-based approach can be more useful and, above all, provide reasonable security for state users Financial.

In the case of an entity with robust internal control (within IT), it is necessary to evaluate them under a risk approach and controls clearly defined in NIA 315 and NIA 330.

SAMantilla - 1

The idea of focusing on complexity, rather than on size, is interesting. Although very likely the SMEs will perceive that their particular needs are not taken into account. Some will say that all SMEs are less complex entities, although not all will agree with it.

05. Q1 Disagree

4. Accounting Firms

Deloitte Touche Tohmatsu Limited - 46

DTTL does not agree with applying the current definition used for smaller entities to define an audit of an LCE. Based on the following aspects, DTTL is in favor of a revised definition.

It is DTTL’s view that in order to drive the desired change in focus from size to complexity, a change in the definition is required. Keeping the current definition may result in stakeholders not sufficiently understanding that the focus has changed.

When assessing the relevant criteria defining an audit of a less complex entity, the definition should not give too much prominence to one single factor, as one factor on its own should not preclude an entity from being viewed as less complex.

Any criteria defining an audit of a less complex entity should come with supporting Guidance and Examples to drive global alignment and consistency and dissuade local standard setters from issuing local guidance on how to interpret the criteria.

DTTL believes that there are factors related to both the entity and the audit and that these should be collectively considered in defining an “Audit of a less complex entity.” It is furthermore DTTL’s opinion that the current definition is not appropriately focused on complexity and has a too prominent focus on factors that are indicative of size, rather than complexity. DTTL therefore suggests a revised definition as set out in Appendix II, which is more appropriate and provides a higher degree of focus on factors related to complexity of an audit of an LCE rather than size.
However, DTTL also believes it is important to consider that, even though focus should be on characteristics related to complexity and not size, it should also be noted that size itself can contribute to increased complexity, and that an increase in size, at some point inevitably will result in an entity being inherently more complex.

Appendix II – DTTL’s suggestion for a definition of an audit of a less complex entity

DTTL suggest the following definition of an audit of a less complex entity:

Audit of a Less Complex Entity

An audit of an entity that is less complex in nature, which exhibits some or all of the following characteristics related to the entity and to the audit.

Less complex characteristics related to the entity

An entity is typically less complex in nature when possessing some or all of the following qualitative characteristics:

Typically private*

Does not operate in a complex or highly regulated industry

Simple business (e.g., few lines of business, no complex derivatives, structuring arrangements and with a limited number of transactions with group entities)

Has a simple IT environment

Limited number of locations

Less complex characteristics related to the audit

An audit is typically less complex in nature when possessing some or all of the following qualitative characteristics:

Engagement likely to be exempt from the firms EQCR requirements

Little or no involvement of specialists on the audit

Limited number of significant risks are expected to be identified

Typically, a limited control-reliance (i.e., limited to certain select areas / accounts) or a non-control reliance approach is adopted

No intended reliance on the work of the internal audit function, if an internal audit function exists

Typically a limited number of engagement team members

The mix of the engagement team members is typically such that there is a higher proportion of less experienced/less-senior members on the engagement

The less complex characteristics are not exhaustive, they are not exclusive to less complex entities, and less complex entities do not necessarily need to display all characteristics.

* The presumption is that any non-private entities are more complex in nature, however there are limited circumstances where a non-private entity can be less complex, for example listed debt entities, simple non-for-profit organizations, and other simple government and public sector entities, that otherwise meets the criteria’s of being less complex.
Guidance

The suggested definition is illustrative and DTTL believes that in order to enable auditors to appropriately apply, the definition should be supported by illustrative Guidance and Examples to reinforce the characteristics.

Definition of an audit of an LCE

DTTL does not agree with using the current definition of a smaller entity as the definition of an LCE. DTTL believes that in order to drive the necessary change in perception from focus on size to focus on complexity, a significant change in the definition is required. Secondly, DTTL does not agree with concentration of ownership being such a prominent factor when assessing an entity's complexity. Refer to Appendix II with suggestions on defining an audit of an LCE and to Question 1 in Appendix I for further commentary. It is imperative that the definition of an audit of an LCE includes sufficient and transparent Guidance and Examples.

GIG Practice Group of Auditing Reporting and Compliance - 29

From our point of view, the distinction should be linked rather to the relation with the public interest. SMEs usually have a less intense relation with the public interest than listed companies. However, they will benefit from audit work of the same quality, for example because the auditor will help them to identify management risks and improvements to the accounting related internal control system.

We are not convinced by this concept.

Small and medium size enterprises (SMEs) are also often complex (see for instance their possible less-formal governance and internal control systems). They should nonetheless benefit as much from competent auditors as larger enterprises.

6. Member Bodies and Other Professional Organizations

European Federation of Accountants and Auditors for SMEs (EFEAA) - 38

Less Complex Entities

We have reservations around the use of LCEs and the proposed definition. LCE is a new and unproven concept. LCE is not a sector. LCE is highly subjective. We suspect there is a strong correlation between size and complexity. Ceteris paribus smaller entities are less complex than larger. Hence, we encourage the IAASB to assume that all SMEs, and non-PIEs, are LCE unless there is strong evidence to the contrary. In this letter we use the terms interchangeably, as if the same.

We have some reservations regarding the focus on LCEs and their definition. We suggest that the Board reconsiders the use of the LCE concept and the definition of the set of enterprises eligible for simplified treatment.

While LCE is conceptually appealing and in keeping with the notion that ISAs underpin a risk-based audit LCE has many drawbacks. LCE is a new and unproven concept. LCE is not a sector. LCE is highly subjective and hard to define. We suspect there is a strong correlation between size and complexity. Ceteris paribus smaller entities are less complex than larger: all banks are perhaps complex relative to other types of business entity, but then a small local bank is less complex than a large international one. Furthermore, SMEs typically share the same characteristics used to define LCEs in the DP.

We see merit in using recognisable and tried and tested concepts such as SME or non-public interest entities (PIE) in place of LCE. If the Board is reluctant to drop LCE then we encourage the IAASB to assume
and explicitly state that all SMEs, perhaps defined by size criteria, are LCE unless there is strong evidence to the contrary such as a certain characteristic that suggests they are complex.

**Federación Argentina de Consejos Profesionales (FACPCE) - 76**

In our opinion The definition is incomplete because it is more oriented to small and medium enterprises. It does not define the concept of complexity which is composed of diverse elements.

As points to add are proposed:
- Level levels concentrated in the owner or entrepreneur, or group of person
- There are risks associated with this condition.
- There are no complex operations from the point of view of accounting measurement.
- No transactions subject to complex technological solutions

**Q1 None**

2. Regulators and Audit Oversight Authorities

**Independent Regulatory Board for Auditors (IRBA) - 35**

Question 1: We have no view yet on the IAASB’s description of less complex entities;

4. Accounting Firms

Rymand&co - 87

6. Member Bodies and Other Professional Organizations

IFAC - 4

Instituto Mexicano de Contadores Públicos A.C. (Audit and Assurance Standards Commission) - 39

8. Individuals and Others

Adele Driscoll - 2

Gary Young - 19

Michel Maher - 16