

# Supplement 2-01 to Agenda Item 6

## Audits of Less Complex Entities – ED-ISA for LCE – Project Level Support

### Support for Project to Develop A Standard (General)\1) Yes (Explicit)\1a) A Solution to LCE Concerns

#### 3. Regulators and Audit Oversight Authorities

##### Finance Professions Supervisory Centre Indonesia

We support ED-ISA for LCE as a starting point. This could be a global solution to addressing the concerns that the ISAs are too complex and challenging to apply to LCE audits. We believe that a separate standalone standard for LCE audits is an appropriate solution to cope with the typical nature and circumstances of an LCE.

##### Independent Regulatory Board for Auditors (IRBA)

Overall, the IRBA is supportive of the development of a proposed standard that recognises the needs of auditors who perform audits of less complex entities and recognises that a globally consistent approach is needed, especially since several jurisdiction-specific LCE standards or related initiatives are arising or being used already. This is key to avoid inconsistencies in quality and confusion for users of not only the proposed standard itself but also users of the audited financial statements of LCEs. It was important for the IAASB to issue the proposed standard on exposure to obtain feedback from stakeholders such as the users of financial statements; preparers of financial statements; legislative or regulatory authorities; relevant local bodies with standard-setting authority; as well as auditors and audit firms, to determine what their needs are and whether the proposed standard is fit for purpose.

#### 4. National Auditing Standard Setters

##### Compagnie Nationale des Commissaires aux Comptes and Conseil Supérieur de l'Ordre des Experts-Comptables

It is a statement of fact that smaller, less complex entities (LCEs) make a critical contribution to the world economy and account for the great majority of audits globally. At the same time, the audit of increasingly complex structures and transactions have been addressed through the constant development and revision of the International Standards on Auditing (ISAs) leading to a complexification of the ISAs themselves. We are concerned that reflecting this increasing complexity in the ISAs could pose challenges for the audits of less complex entities.

The two French institutes have always valued the audit of smaller and less complex entities to protect the economy and France felt very early the need to address the specifics of the audit of smaller and less complex entities and therefore developed a specific, standalone standard for such entities. This standard was established on the same basis as the ISAs, i.e. with the following basic principles: reasonable assurance, sufficient appropriate audit evidence, professional skepticism, professional judgment, full compliance with the Code of Ethics.

Conscious that many countries were developing their own standards for the audit of LCE, the Compagnie Nationale des Commissaires aux Comptes (CNCC) and the Conseil Supérieur de l'Ordre des Experts-Comptables (CSOEC) initiated with the IAASB the first two "Paris Conferences" to address the specifics of LCEs and their audits and to have an overview of the initiatives launched in the different jurisdictions, including France.

In such a context, we fully support the proposed ISA for LCE.

We particularly support the following criteria of the ISA for LCE:

- the nature of the standard: a separate standalone standard with essential explanatory material (EEM);
- the level of assurance provided: reasonable assurance;
- the scope of the standard (i.e. LCEs) and its limitations, including group audits in a first step;
- the overall design and structure of the standard;
- the fact that specific ISA requirements cannot be used to top-up a requirement from ED-ISA for LCE to address a particular circumstance.

## Hong Kong Institute of Certified Public Accountants

One of the objectives of the ED is to facilitate an LCE audit in an effective and efficient manner. We believe the standalone nature of the proposed standard, drafted using concise and understandable language with appropriate length would serve this purpose. This is in line with our comment letter to the IAASB's Discussion Paper Audits of Less Complex Entities in 2019 where we suggested that developing a separate auditing standard for audits of LCEs based on the existing ISAs and scaled down for LCEs would be the most favored option among stakeholders in Hong Kong.

Based on our outreach activities, we note that regulators in Hong Kong, some of which are key stakeholders of audited financial statements, are generally supportive of the proposed standard and have not raised any concern or matter on the proposed standard or to the "specific questions" raised in the ED.

We appreciate the IAASB's initiatives and efforts in developing this ED. The IAASB has taken an important step forward in addressing the challenges of using ISAs in LCE audits.

We support the broad principles to develop a separate standard for an audit of the financial statements of an LCE, which would provide a reasonable assurance and high quality audit engagement to enhance the credibility of the financial statements for the users thereof.

## Institut der Wirtschaftsprüfer in Deutschland e.V. (IDW)

Given the urgent need for an LCE standard, we urge the IAASB to undertake the improvements that we have identified and complete the LCE standard as soon as possible.

We would like to commend the IAASB for having taken up the call to provide a workable response to the issues that have arisen with respect to the use of the ISAs for audits of financial statements of LCEs and for having drafted a standard for such audits with dispatch. The IDW had already discussed the issue of scalability and proportionality of the ISAs with the IAASB in 2009, which helped engender the staff guidance on the issue. However, since 2015 we have observed how the increasing influence of audit regulators – in particular those regulators with an interest in the audits of banks, insurance companies and listed entities – has driven standards towards greater length and complexity to address the public interest issues that have arisen from these audits. Without in any way denigrating these issues of great public interest, these developments, as exemplified through the issuance of revised standards for ISA 540, ISA 315, and ISA 600, have increasingly overengineered the ISAs for audits of LCEs worldwide. The length and complexity of the revisions to ISA 540 and, recently, ISA 315, lead to considerable granularity in the application of the requirements and bureaucracy in their documentation in a fashion that is simply not needed for audits of financial statements of LCEs.

In addition, we note that the pace of change in standards has become a major barrier to their proper implementation in LCE audits. Ideally, we would prefer a building blocks approach to the ISAs based upon a "think small first" paradigm using the CUSP project as a basis. However, given the introduction of the revised ISAs 540 and 315, we do not believe that the IAASB has the luxury of time and we have become increasingly convinced that this is simply no longer a realistic option given the focus of audit regulators on audits of financial statements of banks, insurance companies and listed entities. For these reasons, and as discussed in our comment letter dated 12 September 2019 to the IAASB on its discussion paper on audits of LCEs, an LCE standard has become necessary.

For the reasons addressed in our comment letter from 2019, in mid-2020 the IDW commenced a project to draft standards for the audits of financial statements of LCEs for the German audit market. We issued the German LCE standards in December 2021. Both the IAASB LCE standard and the German LCE standards are predicated upon the auditor obtaining reasonable assurance that the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework. We refer to our response in the Appendix to this letter to Question 1 c) in the Explanatory Memorandum for a further discussion of this issue. Without getting into the details explained there, we believe that the public interest test that the IAASB should use in determining which entities should qualify as LCEs, and what the requirements for LCE audits ought to be, should be whether, compared to the application of the ISAs, the application of the LCE standard has virtually no impact on the assurance obtained and the resulting report in the vast majority of audits of financial statements of LCEs: there is no perfect solution beyond this.

## 5. Accounting Firms

### Crowe Global

We welcome the effort that the IAASB has made to develop a standard for the audit of the financial statements of less complex entities (LCA) and for prompt progress of the project. It is important that the IAASB responds to the concerns that have been raised about the application of ISAs to the audits of less complex entities and develops a global standard that meets these demands.

The proposed standard is clear, well-structured, and reads well. Our members who perform audits of the financial statements of entities that may come within the scope of the standard consider that they be able to apply the standard and perform a quality audit.

### Mazars

Overall, we understand and support the objectives of the ED ISA for LCE.

The ISA for LCE is a positive initiative as many audit engagements are not PIE nor complex engagements. We are in favour on LCE standards which will contribute to a higher quality and a better scalability of the audit if they are properly designed and used.

### MNP LLP

Canadian Audit Standards (CAS) are directly based on the ISAs. Increasingly, our practitioners, those charged with governance and client management are challenged with whether the CAS are fit-for-purpose when applied to small and medium sized entities (SMEs). As one example, many SMEs may not have formalized or evidenced internal control and risk-assessment processes. Certain aspects of the revised ISA 315 may be both onerous and of little value to the quality of these audits. According to the government of Canada, SMEs make up the vast majority of businesses in Canada and provide the vast majority of employment. We believe an auditing standard focussed on less complex entities is necessary for efficient, effective assurance SMEs require when attracting new investment.

### PKF International Limited

We welcome the opportunity to comment on the International Auditing and Assurance Standards Board's (IAASB's) Exposure Draft International Standard on Auditing for Audits of Financial Statements of Less Complex Entities (ED-ISA for LCE). We are supportive of the IAASB's efforts to respond to the needs of LCEs and the users of their financial statements by addressing the complexity, understandability, scalability and proportionality in the ISAs as they relate to LCEs audits. We agree with the IAASB that there is an urgent need for the development of a standards which addresses these needs.

### Price Bailey LLP

We welcome the exposure draft and appreciate the work undertaken by the IAASB. We believe this project is very important and needed.

Due to large corporate failings, the International Standards on Auditing (ISA's) have continued to become more complex and significantly increase the work required. This is fully understandable. Ideally the ISA's would be able to be applied proportionally to all sized businesses but that is not the case as all requirements have to be applied from large Public Interest Entities (PIE's) audits to small owner managed companies.

In our opinion LCE's are an important part of the economy and the provision of audit services to them, provide the LCE'Ss and the wider economy with significant value.

LCE's are not the same as large complex listed companies, as the nature and risk for these entities is different. They are different. They are managed differently, controlled differently and it is wrong to think LCE's are the same as large PIE's, but just smaller.

This standard is an opportunity to address the above fact. It will be helpful to have a standard which is tailored to LCE's and which is recognised globally.

To finalise, we are pleased the IAASB have carried out this work. It is an important area and we support the IAASB moving forward with the LCE standard. Hopefully our feedback will be taken on board, as we are keen to ensure there is an auditing standard suitable for LCE's.

## **6. Public Sector Organizations**

### **Audit Scotland**

Audit Scotland has followed the development of the proposed standard for Less Complex Entities with interest. We recognise the challenges of scaling ISAs to less complex entities and agree that a standalone ISA for less complex entities is an appropriate way to address those.

## **7. Professional Accountancy and Other Professional Organizations**

### **ASEAN Federation of Accountants**

We welcome the proposed standard dedicated for audits of LCEs, recognising the growing importance of its potential users in emerging economies such as ASEAN. The standard is perceived to bring potential benefits particularly to stakeholders such as Small and Medium Practices (SMPs) and Small and Medium Enterprises (SMEs), who may find it tailored to their specific needs. We recognise that the standard is not to be perceived to require less work, rather to focus more on the right work.

### **Association of International Accountants**

AIA supports the creation of an ISA for LCEs. AIA is of the view that such a standard would respond to demands to have a set of high-quality standards which are specifically tailored to LCEs. The view of many commentators of a 'think small first' approach to standard-setting is one which AIA agrees with. Over the years, and particularly since the IAASB's Clarity Project, ISAs have become increasingly complex and demanding, which is undeniably one of the contributors to standards in audit quality diminishing. As countries around the world work to improve confidence in the audit market, the publication of an Exposure Draft of ISA for LCEs is both timely and very welcome.

Auditors of LCEs often struggle with the increased technical content and length of the ISAs and hence AIA is of the view that a proportionate standard, befitting an LCE, would be in the best interests of the auditing profession. Audit quality for LCEs would increase as the standards applied would be more conducive to the type of audit being carried out and the overall credibility of the financial statements is unlikely to be diminished.

The introduction of the proposed ISA for LCEs would be up to each jurisdiction to decide. However, AIA would support the use of the ISA for LCEs in the UK and would encourage the Financial Reporting Council to consider its adoption in the UK once the ISA for LCEs is issued. AIA is also of the view that audit firms, in general, would also support an ISA for LCEs.

### **Belgian Institute of Registered Auditors (IBR-IRE)**

The effort of the IAASB to provide a shorter term solution for the audit of less complex entities is indeed a good initiative as it introduces a proposed standard for less complex entities - that still qualifies as an international standard on auditing - to support auditors of such entities who struggle to apply the current ISAs.

We therefore welcome the initiative of the IAASB with its effort to simplify the audit of less complex entities with the issuance of the proposed ISA for LCE. From an auditors' point of view, it is to be seen if the application of the proposed ISA for LCE will in fact lead to a more efficient audit in comparison to a "smart" application of the current ISAs by professionals with a profound knowledge of these standards.

### **Chamber of Auditors of the Czech Republic**

The proposed standard is an important step to increase efficiency in LCE audits. We fully support the initiative and the IAASB moving forward with this initiative as soon as possible.

### **Chamber of Financial Auditors of Romania**

CAFR is very supportive of IAASB's efforts to address the challenges that financial auditors encounter in the process of applying ISAs for smaller or less complex entities in their portfolio of clients. These types of entities represent a large segment of the Romanian economic environment and the development of a

separate stand-alone standard to be used for audits of LCEs might be the solution to matters concerning scalability and proportionality of audit requirements since ISAs have evolved in order to address more and more complex entities, structures and transactions. Therefore, a standard that has been designed to be proportionate to the typical nature and circumstance of an audit of an LCE is considered beneficial by those stakeholders who have identified challenges with applying the ISAs in audits of LCEs.

### **Chartered Accountants Australia and New Zealand and the Association of Chartered Certified Accountants**

LCEs are an essential and very large sector of the global economy. In some jurisdictions they form the majority of the corporate populations and in others they are the vital not-for-profit, community and small business populations. They and their stakeholders look for the value that audits deliver. There are clear populations of these entities in Australia, New Zealand, the UK and in other jurisdictions globally, who are subject to audit and would benefit from the improvements and value that less complex, more efficient audits would bring.

A standard that presents consolidated requirements and simplified explanatory material allows auditors of LCEs to focus on doing high quality audits that are tightly focused on the circumstances of LCE entities instead of having to spend time scaling the full suite of ISAs which are designed with audits of the full range of complexity in mind.

### **Chartered Governance and Accountancy Institute in Zimbabwe**

We are supportive of the development of a specific ISA for LCE as a way of addressing the needs of auditors who perform audits of these entities. We believe that the IAASB will provide the long-awaited solution to the challenges auditors were facing with scopes of audits.

### **CPA Australia**

CPA Australia supports the IAASB issuing a standard for LCE audits to address the expressed needs of auditors in a number of jurisdictions and to reduce the risk of fragmentation resulting from different jurisdictions developing their own solutions

We support a global solution for addressing the challenges in the scalability of increasingly complex auditing standards, which are encountered by auditors of less complex entities (LCEs).

### **EXPERTsuisse**

Support for a Separate LCE Audit Standard

EXPERTsuisse supports the development of a separate auditing standard for LCEs besides the existing ISAs, as the current standards have become overly complex and are very hard to digest and apply, especially by small and medium-sized audit practices (SMPs) in SME audits. The difficult language combined with the length of the standards have made it very ambitious to understand and follow the requirements. The “essence” of the standards is very often not apparent, as we realise that standards include an increasing level of detail, while not only requirements are added to the standards, but also contextual information that should be part of a methodology and not of the standards themselves. As a professional accountancy organisation in a country of multiple official languages, we also experience burdensome and time-consuming translation efforts.

We are in favour of a separate auditing standard for audits of less complex entities (LCEs) in order to address the current challenges of applying the “full” ISAs in SMP/SME situations.

### **Finnish Association of Authorised Public Accountants**

We appreciate the work done by the ISA for LCE Task Force of the IAASB regarding the draft ISA for LCE and we want to thank the IAASB for taking the LCE standard on its agenda and for considering it as an urgent matter.

We strongly believe that a standalone standard focusing on audits of LCEs is a proper way to address the challenges the auditors in the Nordic region are facing regarding audits of LCEs, especially SMEs. It plays an important role in maintaining relevance of the SME audit and decreasing the need for national standards.

### **GGI Global Alliance**

We do support the principles and the general approach as exposed.

As already expressed in September 2019 in response to the survey accompanying your discussion paper, we, as a major world alliance with members doing a lot of audits of “less complex entities”, we do support the development of a separate auditing standard based on the audit risk approach of modern audit. By reducing useless audit procedures on “less complex entities”, the draft new standard will make audit more practical for the best profit of the SMEs world – a world that is creating value, innovation and jobs. By reducing some form of bureaucratic and disproportionate audit procedures on SMEs, the new standard will simultaneously reinforce audit attractiveness, including for the staff of the audit firms.

### **Indonesian Committee on Public Accountant Profession (KPAP)**

In general, KPAP agrees to the content of the Proposed ISA for LCE.

In general, we agree with the proposed ISA for LCE because there are plenty of cases in Indonesia where auditors find it is not easy to implement ISA on less complex entities. Thus, we fully support IAASB in formulating ISA for LCE. The complete response is attached to this letter.

### **Institute for the Accountancy Profession in Sweden (FAR)**

The proposed standard is an important step to increase efficiency in LCE audits. The structure with the various phases in the audit process makes the standard easy to read and to understand for both practitioners and other stakeholders. Including essential explanatory material in the standard makes the standard more accessible.

### **Institute of Chartered Accountants in England and Wales**

#### **UNPRECEDENTED SUPPORT FOR AN LCE AUDITING STANDARD**

ICAEW congratulates the International Auditing and Assurance Standards Board (IAASB) on the issue of its exposure draft (ED) of a less complex entity (LCE) auditing standard.

As the ED acknowledges, smaller and less complex entities are important to the global economy and wider society. The credibility of the financial information they produce is important in the context of access to finance and the economic recovery post-pandemic. The level of interest shown in this ED among a wide range of stakeholders is, in our experience, unprecedented, if unsurprising. In addition to practitioners and preparers, we engaged with users in the public sector, the third sector, providers of finance and credit reference agencies. Specifically, we have discussed the ED with staff with responsibility for audit issues within the Charities Commission, UK Finance (representing banks and other lenders), and the British Information Providers Association (representing the major credit reference agencies). Interest among parties such as these in a proposed auditing standard is rare, and they provided us with valuable insights and encouraged us in our efforts to seek the issue of a standard on a timely basis.

Among the UK’s national audit agencies, we held discussions with staff in the technical departments of the National Audit Office, Audit Wales and the Northern Ireland Audit Office. An LCE auditing standard could be particularly relevant for the UK public sector as there is no audit exemption for small central government bodies.

There is widespread concern in the UK, particularly among some credit reference agencies, about the quality of information provided on the public record by smaller entities. There are long-standing problems in this area and some of them are UK-specific and relate to the information required, and the absence of an audit requirement. However, many we spoke to pointed to the recently revised ISAs 315 and 540 on risk assessment and the audit of accounting estimates respectively, as being the latest in a long line of standards that are particularly difficult to apply specifically and efficiently to the audit of LCEs. This is important when an audit is required or is performed voluntarily.

The availability of high-quality audit services to LCEs is important even in jurisdictions, such as the UK, in which audit exemption limits are high. This is because of the large number of audits performed on entities that would be audit exempt were it not for their membership of larger groups, the requirements of banking and other covenants, lower audit exemption levels in the third sector, and voluntary audits. The availability of audit services to LCEs depends on the willingness of practitioners to provide such services; this, in turn, depends on the availability of efficient and effective auditing standards.

“IAASB first consulted on this project back in 2017. Since then, we’ve had revisions to the ISAs on risk assessment and estimates that have made compliance on small audits even more difficult and expensive – reading the standards is tortuous applying them to my clients even worse. Those ISAs are designed for much bigger businesses. They are not scalable as claimed. If they were we wouldn’t have this problem.”

Peter Hollis, Principal, Hollis and Co Chartered Accountants, member of IFAC’s SMP Advisory Group and ICAEW’s Technical Strategy Board

An Exposure Draft (ED) of an auditing standard for less complex entities (LCEs) has been issued by the International Auditing and Assurance Standards Board (IAASB). These proposals clearly demonstrate IAASB's commitment to the public interest, the global economy and wider society. Auditing standards supporting high-quality audit services for the world's smaller and less complex entities are important, improving confidence in the credibility of the published financial information of those entities. Audit provides assurance to credit agencies, banks and potential investors. Without it, LCEs may find it harder to obtain access to finance. This proposed standard has the potential to play a critical role in repairing the financial ecosystem, and ensuring that the post-pandemic global economy recovers, grows, innovates and thrives. That potential makes the unprecedented level of interest in this ED, among a wide range of stakeholders, unsurprising.

### **Institute of Chartered Accountants of Ghana**

We are grateful to the IAASB for the opportunity given us to comment on the Exposure Draft (ED) on Proposed ISA for Less Complex Entities (LCEs). We welcome the initiative of the IAASB to develop a standalone standard for auditing LCEs, including detailing any areas of concern in applying the proposed standard, or possible obstacles that may impair this approach. We believe that the outcome of this exposure draft will lead to the development of a more workable standard that could be applied in auditing less complex entities.

### **Institute of Chartered Accountants of Pakistan**

We support the IAASB project and efforts in developing the ISA for LCE. Small and medium-sized entities compared to listed and public interest entities are generally less complex in terms of governance structure and operations. Auditors and other stakeholders have been raising concerns about the understandability and scalability of the International Standards on Auditing (ISAs) for the audits of small and medium sized entities. In this context, the IAASB proposed ISA for LCE is a significant development for the auditing profession.

We believe that ISA for LCE would address the concerns regarding scalability and complexity of the auditing standards for less complex audits.

### **Institute of Chartered Accountants of Scotland**

In our response to the IAASB's 2019 discussion paper 'Audits of Less Complex Entities: Exploring Possible Options to Address the Challenges in Applying the ISAs' we set out our vision as to the roadmap to be adopted in relation to the setting of future International Standards on Auditing (ISAs). This was as follows:

“Priority 1 – Develop a separate standard for audits of LCEs based on the key principles in the current ISAs that delivers the same level of assurance and has the same objectives as the current ISA audit.

Priority 2 – The current ISAs should be redesigned and re-drafted to be fully principles-based using a 'plain English' language convention based on the same 'building blocks', or 'think simple first' approach adopted in the development of a separate auditing standard for LCEs as set out in Priority 1 above. Adoption of a true principles-based approach will assist the firms in the more efficient use of technological advancements within their audit processes whilst still complying with the standards.

Priority 3 – In due course, more consideration should be given to converging the two activities above resulting in the ultimate desired option of a single suite of ISAs that can be applied to all audits regardless of size and complexity.”

We are still minded that this is the roadmap that the IAASB should follow. We therefore welcome the IAASB's publication of its proposed separate auditing standard for LCEs which is intended to deliver the same level of assurance as an audit undertaken by applying the full suite of ISAs as a first step towards producing standards which are truly proportionate. This reflects our first priority above.

### **Institute of Chartered Accountants of the Maldives**

Institute of Chartered Accountants of the Maldives is pleased to respond to the International Auditing and Assurance Standards Board's ('the Board') Exposure Draft, proposed International Standards on Auditing

for Audits of Financial Statements of Less Complex Entities (ISA for LCE). We welcome the Board's project to develop a standard tailored for the audits of less complex entities with the emergence of numerous less complex entities in the business arena and their reporting needs.

At a time where less complex entities play a vital role in our economy, we believe a proposal of a standard tailored for the audits of such entities will enable less complex and cost-effective auditing by the entities.

### **Institute of Indonesian Chartered Accountants (IAI)**

On behalf of IAI, I am pleased to present our response to your consultation on the proposed standard for audits of Less Complex Entities (LCEs). We welcome the introduction of this standard, as part of the Board's continuing efforts to respond to current audit and assurance challenges, including those faced by auditors in their audits of the LCEs. We understand that there is a growing need for ISAs to be scalable for use in audits of LCEs, primarily because in many jurisdictions, including Indonesia, LCEs represent a large percentage of entities subject to statutory audit requirements.

### **Lao Chamber of Professional Accountants and Auditors**

This letter serves as Lao Chamber of Professional Accountants and Auditors' formal response letter to the consultation on the ISA for LCE.

We very appreciate your effort of developing the Proposed International Standard on Auditing for Audits of Financial Statements of Less Complex Entities (ISA for LCE).

After carefully review and internal intensive discussion with other related parties on the proposed standard, we found out that the proposed ISA for LCE is very well designed and structured and the role of the auditor and firm is clearly and appropriately presented. The content has comprehensively covered all areas of Auditing for Audits of Financial Statements of Less Complex Entities. It is confident to say the standard will definitely serve the public interest including the purpose for which the audit is being performed, and meet the expectations of those with responsibility of preparing financial statements.

As being said above, from our point of views, there is no further improvement and key change needed on proposed document and we fully support the implementation of this proposed standard.

### **Nordic Federation of Public Accountants**

For a long time, audits of SMEs – and especially the challenges of performing such audits effectively and efficiently based on the ISAs – have been a key matter in the Nordic region. Therefore, we welcome IAASB's LCE project and strongly support an international standalone standard for audits of LCEs. Taking into account that the ISAs need to (continue to) address increasingly complex structures and transactions, we believe that a separate standard exclusively focused on audits of LCEs will play a crucial role in maintaining relevance and cost-benefit value of these audits.

When discussing the progress of the draft standard we believe it is also important to bear in mind the rationale behind this project, i.e. responding to uniform global concerns with applying the full ISAs on audits of SMEs/LCEs and the development of a fragmented SME/LCE audit market with a number of national SME/LCE standards. In our view, status quo is no more an option.

### **Norwegian Institute of Public Accountants**

We have over the years seen that global auditing standards have become more comprehensive and complex leading to the challenge of adapting them to the audits of small entities becomes more time consuming and difficult. We welcome IAASB's LCE project and strongly support an international standalone standard for audits of LCEs. We do believe that the new less complex entities (LCEs) standard would offer welcome support to the world's SMEs.

### **Pan-African Federation of Accountants (PAFA)**

We are supportive of the development of the proposed ISA for LCE, recognising the needs of auditors who perform audits of less complex entities. Although the ISAs are fit for purpose for audits of all sizes, the ISAs have become more and more complex over the years, posing challenges for audits of less complex entities. The IAASB has taken the right approach in developing a global solution and in recognising the urgent need for a solution.

### **Society of Professional Accountants of Canada**

We welcome the initiative for the IAASB to establish the Auditing Standards for Less Complex Entities which mostly falls under small to medium sized enterprises. The SPAC strongly supports the core values of audit

engagements and its principals of protecting the public, setting high standards with professional conduct and ethics of the accounting professional. When taking on the audit engagement of less complex entities; complexity, understandability, scalability, and proportionality are the basis that professionals must adhere to. These standards will not only enhance the interest of public protection, but it will also make it more affordable, reliable and relevant to the size of the entities.

Most jurisdictions exempt most of their SMEs from getting their financial statements audited including Canada based on their size. In most cases these micro and small enterprises have simpler and straightforward structures and transactions.

Accordingly, we support the IAASBs initiative to implement new and simpler auditing standards for LCE that have less complex transactions and structures.

I look forward to receiving the final document of Audit Standards for Less Complex Entities and adoption to serve the profession and businesses.

### **South African Institute of Professional Accountants**

We are supportive of the development of the proposed ISA for LCE . Smaller, less complex entities (LCEs) make a critical contribution to the world economy and account for the great majority of audits globally. At the same time increasingly complex structures and transactions need to be addressed through the development and revision of the International Standards on Auditing (ISAs). The IAASB recognizes that reflecting this complexity in the ISAs could pose challenges for audits of less complex entities.

We agree with the Board's intentions to develop a separate auditing standard that will provide a reasonable assurance opinion, using the concepts and principles already used in an ISA audit (as the ISAs are already designed for the auditor to obtain a reasonable level of assurance).

### **Union of Chambers of Certified Public Accountants of Turkey (TURMOB)**

The set of standards as proposed by IAASB is responsive to the needs voiced by the larger community of preparers, users, auditors, and regulators of audited financial statements during initial consultations. Given that Turkey is a jurisdiction where 99.8 % of all enterprises are SMEs and their contribution to the national economy is 62 %, while the statutory audit thresholds are quite high and do not cover SMEs; IAASB has our full support for the ISA for LCE initiative.

As stated above, the mandatory audit thresholds and criteria in Turkey result in coverage of large enterprises and public interest entities for statutory audits. Voluntary audits are more commonly need or request basis, in which the expected benefits from the audit needs to outweigh the associated costs for the enterprise. Furthermore, given the relatively smaller number of mandatory audits and relatively shallow demand for voluntary audits, the audit market cannot develop at the desired pace in terms of number of audit service providers, specialization in certain types of audits and the overall quality of the audits.

### **Wirtschaftsprüferkammer (WPK)**

Smaller, less complex entities are the backbone of the world's economy and make a critical contribution to global prosperity. Accordingly, they account for the great majority of audits globally. It is crucial for auditing standards to be suitable for audits of large, complex entities as well as audits of less complex entities (LCE audits). However, currently we cannot assess the acceptance and applicability of the standard under German law.

Currently, especially smaller audit firms who conduct LCE audits often suffer difficulties in applying the full ISAs in an appropriate and proportionate manner due to volume and complexity. We are aware that increasingly complex structures and transactions need to be addressed through the development and revision of the full ISAs. But reflecting this complexity in the ISAs could pose challenges for audits of less complex entities.

Therefore, we fully support IAASB's intention to assist auditors in the conduct of audits of less complex entities.

Overall, we believe that the Exposure Draft (ED) is a major leap to support audit firms in conducting efficient and effective LCE audits.

## 9. Individuals and Others

### ASK KSA Consulting Inc.

#### Auditing Financial Statements of Less Complex Entities

The fact the profession is discussing audits of less complex entities and gathering input from users, stakeholders and practitioners is wonderful. This is an issue that must be addressed. We have supported this project from the beginning and were excited about the fact a standalone standard was proposed. We fully support the idea of a separate standard if it accomplishes the objectives of addressing the challenges faced by auditors of less complex entities and appreciate the efforts of the IAASB to get us to this point in the discussion.

### Support for Project to Develop A Standard (General)\1) Yes (Explicit)\1b) Address Global Fragmentation

#### 3. Regulators and Audit Oversight Authorities

##### Independent Regulatory Board for Auditors (IRBA)

Overall, the IRBA is supportive of the development of a proposed standard that recognises the needs of auditors who perform audits of less complex entities and recognises that a globally consistent approach is needed, especially since several jurisdiction-specific LCE standards or related initiatives are arising or being used already.

#### 4. National Auditing Standard Setters

##### Institut der Wirtschaftspruefer in Deutschland e.V. (IDW)

Since in the long run for international comparability reasons and the impact of an international standard on the audit market, including for cross-border LCEs, we would prefer to adopt an international standard for audits of financial statements of LCEs as the basis for any national standard rather than just creating or maintaining our own German LCE standards, we have a vested interest in the IAASB's LCE standard being fit for purpose both for our jurisdiction and worldwide. For this reason, we believe that the issues addressed in Appendix 1 of our comment letter (see also our response to Question 17) – and in particular those relating to the identification and assessment of risks of material misstatement in our response to Part 6 of Question 9 and to audit reporting in our response to Question 10 – need to be considered carefully so that the IAASB LCE standard is fit for purpose and therefore capable of being adopted and further customized in our jurisdiction. If the IAASB LCE standard is improved as we note to make it fit for purpose, then we would be prepared to withdraw the German LCE standards that we have issued.

#### 5. Accounting Firms

##### Crowe Global

We welcome the effort that the IAASB has made to develop a standard for the audit of the financial statements of less complex entities (LCA) and for prompt progress of the project. It is important that the IAASB responds to the concerns that have been raised about the application of ISAs to the audits of less complex entities and develops a global standard that meets these demands. This maintains the integrity of global standard setting and mitigates the risk that was presented to that integrity by some of the reported national initiatives. When the standard is issued, national regulatory authorities and standard setters will have the responsibility to determine whether and how to implement the standard. It is right that the standard recognises this responsibility and the limits of the IAASB's jurisdiction. Regarding the prompt progress that the IAASB has made with this project, we trust that lessons have been learnt for IAASB due progress and will be applied to other standard setting projects. This will demonstrate that the IAASB is responsive to the need to develop standards in the interests of enhancing audit quality and will be appreciated by stakeholders.

##### Duncan & Toplis Limited

We believe that the successful drafting and implementation of a universal auditing standard for less complex entities, that achieves the aims of maintaining high auditing standards, whilst simultaneously reducing the burden on firms created by the extant ISAs is an extremely difficult task.

We fully support the project and believe that it is essential to ensure that local jurisdictions do not go out on a limb and create their own standard(s), potentially creating significant differences between different locales.

### **ETY sas**

We support the development of the proposed ISA for LCE to fit the needs of auditors who perform audits of less complex entities even if the purpose of the ISAs covers audits of all sizes.

The IAASB has taken the right approach in developing a global solution where numerous and individual solutions are emerging throughout jurisdictions.

## **7. Professional Accountancy and Other Professional Organizations**

### **ASEAN Federation of Accountants**

In general, we support the Board's initiative to introduce a standalone standard that can be applied consistently across different jurisdictions and avoid fragmented approach in audits of LCEs. However, we recognise the principle-based nature of the requirements in both the proposed standard and ISAs, and how this would allow the standards to be scaled based on the audit. Thus, the distinction can be arbitrary.

### **Chamber of Financial Auditors of Romania**

Therefore, a standard that has been designed to be proportionate to the typical nature and circumstance of an audit of an LCE is considered beneficial by those stakeholders who have identified challenges with applying the ISAs in audits of LCEs. The initiative of the IAASB to develop a global solution to these challenges is highly appreciated, since it would be counterproductive for individual jurisdictions to produce separate auditing standards for LCEs and it would lead to inconsistencies in audit work and results.

### **Chartered Accountants Australia and New Zealand and the Association of Chartered Certified Accountants**

The existence of a global standard for LCE audits versus the development of solutions in individual jurisdictions is important to support audit quality internationally.

### **CPA Australia**

The development of a standard for LCEs is an appropriate response to the risk of increasing fragmentation which arises from national standard-setters developing their own standards to meet this need.

CPA Australia supports the IAASB issuing a standard for LCE audits to address the expressed needs of auditors in a number of jurisdictions and to reduce the risk of fragmentation resulting from different jurisdictions developing their own solutions

### **European Federation of Accountants and Auditors for SMEs**

We strongly support this project.

The standard has the potential to drive standardization and consistency of SME audits across Europe. This may aid users understanding as to what the SME audit provides.

### **Finnish Association of Authorised Public Accountants**

It plays an important role in maintaining relevance of the SME audit and decreasing the need for national standards.

### **GGI Global Alliance**

A world standard will also avoid the fragmentation of the audit standards for SMEs around the world, favouring, also for SMEs, the comparability, the consistency and the understandability of the audit opinions, and the access to capital where it can be found.

### **Institute of Chartered Accountants in England and Wales**

If such an approach is not adopted, we fear that the remarkable and very successful global consensus on auditing standards built by IAASB over 40 years will be eroded. The risk of fragmentation of global auditing standards will be reduced if IAASB progresses to finalisation sooner rather than later.

The remarkable global consensus on auditing standards built by IAASB over 40 years is at risk. If jurisdictions currently planning or considering the development of a local standard for smaller or LCE audits lack confidence in, or are disappointed with the outcome of IAASB's project, they will progress those projects locally. The risk of this is minimised if IAASB progresses to finalisation sooner rather than later. The

ED published by the IDW in Germany in January 2022 for the audit of LCEs is the most recent example of this, and we believe that other jurisdictions will follow Germany's lead if IAASB does not finalise a standard quickly.

### **Institute of Chartered Accountants of the Maldives**

Furthermore, we believe the Exposure Draft will ensure to provide a globally consistent approach at a time when a number of jurisdictional-specific less complex entities standards are emerging for auditing entities other than public interest entities.

### **Institute of Indonesian Chartered Accountants (IAI)**

We support the Board's initiative to take on this project, to promote consistency of auditing standards for LCEs across jurisdictions and to avoid having fragmented auditing standards.

### **Ordre National des Experts Comptables et des Comptables Agréés du Burkina Faso (ONECCA-BF)**

The IAASB has taken the right approach in developing a global solution where numerous and individual solutions are emerging throughout jurisdictions.

## **Support for Project to Develop A Standard (General)\1) Yes (Explicit)\1c) Positive Impact to Audit Quality**

### **4. National Auditing Standard Setters**

#### **Australian Auditing and Assurance Standards Board**

The AUASB supports the concept of the IAASB developing a standalone standard targeted at LCE audits and considers that this would, if designed effectively, improve audit quality and compliance with the ISAs on LCE engagements.

### **5. Accounting Firms**

#### **Azets Audit Services**

We have concerns that in jurisdictions like the UK, a standard-setter and/or regulator may not consider that the adoption of ED-ISA for LCE supports the requirements of high-quality audit

As an auditor of a significant number of less complex UK entities, we strongly disagree with this view. We believe that the ED-ISA for LCE will act as a catalyst for positive change and help eliminate behaviours that can have a negative impact on the quality of LCE audits.

ED-ISA for LCE should be viewed as a means of improving the quality of LCE audits, rather than a barrier to it. It is a gateway for thinking auditors to audit an LCE proportionately that will encourage thinking over form-filling. We consider that ED-ISA for LCE represents a significant forward step toward addressing proportionality in less complex entity audits.

### **7. Professional Accountancy and Other Professional Organizations**

#### **Chartered Accountants Australia and New Zealand and the Association of Chartered Certified Accountants**

Overall, we support the development of a standalone standard for audits of LCEs.

We support the development of the ISA for LCEs to provide a framework for a consistent, efficient, high-quality audit that will still provide reasonable assurance. We believe it will have a positive impact on audit quality and the efficiency of the audit process for auditors, particularly SMPs when performing audits of LCEs.

#### **Chamber of Auditors of the Czech Republic**

Chamber of Auditors of the Czech Republic (CA CR) welcomes the ED as it aims to increase efficiency in LCE audits. We appreciate the way how the requirements are presented (reflecting on the flow of the audit from engagement acceptance and planning through risks identification to concluding and reporting) which is more practical for auditors and could lead to higher quality of audits as it could be easily incorporated to the practitioners' audit methodology guides.

## **Chartered Governance and Accountancy Institute in Zimbabwe**

We also believe that the proposed standard will help improve audit quality and assist the profession in narrowing the expectation gap from various stakeholders, particularly regarding the purpose of an audit of financial statements of LCE.

## **Finnish Association of Authorised Public Accountants**

The draft ISA for LCE is easier to read, understand and apply than the current ISAs. This enhances the know-how as well as the probability of applying ISA for LCE appropriately. The implementation of the new standard will probably improve the quality of audits and make it more consistent

## **Norwegian Institute of Public Accountants**

There is a great need for this standard in our market and we firmly believe that using this standard for the audits of less complex entities will not compromise the quality of the audit, it may rather increase the quality.

## **Support for Project to Develop A Standard (General)\1) Yes (Explicit)\1d) Supportive – General or Other**

### **2. Investors and Analysts**

#### **Business Information Providers Association**

Financial information is of high value to our members and is used in the creation of credit scores and other analytics which enable trade credit lending across the UK economy. Our members have a significant interest in the provision of quality data on the public record particularly in the areas of:

Conformity – alignment to enforced regulated standards

Coverage – greater availability of information on small and medium businesses

Completeness – greater depth of information on small and medium businesses

Consistency – standardization across different countries/regions to enable data integration and usage

In general, we are supportive of the Proposed Standard for Audits of Less Complex Entities and are aligned with its business outcomes:

- To be understandable, clear and concise
- Reduce the risk of jurisdictional divergence by driving consistency and comparability globally
- To achieve a quality audit engagement

### **4. National Auditing Standard Setters**

#### **Austrian Chamber of Tax Advisors and Public Accountants (KSW)**

We fully support the IAASB's initiative to develop an audit standard for LCE audits. It is an important step to increase the efficiency of LCE audits. Depending on the responses received the IAASB should not shy away from a second exposure draft if it is needed. Quality is paramount and not to act promptly.

#### **New Zealand Auditing and Assurance Standards Board**

The NZAuASB is supportive of the IAASB's introduction of a separate standalone auditing standard for less complex entities at a global level.

### **5. Accounting Firms**

#### **Ernst & Young Global Limited**

We support the IAASB's efforts to bring focus to the challenges in applying the International Standards on Auditing (ISAs) to less complex entities (LCEs). We acknowledge that significant effort has been made by the IAASB to create an alternative to the full suite of ISAs and clarify and scale down the ISA requirements for LCEs in the proposed separate standalone ED-ISA for LCE. We support the development of an ISA for LCE that promotes audit quality for audits of entities that have a low level of complexity by clearly setting forth the requirements and guidance that provide the basis for the auditor obtaining reasonable assurance.

#### **MNP LLP**

We also note that both in Canada, and globally, the attractiveness of audit as a profession is being examined. Firms in Canada are experiencing a rapid shift in the ability to attract and retain talented individuals. We believe that standards sharply focussed on the needs of SMEs is a critical element of the attractiveness of the profession to the majority of our practitioners and accordingly, to have the capacity to meet the assurance needs of the broader economy.

## **6. Public Sector Organizations**

### **Auditor-General of New Zealand**

We strongly support the proposed standard.

### **Government Accountability Office (USA)**

We support the IAASB's efforts to develop a standard for the audit of financial statements of LCE.

## **7. Professional Accountancy and Other Professional Organizations**

### **Accountancy Europe**

The proposed standard is an important step to increase efficiency in LCE audits. We fully support the initiative and the IAASB moving forward with this initiative as soon as possible.

### **Association of Practising Accountants**

In summary, we are supportive of the idea but do not believe the IAASB have fully considered the requirements of an LCE when drafting this Standard.

We believe the IAASB can address these points and still issue the Standard so that vital momentum is not lost here. Feedback can then be used to drive further improvements and revisions over time.

### **Chartered Accountants Australia and New Zealand and the Association of Chartered Certified Accountants**

A standalone standard that presents the essential elements of the ISA audit process in a digestible format that follows the flow of an audit, will also be a valuable tool for educators, professional bodies and audit firms in training future auditors and enabling them to understand the basic audit process before they build their knowledge of the complexities of the full suite of ISAs and audits of complex entities. It also allows those firms who may have already developed 'scaled-down' methodologies for audits of LCEs to validate and refine those methodologies even if they do not choose to adopt this standard.

#### **Overview of feedback and refinements**

We have consulted with a wide range of stakeholders in the UK, Canada, Australia, New Zealand, Kenya, ASEAN and Europe. From their feedback, we have identified a number of areas where there is need for further refinement of the proposed standard to address areas that will present challenges to successful implementation. In addition, we believe that the successful implementation depends on strong communication, education and change management. The benefits that an ISA for LCEs standard would deliver are worthwhile and we encourage the board to continue with this project.

We also believe that the standard could also help address the issue of the attractiveness of the audit profession to new talent, to a degree. As noted by our stakeholders, there is a serious shortfall of audit professionals around the world. This was noted for Canada, the United States, the UK, Australia, New Zealand, Singapore, Malaysia, and other parts of the world. We therefore believe that having a standard that provides assurance in a more efficient manner is very important. This will also allow firms that currently undertake review engagements to potentially move up to audits but also to keep those engagement they currently have.

### **Chartered Accountants Ireland**

Overall, we support and welcome the proposed standard and we applaud the amount of work undertaken by the project team in producing the draft standard.

### **Confederation of Swedish Enterprise**

The Confederation of Swedish Enterprise welcomes the proposal on ISA for LCE. We support the overall approach, i.e. that the standard can be applied as an option if the criteria for applying it are satisfied.

## **Eurasian Group of Accountants and Auditors**

We therefore welcome the IAASB's decision to prepare a stand-alone standard governing the audit of less complex entities and are pleased that, in the process of implementing the project, the IAASB working group organized a wide-ranging discussion of the project, and studied all the possible issues and challenges faced by auditors in jurisdictions where ISA are applied.

Small businesses are critical contributors to the global economy, and most audits in the world are related to audits of small businesses. It is therefore crucial that audits of these entities not only be of high quality but also provide value to clients and all stakeholders. The issue of audit quality in the Eurasian region (CIS countries) is even more significant because the thresholds for mandatory audits are not high, and audits of less complex entities (LCEs) are conducted by both large audit firms and small audit firms.

## **GGI Global Alliance**

Hoping to have the new standard available and applicable as soon as possible,

## **Institute of Certified Public Accountants in Israel**

The Institute of Certified Public Accountants in Israel (hereinafter - "ICPAI") welcomes the initiative, and views the proposed standard as an important step in the application of properly conducted audit to all audited corporations, noting that in Israel all incorporated companies and a range of other corporations are statutorily required to submit audited financial statements.

For many years now, ICPAI has been engaged in adopting the international standards, which over the years have become more comprehensive and detailed, while bridging the gap between the standards' requirements and small practices' ability and necessity to implement these standards in small and less complex entities. So far, our course of action has been to adopt the requirements of the ISAs and offer expedients to LCEs in Israel, in a manner that maintains coherency and ensures, on the one hand, that the principal underlying professional objective of each and every standard is maintained, and on the other hand attend the unique characteristics of an audit conducted in an LCE.

## **Institute of Certified Public Accountants of Cyprus**

The most favourable approach would be to make the ISAs proportionate enough, clear, and understandable to cover audits of LCEs and this is something that we envisage for the future. In this way there will be no questions as to whether a separate standard might lead to fragmentation of the audit market. However, we understand the difficulty and time that this exercise would require, therefore we tend to agree with the standalone nature of the proposed standard at this stage, provided that it takes due consideration of the matters delineated in this document and does not trigger unwarranted adverse consequences.

## **Institute of Certified Public Accountants of Kenya**

We support IAASB's initiative on the timely development of the proposed ISA for Less Complex Entities (LCEs).

## **Institute of Chartered Accountants in England and Wales**

Despite these shortcomings, we strongly urge IAASB to address these issues and finalise the standard, as a standard, in accordance with the proposed timetable. This will allow those jurisdictions most in need of it to adopt it immediately, and for auditors, regulators, software methodology and training providers globally to work with it, refine it and learn from its use. This 'beta testing' approach will allow the standard to be refined and improved in real time in a range of markets.

## **Institute of Chartered Accountants of Pakistan**

We agree with the IAASB's approach to develop a separate standard for the audits of LCEs.

## **Instituto dos Auditores Independentes do Brasil**

First of all, we really appreciate the IAASB's effort to develop a standard for audits of Less Complex Entities (LCEs), in addition of working on the scalability of the existing ISAs, considering that this topic has been discussed for a long time.

## **Instituto Mexicano de Contadores Públicos (IMCP)**

We congratulate the IAASB for taking forward this very important initiative which will benefit a great part of the business community and the practitioners.

### **International Federation of Accountants' Small and Medium Practices Advisory Groups**

Overall, we are generally supportive of the flow, structure, and volume of the draft standard and believe the IAASB should proceed with issuing a standard for Audits of LCEs as soon as possible.

The SMPAG strongly welcomes this ED. In our comment letter on the related discussion paper as well as our response to the IAASB Proposed Strategy for 2020-2023 and Work Plan for 2020-2021, we stated that this is an extremely important initiative that should be a high priority for the Board. We have been pleased with the swift action of the Board to move this project to the proposed standard development phase and appreciate all of the work to progress this proposal, as well as the multiple opportunities provided for the SMPAG to engage and provide feedback as the ED was being developed.

### **Korean Institute of Certified Public Accountants**

We, at the Korean Institute of Certified Public Accountants (KICPA), thank the IAASB, International Auditing and Assurance Standards Board, for its efforts to define and develop the International Standards on Auditing for Audits of Financial Statements of Less Complex Entities (ISA for LCE) and to seek input from relevant stakeholders. The KICPA fully agrees with the IAASB on the direction of the ISA for LCE development and is willing to provide full support to help the IAASB in ensuring the proposed standard is used as a useful standard in practical audit activities.

### **Malta Institute of Accountants**

In general, we support the Board's objective of coming up with a specific standard for less complex entities (LCEs) that addresses less complex entities.

### **Ordre National des Experts Comptables et des Comptables Agréés du Burkina Faso (ONECCA-BF)**

We support the development of the proposed ISA for LCE to fit the needs of auditors who perform audits of less complex entities even if the purpose of the ISAs covers audits of all sizes.

### **REA Auditores**

We strongly support this project. The standard has the potential to drive standardization and consistency of SME audits across Europe and it may aid users understanding as to what the SME audit provides.

### **Saudi organization for Chartered and Professional Accountants**

We are supportive of the IAASB's initiative to address the complexity, understandability, scalability and proportionality (CUSP) issues in the ISAs regulating the auditing practices. As such, we support this initiative to issue a standalone ISA standard regulating the audit of Less Complex Entities (LCEs). These entities represent a significant part of any economy, and many jurisdictional (local) regulations, including in Saudi Arabia, require that their financial reports should be audited by an independent auditor. This requirement covers private, public and not-for-profit entities.

### **Society of Certified Accountants and Auditors of Kosovo (SCAAK)**

We strongly support this project and keen to see the standard issued sooner rather than later.

### **Union of Chambers of Certified Public Accountants of Turkey (TURMOB)**

It should be considered that for the standards to be nationally adopted, there will be additional time needed for (i) translation of the standards into local languages, preferably led by the professional accountancy body in the country to allow for local auditors to start implementing voluntarily as soon as possible, and (ii) for the national regulators not only to translate but also to open up for national consultation before adopting it as national legislation and setting up criteria and thresholds for mandatory use, if deemed necessary.

Therefore, we deem it to be urgency that the ISAs for LCEs become effective in the shortest time possible and we fully support the option for early adoption.

TURMOB has been supporting a standalone set of standards LCE from the start and it still does. Given the urgency of the need for the standards, the proposed set is sufficiently comprehensive to conduct a quality audit to obtain reasonable assurance.

### **Wirtschaftsprüferkammer (WPK)**

The Exposure Draft is easy to be understood and be read fluently. The structuring of the ED's content to the flow of the audit supports the conduct of corresponding audits and increases the manageability of the standard.

From our understanding, all fundamental concepts and general principles as well as all material requirements from the full ISAs are included in the ED. Therefore, we are confident that applying the LCE Standard may enable the auditor to provide the same level of assurance as the full ISAs. Here, the provisions of the German Commercial Code still have to be examined with regard to its application after the final version of the LCE standard has been submitted.

We also consider the scope of the essential explanatory memorandum to be appropriate. Overall, we believe the concept of the draft to be coherent and sound.

## **8. Academics**

### **Accounting and Finance Association of Australia and New Zealand**

We begin by commending the International Auditing and Assurance Standards Board (IAASB) for their attention to the challenges of audits of less complex entities. The contribution of small to medium sized entities (many of which would not be complex) to local, regional, national, and global economies, and society more broadly, cannot be underestimated. Although smaller and less complex, reliable financial reporting remains crucial to the success of these entities and their effective contribution to society. Providing confidence in the financial reporting of these entities by way of independent assurance, however, presents numerous challenges.

The development of a universally applicable suite of auditing standards with relevance to entities of all sizes (and all jurisdictions) is increasingly coming under pressure, and the development of a standalone standard to be applied to the audits of less complex entities is a bold initiative. A standalone standard has the potential to contribute to confidence in the financial reporting of this important segment, while at the same time helping to ensure that the extant suite of auditing standards remains responsive to the increasing complexity of larger entities.

In summary, while we believe that a standalone standard has the potential to contribute to the goal of improving confidence in the financial reports of less complex entities, and we encourage the IAASB to continue with this project, findings in the academic research literature suggest that the proposed standard, as presently drafted, will fall well short of realizing this potential.

### **Brunel University London**

Audit plays a critical role in the global business environment and we fully support the majority of ED-ISA for LCE. We believe it enhances the efficiency of SME audits and allows auditors and SMPs to provide other value advice to SMEs in other business practices.

## **9. Individuals and Others**

### **Andrew Wallis**

I have long been an advocate on differential auditing standards for 'corner store' audits and my only regret of the proposed ISA for LCE is that, having just turned 60, I fear I will not be in practice long enough to actually enjoy the fruits of these changes!

Nevertheless, I applaud their introduction in the not-too-distant future.

## **Support for Project to Develop A Standard (General)\1) Yes (Explicit)\1e) Support but Question If Meets Needs as Written (View with Other Similar Comments in Specific Questions)**

### **3. Regulators and Audit Oversight Authorities**

#### **Independent Regulatory Board for Auditors (IRBA)**

Unfortunately, what remains unclear is whether the objective of the project has been met by the current proposal. It is not clear what the benefits of using the proposed standard would be in comparison with applying the ISAs, as one would expect the procedures applied using the ISAs to be scaled down, based on the nature and environment of the audit client being similar, if not the same. Further, many audit firms indicate that they now have tailored methodologies to be used for an LCE audit. It is therefore unclear as to how an audit performed using the proposed standard would differ from these methodologies that have already been developed.

### **4. National Auditing Standard Setters**

#### **Australian Auditing and Assurance Standards Board**

The AUASB supports the concept of the IAASB developing a standalone standard targeted at LCE audits and considers that this would, if designed effectively, improve audit quality and compliance with the ISAs on LCE engagements. However, unfortunately, our analysis and engagement with stakeholders on the proposed ED-ISA for LCE Standard concluded that the proposed standard would not, in its current form, be widely supported in Australia. The AUASB's view is that the proposed standard does not adequately address the challenges in applying the ISAs on LCE engagements, and is more likely to increase, rather than decrease, the audit expectation gap, as outlined below.

#### **Hong Kong Institute of Certified Public Accountants**

We consider the ED has addressed most of the challenges in LCE audits initially discussed in the IAASB's Discussion Paper issued in 2019, such as concerns on language and length of the International Standards on Auditing (ISAs); lack of clarity as to what needs to be done or why. However, around one third of the respondents from the HKICPA LCE survey indicated that they might not use the ED for eligible LCE audits because, compared with performing an audit using the ISAs, there is no perceived reduction in workload and effort from using the ED. To support the rollout and application of the ED, we urge the IAASB to enhance communication and education effort so that auditors, regulators, stakeholders and the public in general are aware of the ED's objectives, scope, benefits etc.

#### **New Zealand Auditing and Assurance Standards Board**

The NZAuASB is supportive of the IAASB's introduction of a separate standalone auditing standard for less complex entities at a global level. However, we consider that there will be limited use of the proposed standard in New Zealand, taking into consideration our views on the key areas where the IAASB may need to further reflect and refine the approach to the proposed standard.

### **5. Accounting Firms**

#### **Duncan & Toplis Limited**

However, the project must ensure that a less complex entity is easily identifiable and indeed that the resulting audit work is targeted and reduced the burden on the audit team.

The first draft of the standard must be as close to achieving its goals as possible, although clearly, like for the existing ISAs there will be future iterations.

#### **Mazars**

Since it is not clear how the LCE standard is different from the ISA, users may not understand the benefit of its use and could expect a decrease of audit fees.

#### **Price Bailey LLP**

We appreciate the work that has been undertaken and a number of good suggestions have been made. However we do not think it has met all the needs of the relevant stakeholders.

At the moment there is insufficient difference between the requirements in existing ISA's and the draft LCE standard. Although the draft LCE standard is significantly shorter this is primarily due to the removal of guidance. In our view, the lack of reduction of requirements is as a result of trying to decide which requirements can be justifiably removed rather than deciding what is actually needed for a quality LCE audit.

## 7. Professional Accountancy and Other Professional Organizations

### Association of Practising Accountants

In summary, we are supportive of the idea but do not believe the IAASB have fully considered the requirements of an LCE when drafting this Standard. There are a number of key changes that the IAASB need to address that will make it more relevant and therefore more likely to be adopted by firms. Key points to note here include removal of the exclusion of groups and reducing work in regard to risk assessments and systems and controls. We believe the IAASB can address these points and still issue the Standard so that vital momentum is not lost here. Feedback can then be used to drive further improvements and revisions over time.

Although we welcome the exposure draft, we are concerned there is insufficient difference in these proposals to current International Auditing Standards to warrant firms to adopt in a number of cases – particularly given the additional costs to develop audit methodology tailored to the standard and provide additional training etc. The exclusion of groups is also likely to deter firms from adoption, particularly in the UK, where there are a number of group companies, which might otherwise fall into the category of less complex entity.

### Finnish Association of Authorised Public Accountants

In the light of the developments of the Finnish audit environment and the ISAs, it has long been recognized in Finland that the ISAs are too burdensome and complex – even after applying all possible scalability opportunities (some of them being national). From the Finnish point of view, the challenges associated to the application of ISAs do not relate only to the clarity or understandability of the standards, but also to the fact that there are simply too many requirements taking into account the size and complexity of the entity. The expectation and main hopes in Finland were that ISA for LCE would primarily bring relief to these challenges.

We strongly support the standalone nature of the standard. The differences between audits of complex global entities and local less complex entities are big and will most likely be even bigger in the future. We also support the solution to keep ISA for LCE in the "ISAs family". We do not, however, support the fact that ISA for LCE duplicates almost all ISA requirements except those that for obvious reasons are not applicable. This fact decreases the relevance of the standard and the willingness to apply it.

### Institute of Chartered Accountants in England and Wales

The ED is a very good start, but it needs work. As it stands, it is insufficiently distinct from the extant ISAs, in terms of the work effort and documentation it requires, to be a truly viable alternative. Significant shortcomings include the exclusion of all groups, the way in which the standard is described as standing-alone from the extant ISAs, and the work required in the key areas of risk assessment and accounting estimates.

#### THE ED NEEDS WORK: LINKING AND DISTINGUISHING THE ED AND THE EXTANT ISAS

The ED is a very good start. Improved flow, relative succinctness and comprehensibility are key features. "This standard will improve audit quality if for no other reason than it's easier to understand."

Alex Peal, Joint Managing Partner, James Cowper Kreston and member of IFAC's SMP Advisory Group and ICAEW's Audit and Assurance Faculty Board

In particular, we applaud the changes made to material on communications with those charged with governance, materiality and accounting estimates. But more is needed - considerably more - and stakeholders expressed disappointment that IAASB has not taken a bolder approach to this project.

Rather than a standard that directly addresses the needs of LCEs, the ED has the feel of a first draft of the requirements of the extant ISAs based on the Complexity, Understandability, Scalability and Proportionality (CUSP) project drafting guideline, with limited simplification of language and reformatting.

There was a clear consensus among a majority of those we consulted that the extant ISAs are not scalable. While firms are always able to perform such audits, the audits are often inefficient.

“Small businesses - doesn't matter how complex they are - aren't simply scaled down versions of big ones. A finance department of three people - a bookkeeper and a couple of accounts assistants - isn't simply a smaller version of one with 25. The business operates differently, and the way they approach risk and documentation is different.”

Catherine Hardinge, Compliance Partner, Price Bailey, member on ICAEW's Education and Training Board and Technical and Practical Auditing Committee, and Chair of its LCE Audits Working Group.

In the view of many we spoke to, as it stands and despite its positive attributes, the ED is insufficiently distinct from the extant ISAs, in terms of the nature and extent of work and documentation it requires, for it to be truly viable as an alternative. The most significant shortcomings are as follows:

the failure to include groups in the standard. Groups must be included in some form if there is to be any meaningful any take-up of the standard;

the manner in which the standard is described as stand-alone, which is inconsistent and illogical. The standard is not being issued in a vacuum and auditors cannot be prohibited from drawing on their knowledge and experience;

work required in the key areas of risk assessment and accounting estimates.

### **Institute of Chartered Accountants of Scotland**

A key theme that has emerged from our discussions, however, is that many practitioners, whilst welcoming the approach adopted, are struggling to identify what, if any, the differences will be in practice in terms of what they are required to do in performing an audit of an LCE i.e., is this development, therefore, more form than substance? However, we appreciate that the IAASB faces various competing arguments as it looks to finalise this standard. We are fully supportive of the concept and, despite the concern that has been highlighted above, we believe there is merit in the IAASB finalising a separate standard for the audits of LCEs and the current draft provides a viable basis, subject to revisions as appropriate following the consultation process, for doing so.

### **Instituto dos Auditores Independentes do Brasil**

However, even contemplating the fact that the proposed standard is more friendly because of the reduced number of pages, we understand that it does not address the issues raised by practitioners of LCEs, especially as the requirements are the same as for ISAs in order to achieve a reasonable assurance. Thus, we are afraid that with the same work effort, the practitioners can have a perception that there is no real benefit in using the standalone standard.

### **International Federation of Accountants' Small and Medium Practices Advisory Groups**

However, we do have some concerns, which have been summarized below, and explained in greater detail later in this letter, as follows:

In our opinion, there are further enhancements that could be made to the scalability and proportionality of the standard. In particular, with some of the overly procedural requirements (e.g., in Risk Identification and Assessment), documentation, and the need for practitioners to be able to use more professional judgment. In our view, more focus needs to be placed on ensuring the (reduced) work effort is only that which is essential for an LCE audit. Specifically, more attention is needed to tease out where an auditor should do different procedures and where an auditor could avoid unnecessary procedures.

As the IAASB will be aware, the SMPAG has raised strong concerns in relation to group audits being excluded from the standard and the impact this will have in severely limiting the use of the proposed standard. As explained further later in our letter, we believe this approach should be re-considered by the IAASB.

We believe the messaging around the standard being an alternate path to reasonable assurance should be clear and consistent, in order to quell concerns that audits performed using the standard are somehow “less than” an audit using the full ISAs.

There is also concern about whether the level of work effort that would be undertaken in an audit using the full ISAs versus using the proposal for LCEs would result in any significant time or cost savings. The SMPAG believes that even with the extensive mapping exercise undertaken, there remain questions on how different the standard is from the ISAs and therefore a need for much clearer communication to both practitioners and other financial statement users and key stakeholders. Additional context and background should not only be provided in the Basis for Conclusions and supporting materials, but also in any additional resources provided by IAASB.

## Malta Institute of Accountants

In general, we support the Board's objective of coming up with a specific standard for less complex entities (LCEs) that addresses less complex entities. However, we strongly believe that it should try to address scalability more effectively than it currently does. The requirements coming out of the proposed Standard broadly mirror the requirements of existing ISAs and, in our view, fail to achieve the expectations of users and stakeholders. More detailed explanations in this regard are given below.

## Nordic Federation of Public Accountants

In our view, the draft standard is user friendly. We support the structure of the draft standard and how the concerns in terms of volume, complexity and used language have been addressed.

However, in order for this standard to be an attractive and acceptable alternative to applying the full ISAs, we believe more needs to be done in relation to documentation requirements and overly procedural requirements that does not add audit value.

The main concerns with the ISAs raised by the respondents to the DP relate to a) volume, complexity and used language, b) onerous documentation requirements, and c) requirements resulting in certain procedures being performed solely to comply with ISA requirements with no additional assurance or measurable increase in audit quality.

At the same time, we believe the draft standard needs more work. It has turned out to be a challenge to understand and explain for relevant stakeholder groups what the differences are between performing an audit of an LCE according to this draft standard as opposed to the full ISAs. In our view, this issue should be further discussed in relation to IAASB's Discussion Paper on Audits of Less Complex Entities (the DP) and how the main concerns raised by those respondents have been addressed.

## Institute of Certified Public Accountants of Cyprus

We welcome the initiative of the IAASB to address the concerns pertaining to the complexity and lack of scalability that currently exists in ISAs and the associated challenges it imposes on the particular segment of the market i.e., less complex entities (LCE) as well as their auditors. To this end, we believe it is paramount that such an LCE standard is devised in a manner that will not end up being too similar, in terms of work effort, to the extant framework but rather be sufficiently radical to ensure it will address the expectations of the stakeholders for significant efficiencies in the nature and extent of the procedures performed and the pertinent documentation. In a nutshell, we believe that the key principles underpinning the LCE standard should be: (i) its scope of application determined via clearly defined thresholds and criteria (quantitative and qualitative) that are characteristic to the nature of the targeted market segment of LCEs and (ii) preserves audit quality and safeguards stakeholders' trust in the audit process. We accordingly encourage the IAASB to critically evaluate the input received from the various stakeholders and effect the warranted revisions to address the above considerations.

## Union of Chambers of Certified Public Accountants of Turkey (TURMOB)

As an overall evaluation of the proposed standard set, we deem ISAs for LCE to be fit for purpose to match the simplicity, clarity and scalability needs to perform LCE audits by SMP audit firms. However, we believe the requirements regarding the documentation on audit work done and procedures to assess risks associated with internal controls can further be simplified. There is certainly need for guidance material to be developed to assist the auditors in implementing the standards, planning and conducting audits, and forming an audit opinion. Since there is no option to "borrow" from the ISAs in case a certain element of the audited entity is complex, i.e., ISAs for LCE cannot be applied for an LCE entity even with a single complex matter and the auditor should revert to ISAs, in the CUSP project should be given equal priority to complement the LCE work.

## 9. Individuals and Others

### ASK KSA Consulting Inc.

We expected the ED-ISA for LCE to address many of the issues raised in response to the initial Discussion Paper from 2019. However, we believe the ED-ISA for ISA has not accomplished what it set out to do. The purpose of the initial Discussion Paper was to obtain input on the challenges faced by auditors in the audits

of less complex entities, and based on the feedback, to address the challenges raised. In the end, this was not done.

While there are obvious eliminations made to the standard such as omitting ISA 501 Segment Information, ISA 600 Group Audits, ISA 610 Using the Work of Internal Audit and ISA 701 Key Audit Matters there have not been other significant changes to the ISAs, they have just been rearranged to make them easier to read and follow in the course of an audit.

The proposed standard does not go far enough in addressing the challenges faced by small- to mid-sized practitioners (SMPs) in the audit of financial statements of less complex entities.

If nothing has changed, why bother with a new standard. If the standard is issued in the way it stands now, we would recommend to our clients to not adopt ED-ISA for LCE. The existing ISAs are scalable. And the trade-off between saving time on audits versus having to maintain two “streams” of audits including file templates, updates and training is not worth the cost.

The challenges faced by SMPs are not new and it is exciting the standard setters are addressing this issue. The practitioners that we work with absolutely want to conduct quality audits but find it challenging in to do so in today’s environment. There are several reasons for this including the challenge of keeping up to date, the increasing complexity of the standards and a lack of clarity on scalability. It can be a frustrating to implement the requirements of the ISAs as there are a number of ISAs that do not apply to the audits of an LCE. Our response details many of these issues.

SMPs often serve clients that the larger firms do not for a variety of reasons including cost and location. These smaller firms are critical to the profession and therefore standards setters need to ensure they protect the public interest while strengthening these firms by addressing the challenges they face.

We believe this is an important issue to address and fully support the concept of a standalone standard in general. However, as you will see in our response attached to this letter, we do not believe the proposed standard, as it has been drafted, accomplishes the original objective of addressing challenges faced by auditors in the auditing of less complex entities as outlined in the 2019 Discussion Paper. Many of those challenges still exist and/or have not been addressed. Nevertheless, we do believe there is a way forward and look forward to the next steps.

## **Support for Project to Develop A Standard (General)\1) Yes (Explicit)\1g) Project Level Direction (e.g., Timing, Path to Implementation)**

### **5. Accounting Firms**

#### **Crowe Global**

There are also concerns that as some auditors will predominantly or only work with the standard, the ability of these auditors to apply ISA will be diminished. This could create issues about the audit quality of the work performed by these auditors when they are required to apply ISA, including as component auditors. Group auditors have the responsibility to support component auditors and the consistent application of standards.

This maintains the integrity of global standard setting and mitigates the risk that was presented to that integrity by some of the reported national initiatives. When the standard is issued, national regulatory authorities and standard setters will have the responsibility to determine whether and how to implement the standard. It is right that the standard recognises this responsibility and the limits of the IAASB’s jurisdiction. Regarding the prompt progress that the IAASB has made with this project, we trust that lessons have been learnt for IAASB due progress and will be applied to other standard setting projects. This will demonstrate that the IAASB is responsive to the need to develop standards in the interests of enhancing audit quality and will be appreciated by stakeholders.

#### **Ernst & Young Global Limited**

In parallel, we also recommend that the IAASB repurpose the current draft of the ED-ISA for LCE as a non-authoritative guide to demonstrate the scaling of the ISAs to audits of LCEs that are larger than or have certain complexities or circumstances such that they would not meet the refined Authority for use of the ED-ISA for LCE. The current ED-ISA for LCE is very helpful in depicting the flow of the audit. A conversion to a

guide would allow the IAASB to focus on developing supplemental guidance on adapting or scaling the nature and extent of procedures as well as documentation.

## **7. Professional Accountancy and Other Professional Organizations**

### **Association of International Accountants**

Consequential amendments to the mainstream ISAs as a result of the ISA for LCEs

The need for a standard for LCEs is without question. As noted in the introductory section of this response, since the IAASB's Clarity Project in 2009, the mainstream ISAs have become voluminous, difficult to understand in many areas and incorrectly applied by many auditors, resulting in diminishing audit quality. AIA takes the view that there may be the opportunity for 'reverse engineering' where the proposed ISA for LCEs is concerned, in that flaws, deficiencies or weaknesses in the mainstream ISAs could be addressed through development of the ISA for LCEs. Understandably, any redrafting exercise of the mainstream ISAs would take years to accomplish, but any improvement in the mainstream ISAs (upon which the proposed ISA for LCEs is primarily based) would be welcome.

Mainstream ISAs have far too much repetition and overlapping terms which causes problems. From an international perspective, translation issues are also a concern of AIA because one auditor may interpret a requirement or a term in one way, whereas another auditor may make a different interpretation, resulting in incorrect application by at least one side.

AIA takes the view that the mainstream ISAs should have been developed on a 'think small first' approach using a principles basis. In an ideal situation, the mainstream ISAs could then have been tailored to be specific to LCEs. In view of the complexities inherent with this exercise, AIA welcomes the ISA for LCEs.

### **Chartered Accountants Australia and New Zealand and the Association of Chartered Certified Accountants**

While we have heard some feedback that perhaps the audit for an LCE should be a different product, that may diverge from the ISAs and have a further reduced work effort, we believe that the timeframe for developing such a product would be likely to be much longer, and could also deliver a product which could be seen as inferior in quality to an audit supported by the full suite of ISAs. We therefore consider that the approach taken to develop the proposed ISA for LCE is a pragmatic one and addresses the need to improve the efficiency of scaling an ISA audit for an LCE in a timely manner.

### **Confederation of Swedish Enterprise**

We consider that there are three conditions that must be met in order to achieve the objectives of the proposed standard (to enhance confidence of intended users in the financial statements of the entity).

- Trust from stakeholders that the objectives will be achieved. Otherwise, there is a great risk that the standard will not be applied and full ISA will be applied instead. Resistance and/or lack of understanding or knowledge about ISA for LCE increases the risk of non-application.
- That the scope of application is drafted in such a way that it is operational for e.g. auditors, regulators, standard-setters and stakeholders.
- That the content of the ISA is sufficient and relevant so that an auditor can issue a reasonable assurance opinion.

Good drafting of the standard is of course vital to achieve the objectives. To ensure that the standard is accepted and operational we believe that the IAASB should engage in further outreach to users of financial information and other stakeholders and field-test the draft standard before it is adopted.

### **CPA Australia**

We also consider that it would be possible for the standard to be issued as guidance with minimal amendments. Such amendments could quote from and link to the related requirements in the ISAs and where appropriate provide the simplified interpretation of the requirements for LCEs.

A post-implementation review of this LCE standard will be important to evaluate whether it has met stakeholder needs. Any shortcomings identified through implementation can then be addressed to ensure it is fit for purpose.

#### Scalability:

Whilst there is general acknowledgement that the ISAs are scalable, auditors of LCEs face challenges in managing the volume of requirements and in determining their relevance to the engagement. The LCE standard may not be the most effective means of achieving improved scalability. A more contemporary means of addressing this challenge would be developing a digital tool (see our comment on Question 1(a)) to navigate the standards or a standard LCE methodology/ies from which firms could develop their own methodologies.

### European Federation of Accountants and Auditors for SMEs

We are keen to see the standard issued sooner rather than later. We feel timeliness is vital: the pursuit of perfection can be the enemy of progress.

### GGI Global Alliance

But of course, the new standard should not be detrimental to audit quality. This risk should be reduced at a not significant level. Our comments suggest amendments to the draft new standard in order to go further into the reduction of that risk.

### Institute of Chartered Accountants in England and Wales

#### FINALISING THE STANDARD

We strongly urge IAASB to finalise the standard, as a standard, in accordance with the proposed timetable and to use the time available to it to focus on the three areas noted above. It should also focus on any other areas highlighted by jurisdictions that seem most likely to adopt it immediately. This is not an approach we have recommended in the past, but we believe that the public interest in the issue of this standard sooner rather than later is overwhelming.

IAASB cannot and should not attempt to fix all of the issues highlighted by respondents prior to finalisation. That would be a recipe for a lengthy, and perhaps indefinite deferral. Pursuit of perfection is the enemy of the good in this instance. Nor should it seek to issue the standard as guidance on how to apply ISAs, repurpose the work performed to date within the CUSP project or change the level of assurance the standard seeks to provide.

IAASB must take advantage of the current opportunity to develop this standard and finalise it, to allow those jurisdictions most in need of it to adopt it without delay. Auditors, regulators, software methodology and training providers globally can then work with it, refine it and learn from its use. Longer-term, there is a clear need for differentiation in terms of work effort and documentation between this standard and the extant ISAs.

#### Moreover:

the public interest cannot be harmed by the issue of a standard which is closely aligned with the extant ISAs;

the public interest will be served if the issue of a standard prevents or slows further global fragmentation of auditing standards for less complex entities;

the finalisation of this standard will enable IAASB to move forward and be more realistic in its focus on the audits of more complex entities. A necessary corollary of this is that IAASB must consider very carefully the inclusion of new or revised requirements in the LCE audits standard after finalisation, and acknowledge the likelihood of greater divergence between the standard and the extant ISAs in the future.

#### WHO NEEDS TO 'BUY' THIS STANDARD, AND WHICH FIRMS WILL ADOPT IT?

Many practitioners, and those who provide them with software and methodologies, do not yet see the benefit of the proposed standard, because it is insufficiently differentiated from the requirements of the extant ISAs. In any jurisdiction, some firms perform mostly LCE audits and others perform a mixture of LCE and non-LCE audits. Unsurprisingly, those in the first category of firms include some of the most enthusiastic supporters of the project. Of those who perform a mix, larger firms seem willing to do what it takes to work with the LCE standard, as necessary.

However, concerns have been expressed by some, including those in the public sector, and particularly those with legacy systems, relating to the perceived need to develop and maintain two audit systems and two types of training. Some firms, methodology and software providers with more recently developed

systems believe that they will have few problems in adapting to parallel systems and switching between the two.

Market forces seem likely to drive the use of the standard where it is applied effectively. But if practitioners and the software and methodology providers who serve them are not confident that they have a better product to offer, they will be reluctant to make the necessary investment in systems. A key issue longer-term is the need for more clear blue water between the two regimes.

#### REGULATORY CONCERNS

We are acutely aware of regulatory disquiet at many levels over this project. This is no small matter, because the attitude of regulators to adoption is critical. IAASB should actively encourage regulators to add size and other national criteria where necessary to reduce concerns, and we encourage IAASB to engage with IFIAR, CEAOB and other regulatory groupings on this issue.

If audit regulators simply ignore this standard, there is a risk that the standard will only be used by the unregulated and/or that the standard will take on a life of its own in a commercial context, outside existing regulatory and standard-setting structures. This would be a highly undesirable outcome, and we do not believe it is a fanciful notion.

#### LOOKING FORWARD

We look forward to the finalisation of this standard, which will enable IAASB to refocus some of its efforts on the audit of entities listed on the world's capital markets. Provided IAASB does not default to including all newly developed requirements in the LCE standard as a matter of course, more of the much-needed clear blue water between this standard and the extant ISAs will appear over time.

IAASB's overarching objective should not be the preservation of forms of words simply because of the time and effort expended on them, but the dynamic maintenance of a corpus of ISAs that are fit for purpose.

#### **Institute of Chartered Accountants of the Maldives**

The overall intended outcome is a standard better tailored to the typical nature and circumstances of a LCE. By using the objectives and requirements of the ISAs, however, the IAASB has restricted its ability to be innovative in its design of the standard. When practitioners are to apply ISA for LCE in the areas where there is less detail such as execution of professional skepticism, ethical requirements, pervasive principles, they may have to refer to the full ISAs even though the ISA for LCE has been issued as a standalone standard. If this is the case, the purpose of the proposed standard could not be fulfilled. Therefore, it is our view that proposed guidelines should have sufficient detail but with scalability options for LCE and CE.

Therefore, the best possible action for the IAASB takes a combination of action: "Developing Guidance for Auditors of LCEs or Other Related Actions" and "Revising the ISAs", mainly focusing such revision on the ISAs that the public consider difficult to apply for LCE. This approach would resolve the negative impact of the audit report users' perception on the differences of a regular audit and LCE audit reports as well as the practical difficulties in applying a set of standards with limited guidance. This also would allow it to continue with one set of auditing standards, with worldwide applicability.

#### **Pan-African Federation of Accountants (PAFA)**

We encourage the IAASB to carefully consider all the feedback received from stakeholders who will be using the ISA for LCE and to respond to their needs in finalising the Standard. Furthermore, we encourage the IAASB to be creative and innovative in developing solutions to the more contentious topics such as Group Audits.

#### **Union of Chambers of Certified Public Accountants of Turkey (TURMOB)**

In the meantime, the publicity and communication activities should commence with regards to obtaining support of all decision maker and stakeholders which would contribute to the adoption, implementation, and acclamation of ISAs for LCE as "the fittest and most widely accepted" audit standard delivering the required level of assurance resulting from high-quality audit in the public interest and users benefit. IAASB, in close collaboration of IFAC, regional and national accountancy bodies, standard setters and regulators, to advocate for ISAs for LCE and its value proposition for audits of LCE.

## **Support for Project to Develop A Standard (General)\1) Yes (Explicit)\1h) Support as Interim or Dual Measure**

### **3. Regulators and Audit Oversight Authorities**

#### **Swedish Inspectorate of Auditors**

In summary, the SIA supports the IAASB initiative regarding ISA for LCE, although there are certain concerns, and encourages the IAASB to refine the proposed standard based on the input from the comment letter process. If there will be a decision from IAASB not to go forward with ISA for LCE as a standalone standard, the SIA encourages the IAASB to continue its efforts in this important area and utilize the work done to issue guidelines to ISAs for audit of less complex entities.

In Sweden audit is required by law for many limited companies as the thresholds for statutory audit are significantly lower than the requirements according to the EU directive. In addition to that, the Swedish government recently took the initiative for an inquiry to investigate whether even smaller limited companies should be in scope for statutory audit. Sweden is a rather large country with a relatively small population. The SIA is therefore very concerned with ensuring that there are enough auditors present throughout the country able to perform audits, many of them being of the smallest companies. There is currently only one category of auditor examined in Sweden and the auditor is authorized for all sizes and complexities of entities. Sweden does not have any national standard for audits of smaller or less complex entities and hence all audits are performed according to the full set of ISAs. Because of these prerequisites the SIA appreciates the IAASB's efforts to understand and consider issues regarding the audit of smaller or less complex entities.

The SIA is of the opinion that adaption of the audit approach to the size of entities and the complexity of their operations is already embedded in the International Standards on Auditing framework. However, our understanding is that many of the auditors working with audits of small or less complex entities in Sweden consider the full ISAs too extensive and sometimes difficult to adapt in an appropriate way. They consider ISA for LCE to be a desirable alternative as all requirements are gathered in one comprehensive standard.

The SIA encourages the IAASB to continue with the CUSP (Complexity, Understandability, Scalability and Proportionality) project to contribute to auditors better being able to understand and apply the full set of ISAs when required.

### **5. Accounting Firms**

#### **Azets Audit Services**

In conclusion, we believe that ED-ISA for LCE is the right solution for now but there is still a need to consider how the entire suite of ISAs can be built to consider less complex entities first. In many jurisdictions, including the UK in our experience, the number of LCE audits significantly outweigh the number entities that many ISA revisions in recent years have targeted – for us, an LCE audit is “the norm”. ED-ISA for LCE represents a pragmatic, but positive development in this significant segment of the audit market.

### **RSM International**

We support the intention to create a single standard for use by auditors of LCEs as an interim measure while the Complexity, Understandability, Scalability and Proportionality project is conducted. We look forward to the output from this project.

### **7. Professional Accountancy and Other Professional Organizations**

#### **Accountancy Europe**

This will be a response to an urgent need in the short term. In the longer term, ISAs designed in a building block approach (think simple first) should be the IAASB's ultimate objective. In this regard, we hope that the lessons learnt in developing the ED ISA for LCE would guide the IAASB in making ISAs more clear, scalable and proportionate. There are concerns about the IAASB's plans related to the CUSP project as it is unclear where the differences will be between the post-CUSP ISAs and the ISA for LCE.

## Belgian Institute of Registered Auditors (IBR-IRE)

The application of the ISA for LCE does not provide a solution for all audits of SMEs. There are a lot of SMEs that will not fall under the scope of the ISA for LCE and for which nevertheless the current ISAs may appear unneededly complex. The current proposed authority of the ISA for LCE contains an important role for “subjectivity” in judging as to whether the ISA for LCE is applicable or not, and might also lead to possible discussions with local and international regulators on the applicability of the proposed standard for a specific audit, resulting in auditors not using this standard in order to avoid such discussions. Moreover, the existence of two international standards and possible local standards leading to “reasonable assurance” might confuse users of the audit report, especially when the report according to ISA for LCE might be considered as “less qualitative” by the stakeholders using audit reports.

Given the above, IBR-IRE remains a strong advocate of the ISAs as such, which are inherently scalable, and believes that these standards should stay the main reference for an audit. We therefore recommend that the IAASB continues revising the existing ISAs, following a “think small first/building block” principle, with due attention to the use of clear language. Depending on the circumstances and on the characteristics of the audited entity, the auditor will then be in a position to rely on an elaborated audit standard for those topics /items - where this is deemed useful and necessary - and the auditor will be able to apply other parts of the standards following the scalability - wherever possible - based on his professional judgement. This means that the core of the ISAs would only consist of the most fundamental requirements applicable to all audits. The ISAs would then be expanded ‘in blocks’ as needed to address more complex audit areas and circumstances.

As a member of Accountancy Europe, we also refer to their comment letter, which reflects our view.

## CPA Australia

A key motivation for developing the LCE standard is essentially to make the long and wordy ISAs more accessible to auditors of LCEs and to enable easier identification of the relevant requirements for such audits. We suggest that a digital tool may be more effective, where it works in conjunction with the standard to enable easy navigation of the ISAs and identify relevant requirements and interlinked standards, requirements and application material. The digital tool could build on the IAASB e-Handbook. Consequently, we recommend that an alternative solution to address the challenges of the complexity and navigation of the ISAs needs to be pursued in parallel with the release of the LCE standard. Whilst the CUSP project is seeking to simplify the wording used in drafting standards, it does not tackle the need for more effective navigation which could be addressed with digital, diagrammatic or other presentation tools.

## Institute of Certified Public Accountants of Cyprus

The most favourable approach would be to make the ISAs proportionate enough, clear, and understandable to cover audits of LCEs and this is something that we envisage for the future. In this way there will be no questions as to whether a separate standard might lead to fragmentation of the audit market. However, we understand the difficulty and time that this exercise would require, therefore we tend to agree with the standalone nature of the proposed standard at this stage, provided that it takes due consideration of the matters delineated in this document and does not trigger unwarranted adverse consequences.

## REA Auditores

While we support the project, we urge the IAASB to simultaneously reengineer the ISAs to make them scalable from the bottom up using a ‘Think Small First’ approach. Accordingly, we welcome the Complexity, Understandability, Scalability and Proportionality (CUSP) project though believe it lacks ambition. Also, we would like to propose that in future revisions of the ISAs an effort be made to adjust their wording so that it is as clear and concise as the text of the LCE standard.

## **Support for Project to Develop A Standard (General)\2) No (Explicit)\2a) Market Confusion & Widening Expectation Gap (View with Q1A)**

### **1. Monitoring Group**

#### **International Forum of Independent Audit Regulators (IFIAR)**

In the letter issued by IFIAR in September 2019 regarding the LCE project, we acknowledged that auditors of LCE have often cited challenges they face in the application of ISAs. We encouraged the IAASB to identify the reasons behind the challenges and substantive issues that led to dissatisfaction among auditors. Based on the Exposure Draft, it remains unclear how the IAASB concluded that the issuance of a separate standard for the audits of LCE is necessary.

The creation of a separate standard for LCE that aims to provide the same level of assurance may cause more confusion among auditors and users of financial statements. One of our main concerns is that it could lead to an increase in the expectation gap while decreasing confidence in audits. Some examples include: Whether applying the ISA for LCEs will always result in a consistent level of assurance as compared to applying the full suite of ISAs for non-LCE entities.

The standard may create the perception that two different audit categories exist, with different levels of assurance, therefore fragmenting the audit market.

The proposal in the Exposure Draft to issue an opinion by reference to the use of ISA for LCE, and not by reference to the use of ISAs, raises additional questions with regards to the value of the opinion(s).

#### **International Organization of Securities Commissions (IOSCO)**

##### **ISA for LCE Consistency Challenges**

Paragraph 6 of the Paper states the following: “Alternative standards in different jurisdictions for the same type of engagement (i.e., an audit of an LCE) may lead to inconsistencies in quality and cause confusion for users. It is therefore in the public interest that the IAASB take action to establish a high-quality standard that has global relevance.”

We offer a different perspective to that of the IAASB. In our view, consistent outcomes are best achieved through the utilization of consistent auditing standards. Applying the same set of auditing standards for all audits that are properly scalable, regardless of the size or complexity of the company, will best serve the public interest. We believe that a separate set of auditing standards will introduce challenges and possible confusion for auditors, companies, and the public.

##### **ISA for LCE Audit Quality Challenges**

We believe that the public will have difficulty understanding the similarities and differences between two separate sets of auditing standards and the two corresponding auditor’s reports, which are designed to achieve the same level of assurance over the financial statements. Given the auditing profession’s historical struggle with the expectations gap, while we appreciate that the auditor’s report includes reference to “ISA for LCE” as illustrated in paragraph 9.4 of the Paper, we anticipate further exacerbation of the expectations gap.

### **3. Regulators and Audit Oversight Authorities**

#### **Canadian Public Accountability Board**

##### **Unintended consequences of a separate ISA for LCE standard**

Users of the financial statements may perceive two audit categories, leading to unintended consequences to the issuance of the ISA for LCE as a separate standard that may not have been fully explored by the IAASB:

Different firms and/or jurisdictions may interpret the acceptability of using the ISA for LCE differently for entities with similar characteristics. This may contribute to confusion for users of the financial statements and undermine the objective of achieving global consistency.

Switching to the ISAs partway through an audit when unforeseen circumstances arise may take longer than if the ISAs were applied from the start with no additional benefit. This will also add complexity for private companies audited using the ISA for LCE who later become public and may need to transition to the ISAs for multiple years.

We have given due consideration to the Exposure Draft and propose the IAASB reconsider the decision to issue a new standard. Our position considers the significant time investment by the IAASB compared to the public interest benefit expected from the creation of a separate standard for less complex entities. Our concerns regarding the creation of a separate standard include:

### **Committee of European Auditing Oversight Bodies**

Risk of creating two different types of audits

We remain uncertain as to the benefits of establishing a separate standard for audits of LCE, since this would create two different categories of audits, thereby fragmenting the audit market, and it may create the impression that a different type of assurance is provided when this standard is applied. In this regard, insufficient information has been provided on the actions carried out by the IAASB to conclude that issuing a separate standard is the most appropriate way forward. We would recommend considering the issuance of guidelines for LCE audits, as a supplement to ISAs instead of a standalone ISA for LCE.

We believe that the co-existence of two “sets” of auditing standards would raise the question of the respective “value” of an opinion, the one based on ISA for LCE compared to an opinion based on the full set of ISAs. We stress that the proposal to issue an opinion by reference to the use of ISA for LCE in the ED ISA for LCE, and not by reference to the use of ISAs, raises additional questions with regards to the value of the opinion(s). Is it really the same level of assurance for audits of LCE when the ISA for LCE, instead of the ISAs, is referred to in the report?

### **Irish Auditing and Accounting Supervisory Authority**

The creation of a separate standard for LCE audits that aims to provide the same level of assurance as the complete suite of ISAs has the potential to cause confusion among auditors and users of financial statements, such as the examples listed below.

The LCE standard may create the perception that two different categories of audit exist, with different levels of assurance and different performance standards, therefore fragmenting the audit market.

The proposal in the Exposure Draft to require an audit opinion that references use of the ISA for LCE raises additional questions with regards to the value of the auditor’s opinion when applying the proposed standard. Less complex/smaller entities 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’ responsibilities and stakeholders’ expectations. One of our main concerns is that the confusion resulting from the issuing of a standard for audits of LCE may widen the expectation gap and decrease confidence in audits.

### **National Association of State Boards of Accountancy (NASBA)**

With that being said, NASBA does not support having a separate stand-alone standard for audits of financial statements of LCEs. We are concerned about the negative impact that separate standards for audits of LCEs could have on audit quality and the possibility of widening the expectation gap that already exists with users of the financial statements. Currently, there is difficulty in communicating with the users of the financial statements and ensuring that the users have an appropriate understanding of what an audit is and its limitations. Introducing a different tier of standards which apply to some but not all entities will add more complexity and potential confusion for the users. In addition, an audit standard that is viewed as less stringent is fraught with risks of being misused and ultimately reducing audit quality. To have one set of high-quality auditing standards that are appropriately scalable is better for practitioners, the users of the financial statements, regulators and the public interest.

## **4. National Auditing Standard Setters**

### **American Institute of Certified Public Accountants**

While we agree with the goals of addressing the challenges of applying the ISAs in audits of LCEs and addressing the CUSP of the ISAs, we believe a different mechanism for issuing the material in the Exposure Draft should be used to meet the public interest and the overall objectives of this project.

While we recognize that audit guides issued by the IAASB are non-authoritative, the IAASB has previously used the mechanism of issuing non-authoritative guidance and we believe doing so in this instance is in the public interest as it is the best way to meet the needs of auditors of LCEs. Issuing non-authoritative guidance would:

Avoid potential confusion among regulators, investors, those charged with governance, and others in the capital market ecosystem as to the difference between an LCE audit and an ISA audit. This includes possible stakeholder perception of a lesser quality audit due to the reference in the auditor's report on the financial statements to the application of a separate LCE auditing standard; and

### **Royal Netherlands Institute of Chartered Accountants (NBA)**

We are worried that this proposed standard will lead to an additional expectation gap in the market. Users may perceive this as an audit of less quality. Preparers may assume that less work needs to be done and that audit fees could be reduced. It will be difficult to explain that the level of assurance does not change and that the core requirements are more or less the same. This does not reduce administrative burdens for entities and/or practitioners.

### **5. Accounting Firms**

#### **Auren**

We consider that the solution is not the issuance of a separate standard. We think it could lead to some unintended consequences.

First of that is that a different standard could give the impression of less quality for audits conducted under the LCE standards, especially on the ecosystem of SME where people would not have high financial knowledge. We think this could lead to the impression of having two categories of audits, and that the care established on LCE standard is lower than the applied on full standard. And so, the professionals would be perceived as in two classes, those performing full standards and those on LCE.

Because of that, we think there is a risk of decrease in audit fees. We would need to convince our clients that an audit of a less complex entity is not always of a less value or entails less audit work than when using the full suite.

There would be a confusion on the market. On similar circumstances, and auditor can use full standards and other use LCE one. Client would not understand the reason for that, and the perception of the market would be also confused, especially as said at SME environment.

#### **CohnReznick LLP**

Overall, we do not support the creation of a separate audit standard for lesser complex entities. We believe, although well intentioned, that the proposed International Standard on Auditing for Audits of Financial Statements of Less Complex Entities Management (ED-ISA for LCE) is not in the public interest, in part, for the following reasons:

Public perception and confusion

Having another standard for audits could be confusing for users, particularly in environments such as the United States where there already exist multiple audit standards, including the AICPA, PCAOB, and Government Auditing Standards. In the United States this confusion is mitigated because the user communities for PCAOB and Government Auditing Standards tend to be distinct. However, for LCEs, many users, such as lending institutions, also use audits for non-LCEs and the possibility for confusion and dilution of the audit "brand" could have a negative effect on capital formation.

#### **Nexia International**

Secondly, the proposed audit report may imply that an LCE audit carries less weight and importance than a full ISA audit. This might make use of the standard unacceptable in the market. Based on our discussions with various member firms, initial communication with local regulators has indicated that audits performed under the ISAs for LCEs would likely not be accepted. The overarching objective remains to provide the user of the financial statements with reasonable assurance that the financial statements are not materially

misstated. This is true for both audits performed under ISAs and ISAs for LCEs, so the audit report should be identical.

## **7. Professional Accountancy and Other Professional Organizations**

### **Instituto de Censores Jurados de Cuentas de España (ICJCE)**

As we stated in our answer to the IAASB consultation on the way forward of audit of less complex entities in 2019, in general terms, we welcome the initiative taken by the IAASB to find a way to deal with the complexity and application problems of the current Technical Standards when used in the audits of LCEs, but we also stand in our opinion expressed there, that the solution is not the issuance of a separate standard.

In this regard, we fear that due to the urgency assigned to the matter, a new standard is issued without having safeguarded the consequences that it can entail for the global and local profession. We note the view of more than a half of the respondents to the 2019 consultation who supported other measures.

Specifically, our concerns relate to:

1.- Perceptions about the quality and outcome of the work performed by the auditor, which can lead to widening the expectation gap and the creation of a second-level of auditors/audits. In this regard, we are of the opinion that the proposed standard lacks a clear message about the assurance provided with an audit carried out under the LCE Standard be the same of one carried out under ISAs. This message is also conveyed by including the name of the standard used to perform the audit although the level of assurance achieved be the same.

.- As a consequence of the above point, a risk of decrease in audit fees, which in Spain is already a matter of concern. Auditors will need to convince their clients that an audit of a less complex entity is not always of a less value or entails less audit work.

### **Malaysian Institute of Certified Public Accountants**

However, there is a grave concern that the market perception is that this proposed ISA for LCE is a simplified approach requiring less efforts and costs, which would further aggravate the fee pressures in view of the perceived "lower quality" audits supposedly performed under this proposed ISA for LCE.

## **Support for Project to Develop A Standard (General)\2) No (Explicit)\2b) Fragmentation of the Audit Profession & Long Term Training/Skills Gap (View with Q1A))**

### **1. Monitoring Group**

#### **International Forum of Independent Audit Regulators (IFIAR)**

The auditor is required to determine that the use of ISA for LCE is appropriate for the audit engagement, and, if it is found that the ISA for LCE is not appropriate during the audit because complexities regarding the audited entity not contemplated by the proposed standard have arisen, then a transition to the use of the ISAs or other applicable auditing standards is required. For example, the auditor will need to reassess the appropriateness of the use of the ISA for LCE when a material uncertainty related to going concern exists and when potential fraud activities are detected (since in these situations the risk can increase in various areas). We are also concerned that auditors will not be able to identify such situations without an understanding of the ISAs if they have focused their training and experience only on the ISA for LCE.

The standard may create the perception that two different audit categories exist, with different levels of assurance, therefore fragmenting the audit market.

Our concerns on the stand-alone nature of the ISA for LCE include:  
How an auditor of an LCE will be able to understand and apply the ISA for LCE without a full understanding of the ISAs. For practitioners that decide to focus on the audits of LCE exclusively, their knowledge of the ISAs may decline over time. The requirements in the ISAs have been included almost in their entirety in the

ISA for LCE, but they are presented in a different format and exclude large portions of the application and other explanatory material. One example is the exclusion of the application guidance from the ISAs on substantive analytical procedures. Substantive analytical procedures are an area where auditors have experienced challenges, and it is unclear why this additional application guidance is not necessary for auditors using the ISA for LCE to understand the objective, apply the requirements properly, and provide the same level of assurance as the ISAs.

### **International Organization of Securities Commissions (IOSCO)**

The Paper will likely require auditors and audit firms to decide whether to obtain expertise in two separate sets of auditing standards. Achieving expertise in one set of standards can be challenging, so becoming an expert in two sets of standards may produce unnecessary challenges for auditors or result in some audit firms pursuing expertise in only one set of standards. Because a company subject to audit may qualify as an LCE one year but not qualify as an LCE the following year, we foresee many auditors being compelled to develop and maintain expertise in two sets of standards or, alternatively, there will be situations where a company needs to change audit firms before or during an audit if their current auditor chooses only to maintain expertise in ISA for LCE. In addition, companies may face challenges and confusion if their audit is conducted using ISAs one year and ISA for LCE the following year (or vice versa). Since company management are not experts in auditing standards, they may not understand the nuanced differences between two sets of auditing standards.

## **3. Regulators and Audit Oversight Authorities**

### **Audit Oversight Board Malaysia**

As part of Securities Commission Malaysia (“SC”), the AOB aims to work closely with the SC in supporting the development of Small and Medium Enterprises (“SME”) which includes Small and Medium Practices (“SMP”) in the audit market of Malaysia.

In this regard, the AOB is of the view that the proposed separate and self-contained ISA for LCE would work against the development of SMPs by creating a group of auditors which only focus on audits of LCEs and further fragment the audit market. In the longer term, this group of auditors will be less mobile when compared to others and therefore lose their competitive advantage to provide audit services to their SME clients as these SMEs develop into larger and become complex entities.

### **Canadian Public Accountability Board**

Adequacy of a standalone ISA for LCE

Our view is that the proposed standard does not provide enough guidance to auditors and will therefore result in a deterioration of audit quality.

ISA 200, paragraph 19 states that “the auditor shall have an understanding of the entire text of an ISA, including its application and other explanatory material, to understand its objectives and to apply its requirements properly”. The purpose and relevance of application and other explanatory material is explained further in A59. This raises the following concerns on the standalone nature of the ISA for LCE:

How an auditor of an LCE will understand and apply the ISA for LCE without a full understanding of the ISAs. The requirements in the ISAs are included almost in their entirety but presented in a different format and exclude large portions of the application and other explanatory material. One example is the exclusion of the application guidance on substantive analytical procedures. Auditors have experienced challenges related to substantive analytical procedures. It is unclear why this additional application guidance was not considered necessary for auditors using the ISA for LCE to understand the objective and apply the requirements properly.

If an auditor determines that the ISA for LCE is not appropriate during the audit because matters of complexity not contemplated by the proposed standard have arisen, the auditor is required to transition to the ISAs or other applicable auditing standards. We are concerned auditors will not be able to identify such situations without understanding the ISAs.

Auditing is a profession that requires significant skills, training and standards. We do not think it is unreasonable to expect skilled auditors to read and understand the existing standards, while acknowledging that some aspects will not be applicable for less complex entities.

#### Undermining professional responsibility

A professional accountant must comply with the principle of professional competence and due care; they are required to attain and maintain professional knowledge and skills to ensure they provide competent services based on current technical and professional standards. There is a risk that the issuance of the ISA for LCE undermines the professional responsibilities as required by subsection 113, professional competence and due care of the International Ethics Standards Board for Accountants (IESBA) Code of Ethics. This may negatively impact the ability of practitioners in smaller firms to perform quality audits.

We have given due consideration to the Exposure Draft and propose the IAASB reconsider the decision to issue a new standard. Our position considers the significant time investment by the IAASB compared to the public interest benefit expected from the creation of a separate standard for less complex entities. Our concerns regarding the creation of a separate standard include:

### Committee of European Auditing Oversight Bodies

#### Competence for LCE vs other audits

Another drawback of having a separate standard for audits of LCE is that while auditors are currently familiar with the ISAs there is a likelihood that, in jurisdictions where use of the ISA for LCE would be permitted, some auditors would only perform audits of LCEs. There is a risk that if it is no longer appropriate to apply the ISA for LCE to one of those audits, auditors may no longer have the necessary knowledge and competence to perform a quality audit in accordance with the full set of ISAs. This could also create another problem if an individual only receives practical training on LCE audits, as this might prevent the competent authority from authorizing this individual as auditor if all the experience that he or she has is in LCE audits.

### Financial Reporting Council (UK)

Further, we are concerned that when an entity subject to audit under the ED-ISA for LCE has evolved to become a more complex entity, their auditors may only focus on learning and applying what they believe to be the areas of difference between the LCE standard and the ISAs. Practitioners may not therefore obtain an appropriate understanding of the ISAs necessary to obtain reasonable assurance in the audit of the more complex entity.

We believe that over time the competency and capabilities of auditors in the profession could be negatively affected, as certain auditors may only obtain or retain experience of performing audits under the ED-ISA for LCE. These circumstances could create a 'two-tier' audit profession. At a time, when we in the UK are looking at measures to strengthen the diversity of the audit market and encourage more audit firms to engage in the audit of Public Interest Entities, we believe this ED will undermine that objective.

### Irish Auditing and Accounting Supervisory Authority

The proposed new standard does not provide enough guidance to auditors and could therefore result in a deterioration of audit quality. Paragraph 19 of ISA 200, Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing states that “the auditor shall have an understanding of the entire text of an ISA, including its application and other explanatory material, to understand its objectives and to apply its requirements properly.” This is explained further in paragraph A59 of that standard. The application and other explanatory material may “explain more precisely what a requirement means or is intended to cover.” Our concerns on the stand-alone nature of the ISA for LCE include:

How an auditor of an LCE will be able to understand and apply the ISA for LCE without a full understanding of all ISAs. For practitioners that decide to focus exclusively on audits of LCE, their knowledge of the full suite of ISAs is likely to decline over time. While the requirements of the ISAs have largely been included in the ISA for LCE, they are presented in a different format and exclude large portions of the related application and other explanatory material. One example is the exclusion of the application guidance on substantive analytical procedures. These are an area where auditors have experienced challenges, and it is unclear why this additional application guidance is not considered necessary for auditors using the ISA for

LCE to understand the objective, apply the requirements properly, and provide the same of level of assurance as the full ISAs.

A professional accountant is required to comply with the principle of professional competence and due care. This requires accountants to attain and maintain their professional knowledge and skills at the level needed to ensure that they provide competent professional services, based on current technical and professional standards. There is a risk that the proposed standard will undermine these professional responsibilities, as auditors of LCE may believe they only need to maintain professional competence based on the ISA for LCE. This may have a negative impact on the ability of practitioners in smaller firms to perform quality audits.

Another drawback of having a separate standard for audits of LCE is that competent authorities may be unwilling to authorise an individual as an auditor if all their experience and training relates to LCE audits

## **4. National Auditing Standard Setters**

### **American Institute of Certified Public Accountants**

Issuing non-authoritative guidance would:

Avoid creating a two-tiered profession in which some auditors only perform audits in accordance with the Exposure Draft, which would cause those auditors to not develop the breadth of experience and expertise of auditing in accordance with the ISAs. Additionally, those auditors may not recognize a complex issue that would require the audit to be performed in accordance with the ISAs as they would be unfamiliar with those standards.

### **Royal Netherlands Institute of Chartered Accountants (NBA)**

We are afraid that this proposed standard will create additional barriers between the big audit firms and SMP audit firms. A two tier market may be the result. Especially for SMP audit firms it will be difficult to implement and maintain two methodologies including training for regular audits and for LCE audits.

## **5. Accounting Firms**

### **Auren**

We consider that the solution is not the issuance of a separate standard. We think it could lead to some unintended consequences.

First of that is that a different standard could give the impression of less quality for audits conducted under the LCE standards, especially on the ecosystem of SME where people would not have high financial knowledge. We think this could lead to the impression of having two categories of audits, and that the care established on LCE standard is lower than that applied on full standard. And so, the professionals would be perceived as in two classes, those performing full standards and those on LCE.

## **7. Professional Accountancy and Other Professional Organizations**

### **Instituto de Censores Jurados de Cuentas de España (ICJCE)**

.- Division of the profession between LCE auditors and Non-LCE-auditors. LCE auditors may encounter difficulties to grow and access Non-LCE market as they can be perceived as non-capable of performing complex audits. This may exacerbate the perceived concentration of the audit market.

### **Malaysian Institute of Certified Public Accountants**

In view that there would be many SMPs who would focus and specialise in audits of LCEs, the introduction of such a standalone standard may result in 2 tiers of auditors which cannot be good for the development of the profession in the longer term.

## **Support for Project to Develop A Standard (General)\2) No (Explicit)\2c) Audit Quality Risks**

### **1. Monitoring Group**

#### **International Forum of Independent Audit Regulators (IFIAR)**

Our concerns on the stand-alone nature of the ISA for LCE include:  
How an auditor of an LCE will be able to understand and apply the ISA for LCE without a full understanding of the ISAs. For practitioners that decide to focus on the audits of LCE exclusively, their knowledge of the ISAs may decline over time

A professional accountant is required to comply with the principle of professional competence and due care, which requires the accountant to attain and maintain professional knowledge and skills at the level required to ensure that they provide competent professional services, based on current technical and professional standards. There is a risk that the issuance of the ISA for LCE undermines these professional responsibilities, as auditors of LCE may believe they only need to maintain professional competence based on the ISA for LCE. This may have a negative impact on the ability of practitioners in smaller firms to perform quality audits.

Some examples include:

Whether applying the ISA for LCEs will always result in a consistent level of assurance as compared to applying the full suite of ISAs for non-LCE entities.

#### **International Organization of Securities Commissions (IOSCO)**

In addition, there are two distinct challenges related to audit quality that will likely arise. First, two sets of auditing standards has the potential to result in differences in audit quality, even when that is not the Board's intention. Second, we anticipate that some third parties will perceive differences in audit quality between audits performed pursuant to the two sets of standards. Thus, we suggest that it is highly improbable that two sets of auditing standards will achieve the same level of high audit quality and that third parties will view the level of audit quality between the two standards as equivalent. Additionally, where there are actual or perceived differences in audit quality, companies and auditors are exposed to additional litigation risk in some jurisdictions.

#### **ISA for LCE Consistency Challenges**

Paragraph 6 of the Paper states the following: "Alternative standards in different jurisdictions for the same type of engagement (i.e., an audit of an LCE) may lead to inconsistencies in quality and cause confusion for users. It is therefore in the public interest that the IAASB take action to establish a high-quality standard that has global relevance."

We offer a different perspective to that of the IAASB. In our view, consistent outcomes are best achieved through the utilization of consistent auditing standards. Applying the same set of auditing standards for all audits that are properly scalable, regardless of the size or complexity of the company, will best serve the public interest. We believe that a separate set of auditing standards will introduce challenges and possible confusion for auditors, companies, and the public.

Based on paragraph 72, we observe the Board's intent that "...the proposed standard can be applied to less complex entities with a wide range of circumstances and across sectors or industries" (p. 24). If the IAASB currently has difficulty setting auditing standards applicable to a large range of entities (including LCEs), would the implementation of this Paper encounter the same challenges facing current ISAs?

Due to the maintenance of the standard as noted in paragraphs 142-149 of the Paper, ISA for LCE will naturally increase in length and complexity. Thus, there may be future calls for separate auditing standards for additional sub-groups of entities. The Paper sets a precedent that we believe should be avoided.

We emphasize that the maintenance of two sets of auditing standards will create audit quality and audit consistency challenges. Because auditing standards frequently change, concerns about quality differences and consistency will persist. Thus, we do not support the proposed solution for LCEs that creates ongoing challenges to companies, auditor, regulators, and the public.

### **3. Regulators and Audit Oversight Authorities**

#### **Canadian Public Accountability Board**

The background material in section one of the Exposure Draft cites that more than 90 per cent of entities across the world are small and medium-sized; some regions estimate that the percentage could be higher. This could be interpreted to suggest that the ISAs are not fit for purpose for more than 90 per cent of the audits conducted worldwide and the ISA for LCE will be the standard used for most audits once finalized. We are concerned the ISA for LCE will be used by a very large group of entities, many of whom are not necessarily less complex.

We have given due consideration to the Exposure Draft and propose the IAASB reconsider the decision to issue a new standard. Our position considers the significant time investment by the IAASB compared to the public interest benefit expected from the creation of a separate standard for less complex entities. Our concerns regarding the creation of a separate standard include:

#### **Financial Reporting Council (UK)**

For reasons set out below, we are concerned that over time the application of the ED-ISA for LCE could undermine consistency in performance and result in a greater number of poorer-quality audits.

The FRC understands that the ED-ISA for LCE is based on the core requirements for an audit within the ISAs, although some of those core requirements have been modified. The IAASB nevertheless proposes an entirely separate standard with no requirement to directly reference back to the application material in the ISAs in its implementation. This approach, in our view, could adversely affect both audit quality and market consistency.

We believe, and as noted in ISA 200 paragraph 19, that to understand the objectives and apply the requirements of the auditing standards properly, the auditor should have a full understanding of the ISAs including the application and other explanatory material. In this regard, we find it difficult to envisage that the ED-ISA for LCE provides a basis for reasonable assurance.

#### **Irish Auditing and Accounting Supervisory Authority**

The creation of a separate standard for LCE audits that aims to provide the same level of assurance as the complete suite of ISAs has the potential to cause confusion among auditors and users of financial statements, such as the examples listed below.

Whether applying the ISA for LCE will result in a consistent level of assurance compared to applying the full suite of ISAs.

#### **National Association of State Boards of Accountancy (NASBA)**

With that being said, NASBA does not support having a separate stand-alone standard for audits of financial statements of LCEs. We are concerned about the negative impact that separate standards for audits of LCEs could have on audit quality and the possibility of widening the expectation gap that already exists with users of the financial statements. Currently, there is difficulty in communicating with the users of the financial statements and ensuring that the users have an appropriate understanding of what an audit is and its limitations. Introducing a different tier of standards which apply to some but not all entities will add more complexity and potential confusion for the users. In addition, an audit standard that is viewed as less stringent is fraught with risks of being misused and ultimately reducing audit quality. To have one set of high-quality auditing standards that are appropriately scalable is better for practitioners, the users of the financial statements, regulators and the public interest.

#### **Securities and Exchange Commission of Brazil (CVM)**

In the first place, we appreciate the opportunity to comment on the Exposure Draft, Proposed International Standard on Auditing for Audits of Financial Statements of Less Complex Entities (ISA for LCE).

In the second, it's relevant to assign that, as a member of IFIAR, we have read the IFIAR Comment Letter and we agree with its contents.

We understand that the creation of a separate standard for LCE could result in a deterioration of audit quality, considering that the proposed standard doesn't require the auditor the full compliance with the ISAs.

#### 4. National Auditing Standard Setters

##### American Institute of Certified Public Accountants

If the IAASB continues with the development of a separate standalone standard for audits of LCEs we are concerned that it would:

Create significant diversity in practice because of the ambiguity in determining which entities are less complex;

Impair audit quality because it will result in a standard that does not provide auditors a sufficient ability to obtain reasonable assurance for audits of LCEs; and

Issuing non-authoritative guidance would:

Allow the IAASB to express its vision of "scale" and focus on developing a range of approaches that an auditor could apply when considering the nature, timing, and extent of procedures necessary to comply with the ISA audit requirements when auditing the financial statements of an LCE. This could also lead to the IAASB developing a more comprehensive scaling strategy, including how future ISAs could be designed for scale;

Promote audit quality and more widespread adoption and application of the ISAs, as all audits would be performed in accordance with the ISAs while auditors of LCEs would be able to scale. Additionally, jurisdictions could more easily incorporate changes for legal or regulatory requirements and other relevant circumstances of their jurisdiction;

#### 5. Accounting Firms

##### CohnReznick LLP

Audit quality

We believe that having two separate standards for audit could erode the quality of audits, in part due to practitioners diverting resources to maintain two separate, yet different, methodologies. In the United States, we see additional time spent at various levels of firms to monitor developments in two different standards (AICPA and PCAOB), address changes to methodologies, and update internal trainings and practice. This focus can unintentionally take away time from addressing risks of material misstatement appropriately. Generally, larger firms like ours are better situated to handle maintaining multiple methodologies and multiple standards, in part due to the existence of national offices. The vast majority of firms likely do not have personnel dedicated to the national office function and these are the same firms that will be auditing a large number of LCEs. The strain on the firms to address two versions of ISAs may negatively affect audit quality.

#### 7. Professional Accountancy and Other Professional Organizations

##### Instituto de Censores Jurados de Cuentas de España (ICJCE)

As a consequence of the above, especially the lack of application material, an auditor carrying out exclusively LCE audits may lose the context in which requirements are applied, and finally, not fulfil them.

#### **Support for Project to Develop A Standard (General)\2) No (Explicit)\2d) Burdensome to Implement (View with Q1A)**

#### 5. Accounting Firms

##### Auren

It would open the room for more litigation. An additional reason for a demand could be why in a particular circumstance LCE standard has been used, and not full suite, even if the result would have been the same.

We think this could create more complexity on networks, as maybe some countries would not introduce LCE as recognized standard (or not at the same time), and so to keep updated procedures and quality manuals, and to train on that, networks should pay attentions to two different sets of rules and focus, the present one as we already know, and the LCE one, based on the flux of the audit work. So different focus and more difficulties on training activities.

Complexity is not a binary question. In some cases, there would be the doubt of what standard is more appropriate, in some audits, one particular aspect is "less complex" or in others some point is "high complex". How this situation would be afforded? Of course, professional judgement is essential in all circumstances, and so professionals should know both suites. At the end instead of simplifying and make easier the life of SMPs it would be more complex.

## **Famme & Co. Professional Corporation**

We do not support a standalone standard for LCE. We believe a separate standard would only further the "standards overload" being experienced by professional accountants over the last decade. The practicalities of introducing the standard would involve considerable time and expense in staff training, internal procedural and form changes and amendment of firm policies. Given the direct relationship between ISA and ISA for LCE, any future revision in one standard would necessitate a corresponding change to the second standard. The effort to implement each revision, is then doubled.

## **7. Professional Accountancy and Other Professional Organizations**

### **Association of the Authorised Public Practicing Accountants**

The draft LCE-standard ("International Standard on Auditing for Audits of Financial Statements of Less Complex" i.e. ED-ISA for LCE) includes in our understanding too many detailed regulations to the audits to be performed and therefore the ED-ISA for LCE shall not much differ from the original ISA-standards and therefore it is not really a lightening or improvement at all. In addition the ED-ISA for LCE does not include requirements to the auditing of the Small Group Consolidated Audits at all and therefore all those Small Group Audits should be then performed by using full scale ISA-standards.

### **Instituto de Censores Jurados de Cuentas de España (ICJCE)**

- Legal uncertainty for the profession. In Spain, audit is highly and strictly regulated. In some areas, Spanish audit regulation is one of the strictest in the EU and it is applicable to all auditors, despite of their size and the size or complexity of the audited entity. For instance, enhanced reporting requirements, very closed to those in ISA 701 are applicable to Non-PIE audits. Using a standard which applicability is a matter of professional judgment and which content is simplified but has the same objective of providing an audit opinion may leave room to increasing supervisory and regulatory questioning and pressure. This also may affect a current problem that auditors are facing related to insurance coverage and liability issues.

The treatment when differences in the judgment about applicability of the standard between predecessor and successor auditors or between regulators and auditors arise, and more widely, the need for an auditor wishing to focus on LCE audits, because of commercial or risk appetite strategy, of keeping the capacities resources and efforts to audit more complex entities. These requires doubling the systems and processes and significantly increases the litigation risks for the firm.

## **Support for Project to Develop A Standard (General)\2) No (Explicit)\2e) Use of IAASB Resources**

### **1. Monitoring Group**

#### **International Organization of Securities Commissions (IOSCO)**

We believe that a single set of ISAs that are scalable, concise, and easier to understand is a more effective approach. In contrast, multiple sets of auditing standards create complexity, consistency challenges, and the need for the Board to devote limited resources to maintaining a new set of standards.

In addition to companies and auditors facing difficulty with two sets of standards, we believe that maintaining and updating two sets of auditing standards creates challenges for the IAASB. A separate ISA for LCEs will require resources to maintain the new standard, which could result in fewer resources to develop and maintain ISAs and fewer resources for other IAASB priorities. At a minimum, because application guidance

for ISAs would not apply to ISA for LCE, the IAASB would have to develop and maintain application guidance for two sets of standards. Given the finite resources of the IAASB, we believe that such resources should be used to provide the highest quality ISAs rather than allocating these resources over multiple sets of standards.

We agree with the IAASB that ISA revisions have caused “growing concern about the length, complexity, and understandability of these standard and their application to audits of LCEs” (paragraph 4). The prudent solution involves the IAASB using its limited resources to simplify and clarify ISAs that pose significant challenges to LCEs.

### **3. Regulators and Audit Oversight Authorities**

#### **Canadian Public Accountability Board**

Closing remarks

The IAASB has invested significantly in the development of the ISA for LCE which may be taking time away from other projects with a higher public interest benefit. This could delay completing existing projects and/or negatively impact the sufficiency of resources to start new projects.

### **5. Accounting Firms**

#### **CohnReznick LLP**

Dilution of resources

We live in a dynamic ever-changing world and as such auditing standard setters need to be both nimble and effective. We have concerns that if there is a separate LCE standard, the time the IAASB spends maintaining, evaluating, and updating the LCE standard will have a negative effect on the IAASB’s ability to maintain the ISAs overall as high-quality standards in a timely manner.

## **Support for Project to Develop A Standard (General)\2) No (Explicit)\2f) Reiteration that ISAs should be Scalable**

### **1. Monitoring Group**

#### **International Forum of Independent Audit Regulators (IFIAR)**

The longstanding premise of the ISAs has been that the standards are scalable. The issuance of a separate standard for the audits of LCE is a contradiction of this longstanding premise.

The background material in section 1, cites that more than 90% of entities across the world are small and medium-sized entities with some regions estimating that the percentage could be higher, such as the European Union where it is estimated that over 99% of entities are small and medium sized entities. This backdrop for why such urgent action was necessary could be interpreted to suggest that the ISAs as currently drafted are not fit for purpose for more than 90% of the audits that are currently conducted in the world and the ISAs for LCE could be the standard used for most audits once finalized.

#### **International Organization of Securities Commissions (IOSCO)**

Challenges with ISA Complexity

The perceived complexity of current ISAs is the fundamental reason why the IAASB believes that LCEs need a separate set of auditing standards (see Executive Summary, p. 5). We believe that continuous improvements and enhancements following the objectives of the Clarity Project would better address the concerns raised by some about the complexity of ISAs. As noted in paragraph 16 of the Paper, “The responses to the [Discussion Paper] also highlighted that many of the issues and challenges being experienced in audits of LCEs were not unique to LCEs, but could also apply more broadly to other audits. In particular, issues in applying the ISAs related to complexity, understandability, scalability and proportionality for all audits were highlighted.” We see this as pivotal stakeholder feedback that should compel the Board to pursue increased understandability and scalability of auditing standards for audits of all companies rather than introducing a new set of auditing standards for audits of a subset of entities.

In light of the Complexity, Understandability, Scalability, and Proportionality (CUSP) project, we question the prudence of developing a separate set of auditing standards for audits of less complex entities. The CUSP working group of the IAASB is addressing many issues that the Paper attempts to address but in a more holistic approach. Because the Paper and the CUSP project are addressing overlapping issues, it appears that the IAASB may end up developing two different solutions for the same set of problems.

For these reasons, we strongly believe that the Paper should not be adopted but instead the principles and practices being developed by the CUSP working group should be considered more broadly across all ISAs as and when the Board has capacity to do so. We provide additional details for our views below.

High quality financial reporting provides investors with decision-useful information. Consistent performance of high quality audits promotes investor confidence in financial reporting and the integrity of capital markets because it provides investors with independently verified information. In our view, establishing a separate set of International Standards on Auditing (ISAs) to govern audits for a subset of entities introduces challenges to consistency, perceptions about the level of assurance provided, and execution of high quality audits. In contrast, a single set of auditing standards applicable to and scalable for all audits benefits the public, auditors, companies, and investors alike.

We believe that a single set of ISAs that are scalable, concise, and easier to understand is a more effective approach.

### **3. Regulators and Audit Oversight Authorities**

#### **Audit Oversight Board Malaysia**

The Audit Oversight Board, Malaysia (“AOB”) is fully supportive of the International Forum of Independent Audit Regulators (“IFIAR”) views on the ISA for LCE. Particularly, the AOB is of the opinion that the long-established International Standard on Auditing (“ISAs”) has proven that ISAs are scalable to be applied in audits of all types of entities. It is in doubt on how the IAASB concluded that the proposed ISA for LCE would address the challenges and issues related to audits of LCE.

#### **Canadian Public Accountability Board**

Creating a separate standard specific for less complex entities may lead to diminishing clarity of the ISAs among auditors, specifically in understanding the scalability of the standard. The concerns about the increasing complexity of the ISAs are not problems that can be limited to audits of less complex entities. We believe that the use of complex language may contribute to the perception that the standards themselves are overly complex. The Complexity, Understandability, Scalability and Proportionality (CUSP) project is focused on drafting principles for the ISAs to reduce their complexity. Applying and building on the drafting principles in the CUSP project, with additional focus from the IAASB on the understandability of the proposed standards, may help auditors better understand how the standards are scalable and eliminate the need to have a separate standard for audits of LCEs while improving the quality of ISAs. The ISAs that have been recently issued by the IAASB (e.g., ISA 315, ISA 540, ISQMs) contain some provisions regarding the graduation of the application of the standards in less complex entities. In our view the CUSP project will enhance future revisions of the ISAs.

#### **Committee of European Auditing Oversight Bodies**

As we indicated in the letter that was sent to the IAASB on the 30th September 2019 in the initial stages of this project, the adaptation of the audit approach to the size of entities and the complexity of their operations is already embedded in the International Standards on Auditing (ISAs) framework and, in particular, graduation mechanisms have been included in the ISAs recently issued by the IAASB (ISA 540, ISA 315) and in the International Standards on Quality Management (ISQM1, ISQM2).

#### **Provisions applicable to LCE audits**

In general, we question why, when auditing a less complex entity, auditors should not be required to apply certain ISAs in full. For example, when the auditor decides to apply sampling or substantive analytical procedures, the fact that the auditor is auditing a less complex entity does not justify the omission of guidance, application material or requirements from ISA 520 and ISA 530 in the draft standard. To us such guidance and requirements apply regardless of the complexity of the audited entity.

In general, the principle of proportionality is considered to be implicit in the ISAs.

## Financial Reporting Council (UK)

Notwithstanding adoption status in the UK, we have concerns about the development of a separate standard for audits of LCEs. The FRC believes that a single set of standards designed to be applied to a wide variety of entities with differing circumstances and sizes, supports the consistent performance of quality audits.

## Irish Auditing and Accounting Supervisory Authority

The proposal to issue a separate standard for the audits of LCE could be considered to be at odds with the IAASB's longstanding premise that the ISAs are scalable. In particular, the recent standards (ISA 540, ISA 315 and the International Standards on Quality Management) contain some provisions regarding application of the standards in the case of LCE.

As stated in the background material, it is estimated that over 99% of entities in the European Union are small and medium sized entities. The IAASB's decision to issue a separate LCE standard could be interpreted to suggest that the current ISAs are not fit for purpose for the majority of audits.

## 4. National Auditing Standard Setters

### Royal Netherlands Institute of Chartered Accountants (NBA)

We still believe that the answer to the LCE problem is:  
one set of standards for all entities including LCEs;  
ISAs developed on the concept of think small first;  
using plain English;  
taking full advantage of technology and develop Standards not necessarily for book-format, but for electronic format.

## 5. Accounting Firms

### Auren

We share the importance of being sensible to the specific characteristics of Less Complex Entities, but in our understanding the solution is not to have a different set of standards but to escalate the actual standards. We value the importance given by IAASB to provide a solution of the complexity of the ISAs, when used on LCE, and the will to afford this problem as soon as possible, but in our view a different set of standards is not the right solution. We understand the constraints of time to make the review and adaptation of all the present standards, and we know the intention of IAASB to proceed to incorporate scalability on the present standards, as a more final solution to the present problem, but we are afraid that the set of LCE standards will remain in future, and meanwhile will create several problems.

### Baker Tilly International

BTI supports the need for ISAs to address audits of financial statements of less complex entities in single company and group situations. Historically ISAs have not been written with LCEs in mind which has led to some jurisdictions exploring simplification for LCEs on their own.

The following principles describe a successful outcome for the LCE audit project meeting the needs of audited entities, users and auditors. They inform our comments on the proposed ISA for LCE:

Easy application of audit standards to LCE audits requiring little or no discussion about scope or applicability of the ISA for LCE with management of the LCE

The LCE audit product is generally accepted by users

Scalability should be embedded in standard setting: we support a building block approach where standards start with the basics and then add in what you need to address more complex circumstances. This approach would impose the burden of compliance with more complex audit standards on the auditors of more complex entities. This contrasts with the current approach where the burden of compliance is on auditors of LCEs who have to identify and take out what they don't need

## 7. Professional Accountancy and Other Professional Organizations

### Malaysian Institute of Certified Public Accountants

Based on the various outreach organised in Malaysia, the views received from the members were mixed. Whilst there were members who were supportive of this as a standalone standard, there were equally other

members who did not see a compelling reason for the need for such a standalone standard as articulated below.

One of the impetuses of this proposed ISA for LCE is the apparent lack of scalability of the extant International Standards on Auditing (“ISAs”). However, as demonstrated by many firms which had already developed the methodology and work programmes for small and less complex entities audit using the extant ISAs, there is good evidence that the ISAs are scalable.

## **Support for Project to Develop A Standard (General)\2) No (Explicit)\2g) Other Non-Supportive Reasons (View with Q1A)**

### **1. Monitoring Group**

#### **International Organization of Securities Commissions (IOSCO)**

Based on paragraph 72, we observe the Board’s intent that “...the proposed standard can be applied to less complex entities with a wide range of circumstances and across sectors or industries” (p. 24). If the IAASB currently has difficulty setting auditing standards applicable to a large range of entities (including LCEs), would the implementation of this Paper encounter the same challenges facing current ISAs?

Due to the maintenance of the standard as noted in paragraphs 142-149 of the Paper, ISA for LCE will naturally increase in length and complexity. Thus, there may be future calls for separate auditing standards for additional sub-groups of entities. The Paper sets a precedent that we believe should be avoided.

We emphasize that the maintenance of two sets of auditing standards will create audit quality and audit consistency challenges. Because auditing standards frequently change, concerns about quality differences and consistency will persist. Thus, we do not support the proposed solution for LCEs that creates ongoing challenges to companies, auditor, regulators, and the public.

### **5. Accounting Firms**

#### **Kudos International**

Many countries may not implement as there is no need to- countries with high audit exemption thresholds. The FRC have already stated that they are unlikely to approve this for use in the UK. The issue of in country approval is largely irrelevant if it is an advisory document

The difficulties with what to do with Group audits largely disappears if our suggestion of application material is progressed (it is no longer mission critical, as ISA 600 in all its iterations can be proportionately applied)

The IAASB issue with how to define an LCE becomes less mission critical

Again, the issue of how to update the LCE standard becomes less sensitive if it is only application material.

### **7. Professional Accountancy and Other Professional Organizations**

#### **Association of the Authorised Public Practicing Accountants**

Along the more and more used of ISA-standards as a basis for quality control of auditing the control process has gradually approached more and more comparing the working papers of an auditor with the details of the standards. This development is leading to a limited understanding of auditing as a profession especially when it takes place with very qualified audit practitioners. Of course, auditors have to observe certain generally accepted auditing principles and procedures to achieve an acceptable result. In performing an audit there often appears, however, an unpredictable amount of various situations for the solutions of which there is impossible to give detailed instructions. Therefore a lot of professional judgement is needed.

The guiding norms that rule the auditing of less complex entities should be based on the national legislations and the content of the norms should contain only a limited amount of obligatory detailed instructions. The auditors can for themselves as guidelines prepare various detailed check lists for the audits when needed.

#### **Malaysian Institute of Certified Public Accountants**

Whilst it is acknowledged that some of the brevity in this proposed ISA for LCE did come from the simplification of the terminology and the way the existing ISAs are currently written, there is recognition that the IAASB will be carrying out is CUSP project to similarly simplify the extant ISAs. Consequently, there

have been questions raised whether this proposed ISA for LCE is in a way a "stop gap measure" and its relevance may be of a limited time frame.

## **Support for Project to Develop A Standard (General)\2) No (Explicit)\2h) Alternative Solution(s) Proposed\Apply CUSP Principles to ISAs**

### **1. Monitoring Group**

#### **International Forum of Independent Audit Regulators (IFIAR)**

Complexity, Understandability, Scalability and Proportionality (CUSP) project

Two different workstreams were proposed in the origin of this project: (1) to issue a separate standard on audits of LCE, and (2) to address issues related to complexity, understandability, scalability, and proportionality in the ISAs more broadly (the CUSP project). The ISAs that have been recently issued by the IAASB (e.g., ISA 315, ISA 540, ISQMs) contain some provisions regarding the graduation of the application of the standards in the case of LCE. In addition, it has been IAASB's longstanding premise that a risk-based audit is scalable; therefore, the audit effort can be scaled up or down (e.g., less complex entities or areas of lesser risks of material misstatements). This premise calls into question the need for a stand alone standard applicable to LCE.

Paragraph 101 of the explanatory memorandum of the Exposure Draft states that ISA for LCE "would present requirements for an audit of an LCE based on the core requirements of the ISAs but drafted and presented in a more understandable and straightforward way . . .," which is also currently part of the CUSP project.

Many regulators hear comments on the increasing complexity of the standards, and, as such, this is not a problem limited to audits of LCE. We believe that the use of complex language may contribute to the perception that the standards are overly complex.

The IAASB has acknowledged that the CUSP project addresses many of the same issues and challenges as the audits of LCE project, and that the two workstreams are running parallel. Applying and building on the existing objectives in the CUSP project, with additional focus on the understandability of the proposed standards, may contribute towards improving the quality of audits by enhancing the scalability of the standards (because of greater understanding), thereby eliminating the need to have a separate standard for audits of LCE. We encourage the IAASB to extend work on the CUSP project to incorporate LCE considerations, rather than issuing a separate standard.

#### **International Organization of Securities Commissions (IOSCO)**

We strongly encourage the IAASB to pursue other solutions to the actual and/or perceived challenges of auditing less complex entities (LCEs) rather than adopting the proposals contained in the Paper. We believe that a single set of ISAs that are scalable, concise, and easier to understand is a more effective approach.

We agree with the IAASB that ISA revisions have caused "growing concern about the length, complexity, and understandability of these standard and their application to audits of LCEs" (paragraph 4). The prudent solution involves the IAASB using its limited resources to simplify and clarify ISAs that pose significant challenges to LCEs.

In light of the Complexity, Understandability, Scalability, and Proportionality (CUSP) project, we question the prudence of developing a separate set of auditing standards for audits of less complex entities. The CUSP working group of the IAASB is addressing many issues that the Paper attempts to address but in a more holistic approach. Because the Paper and the CUSP project are addressing overlapping issues, it appears that the IAASB may end up developing two different solutions for the same set of problems.

For these reasons, we strongly believe that the Paper should not be adopted but instead the principles and practices being developed by the CUSP working group should be considered more broadly across all ISAs as and when the Board has capacity to do so. We provide additional details for our views below.

High quality financial reporting provides investors with decision-useful information. Consistent performance of high quality audits promotes investor confidence in financial reporting and the integrity of capital markets because it provides investors with independently verified information. In our view, establishing a separate set of International Standards on Auditing (ISAs) to govern audits for a subset of entities introduces

challenges to consistency, perceptions about the level of assurance provided, and execution of high quality audits. In contrast, a single set of auditing standards applicable to and scalable for all audits benefits the public, auditors, companies, and investors alike.

Paragraph 8 of the Paper states: “The ISAs were clarified and revised in 2005–2009 (the ‘Clarity Project’) with a view to being applied to audits of entities of all sizes and complexity”. Given this universal applicability, we question whether the Paper is an indication that the principles of the Clarity Project are no longer being followed, whether the principles need revision, or whether the IAASB must start over with a new set of standards. We believe that the Board must carefully assess the underlying concerns with the continued application of the principles of Clarity Project prior to embarking on a far-reaching solution as proposed in the Paper. Having said that, we continue to believe that a new set of standards is not the appropriate solution.

The more effective solution involves the project currently being conducted by the CUSP working group, so we encourage the IAASB to focus on CUSP rather than the proposal in the Paper. The IAASB should further commit to developing scalable ISAs that can be understood and applied to audits of all entities. We suggest that technology could be used to facilitate scalable ISAs that are easier to implement for entities of high complexity or low complexity. For example, scalable ISAs presented online with hyperlinks could allow auditors to “drill down” commensurate with the relevance of applicable parts of the standard because of the complexity of the entity subject to audit.

### **3. Regulators and Audit Oversight Authorities**

#### **Canadian Public Accountability Board**

Creating a separate standard specific for less complex entities may lead to diminishing clarity of the ISAs among auditors, specifically in understanding the scalability of the standard. The concerns about the increasing complexity of the ISAs are not problems that can be limited to audits of less complex entities. We believe that the use of complex language may contribute to the perception that the standards themselves are overly complex. The Complexity, Understandability, Scalability and Proportionality (CUSP) project is focused on drafting principles for the ISAs to reduce their complexity. Applying and building on the drafting principles in the CUSP project, with additional focus from the IAASB on the understandability of the proposed standards, may help auditors better understand how the standards are scalable and eliminate the need to have a separate standard for audits of LCEs while improving the quality of ISAs. The ISAs that have been recently issued by the IAASB (e.g., ISA 315, ISA 540, ISQMs) contain some provisions regarding the graduation of the application of the standards in less complex entities. In our view the CUSP project will enhance future revisions of the ISAs.

#### **Committee of European Auditing Oversight Bodies**

Therefore, we encourage the IAASB to continue with the CUSP (Complexity, Understandability, Scalability and Proportionality) project to define clear guidelines for the drafting of the standards so that they can be proportionate to all kind of entities: As we suggested in our previous letter, more focus on clear language and understandability can contribute to auditors better being able to apply the standards in different situations and in respect of different entities without developing a separate standard. This CUSP workstream was presented by the IAASB and should be carried out and driven further before determining which is the best way to address the concerns regarding the audits of LCE.

#### **Financial Reporting Council (UK)**

The FRC strongly supports the IAASB continuing to focus its efforts on maintaining the quality and operability of ISAs for audits of entities of all sizes and complexity, which we believe supports the consistent performance of high-quality audits. We welcome the IAASB’s ambition to address the matter of complexity of those ISAs, particularly through the Complexity, Understandability, Scalability and Proportionality (CUSP) project, and we believe that benefits could be delivered by the IAASB adopting the clearer, crisper and more concise language used in this Exposure Draft when it drafts new or revised standards. We were, therefore, disappointed that the IAASB decided to develop a separate standard for auditing LCEs, irrespective of concerns raised by a number of stakeholders.

We recommend that instead of continuing the development of the LCE standard, that the IAASB focusses its efforts, under the umbrella of the CUSP project, to continuing to maintain a single set of auditing

standards applicable to all audits and the development of non-authoritative guidance to help clarify how to apply the ISAs on audits of LCEs.

### **Irish Auditing and Accounting Supervisory Authority**

Two different work streams were originally proposed for this project i.e. a standard for audits of LCE and to address complexity, understandability, scalability, and proportionality (CUSP) in the ISAs more broadly. Paragraph 101 of the explanatory memorandum to the Exposure Draft states that ISA for LCE “would present requirements for an audit of an LCE based on the core requirements of the ISAs but drafted and presented in a more understandable and straightforward way” which is also part of the CUSP project. In addition, the IAASB has acknowledged that the CUSP project addresses many of the same issues and challenges and that the two work streams are being run in parallel.

We encourage the IAASB to continue with the CUSP project so that standards are proportionate to the audit of all types of entities. As we suggested in our previous letter, more focus on clear language and understandability can contribute to auditors being better able to apply the standards to different situations and entities without a separate standard. The CUSP work stream should be progressed further before determining which is the best way to address challenges regarding the audits of LCE.

### **National Association of State Boards of Accountancy (NASBA)**

NASBA would prefer that the IAASB revise the ISAs to address the scalability for LCEs more explicitly and make the auditor work effort clearer. We do recognize that a large-scale revision of the ISAs to directly address scalability for LCEs is fraught with challenges particularly given the urgency attached to this project. As an alternative, we believe that further consideration should be given to developing guidance for auditors of LCEs on how the ISA requirements apply in the circumstances of LCEs.

## **4. National Auditing Standard Setters**

### **Royal Netherlands Institute of Chartered Accountants (NBA)**

We still believe that the answer to the LCE problem is:

one set of standards for all entities including LCEs;

ISAs developed on the concept of think small first;

using plain English;

taking full advantage of technology and develop Standards not necessarily for book-format, but for electronic format.

Therefore we recommend to put more effort on the Complexity Understandability Scalability Proportionality (CUSP) project and simplify all standards.

## **5. Accounting Firms**

### **Auren**

We insist on IAASB to start with a project to address scalable reading and application of the standards, adopting an approach to apply a single suite of standards for the case of audits of less complex entities.

### **CohnReznick LLP**

Instead of issuing the ED-ISA for LCE, we propose:

The IAASB utilize what has been learned in the outreach process thus far on the proposed ED-ISA for LCE and apply the knowledge to the existing ISAs in an effort to improve their scalability. The knowledge learned likely will be of great value not only to auditors of LCEs but also those of non-LCEs.

### **Grant Thornton International Limited**

In our previous response to the Discussion Paper on the possible options to address audits of less complex entities, we did not support the development of a separate standard for the audit of a less complex entity, preferring that a solution be facilitated through amendments to the ISAs and other related actions. We are of the view that the reasons for this preference remain valid and that other related actions undertaken by the IAASB, such as the Complexity, Understandability, Scalability and Proportionality (CUSP) project along with the digitalisation of the IAASB’s Handbook are better steps along the road of creating ISAs that are capable of being applied to a broad range of entities.

### **Nexia International**

In conclusion, we appreciate the boards responsiveness to concerns around the complexity in applying international auditing standards. However, generally we believe there should be one set of set of standards to follow with application material allowing auditors to scale procedures when performing audits of less complex entities.

## **SRA**

Par. 16 of the Explanatory Memorandum (E.M.) states, that the IAASB has chosen to develop a separate standard to focus on audits of LCE's.

We note that the 2019 Discussion Paper "Audits of Less Complex Entities" also mentioned the option to revise the ISA's to address scalability more explicitly and make the auditor's work effort clearer.

In our September 10, 2019 comment letter on the Discussion Paper, we voiced a strong preference for the latter option, which would lead to one integrated set of ISA's. We regret that the IAASB has chosen the option of a stand-alone standard for LCE's, and we regret that the E.M. does not provide any arguments for this essential choice.

## **Support for Project to Develop A Standard (General)\2) No (Explicit)\2h) Alternative Solution(s) Proposed\Creation of Guidance**

### **1. Monitoring Group**

#### **International Forum of Independent Audit Regulators (IFIAR)**

However, we continue to believe that, in lieu of issuing a separate LCE standard, the IAASB should utilize its work on understanding and considering issues that have been raised in various jurisdictions in relation to audits of LCE to identify alternative solutions, such as issuing scalability guidance for audits of LCE.

Providing additional scalability guidance for the requirements where auditors were facing challenges or issuing other explanatory material to support auditors in effectively applying the ISAs may be more appropriate. The work done by the IAASB in the LCE project may provide a basis for issuing guidelines for auditors of LCE, as a supplement to ISAs

#### **International Organization of Securities Commissions (IOSCO)**

Though some LCEs and auditors are encouraging the IAASB to adopt the proposals in the Paper, we note that the views of LCEs and auditors are not homogenous, as other LCEs and auditors do not support a separate set of auditing standards. Based on roundtable discussions, we understand that in addition to regulators, several participants are concerned about the adoption of a separate set of auditing standards for audits of LCEs. In addition, based on IOSCO member experience and feedback received from auditors of Small and Medium-Sized Entities (SMEs), some believe that an alternative approach is the IAASB improving and simplifying its "Guide to Using ISAs in the Audits of Small and Medium-Sized Entities." Thus, we remind the IAASB that there is not universal support for the solution proposed in the Paper even from the entities and auditors that the Paper is designed to benefit.

### **3. Regulators and Audit Oversight Authorities**

#### **Financial Reporting Council (UK)**

We recommend that instead of continuing the development of the LCE standard, that the IAASB focusses its efforts, under the umbrella of the CUSP project, to continuing to maintain a single set of auditing standards applicable to all audits and the development of non-authoritative guidance to help clarify how to apply the ISAs on audits of LCEs.

#### **Irish Auditing and Accounting Supervisory Authority**

However, we are of the view that, in lieu of issuing a separate LCE standard, the IAASB should utilise its work on understanding and considering issues that have been raised in various jurisdictions in relation to audits of LCE to identify alternative solutions, such as issuing scalability guidance for audits of LCE.

Providing additional scalability guidance for the requirements of the ISAs where auditors face challenges or issuing other explanatory material to support auditors in effectively applying the ISAs may be more appropriate. The work done by the IAASB on the LCE project may provide a basis for issuing guidelines for auditors of LCE, as a supplement to the ISAs.

## National Association of State Boards of Accountancy (NASBA)

We believe that the detailed Mapping Documents, provided to illustrate how the requirements from the ISAs have or have not been incorporated within the separate LCE standard, provide a solid basis for guidance to address scalability.

NASBA would prefer that the IAASB revise the ISAs to address the scalability for LCEs more explicitly and make the auditor work effort clearer. We do recognize that a large-scale revision of the ISAs to directly address scalability for LCEs is fraught with challenges particularly given the urgency attached to this project. As an alternative, we believe that further consideration should be given to developing guidance for auditors of LCEs on how the ISA requirements apply in the circumstances of LCEs.

## Securities and Exchange Commission of Brazil (CVM)

In our opinion, the work done by the IAASB in the LCE project may provide a basis for issuing guidelines for auditors of LCE, as a supplement to ISAs, instead of a new Standard for this group. We believe that auditors must comply with all applicable ISAs and, doing so, their work as auditors of LCE could be less complex as a consequence of their risk evaluation.

## 4. National Auditing Standard Setters

### American Institute of Certified Public Accountants

Based on the aforementioned comments, we are concerned that issuing a standalone standard for audits of LCEs presents more risks than benefits to the public interest, auditors, and stakeholders in the financial reporting ecosystem. We are also concerned that, as drafted, the Exposure Draft will not meet its intended objective. Accordingly, the issues that we have raised will need to be deliberated and resolved before the Exposure Draft can be issued as a final standard. Recognizing the importance of timely and helpful guidance on how to apply the ISAs to LCE audits and that such guidance is of high importance to many jurisdictions, including the United States, we reiterate our suggestion that the material in the Exposure Draft be used to issue non-authoritative guidance, with the intention of monitoring its use and determining appropriate next steps based on its effectiveness and usefulness.

While we agree with the goals of addressing the challenges of applying the ISAs in audits of LCEs and addressing the CUSP of the ISAs, we believe a different mechanism for issuing the material in the Exposure Draft should be used to meet the public interest and the overall objectives of this project. Consistent with our comment letter from September 12, 2019, we recommend that the IAASB use the material in the Exposure Draft to develop an “audit guide” on the application of ISAs for audits of LCEs. This recommendation is supported by the results of our survey which found that:

93% of respondents believe additional application material within the auditing standards should be provided regarding scalability of certain requirements to audits of LCEs;

86% of respondents believe audit guides or practice aids (outside of the auditing standards) should be provided related to scaling auditing standards to audits of LCEs; and

there was little consensus on the need for a separate standalone standard for audits of LCEs in that 42% of the respondents support the development of a separate standalone standard, while 37% do not support the development of a separate standalone standard.

Additionally, survey respondents most frequently cited the difficult and time-consuming nature of the work required to obtain an understanding of and document internal control in the LCE context. Respondents also frequently noted that the nature, timing, and extent of requirements related to risk assessment procedures often can be perceived as being overly prescriptive and counterintuitive to the nature of an LCE audit. These concerns can be more effectively addressed in guidance illustrating how the ISA requirements can be scaled for audits of LCEs.

While we recognize that audit guides issued by the IAASB are non-authoritative, the IAASB has previously used the mechanism of issuing non-authoritative guidance and we believe doing so in this instance is in the public interest as it is the best way to meet the needs of auditors of LCEs. Issuing non-authoritative guidance would:

Allow the IAASB to express its vision of “scale” and focus on developing a range of approaches that an auditor could apply when considering the nature, timing, and extent of procedures necessary to comply with the ISA audit requirements when auditing the financial statements of an LCE. This could also lead to the IAASB developing a more comprehensive scaling strategy, including how future ISAs could be designed for scale;

Promote audit quality and more widespread adoption and application of the ISAs, as all audits would be performed in accordance with the ISAs while auditors of LCEs would be able to scale. Additionally, jurisdictions could more easily incorporate changes for legal or regulatory requirements and other relevant circumstances of their jurisdiction;

Avoid potential significant issues with respect to maintenance of audit methodologies and the need for auditors to understand two sets of standards (the Exposure Draft and the ISAs) if those auditors audit both LCEs and more complex entities;

Reduce implementation challenges, as an audit guide would be immediately usable (without regard to an effective date);

Facilitate a field-testing approach of the materials for audits of LCEs to study implementation and audit work effort, costs and benefits, user needs, and jurisdictional impacts without being locked into an issued standard;

Avoid potential confusion among regulators, investors, those charged with governance, and others in the capital market ecosystem as to the difference between an LCE audit and an ISA audit. This includes possible stakeholder perception of a lesser quality audit due to the reference in the auditor’s report on the financial statements to the application of a separate LCE auditing standard; and

Avoid creating a two-tiered profession in which some auditors only perform audits in accordance with the Exposure Draft, which would cause those auditors to not develop the breadth of experience and expertise of auditing in accordance with the ISAs. Additionally, those auditors may not recognize a complex issue that would require the audit to be performed in accordance with the ISAs as they would be unfamiliar with those standards.

The suggested non-authoritative guidance for audits of LCEs would also be consistent with, and take into account, important considerations related to coherence with the overall body of the IAASB standards, relevance, timeliness, and scalability. These qualitative characteristics guide the IAASB and the Public Interest Oversight Board in assessing a standard’s responsiveness to the public interest. We acknowledge that others may believe that the Exposure Draft is responsive to other qualitative characteristics in the Public Interest Framework (PIF) and anticipate that some Exposure Draft respondents will support a standalone standard as an ideal mechanism to address audit challenges for LCEs. The July 2020 Monitoring Group report notes the importance of a standard setting process that “appropriately balances alternative outcomes and interests in terms of their expected responsiveness to the public interest.” Issuing non-authoritative guidance is in the public interest and is the most appropriate response because it appropriately weighs the important qualitative characteristics of coherence, relevance, timeliness, and scalability. Moreover, this approach sufficiently addresses CUSP considerations related to LCEs without compromising auditors’ ability to obtain reasonable assurance or otherwise undermining the integrity of the ISAs.

While we recommend the IAASB develop non-authoritative guidance to assist auditors in applying the ISAs to audits of LCEs, we have significant concerns about the Exposure Draft

## 5. Accounting Firms

### Kudos International

We would like to congratulate the LCE taskforce on producing a first class document which adds significant value to SMPs that are looking to undertake audit work in a fashion which is ISA compliant. It summarises the audit requirements of the ISA that would apply to many private and smaller entities very well. However, Kudos strongly believes that going down the Standard route is the incorrect decision. Whilst maybe two years ago the decision to go down the route of a single LCE standard may have been correct,

the current issues the IAASB faces in finalising the document illustrate that perhaps this approach needs to be revisited.

From a tactical perspective, the issuing of this document as a stand alone auditing standard has significant problems to implementation and use that would largely disappear if rather than a standard it would be treated as authoritative guidance or even “Application Material for LCE’s” if we were to use IAASB terminology.

## **Nexia International**

Challenges when applying current international standards on auditing remain to be complexity in applying, understandability and scalability. Decisions and judgments made by an auditor are often supported by varying levels of audit documentation. We understand the desire to create a different set of standards that appear to be less complex to apply, are rightly scalable and allow for more consistent auditor conclusions. However, rather than a different set of standards, providing an application guide to assist when auditing a less complex entity may be more beneficial. A separate standard applicable only to LCEs may create confusion in the market.

## **7. Professional Accountancy and Other Professional Organizations**

### **Malaysian Institute of Certified Public Accountants**

In this regard, we therefore do not support this as a standalone standard but rather it be issued as an approved guidance so as not to lose the positives of this effort.

## **Support for Project to Develop A Standard (General)\2) No (Explicit)\2h) Alternative Solution(s) Proposed\Electronic Solution**

### **1. Monitoring Group**

#### **International Forum of Independent Audit Regulators (IFIAR)**

In addition, in order to provide the appropriate ISA content relevant to the user, a technology-based solution could be utilized to allow users to more easily navigate to applicable requirements and guidance.

### **4. National Auditing Standard Setters**

#### **Royal Netherlands Institute of Chartered Accountants (NBA)**

We still believe that the answer to the LCE problem is:

one set of standards for all entities including LCEs;

ISAs developed on the concept of think small first;

using plain English;

taking full advantage of technology and develop Standards not necessarily for book-format, but for electronic format.

Therefore we recommend to put more effort on the Complexity Understandability Scalability Proportionality (CUSP) project and simplify all standards.

### **5. Accounting Firms**

#### **Grant Thornton International Limited**

In our previous response to the Discussion Paper on the possible options to address audits of less complex entities, we did not support the development of a separate standard for the audit of a less complex entity, preferring that a solution be facilitated through amendments to the ISAs and other related actions. We are of the view that the reasons for this preference remain valid and that other related actions undertaken by the IAASB, such as the Complexity, Understandability, Scalability and Proportionality (CUSP) project along with the digitalisation of the IAASB’s Handbook are better steps along the road of creating ISAs that are capable of being applied to a broad range of entities.

## **Support for Project to Develop A Standard (General)\2) No (Explicit)\2h) Alternative Solution(s) Proposed\Other**

### **5. Accounting Firms**

## **CohnReznick LLP**

Instead of issuing the ED-ISA for LCE, we propose:

Launching an educational campaign to inform various jurisdictions about the existence, benefits, and limitations of the review, compilation, and attestation services. These services are well-known in many circles and often used in the United States. Although some jurisdictions may ultimately issue their own “audit” standards, we recommend the IAASB focus on maintaining and protecting the name of the ISAs in the eyes of larger capital markets and avoid diluting the public perception of the ISAs by having what some may ultimately refer to as “ISA light.”

## **Famme & Co. Professional Corporation**

We believe that clearly defined “LCE” paragraphs introduced into each section of the ISA would be much easier to apply appropriately. We do not support the use of any supplemental “non-authoritative” guidance. Any requirements or expectations should be included in the ISA.

## **Kudos International**

Obviously, one shouldn’t give up because something is hard, but here, what is hard, will not be used. We state this as the level of work doesn’t decrease, and key countries may not implement.

We would strongly encourage the IAASB to consider how SMPs could be better supported for audit quality by IFAC. Even down to assurance reporting being educated on. And educate providers and firms, and regulators that auditing is not just doing checklists!

## **SRA**

Based on the above arguments we urge the IAASB to seriously reconsider the approach chosen of developing a stand-alone standard for LCE’s. In our view, an integrated set of standards (the ISA’s) leads in the long run to a much more effective use of the standards and contributes to an effective process of standard setting.

We get the impression that the proposed ISA for LCE has been derived from the present ISA’s via a top-down approach. In our view, requirements for all audits should be based on a bottom-up approach, thereby making a strong base on which more detailed requirements can be built. These basic requirements could partly be principle-based.

Following this approach a distinction could be made within the present ISA’s between basic requirements for all audits (including LCE’s) and other requirements, applicable to complex entities. Requirements applicable to all audits could be named key or basic requirements. Of course, it is essential to have a clear wording of these key or basic requirements.

In an audit of group financial statements, the suggested approach will lead to an efficient audit of a combination of complex and less complex entities. The group auditor should be responsible for deciding the audit approach of each entity.

## **7. Professional Accountancy and Other Professional Organizations**

### **Association of the Authorised Public Practicing Accountants**

On the basis what we have said above, our opinion is that, instead of future development of this ED-ISA for LCE standard, we prefer developing national SME standards, which are based on the fundamental concepts and general principles of ISA-standards (independence, sufficient appropriate audit evidence, professional skepticism and professional judgement) none of those norms being in contradiction with ISA-standards. One opportunity in Finland for this matter could be the future development of the audit guidelines published by this association in 2019 “Hyvä tilintarkastustapa Suomessa erityisesti pienehkön yhteisön ja säätiön tilintarkastuksessa”. (The publication is only available in Finnish language and the translation for the name could be “The good auditing practice in Finland especially for Small Entities and Foundations).

### **Instituto de Censores Jurados de Cuentas de España (ICJCE)**

We urge the IAASB to start with a project not only to address clarity, but scalable reading and application of the standards, adopting a building block approach together with more structured guidance to apply the

standards in the audit of less complex entities. This new approach could deal, for instance, with the scalability in the audit of less complex groups.

## **Support for Project to Develop A Standard (General)\2) No (Explicit)\2i) Question If Meets Needs as Written (View with Other Similar Comments in Specific Questions)**

### **3. Regulators and Audit Oversight Authorities**

#### **Irish Auditing and Accounting Supervisory Authority**

In addition, we would question the potential attractiveness for auditors of applying the ISA for LCE given that it is based on the core requirements of the ISAs and so is unlikely to result in a substantive reduction in the audit work performed and documented.

### **4. National Auditing Standard Setters**

#### **American Institute of Certified Public Accountants**

We are also concerned that, as drafted, the Exposure Draft will not meet its intended objective.

#### **Royal Netherlands Institute of Chartered Accountants (NBA)**

From discussions we learned that the current content is not what practitioners and stakeholders expected from this standard. The requirements and the core procedures are more or less the same. The application material is reduced to essential explanatory material. However, these changes appear to be limited and do not lead to a fundamental change. Furthermore, the application material in the ISAs is necessary to understand the requirements. This is stated in ISA 200 paragraph A60. Therefore it is not possible to reduce the application material in the way that is done in the LCE. The fact that the level of assurance needs to be the same and therefore the audit procedures as well, is in our opinion not compatible with a fundamental different standard for LCEs.

### **5. Accounting Firms**

#### **Grant Thornton International Limited**

What is Different About an Audit Performed Under ED-ISA for LCE

Many of the requirements in the Proposed Standard are exact replicas of the underlying requirements in the ISAs; some requirements in the underlying ISAs have been combined to form one requirement in the Proposed Standard; and others have only been slightly modified from the original requirement to become a new requirement in the Proposed Standard. Outside of ISAs that do not apply in their entirety, there are very few requirements in the ISAs that have not become or formed part of a requirement in ED-ISA for LCE.

Whilst this leaves little doubt that if the requirements in ED-ISA for LCE are appropriately complied with, it is capable of providing a reasonable assurance opinion similar to an audit performed under the ISAs, it does beg the question as to whether the auditor will do anything different under ED-ISA for LCE versus full ISAs and therefore whether a separate standard is required.

#### **Kudos International**

As we see it at Kudos, the LCE standard has a number of problems when it comes to implementation: There is no reduction in work- it is just a clarification- Our audit programmes would not change at all if this standard was implemented (indeed as stated below, the only change would be to increase documentation). The three examples the IAASB notes in its request for comments, don't really reduce work. For example, with ISA 402 the standard suggests that Type 1 or 2 reports are not necessary, but this just codifies what we have been telling member firms. As Andrew Brathwaite says in one of the LCE briefing videos, the LCE standard does not mean less work, but the right work. (We note that Andrew references our audit programmes in this session)

### **7. Professional Accountancy and Other Professional Organizations**

#### **Association of the Authorised Public Practicing Accountants**

The draft LCE-standard ("International Standard on Auditing for Audits of Financial Statements of Less Complex" i.e. ED-ISA for LCE) includes in our understanding too many detailed regulations to the audits to be performed and therefore the ED-ISA for LCE shall not much differ from the original ISA-standards and therefore it is not really a lightening or improvement at all.

## **Instituto de Censores Jurados de Cuentas de España (ICJCE)**

Regarding the standard itself, apart from the matters discussed above, we see room for improvement regarding the following:

We do not see a real simplification exercise but the elimination of those standards and requirements that are not applicable because they refer to complex entities; and the elimination of most of the application material, annexes and examples, which, at the end, will need to be included in a separate guide (as it happens with the illustrative examples of modified audit reports or the application of the risk based approach).

## **Malaysian Institute of Certified Public Accountants**

In addition, the brevity achieved by this proposed ISA for LCE is more due to elimination of the irrelevant portions of the extant ISAs for less complex audits rather than any significant simplifications. In fact, all the key steps, including the application of ISA 315 (Revised 2019) and need to comply with ISQMs, have been retained. From a quality standpoint, the assertion of reasonable assurance in this proposed ISA for LCE has no difference as compared to the extant ISAs. Hence, there may be very little cost savings or reduction in efforts to perform audits of LCE under this proposed standalone standard.

## **Support for Project to Develop A Standard (General)3)Alternative Options Proposed (Not Otherwise Captured in Specific Questions - View with Other Questions)**

### **5. Accounting Firms**

#### **KPMG IFRG Limited**

Other Solutions to Address Scalability Challenges

CUSP Project and Proposal for Electronic Solution

We encourage the IAASB to give significant focus to addressing the challenges of scalability through the separate IAASB CUSP project, and we consider that appropriate solutions developed following that project would likely be very useful to the audit profession, including auditors of LCEs.

In connection with this, we note that there are challenges in applying certain ISAs, in particular, in terms of their understandability/ application in practice across different entity types and engagement circumstances. Accordingly, whilst auditors of LCEs may face such challenges to a disproportionate extent, these challenges exist across the spectrum of size and complexity of the entity subject to audit and therefore we believe that optimal solution(s) will assist all auditors in addressing these important issues.

We highlighted in our response to the previous DP that we believe the development of an electronic solution would be the most helpful solution in terms of scaling the ISAs, especially for small auditors. We would like to re-iterate this point, especially given that the development of the LCE ISA appears to result in a very similar outcome to scaling of the full-scope ISAs for an LCE audit, at an objectives/requirements level, and in general the approach taken in developing this standard appears to have primarily involved removal of requirements that clearly would not apply to an LCE audit (e.g. listed entity requirements). We consider that an electronic scaling tool would also be able to achieve this form of scaling without the need for sophisticated functionality or significant professional judgement, as scaling would be based on factual gating questions, with binary yes/no answers. An electronic tool may also be capable of a significantly greater degree/specificity of scaling, as it could also exclude requirements that are conditional and are less likely to arise when performing an audit of an LCE, and only scale these in when the conditions which they are intended to address arise (e.g., audit procedures when non-compliance with laws and regulations is identified). It would also be able to scale the entire suite of ISAs, without the need for the removal of selected requirements that may be “proxies for complexity”, and, as a result, remove the need for a complex, and potentially subjective, set of considerations in terms of the authority/entry-point to the LCE ISA.

Other IAASB Standards - Education of Stakeholders

We highlighted in our response to the previous IAASB DP that a consistent theme throughout the IAASB's research at that time was that many regulators require an audit, and many users request an audit in the absence of such requirements, whilst finding this solution not to be cost-effective, and therefore creating fee pressure.

As we highlighted in that response, we continue to believe that the IAASB's suite of auditing, assurance and related services standards currently supports a wide range of deliverables, which meet different user needs, ranging from a full-scope audit in accordance with the ISAs, through to non-assurance engagements such as compilations and agreed-upon procedures engagements.

As a result, we suggested in our response to the DP to explore in more depth as to why regulators require/user groups request an audit, and whether an alternative service performed in accordance with other IAASB standards may better meet their needs, in a cost-effective and efficient manner and we would like to re-iterate that recommendation here. We note that such standards are based on similar principles to those underlying the ISAs, as relevant, including ethical requirements, and pervasive principles such as the exercise of professional scepticism and professional judgement, and may therefore form a more appropriate basis to deliver services to LCEs as an alternative to an ISA audit. For example, they may provide a lower level of assurance than an audit, which may be appropriate to the users' needs, e.g. a review engagement; provide a means to focus on a specific subject matter with either reasonable or limited assurance provided; or may involve the performance of particular procedures which are agreed upon by the user and the auditor, in order to meet the user's needs. Such services could also be performed together, e.g. a review engagement with additional agreed-upon procedures to address particular matters.

Accordingly, we suggest that the IAASB work with others, e.g. regulators, National Standard Setters (NSSs) and others to explore user needs more fully and to educate user groups as to the availability of such other services and the value of these.

## PriceWaterhouseCoopers

In our response to the 2019 Discussion Paper, *'Audits of Less Complex Entities: Exploring Possible Options to Address the Challenges in Applying the ISAs'* we expressed concerns that a separate standard may give rise to challenges, including possibly adversely affecting audit quality, or the perception of it, more broadly. For those reasons, we stated our preference to maintain a single set of auditing standards applicable to all audits, adapted to better demonstrate scalability to entities of differing sizes.

We continue to be of the view that addressing the inherent complexity and perceived lack of scalability of the requirements in the ISAs themselves is the optimal solution in the longer term, as it avoids many of the possible unintended consequences that we foresee could result from a separate standard. We therefore encourage the IAASB's ongoing Complexity, Understandability, Scalability and Proportionality (CUSP) project to fully address this issue. However, we acknowledge the broad range of views expressed by other respondents to the Discussion Paper that supported the development of a separate standard and respect the Board's decision to move forward with a proposal. We are also aware that some jurisdictions have taken the initiative to develop local LCE standards to address the issues, and recognise the risk of a patchwork of differing solutions emerging.

In conclusion, while we continue to believe that building appropriate scalability into the ISAs is the best solution, we accept the broad support from many of the Board's stakeholders for the development of a separate standard.

## 7. Professional Accountancy and Other Professional Organizations

### ASSIREVI

As we commented in the Discussion Paper "Audits of Less Complex Entities: Exploring Possible Options to Address the Challenges in Applying the ISAs" issued by the IAASB in April 2019 (the "DP"), we believe that while, in theory, the standalone nature of the proposed standard, specifically applicable to audits of less complex entities (LCEs), is consistent with the requirements and pre-set objectives, its practical application could have negative consequences that would outweigh the potential benefits. In particular and given the considerable importance of the LCEs to the economic and social context (especially in Italy), we believe that the proposed standard may generate confusion for the stakeholders about the nature of an audit conducted in accordance with ED-ISA for LCE.

Although the enormous project carried out by the IAASB to develop the proposed standard based on the nature and characteristics typical of the LCEs is much appreciated, we have identified some important critical issues and application difficulties

In our view, these critical issues could hinder achievement of the objective of conducting an audit effectively for the LCEs. We believe that this objective could be achieved through the greater scalability and proportionality of the ISAs (despite their greater length, complexity and structure). This would allow the consistent application of the ISAs, including through practical guidance, to ensure a quality audit of all entities regardless of their size or complexity.

## 9. Individuals and Others

### Rodoula Roussou

In Greece, as in the rest of the world, Smaller, less complex entities (LCEs) make a critical contribution to the economy and account for the great majority of audits.

At the same time, as IAASB has noted, the increasingly complex structures and transactions, needed to be addressed through the development and revision of the International Standards on Auditing (ISAs). In addition, many revisions derived as a result of audit inspections and recent high-profile corporate failures, more commonly associated with more complex entities. As mentioned in the explanatory memorandum (EM), these revisions had the objective of making the International Standards more relevant in the evolving environment, and are intended to support the consistent performance of quality audits. However, with these revisions, there has been growing concern about the length, complexity, and understandability of these standards and their application not only to audits of LCEs but also for all audits.

Therefore, I agree with many stakeholders that have questioned whether the ISAs remain relevant and can be applied in a cost-effective manner to all audits. Also, as highlighted in ED, many of the issues and challenges being experienced in audits of LCEs were not unique to LCEs, but could also apply more broadly to other audits. In particular, issues in applying the ISAs related to complexity, understandability, scalability, and proportionality are present for all audits. Hence a total rewriting of the ISAs on the basis of the principles, 'building blocks', 'think less complex first' or similar basis, would clearly be the best way forward.

The ISAs should be structured on the basis of 'components' that apply to any audit and other 'components' (or 'additional modules' as discussed in §138 of EM) that can be used only if relevant in the specific audit. This structure could address the issues discussed above. This is not though a realistic prospect in the short or medium term.