

Supplement 2-02 to Agenda Item 6

Audits of Less Complex Entities – ED-ISA for LCE – Q1(a) Views are sought on: The standalone nature of the proposed standard, including detailing any areas of concern in applying the proposed standard, or possible obstacles that may impair this approach¹

Section 4A – Overarching Positioning of ED-ISA for LCE\Question 1 - Overarching views\Question 1(a) - Standalone proposed Standard - Concerns or obstacles\1) Agree

3. Regulators and Audit Oversight Authorities

Botswana Accountancy Oversight Authority

The standalone approach to the standard is the best because it ensures full compliance with the Standard applied. A standalone approach also helps to ensure that Auditors are thorough in choosing the correct standard to apply and will enable them to comply with it from the beginning to the end of the audit.

In our view, areas of concern will likely be minimised or avoided as a standalone approach will minimise instances of different ISA references applied in a single audit client.

As mentioned in the draft, choosing to either apply IFRS for SMEs or the full IFRS helps in consistent reporting and hence prevents instances that may cause biasness.

Finance Professions Supervisory Centre Indonesia

We applaud the IAASB's initiative to consider the situation holistically and chart the best way forward by focus on scalability and proportionality of the ISAs with developing the ED-ISA for LCE. As our concern, that smaller entities make a critical contribution to the world economy, and quantitatively the majority of audits globally are audits of smaller. As Indonesia's audit regulator, this is a topic that we have discussed internally on a number of occasions. The audit deficiencies and risks that we observe through our inspections lead us to believe that there are areas where auditors are calling out for more guidance. Guidance must quickly become standards, recognizing that for emerging issues a fulsome assessment of the audit approach is required. In this regard, we have also held a dissemination by presenting IAASB's Task Force of this standard project, to encourage audit report stakeholders in our country to provide their views on this draft. Here are our matters views about overarching positioning of ED-ISA for LCE, as follows:

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. Referring to the results of a survey conducted by IFAC in June 2019, with respondents from all IFAC member organizations (received over 1000 responses from over 120 countries as per August 2019), showing that more than 85% of respondents considered more than half of their audit clients to be LCE, this finding reinforces the importance of preparing this new standard.

Provide a clearer foothold for practitioners of LCE in applying appropriate auditing standards and tune out the tendency of "cherry-pick" an element from the complex entities audit requirements (ISAs) to audit an LCE, as was often before these two standards were drafted separately. Here it is also clear that the relevant ISA requirements cannot be used to "top-up" the ED-ISA for LCE in order to overcome the limitations when auditing the LCE.

Reduce the issue of which standard(s) have been complied with in the auditor's report (for example, it is inappropriate to refer to the ISAs in the auditor's report if the auditor has not fully complied with all ISAs relevant to the audit).

The ISAs will be too complex, lengthy, overly detailed and challenging to navigate, if each substance must contain an entity scaling or modifications requirements for the LCE. With the consideration that the business complexity and financial reporting will growing rapidly in the future and the audit standard potentially will follow.

¹ As described in Agenda Item 6, a significant number of "Project Level" (i.e., more "general" themes that may have been expressed in general comments or other questions) have also been mapped to this question.

4. National Auditing Standard Setters

Federación Argentina de Consejos Profesionales de Cs. Económicas

We agree that the proposed rule is independent from the rest of the ISAs.

Indonesian Institute of Certified Public Accountants (IAPI)

Agree

5. Accounting Firms

Azets Audit Services

We agree with the approach taken in making the ED-ISA for LCE standalone and consider this to be the only practical solution that can be delivered in the desirable timeframe.

There are potential obstacles in the application of a standalone standard, such as difficulties encountered when an entity evolves (or upon further understanding is found) to be outside of scope of the ED-ISA for LCE; where group audits are conducted under ISAs where components are less complex; and application of a “multi-tier” approach within audit firm training and methodologies. However, we consider that none of these obstacles are insurmountable.

The benefits of a standalone standard that can be read and understood, as a single document, by a less complex entity auditor outweigh the obstacles of adoption. Benefits also outweigh the risks to audit quality of continuing to require the application of a suite of extant ISA requirements to LCE audits. See also our response to 3(b) regarding potential obstacles in terms of jurisdictional adoption.

A single, LCE-standard, should be seen as a catalyst toward 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.

The extant standards have, for some time, been subject to improvements drafted principally in response to the needs of entities that are individually of significant public interest. However, this has led to implications for the many audits of entities that make up the wider patchwork quilt of public interest. The extant standards are extensive and the exercise of establishing requirements that apply to a LCE can lead to non-desirable behaviours, such as a checklist mentality, whereby an auditor does not see the wood for the trees as their focus shifts toward compliance, rather than the audited entity and its environment. A move to a single, sensibly scoped, standard is a positive action that will help ensure that public interest is served through a wider lens.

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.

PKF International Limited

We agree that the ED-ISA for LCE should be presented as a standalone standard.

6. Public Sector Organizations

Auditor-General of New Zealand

We welcome the standalone nature of the proposed standard. We envisage that it can be applied to most entities audited by the Auditor-General that are not complex from a financial perspective.

A standalone standard will save the auditors of less complex entities the task of reviewing the entire suite of International Standards on Auditing (ISA) to identify the requirements that are relevant to a particular entity or class of entity that is less complex. A standalone standard gives comfort to the auditor, and to those who rely on the auditor’s opinion, that the audit will meet the required quality standards.

Office of the Auditor General of Alberta

Yes – we agree with a standalone standard for less complex entities (LCE) audits. Many small and/or non-complex entities require a reasonable level of assurance over their financial statements. The current ISA standards are detailed and require the auditor to perform the same procedures for a non-complex public sector entity, such as a foundation or student housing operator, as state consolidated financial statements. In our view, an auditor can achieve a reasonable level assurance on a non-complex entity without completing many of the “shalls” in the current ISAs that are not relevant to their audit. An example of this is a 48 unit (two four-story buildings with six units per floor) student housing building. The post-secondary institution has hired a property manager for the day-to-day maintenance of the student housing, including landscaping, sidewalks and parking lot. The contract requires the property manager to provide audited financial statements to the post-secondary institution. In this example and many others, the ISA risk assessment requirements can be overly complex. Even more simply, there are public sector entities such as particular funds that have audited financial statements but may only have a few transactions each year. A public sector auditor should be able to complete an audit without needing to meet all the “shalls” within the current ISAs. Scenarios such as this demonstrate that a standalone standard for LCE audits is appropriate. We recognize that having multiple standalone audit standard adds complexity; however, this is already currently implemented with multiple assurance standards: ISA and ISAE 3000. Note that as a standalone standard, the LCE standard should be independent and have the same authority and due process as other standalone standards. The current exposure draft is missing some key items, including definitions, in order to be a standalone standard. We have noted our other concerns with the proposed standard throughout our response.

Swedish National Audit Office

We support the standalone approach as this is the most comprehensible way.

7. Professional Accountancy and Other Professional Organizations

Botswana Institute of Chartered Accountants

We agree with the proposed standard to be a standalone standard. The basis for a standalone standard expressed by the Board are sufficient. A standalone standard will make it easy to make reference by the auditors when performing the audit work and when reporting.

Chamber of Auditors of the Republic of Azerbaijan

We believe that the value of the proposed standard is specifically its standalone nature. There are certainly some obstacles that may impair this approach; however, we believe they are addressable.

Chartered Governance and Accountancy Institute in Zimbabwe

We note that the proposed standard has been developed to include relevant requirements to allow an auditor to express a reasonable assurance audit opinion.

We are supportive of the standalone nature of the proposed standard.

Confederation of Swedish Enterprise

We support the approach of a separate standalone standard. We believe that the application of the standard should result in a reasonable assurance opinion and that this opinion shall be in the form of an audit opinion. Any other level of assurance would signal that applying ISA for LCE does not result in a “full” audit.

CPA Ireland

CPA Ireland supports the level of assurance proposed by the standard and considers that this high level of assurance is essential so that the users of the financial statements have an understanding and an acceptance of the reasonable assurance opinion being provided.

CPA Ireland supports the standalone nature of the proposed standard and considers that it will benefit the auditors of LCEs, enabling them to consult one standard rather than multiple standards when conducting the audit of an LCE.

Eurasian Group of Accountants and Auditors

We support the decision to develop an independent (standalone) standard for auditing financial statements of less complex entities.

Institute of Certified Public Accountants of Rwanda

The standalone nature of the proposed ISA for LCE is particularly important in our jurisdiction, considering that Rwandan economy is dominated by small and medium enterprises (SME). We are not foreseeing any obstacle in its implementation other than the transition effort and guidance to be made by relevant parties.

Institute of Chartered Accountants of Ghana

We agree with the standalone nature of the proposed standard. This sets it apart and provides one reference point to go to when performing the audit. There is possibility of practitioners encountering challenge if ISA for LCE is used when auditing entity applying full IFRS accounting framework. This is because full IFRS requires a lot of disclosures which might not be compatible with ISA for SME. There is also the issue of identifying which entities are less complex.

We agree with par. 30 of Section 4A which states; “the possible challenges of using the proposed standard in the future did not outweigh the benefits of a standalone standard. Furthermore, the proposed standard has been developed to help auditors understand the flow of an audit with clear and understandable requirements”.

Institute of Chartered Accountants of Jamaica

We are in agreement with the standalone nature of standard and cannot foresee any implementation issues.

Institute of Indonesian Chartered Accountants (IAI)

We support the proposal to develop a “self-contained” and standalone standard for LCEs. It provides clarity for auditors in determining which standard they should refer to in performing the audit of LCEs, and to avoid unintended practical consequences that may arise because of allowing auditors to refer to different parts of the ISAs in addition to this standard when performing the audit of LCEs.

Instituto Mexicano de Contadores Públicos (IMCP)

We share the view of a standalone proposed standard.

Polish Chamber of Statutory Auditors Warsaw (Regional Branch)

The standalone nature of the proposed standard is fully justified.

Self-Regulatory Organization of Auditors Association (SRO AAS)

The separate standard, that has the standalone nature, in which the main audit requirements are concentrated, may well be implemented.

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

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. Having said that, the CUSP project will inform further simplification and implementation of ISAs for LCE, which may even lead in more convergence between the two sets of standards. Standard setting is a very costly process from development to adoption to monitoring and revision. The efforts should not be unnecessarily duplicated, and two projects should be aligned, while also prioritizing development of implementation support and guidance materials for ISAs for LCE that are easily accessible with technology and language supported tools.

8. Academics

Argentine institute of Auditing Professors

We agree with the independent character of the standard with respect to its nature, application and any possible obstacles that may affect this approach.

Section 4A – Overarching Positioning of ED-ISA for LCE\Question 1 - Overarching views\Question 1(a) - Standalone proposed Standard - Concerns or obstacles\3) Agree with Comments\3a) Inability to refer to the ISAs\For Guidance Only

4. National Auditing Standard Setters

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

While we believe that the standard is “stand-alone,” we disagree with the statement in the third sentence of paragraph 26 of Section 4 A of the Explanatory Memorandum that ISA requirements (or application material) “cannot be used to “top-up” ED-ISA for LCE”. While, quite rightly, there is no requirement to use the ISAs, or any other standards, beyond the ISA for LCE, auditors can always choose to do more than is set forth in the ISA for LCE and draw on any sources they wish to guide them to do so – including the ISAs or other standards. If, for example, an entity that qualifies as an LCE happens to have a single individual as an internal auditor, this should not preclude an auditor from applying the ISA for LCE and then choosing to draw on other standards and guidance (including the ISAs) without being required to do so to seek to address the situation. We address this matter further when dealing with the scope of the standard in our response to Question 3 (c) in Section 4 B.

5. Accounting Firms

BDO International

In addition, because the essential explanatory material (EEM) does not contain many portions of the application guidance that is available in the ISAs, auditors that use the proposed LCE standard probably need to be well-versed in the full suite of ISAs to be able to use the LCE standard effectively. To obtain this understanding of the requirements, LCE auditors may still need to take ISA training and/or refer to ISA application guidance to obtain an understanding of the requirements. As paragraph 26 states that the LCE standard is a standalone self-contained standard, we are not convinced that this objective has been met. That being said, we are not sure it is realistic, or necessary, for the LCE standard to be fully self-contained. In implementing any standard, practitioners may find it necessary to read additional guidance outside the standard.

RSM International

In addition, we have concerns regarding the prohibition in paragraph 26 of section 4A from referring to the ISAs for further guidance in areas which are not dealt with by the ED-ISA for LCE. These are set out in our response to Question 13 below.

7. Professional Accountancy and Other Professional Organizations

South African Institute of Chartered Accountants (2)

Paragraph 26 states that, “...if there is a circumstance that has not been contemplated in the design of ED-ISA for LCE as addressed in the Authority of the proposed standard (Part A), relevant ISA requirements cannot be used to “top-up ED-ISA for LCE in order to address the circumstance.” If the auditor requires guidance in performing the audit using the LCE standard, they should still be able to rely on the principles contained in the main ISAs. This is similar to the approach followed when applying IFRS for SMEs. While there is no explicit requirement to use the main ISAs, auditors should be allowed to use the ISAs for guidance, particularly because the LCE standard is premised on the principles of the ISAs.

Section 4A – Overarching Positioning of ED-ISA for LCE\Question 1 - Overarching views\Question 1(a) - Standalone proposed Standard - Concerns or obstacles\3) Agree with Comments\3a) Inability to refer to the ISAs\For Requirements

4. National Auditing Standard Setters

Hong Kong Institute of Certified Public Accountants

In principle, we are supportive of the standalone nature of the ED. However, local stakeholders are concerned that without any fall back mechanism to ISA requirements (in very specific or limited circumstances), there would be less enthusiasm to use the proposed standard.

5. Accounting Firms

BDO International

In addition, the fact that the relevant ISAs cannot be used as a top-up when a circumstance arises that was not contemplated in the design of the proposed LCE standard is another obstacle to implementing the proposed LCE standard. This may be a deterrent for teams to use the proposed LCE standard, especially on first-time engagements, as switching to the full suite of ISAs later could lead to significant time and cost pressures.

It is not clear from the Authority paragraphs that the auditor cannot look to ISA requirements to guide their work on situations not covered in the LCE standard. This is very clear in paragraphs 26, 27 and 137 of the Explanatory Memorandum, but it is not clear in the standard itself. That being said, we do not agree with prohibiting referring to the principles from the excluded portions of the ISAs for additional guidance when considered necessary (as per our response to question 3(a) above).

We understand that for engagement teams using the LCE standard, they should not be able to refer to the full ISAs to handle situations that are totally excluded from the scope of LCE standard (for example, using the work of internal auditors), as such excluded standards would generally not be relevant to less complex entities.

However, in paragraphs 26 and 27 in section 4A, we do not agree with the principle that relevant ISA requirements cannot be used to 'top-up' the ISA for LCE, particularly related to estimates with high estimation uncertainty. If the scope of the LCE standard is revised to include estimates with high estimation uncertainty, then this concern is greatly diminished.

We also believe that the standard itself does not clearly communicate the principle in paragraph 26 in section 4A. In fact, paragraph A.9 seems to contradict it as it states that an entity exhibiting one of the qualitative characteristics in paragraph A.9 is not necessarily excluded from using ISA for LCE. By inference, an entity having an estimate with high estimation uncertainty may still be able to use ISA for LCE and therefore would need to refer to the full ISAs for guidance on how to audit that estimate. We believe that the proposed standard should more clearly state that auditors should not use the ISA for LCE standard if circumstances exist requiring the use of ISAs that have been completely excluded from the LCE standard (assuming that the scope of the proposed standard is revised to include estimates).

In addition, it should be clear in the proposed standard that auditors may look to the full suite of ISAs for additional guidance when they consider it appropriate, but that this is not mandatory for complying with the requirements in the LCE standard.

Crowe Macro Brazil

Prohibition to use some ISAs (top-up) may rend this ISA for LCEs useless or less useful than it would be possible/desirable. We suggest that the IAASB reconsider this restriction, leaving the final decision to the auditor's professional judgement. There would be numerous cases where the fact of applying a 'full' ISA to a certain item or assertion does not make the option for this ISA for LCEs invalid.

7. Professional Accountancy and Other Professional Organizations

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

In addition, stakeholders have pointed out that, in jurisdictions where the practitioners are well versed in the full ISA suite, it is difficult for a practitioner to identify where they may be applying their experience of the full ISAs in performing an ISA for LCE which may result in an inadvertent “uplifting” of procedures. This would also potentially result in issues where regulators form different judgments about what procedures should have been applied.

While it may be that LCE audit specialisations develop and are addressed by the educational programs of professional bodies, initially, the majority of auditors using the standard will have a good knowledge of the full suite of ISAs. We believe that a practical solution which would allow an auditor to ‘uplift’ procedures when an isolated ‘complex’ issue that isn’t specifically addressed by the standard would present an approach that is more easily able to be implemented. This could be accompanied by a requirement for the auditor to reassess the audit of the following engagement period and to determine whether it should continue to be performed under ISA for LCEs going forward. This approach would necessitate some guidance on the nature and extent of issues that would still trigger the need to revert to a full ISA audit.

CPA Australia

Allow reference to the ISAs during the audit as necessary

If increased complexity is encountered, auditors should not be prevented from referring to the ISAs. By allowing the auditors discretion in elevating their procedures to consideration of the ISAs, it would ensure that increasing complexity is seamlessly addressed and renegotiation of the engagement is not required in these circumstances.

Prohibition on “top-up” from ISA requirements:

Whilst the IAASB states that there is “no intended need to directly reference back to the requirements or application material in the ISAs in its application”, we do not see the need to prohibit use of the ISA requirements or application material to “top-up” the LCE requirements. Whether auditors apply the full suite of ISAs or the single LCE standard, both are intended to obtain reasonable assurance. In fact, referring to the ISAs may help to determine whether the requirements for more complex entities are required. Whilst the ISAs are the “gold standard” for auditing of financial statements, the LCE standard is effectively a summarised or simplified version and so may be perceived as resulting in a lower standard of audit.

European Federation of Accountants and Auditors for SMEs

In cases where the LCE standard does not specifically address a transaction, other event, or condition we wonder whether the auditor may use their judgment to decide how best to proceed and, in making this judgment, whether the auditor may also consider the requirements and guidance in the full ISAs dealing with similar and related issues. This is permitted under IFRS for SMEs. Similarly, we wonder whether auditors using the LCE standard will be allowed to use full ISA requirements or application material in case they wish to voluntarily perform additional audit procedures.

Institute of Chartered Accountants in England and Wales

We agree that the standard should stand alone, but this must not mean that auditors are discouraged from using their judgement or common sense, or from drawing on their existing knowledge of the extant ISAs where appropriate. Paragraph 26 of the Explanatory Memorandum states that:

“...if there is a circumstance that has not been contemplated in the design of ED-ISA for LCE as addressed in the Authority of the proposed standard (Part A), relevant ISA requirements cannot be used to “top-up” ED-ISA for LCE in order to address the circumstance.”

This statement is not replicated in the proposed standard or supplemental guidance. It is in direct conflict with the requirement of 2.2.2 of the ED which states that:

“The auditor shall design and perform audit procedures that are appropriate in the circumstances for the purpose of obtaining sufficient appropriate audit evidence”

There is no indication in this paragraph that the procedures to be performed should be circumscribed in any way and paragraph 27 of the proposed Supplemental Guidance on the Authority of the Standard makes it

crystal clear that the presence of one ‘complexity’ characteristic exhibited by an entity does not necessarily exclude the use of the standard. While that paragraph applies to audits not yet commenced, it makes no sense to discriminate on the basis of when complexities are discovered. The standard must stand-alone, but it does not exist in a vacuum.

Institute of Chartered Accountants of Namibia

At the moment the Authority states that when ISA for LCE is used, the auditor may not “top up” their audit procedures from the full ISAs. We believe the auditor would benefit from being permitted to use full ISAs where the draft standard is silent on certain matters. E.g., The draft standard does not refer to internal auditors, however, it is possible for an auditor to rely on one procedure performed by an entity’s internal auditor without this indicating that the draft standard is not appropriate. In these instances, there would be no information in the draft standard relating to internal auditors.

Should the draft standard be amended to allow for a top-up from full ISAs without this indicating the draft standard is inappropriate the audit report could need to be altered slightly. The wording could be similar to accounting policies where, for instance, IFRS is used as a financial reporting framework but certain balances or classes of transactions are accounted for in terms of IPSAS.

Institute of Chartered Accountants of Scotland

We also believe that in rare and exceptional circumstances the auditor should be able to supplement their work with additional procedures that would be set out in specific modular add-ons or specific aspects of the relevant ISA(s). Please refer to our response to Question 13 for further details.

Instituto dos Auditores Independentes do Brasil

We generally support a simplified approach being presented in a standalone standard. However, prohibition to use some ISAs (top-up) may rend this ISA for LCEs less useful than it would be desirable. We suggest that the IAASB reconsider this restriction, leaving the final decision to the auditor’s professional judgement. There would be numerous cases where the fact of applying ‘full’ ISA to a certain item or assertion does not make the option for this ISA for LCEs invalid.

Instituto Salvadoreño de Contadores Públicos (ISCP)

Yes, we agree. It is appropriate for a stand-alone standard that encompasses the cycle of an audit of financial statements in a single document; however, a paragraph could be included that allows consulting the Complete International Auditing Standards for those cases not considered in the ISA for LCE.

Section 4A – Overarching Positioning of ED-ISA for LCE\Question 1 - Overarching views\Question 1(a) - Standalone proposed Standard - Concerns or obstacles\3) Agree with Comments\3a) Inability to refer to the ISAs\For Voluntary Procedures

4. National Auditing Standard Setters

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

While we believe that the standard is “stand-alone,” we disagree with the statement in the third sentence of paragraph 26 of Section 4 A of the Explanatory Memorandum that ISA requirements (or application material) “cannot be used to “top-up” ED-ISA for LCE”. While, quite rightly, there is no requirement to use the ISAs, or any other standards, beyond the ISA for LCE, auditors can always choose to do more than is set forth in the ISA for LCE and draw on any sources they wish to guide them to do so – including the ISAs or other standards. If, for example, an entity that qualifies as an LCE happens to have a single individual as an internal auditor, this should not preclude an auditor from applying the ISA for LCE and then choosing to draw on other standards and guidance (including the ISAs) without being required to do so to seek to address the situation. We address this matter further when dealing with the scope of the standard in our response to Question 3 (c) in Section 4 B.

7. Professional Accountancy and Other Professional Organizations

Wirtschaftsprüferkammer (WPK)

We support the concept of a separate “self-contained” standalone LCE Standard where there is no need to directly reference back to the requirements or application material in the full ISAs. Relevant full ISAs cannot be used to ‘top-up’ gaps that have not been contemplated in the design of the ED. Instead in these cases the application of the ED is not permitted.

Nevertheless, we question whether an auditor using the LCE Standard is allowed to use full ISA requirements or application material in case he/she wants to voluntarily perform additional audit procedures.

Section 4A – Overarching Positioning of ED-ISA for LCE\Question 1 - Overarching views\Question 1(a) - Standalone proposed Standard - Concerns or obstacles\3) Agree with Comments\3b) Reasonable Assurance Comments\Consider Lower Level of Assurance

5. Accounting Firms

BDO International

We believe that it is preferable for the IAASB to develop a new LCE audit standard, with reduced work effort and resultant assurance, globally, thereby avoiding the situation of many jurisdictions defining their own local LCE standards with different areas of work effort and documentation relief. The extent of work effort and documentation relief provided in a different global LCE standard would influence whether the resulting assurance provided by such an engagement would be reasonable assurance or a new level of assurance that is less than reasonable assurance.

The feedback we received from our various firms indicated that if auditors need to refer to the ISA for LCE in the auditor’s report, there should be substantive differences between the LCE requirements and the full suite of ISA requirements, while acknowledging that such LCE audits may provide something less than reasonable assurance depending on the significance of the reduced requirements for LCEs. For example, reduced work effort or documentation around risk assessment procedures, in particular related to obtaining an understanding of internal controls, may be an area where differentiation from the ISAs could be justified as it applies to LCEs.

Section 4A – Overarching Positioning of ED-ISA for LCE\Question 1 - Overarching views\Question 1(a) - Standalone proposed Standard - Concerns or obstacles\3) Agree with Comments\3b) Reasonable Assurance Comments\Other Comments

4. National Auditing Standard Setters

Australian Auditing and Assurance Standards Board

We would urge the IAASB to reconsider whether a proposed standalone LCE standard should apply the same level of assurance and mandatory requirements contained in the full suite of ISAs, as this may be unrealistic to achieve in practice. Our outreach highlighted that the concept of reasonable assurance has evolved over the years and many now question the notion of whether an audit is an audit. AUASB stakeholders who operate in the LCE market segment considered that the proposed ED-ISA for LCE Standard is too heavily underpinned by the requirements of the ISAs, which is not seen to be a viable solution for the LCE market segment. Rigidly using the ISAs as a base constrains the effectiveness of the proposed LCE standard, as many existing requirements in the ISAs have been drafted with a more complex entity in mind.

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

The other matter mentioned in Section 4A that we would like to address relates to the need to obtain reasonable assurance. We support the view that the objective of a standard for LCE audits is for the auditor to obtain reasonable assurance that the financial statements are prepared, in all material respects in

accordance with the applicable financial reporting framework. However, the IAASB needs to recognize that reasonable assurance is not a concept that (other in cases of sampling risk) can be numerically defined, and that reasonable assurance represents a range based upon cost-benefit decisions at assertion level (for further literature on this issue we refer to two FEE papers that, among other matters, explore the meaning of reasonable assurance). Not only do no two audits obtain precisely the same level of assurance, but even the same audit performed by two different auditors does not lead to precisely the same level of assurance – indeed, precisely the same level of assurance is not even attainable for different assertions. What matters is the impact on the assurance obtained using the LCE standard compared to the assurance obtained from applying the ISAs. If properly written so that the LCE standard covers those matters relevant to audits of financial statements of LCEs, compared to the application of the ISAs, the application of an LCE standard should have 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. In our view, this is the reasonable public interest test that the IAASB should use in determining which entities should qualify as LCEs and what the requirements for LCE audits should be.

7. Professional Accountancy and Other Professional Organizations

Nordic Federation of Public Accountants

We would like to stress the importance of clarifying the relationship between relevant requirements “using the concepts and principles already used in the ISAs” and obtaining a reasonable level of assurance in order to achieve a truly standalone standard.

Wirtschaftsprüferkammer (WPK)

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.

9. Individuals and Others

ASK KSA Consulting Inc.

We fully support with the objective of obtaining reasonable assurance to support the auditor’s opinion on the evidence obtained. However, reasonable assurance can be obtained without performing certain procedures that remain in the ED-ISA for LCE.

Section 4A – Overarching Positioning of ED-ISA for LCE\Question 1 - Overarching views\Question 1(a) - Standalone proposed Standard - Concerns or obstacles\3) Agree with Comments\3c) Make More Distinct From ISAs (View with Q7A)

3. Regulators and Audit Oversight Authorities

Independent Regulatory Board for Auditors (IRBA)

The proposed standard should not be a summary of the ISAs but have discrete requirements and application/implementation guidance with reference to LCEs, thereby ensuring that auditors do not default to the ISA AM when unsure of how to operationalise a requirement specific to LCEs.

5. Accounting Firms

BDO International

Other than very specific exclusions, the new LCE standard contains the same requirements as an ISA audit and the documentation expectations are the same as well. Therefore, many auditors of LCEs do not believe that there is anything in this standard that would change what they are already doing. If they are required to refer to ‘ISA for LCE’ in the auditor’s report, they expect a difference in work effort. Several BDO firms have

stated that if the standard is approved in its current form, they expect that their jurisdiction will initiate a project to develop a local standard for LCEs that does provide relief in terms of work effort and/or documentation.

Nexia Smith and Williamson

Possible obstacles that may impair the “standalone” approach are:

Difficulty in distinguishing work effort between the Proposed Standard and the ISAs. We believe that it is currently not sufficiently clear what auditors would do differently under the Proposed Standard compared to the ISAs. As noted above, it is important that the Proposed Standard is clearly linked to the ISAs, but if there is little difference in practice between the nature and extent of procedures and documentation required under both, there is little incentive for the profession to adapt methodologies and train staff for the Proposed Standard. The mapping document suggests that very few requirements of the ISAs have been substantially modified or deleted. Coupled with the proposed exclusion of all group audits from the scope of the Proposed Standard (see question 22) and the requirement to transition to the ISAs if certain “complexities” are discovered during the audit (see question 13), it is unlikely that we would adopt the Proposed Standard as it stands. We are also concerned that future changes to the ISAs will not be robustly assessed before inclusion in the Proposed Standard, ie the default position is to include new ISA requirements in the Proposed Standard. This is the approach which the IAASB has taken with the newly-developed ISA 315 in the Proposed Standard.

6. Public Sector Organizations

Audit Scotland

The ED-ISA for LCE does not deliver the benefits that earlier publications led us to expect. The principal problem is that the work of an auditor using the ISA for LCE would not be materially different than if the auditor were scaling ISAs as already possible on an audit that met the criteria for using it. If the ISA for LCE does not materially change the work of an auditor, then it serves little useful purpose.

The approach appears to have been to reorganise the ISAs that were applicable to an audit of less complex entities with minimal consideration of appropriateness. A more ambitious approach would have started with the objectives of the applicable ISAs and considered how those objectives could be met in the context of a less complex entity. This approach would have provided an opportunity to focus on the principles and could have delivered substantial assurance while also providing more appropriate scaling.

7. Professional Accountancy and Other Professional Organizations

ASEAN Federation of Accountants

To encourage stakeholders’ acceptance, many of our respondents suggested the Board to address a fundamental question of what the standard will bring to the practice compared to selective and scalable use of existing ISAs. As both aspire to provide reasonable assurance with similar audit procedures, the Board may consider exploring whether the key difference will be on the required audit documentation.

Belgian Institute of Registered Auditors (IBR-IRE)

From the point of view of the professionals who use the ISA for LCE, it is good to have a reduced standard. Indeed, the proposed standard itself is approximately 110 pages, which is clearly less than the 1000 plus pages of the ISAs.

The option of having its own standard for less complex entities, without having to include certain aspects of the ISAs, seems valid, because otherwise uncertainty would arise about when certain ISAs or parts of it should still be applied and when not.

However, practice will have to show whether the application of the ISA for LCE will result in a more efficient audit for the professional compared to a “lean and mean” audit approach under the ISA. If, ultimately, its application does not result in an effective efficiency gain for the user/professional, the ISA for LCE has little added value.

EXPERTsuisse

It is important that auditor's judgement is included in the standard to enable a scalable application. Furthermore, we urge the IAASB to be even more radical in omitting (unnecessary) requirements, which have been included (as a copy/paste from the full ISA) in the draft LCE.

Finnish Association of Authorised Public Accountants

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. The IAASB should reduce the requirements and clarify scalability and proportionality, so that there is a clear distinction between ISAs and ISA for LCE.

Instituto dos Auditores Independentes do Brasil

As we mentioned in the first question, as the requirements are the same as ISAs, practitioners of LCEs can feel that there is nothing in this standard that would change what they are currently doing or does provide relief in terms of documentation.

Malta Institute of Accountants

In principle, we agree with the standalone nature of the proposed standard and with the Board's aim in this regard. However, we do have a number of concerns as to whether this Standard will work for a number of reasons including the following:

The benefits of adopting ISA for LCE versus the current application, is not as evident.

Keeping fully aligned with the ISAs means that the proposed standard does not deal effectively with the "pain points" around, for example, the required understanding of controls, estimates and documentation. We do not believe it will achieve the efficiency that many are seeking, and could be possible if the Standard was less wedded to mirroring the ISA requirements.

On the other hand, the Institute looked forward to seeing more of the following:

Simplification of procedures with the aim of achieving a more efficient audit process. Currently the requirements are equivalent to the requirements in the current ISAs;

Less complex processes including less rigid documentation requirements;

More guidance and direction on the application of the standard to a simpler context, for example having more tailored examples;

More focus on simplifying work/documentation of controls in an environment that lacks formalised/well documented controls and recognition that in these circumstances the audit approach tends to be more substantive-based. Instead, we are faced with more requirements in this respect with the revision of ISA315 Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment; and

Acknowledgement of certain minimum requirements.

Nordic Federation of Public Accountants

We do support a standalone nature of the standard. The opposite, i.e. not being standalone from the ISAs, would lead to much unclarity and uncertainty, that would impair the usability of the proposed standard. Also, taking into account that the differences between audits of complex global entities and audits of LCEs will most likely continue to increase, moving forward we believe that a standalone standard exclusively focused on this particular audit segment will be of increased importance from both relevance, effectiveness and efficiency perspectives.

At the same time, we are unsure of what is actually meant by "standalone nature". In particular, our concern relates to how the connection between the ISAs and a standalone standard is described in the Discussion Paper Audits of Less Complex Entities: Exploring Options to Address the Challenges in Applying the ISAs (the DP), and in the Explanatory Memorandum to this ED (the EM). Both papers include statements that a standalone standard should be "based on the ISAs" or "based on the core requirements for an audit within the ISAs, using the concepts and principles already used in the ISAs".

In our view there is – and should be - a difference between a standard being based on the ISAs and a standard that duplicates almost all ISA requirements except those that for obvious reasons are not applicable, i.e. requirements focused on specific circumstances that just do not exist. How to clarify this

standalone nature – while still drafting an audit standard that will lead to an audit opinion provided with reasonable assurance – is most likely the core matter in order to create a standard that will be perceived as relevant and that will actually be applied. If practitioners and other stakeholders of the standard cannot see any real differences between an LCE audit performed in accordance with the ISAs or the LCE standard, it will be challenging to explain the need for a separate solution.

Another challenge in this regard relates to application material, which is extensively used in the ISAs, but much less used in the ISA for LCEs. If the standards are too similar, there might be a risk that both auditors and regulators seek guidance in the Application and Other Explanatory Material in the ISAs also when performing, or assessing, an audit under ISA for LCEs.

We strongly encourage the IAASB to look further into this matter. In our view a standalone standard based on the ISAs should not have to follow the ISA requirements to the proposed extent.

We believe the draft standard include some requirements that might not be necessary. Primarily though, we suggest that more needs to be done in terms of both reviewing and clarifying how to apply the LCE standard in a scalable and proportionate way; both in terms of relevant requirements related to the actual audit process, but also to specific documentation requirements within each section.

South African Institute of Chartered Accountants

We agree with the standalone nature proposed in the LCE standard provided that there are clear distinctions from the ISAs. Positioning the LCE standard as a separate ISA for LCE makes it clear that it is separate from the ISAs and aims to address different scenarios to those envisaged in the ISAs. Referencing to the ISAs will create too much overlap and not meet the objectives of the LCE standard which is to ensure that auditors do not onerously apply the requirements of the current suite of ISAs where these are not proportionate to the LCE environment.

However, the ED in its current format reads like a summary of the requirements of the ISAs. There do not seem to be any major differences and it is unclear as to how one would audit differently from the ISAs. In our view a standalone standard should have discrete requirements and application guidance, to ensure that auditors do not default to the ISA application guidance when unsure of how to operationalise a requirement. We are also cognisant of the fact that the distinction between the LCE standard and the ISAs will become clearer in the future as revisions emanating from complex public interest entities are made to the ISAs.

Section 4A – Overarching Positioning of ED-ISA for LCE\Question 1 - Overarching views\Question 1(a) - Standalone proposed Standard - Concerns or obstacles\3) Agree with Comments\3d) Importance of User Change in Perception

3. Regulators and Audit Oversight Authorities

Independent Regulatory Board for Auditors (IRBA)

Expectation from audit clients to see a reduction in audit fees arising from using the proposed standard, which may not be the case, especially for audit firms that have been using audit methodologies tailored for an LCE. These expectations also cannot be bridged through education or awareness-raising efforts.

The issuance of a separate standard for LCEs does create the perception for some users that two different categories of audits exist, with different levels of assurance and quality and differences in audit work performed. These expectations cannot be bridged through education or awareness-raising efforts.

We suggest that the IAASB considers the following issues/concerns, as it continues with finalising the proposed standard. These high-level issues/concerns are both regulatory in nature as well as informed by insights gained from practitioner inputs:

4. National Auditing Standard Setters

Austrian Chamber of Tax Advisors and Public Accountants (KSW)

The challenges could be that we will have two sets of global auditing standards. Users' perceptions could mean a lower quality audit with less audit procedures. Clear messages from the IAASB will be essential to inform stakeholder that audit quality is not compromised and that the work carried out will only be performed more efficiently.

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

Because the proposed standard includes fewer requirements than the full suite of ISA, and despite the fact that the core requirements of the ISAs have been maintained, we believe that there is a risk that the ED-ISA for LCEs will nevertheless be perceived as a downgraded audit, compared to an audit conducted in full ISAs. This could lead to a significant damage to the value of the LCE audits.

Therefore, we believe it is fundamental that the IAASB provides a clear communication message with the issuance of the standard explaining to stakeholders that:

an audit properly performed in accordance with the standard will result in the same quality as an audit properly performed in accordance with ISAs;

an audit properly performed in accordance with the standard will result in the same level of assurance as an audit properly performed in accordance with ISAs.

Hence, we believe that an umbrella paragraph introducing the proposed standard would be appropriate to explain that an audit conducted in accordance with the ISA for LCE is not “downgraded” from that conducted in accordance with the ISAs, but merely tailored to the less complex characteristics of the LCEs.

Furthermore, we believe that to ensure success of the standard and to gain buy-in from all stakeholders, it is crucial that the IAASB implement the following actions:

develop an appropriate communication plan to accompany the issuance of the standard, with the following key messages:

ISA for LCE provides the same level of assurance as the ISAs, namely a reasonable assurance;

the ISA for LCE is tailored to the context of less complex entities, i.e. it has been built upon the ISAs and the requirements that were not relevant to less complex entities have been removed;

the use of the ISA for LCE is subject to the auditor’s professional judgment in determining the appropriateness of using the standard, based on the entity’s characteristics.

explain the key differences between an audit conducted in accordance with the ED-ISA for LCE and an audit conducted in accordance with the ISAs and how to transition from one audit to the other. The underlying mapping document should be issued and updated regularly;

promote the development of appropriate guidance and tools to support the auditors’ use of the ISA for LCE.

New Zealand Auditing and Assurance Standards Board

The proposed standard contains the relevant requirements from the current suite of ISAs, and similarly achieves reasonable assurance. Separating it and labelling it as something different or “less” runs the risk of confusing and creating a perception problem, possibly causing reluctance to use the standard. This is exacerbated by the requirement that the LCE auditor’s report would need to identify that a different auditing standard has been applied in the audit of an entity, which risks confusing users as to the nature of the audit and the level of assurance being provided. There is a need for ongoing education to avoid this misperception.

5. Accounting Firms

Mazars

The buy-in and the level of effective and consistent use will be important to take them into account by the IAASB :

It is critical that the ED is supported by the regulators in the different jurisdictions. Regulators might also struggle with this and may not allow this proposed standard to be used for statutory audits.

the existence of two international set of standards (ISA for LCE and “full” current ISA) and possible local standards leading to “reasonable assurance” might confuse users of the audit report.

o, we believe that it is needed to get a consensus among stakeholders is needed so that the new standard does not create additional expectation gaps or confusion among the different stakeholders within a same jurisdiction or is not applied, also in a context where audit quality is key for all audits whatever the complexity and size of the entity.

We wonder if and how the SMO (Statement of Membership Obligations) will address the fact that there may be some jurisdictions that do not allow to adopt the ISA for LCE.

Nexia Smith and Williamson

Perception. A separate standard aimed at the audit of less complex entities risks being perceived by stakeholders as an “easier”, less robust audit. Clear messaging from the IAASB will be required to counter such perceptions. In getting that messaging right, it will be important for the IAASB to articulate what the benefits of the Proposed Standard are, so that stakeholders are clear what it is trying to achieve.

PKF International Limited

As noted in the general comments section of Appendix 1 to this letter, we have a concern over the potential for an expectation gap which could develop following the publication of the proposed standard. In our view, there is a risk that users of the ED-ISA for LCE and other stakeholders in an LCE audit may form unrealistic expectations that the application of the ED-ISA for LCE will result in greater efficiency gains in the audit process than may be achievable in practice. We believe that the IAASB should respond through carefully designed learning resources and application guidance which have a specific focus on managing this potential expectation gap.

While we are supportive of the need for a standard that is dedicated to LCE audits, and are generally supportive of the ED, we have a concern about the risks of an expectation gap which could arise following the publication of the proposed standard.

RSM International

Given that the proposed standard includes fewer requirements than the full suite of ISAs, and despite the fact that the core requirements of the ISAs have been maintained, we believe that there is a risk that an audit under the ED-ISA for LCEs will nevertheless be perceived as providing a lower level of assurance than an audit conducted under full ISAs. This could result in LCE audits being viewed negatively and hence affect the adoption of the standard.

Therefore, we believe it is fundamental that the IAASB communicates clearly to stakeholders that an audit properly performed in accordance with ED-ISA for LCE will result in the same:
quality as an audit properly performed in accordance with ISAs;
level of assurance as an audit properly performed in accordance with ISAs.

Hence, we recommend including an introductory paragraph in the final standard to explain that an audit conducted in accordance with the ISA for LCE does not provide a lower level of assurance than an audit conducted in accordance with the ISAs, but that it is merely tailored to the less complex characteristics of LCEs.

To promote the adoption of the final standard we suggest that the IAASB:
develops a communication plan to accompany the issuance of the standard, with the following key messages:
the ED-ISA for LCE provides the same level of assurance as the ISAs, namely reasonable assurance;
the ED-ISA for LCE is tailored to the characteristics of less complex entities, i.e. it has been built upon the ISAs and the requirements that were not relevant to LCEs have been removed;
the need for auditors to use professional judgment in determining whether it is appropriate to use the standard, based on the entity's characteristics.

explains the key differences between an audit conducted in accordance with the ED-ISA for LCE and an audit conducted in accordance with the ISAs. This would include how to transition from one to the other and be accompanied by an up to date mapping document.

We support the conclusion that a reasonable assurance opinion is appropriate for this standard. However, we have a number of concerns regarding how this may be received in the marketplace. These are discussed further below in our response to Question 17 as requested in the Explanatory Memorandum.

7. Professional Accountancy and Other Professional Organizations

Accountancy Europe

There are benefits as well as challenges of having two sets of global auditing standards. Users' expectations and perceptions are key in this regard. We are concerned that the ISA for LCE might be perceived as a lower-quality audit with less procedures. This would lead to a significant damage to the value of LCE audits. Therefore, clear messaging by the IAASB will be essential to inform stakeholder expectations. The standard should be promoted conveying the message that, while the standard has been simplified, the level of assurance obtained by the auditor is not compromised and the work to be carried out is not less but will be performed in a proportionate manner and more efficiently.

The main key success factor will be the communication efforts to get the buy-in from all stakeholders. We suggest the IAASB delivers a clear message on the fact that the ISA for LCE provides the same level of assurance as the ISAs (i.e., reasonable assurance). This impacts perceptions about the value of the audit for LCEs and acceptance of the proposed standard.

Therefore, we encourage the IAASB to engage with relevant stakeholders and actively advocate for desirable changes aimed at with the ISA for LCE project. Especially, the IAASB could work with national standard setters, regulators and audit oversight bodies to explain the benefits of having a separate standard exclusively focused on audits of LCEs and encourage adoption of this standard.

Given how SMEs / LCEs make a critical contribution to the global economy, the IAASB could play a role in promoting the role and value of audit and assurance services provided to SMEs and LCEs more generally. These supporting actions could be done in collaboration with the IFAC.

ASEAN Federation of Accountants

Important for the Board to consider customised and tailored communication package for different group of stakeholders, to ensure consistent communication, continue building awareness, and ensure wider stakeholders' acceptance. The communication needs to focus on among others:

Explaining key differences and consequences in practice between the proposed standard and audits for LCEs under relevant parts of the ISAs.

Addressing users' perception that the standard will result in audits of lesser quality compared to audits under ISAs.

A main concern for the Board to consider is false expectation that the standard will translate to reduced audit work. The quality that needs to be maintained throughout the audit is still the same as under ISAs, to achieve reasonable assurance. The market may not be able to appreciate this distinguishment and falsely expect the audit to take less effort and thus, deserving less audit fee.

Association of International Accountants

Credibility of the proposed ISA for LCEs

AIA does have a slight concern in that some stakeholders may view the proposed ISA for LCEs as being less 'credible' than the mainstream ISAs and that any audit conducted under the proposed ISA for LCEs is not as rigorous as it may otherwise have been. This may particularly be the case for some of AIA member firm's audit clients who may have concerns that audit work under the proposed ISA for LCEs is 'watered down' or not as thorough.

Association of Practising Accountants

There is the concern that the market place will perceive this as a lower quality product or that it will significantly reduce the work involved, when in reality neither is the case. This could lead to clients having an unrealistic expectation that this will be a significant reduction in cost leading to an expectation gap in the market.

Belgian Institute of Registered Auditors (IBR-IRE)

The main key success factor will be the communication efforts to get the buy-in from all stakeholders. We suggest that the IAASB delivers a clear message on the fact that the ISA for LCE provides the same level of assurance as the ISAs (i.e., reasonable assurance). This impacts perceptions about the value of the audit for LCEs and acceptance of the proposed standard.

Chamber of Auditors of the Czech Republic

We are concerned that the ISA for LCE might be perceived as a lower-quality audit with less procedures. This would lead to a significant damage to the value of LCE audits and pressure on the audit fee. Therefore, clear messaging by the IAASB will be essential to inform stakeholder expectations. The standard should be promoted conveying the message that, while the standard has been simplified, the level of assurance obtained by the auditor is not compromised and the work to be carried out is not less but will be performed in a proportionate manner and more efficiently.

Chamber of Financial Auditors of Romania

Users of financial statements and stakeholders might not understand the difference between the two frameworks and problems or concerns might be raised regarding audit quality in case the ISA for LCE is used and not ISAs. IAASB should address the concerns regarding the perception of the ISA for LCE as being “lesser audit” and auditors who perform audits of LCEs might get to be perceived as less professional. This perception might, at the same time, have a great impact on audit fees and this is an issue for further discussion.

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

Perception and the risk of an expectation gap. Some stakeholders have expressed concerns that ISA for LCEs has the potential to widen the expectation gap with users, if they perceive it to be a “lesser quality” audit or reduced work effort with the risk of creating two tiers of auditors. This topic was raised in relation to a number of aspects, but mostly when it came to auditor reporting and transparency. While the majority of practitioners are supportive of the need for the auditor to communicate with those charged with governance that the engagement will be performed under ISA for LCEs, there are mixed views on whether it is necessary for the auditor’s report to also reference the standalone nature of the standard. Those who are against it raised concerns with the expectation gap and a push from users to lower audit fees for ISA for LCEs engagements. They expressed the view that if the requirements in the ED are all from the ISAs, it is, in essence, still an ISA audit. The counter argument is the need for transparency in communications from the auditor for the users of the financial statements.

We find the issue of perception to be the most challenging issue that the IAASB needs to address in order for the standard to be widely adopted. In our view, given that the ED-ISA for LCE has been developed using the requirements that exist in the full ISAs, using the same underlying principles and it provides reasonable assurance at the same quality as the full ISAs do, that it should be part of the suite of ISAs. We also support the view that audits conducted using this standard should reflect this by referring to the full ISAs rather than the standalone standard in the auditor’s report.

We believe that there is potential for user confusion and strongly encourage the board to include the need to educate users, preparers and regulators, and for local standard setters to do the same and to undertake activities to do this and to produce materials to support NSS in doing so too.

CPA Australia

Segmentation:

There is a significant risk that the LCE standard will create two levels of audit, with the LCE audits seen as less robust than audits under the ISAs. This perception may be reinforced over time, as auditors of LCEs become less familiar with the ISAs and a divergence in approach may arise between an audit under the LCE standard and under the ISAs.

Users’ understanding of LCE audits:

Users of auditor’s reports on LCEs are likely to struggle to understand the implications of the LCE standard. As much as they do not always understand the difference between an audit and a review, they are unlikely to grasp the intent and nature of the LCE audit. There is a risk that they may perceive a LCE audit as providing a lower level of assurance than an audit under the ISAs.

We are concerned that entities may have a misconception about the auditor having a reduced workload when applying the LCE standard instead of the full suite of ISAs. Consequently, entities may expect auditors to charge less or be reluctant to agree for the LCE standard to be applied in their audit.

While the IAASB makes sufficiently clear that the LCE standard is not simply a summary of the ISAs, which omits certain requirements, entities, users and other stakeholders may perceive that an LCE audit is a “lesser” product than an audit under the ISAs. If users consider LCE audits to be of a lower quality or reliability this may impact negatively on the LCE itself. In turn, LCEs may expect a LCE audit to be lower cost as a result of less audit effort being required. Thus, we recommend that the IAASB undertakes initiatives to inform the market and its stakeholders that an audit under the LCE standard provides the same level of confidence and is intended to reflect equivalent quality to an audit under the ISAs.

European Federation of Accountants and Auditors for SMEs

We have some observations regarding the perception of audit quality.

It is vital that audits conducted in accordance with the new standard will be widely perceived and recognized as producing an audit that is of the same high quality as that of an audit using the full ISAs. This will demand a universal, consistent, and robust information campaign from all authoritative sources. All communication – from regulators, standard setters, firms, professional accountancy organizations etc. – will need to stress this equivalence. We suggest the Board learn from the experience of the IASB with its IFRS for SMEs. In those jurisdictions, such as the UK, that use the standard in some way, we are not aware of concerns that financial reports prepared using the standard provided information less useful than that prepared using full IFRS.

We are somewhat concerned at the risk of the emergence of two-tier audit market and two-tier audit profession – one using ISAs and another ISA for LCE with users seeing latter as offering inferior quality. This may confuse users and undermine their confidence in audits. The IAASB, IFAC, professional accountancy organizations (PAOs), regulators, accounting firms and others will need to communicate to and educate the audit market to mitigate this risk.

Similarly, it is vital that the communications and educational activities of the IAASB, IFAC, PAOs, regulators, accounting firms and others on and around the new standard consistently and robustly stress that use of this standard results in an audit of equivalent quality to an audit performed using the ISAs. Every effort needs to be taken to avoid giving the impression that the standard is less rigorous than the ISAs, rather it is a standard tailored to fit different types of entity.

Institute of Certified Public Accountants of Cyprus

One important unintended consequence is potentially the user’s and preparer’s perception that auditors will be doing less work, impeding the audit quality. The standard should be promoted in a way that it is understandable that the quality of audit work is not compromised and that the work to be carried out is not less but more relevant – with the use of the ISA for LCE, practitioners can focus on risky areas - they are not performing less work but the right work for the particular entities.

Institute of Chartered Accountants in England and Wales

When the standard is finally released, the messaging around it must be clear, so auditors and audit regulators clearly understand what the ISA for LCE is trying to achieve, particularly in relation to audit quality. Bigger is not necessarily better when it comes to audit quality, which must necessarily take account of fitness for purpose. No-one thinks that getting from Manhattan to New Jersey by Concorde is better than going by light aircraft, simply because Concorde is bigger, takes longer and costs more. The use of the proposed standard will result in a higher level of audit quality for LCEs than the extant ISAs, where it is more appropriate.

Institute of Chartered Accountants of Pakistan

On the standalone nature of the standard we are concerned that this approach could lead to some new challenges and unintended results. It can create a perception risk i.e. the stakeholders perceiving that different categories of the assurances are provided under ISAs and ISA for LCE, and that the assurance provided under ISA for LCE is lesser level.

Institute of Chartered Accountants of Scotland

We also believe that the role of the IAASB will be crucial in communicating to the market that an audit undertaken using the finalised ISA for LCE will not be of a lesser quality than that where the full suite of ISAs has been applied. There will undoubtedly be challenges in getting certain jurisdictions to allow the standard to be adopted, however, this should not detract from the benefits of having such a standard available at the global level.

Instituto dos Auditores Independentes do Brasil

Also, we understand market will need to “learn” when to apply this standard: when the audit being conducted is not complex or when the entity being audit met some certain criteria. This can result in unintended consequences, such as led the users and stakeholders to a lack of clarity regarding the nature of work.

Society of Certified Accountants and Auditors of Kosovo (SCAAK)

We believe that all stakeholders need to work on promoting this standard and educating users on the product from this standard to avoid the risk of users thinking that audit using ISA for LCE provides different assurance from that of using full ISAs.

South African Institute of Chartered Accountants (2)

In South Africa, various legislations create exemption thresholds for audits. For example, certain legislations allow entities to perform independent reviews in accordance with International Standard on Review Engagements 2400 (ISRE 2400 (Revised)). However, even though such options exist, it still appears that entities are still opting to perform audits rather than independent reviews. There seems to be a lot of trust within the South African market in the current audit product. Reservations were also raised that a separate LCE standard may be perceived as less robust than the current suite of ISAs. Therefore, it is important that the IAASB seek to understand the reasons behind these perceptions and outreach would need to be conducted to educate the users of the financial statements about the LCE standard. The auditing profession is currently undergoing a lot of public scrutiny as a result of the recent corporate failures, therefore, it is important that the expectation gap is not widened further which would be the case if there is a misperception that there are two types of audits that are not of the same quality. While we understand that the application of the LCE standard has no impact on the assurance obtained, it is our view that this may not be well understood by all users. The IAASB may have to engage with regulators to educate users in addressing such misperceptions.

Section 4A – Overarching Positioning of ED-ISA for LCE\Question 1 - Overarching views\Question 1(a) - Standalone proposed Standard - Concerns or obstacles\3) Agree with Comments\3f) Burdensome or Hard to Implement

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 for global application. 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.

Overall Australian audit practitioners did express enthusiasm for the IAASB developing an alternative solution for LCE audits and the concept of a separate standalone standard applying to LCE engagements. However, the AUASB’s extensive outreach on the proposed ED-ISA for LCE Standard noted significant challenges expressed by local auditors who work in the LCE market segment if they proceeded to adopt the proposed standard on their LCE engagements. Most Australian practices perform audits over a wide spectrum of clients from different industries with varying sizes and level of complexity, and they identified significant technical and operational challenges applying different standards for their LCE and non-LCE engagements, and thus limited positives in the proposed ED-ISA for LCE Standard that has been exposed.

We observed only a minor level of support for the proposed standard in its current form (predominantly by auditors who exclusively perform LCE audit engagements).

5. Accounting Firms

Mazars

his ISA for LCE could also create additional barriers between the large audit firms and SMP (Small and Medium Practitioners) 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.

7. Professional Accountancy and Other Professional Organizations

Association of Practising Accountants

There are some concerns based on this current draft that it will create a further divide in the audit profession, but with little benefit. Although the standard is significantly shorter, as noted in our introduction, this is mainly as a result of the removal of guidance rather than requirements. This will not significantly change the work involved but could increase the costs for firms in having to purchase two different methodologies and provide additional training etc.

There is also a risk that the main standards become more prescriptive and expensive when trying to address quality issues with PIEs and other larger entities because there is no longer a need for a one size fits all approach which has been a constraining force here.

This standard may be more beneficial over time if future changes to the main ISA's are not automatically adopted within the LCE standard. Additional requirements should only be added where there is a clear indication that they address an audit weakness relevant to the audits of less complex entities.

Chamber of Financial Auditors of Romania

The entire process of continuous professional development of auditors will have to be reconsidered in order to ensure proper training for all auditors. The process of authorization of new auditors will also suffer modifications and the access to profession exams will need to be adjusted so that all professional organizations will have to make sure their members have the necessary expertise both in ISAs and ISA for LCEs.

Auditors will face challenges in respect to additional costs, time and human resources in order to develop new audit methodologies, to ensure proper training of staff and to keep themselves updated on two sets of auditing standards. This might lead to an increase in the already existing gap between big audit companies who will be able to adapt easier to this situation and smaller audit companies. Also, we should take into account the fact that so far auditors have been using ISAs and they have already made use of or even developed specific audit technology to improve their work and the adoption of a new standard might raise concerns regarding the efficiency of less complex audits.

CPA Australia

Transitioning:

By having a separate standard for LCE audits, it creates difficulties in transitioning to the ISAs if the client becomes more complex and vice versa. Transitioning is likely to create additional work to ensure the ISA requirements have been adequately met, documentation is revised and the engagement letter is updated, especially when it occurs part way through an audit. If the transition occurs between periods, the implications for the auditor's report when comparatives have been audited under a different standard and inefficiencies of being unable to leverage the prior period's audit file, will create additional work effort. Whenever it occurs, additional documentation will be needed to address this transition, unless the LCE standard is integrated into the suite of ISAs.

In firms where many different types of audits are undertaken, both LCEs and more complex audits, including listed entities and public interest entities, or firms which have well established methodologies based on the ISAs, the LCE standard would not necessarily create efficiencies. In fact, the LCE standard is likely to be an added complication in these circumstances as a new methodology would be needed for LCEs.

8. Academics

Brunel University London

We are largely in favour of the standalone standard and the title proposed. This standard, if applied and implemented effectively, should encourage more volunteer audits by exempt entities. However, we are somewhat concerned with the level of judgement involved in identifying LCEs and the cost of implementation to SMPs and professional accountancy organisations.

9. Individuals and Others

ASK KSA Consulting Inc.

The concept of a standalone standard in and of itself is a good idea. A standalone standard may be beneficial to auditors for several reasons including it is easier to read and as a result easier to follow. It may also be simpler to train staff along with developing appropriate tools and templates.

However, there are several issues that also arise as a result of a standalone standard including:
Transitioning between ISAs and ED-ISA for LCE.

Keeping up to date on both sets of standards.

A larger firm with adequate resources will have the ability to run “two streams” of audits and develop tools and templates for each stream however a smaller firm will face challenges with two sets of standards. To further explain this point, for many small firms, it will be clear they are in the ED-ISA for LCE as all of their clients will meet the Authority of the standard and therefore be able to use the standard for these audits. In this case, there are minimal challenges for these firms. The larger firms have the resources to operate under two sets of auditing standards. Again, minimal challenges to address. However, there is a very large group of firms who will have some audits that will not qualify for the ED-ISA for LCEs and therefore they will have to deal with two sets of standards but do not have the resources to do so. Therefore the fact there are two auditing standards will be very onerous for many mid-sized firms. In many cases, despite the fact a separate standard exists many mid-sized firms may elect not to use it unless there was a very strong benefit to doing so. The current ED-ISA for LCE does not provide this benefit.

Section 4A – Overarching Positioning of ED-ISA for LCE\Question 1 - Overarching views\Question 1(a) - Standalone proposed Standard - Concerns or obstacles\3) Agree with Comments\3g) Fragmentation of Audit Profession & Long-Term Training Skills Gap

3. Regulators and Audit Oversight Authorities

Independent Regulatory Board for Auditors (IRBA)

The potential impact on the following:

The recruitment of trainees for an audit firm that has a significant number of LCE audits, or has a department dedicated to the audit of LCEs, would be handicapped. Trainees regularly indicate a preference to receive their initial training in large environments, where the ISAs would be the norm.

Career progression and mobility of individuals that completed their training at audit firms that only or mainly perform LCE audits would be hampered.

Audit quality, for example, when an audit firm that mainly performs LCEs audits is engaged to perform an ISA audit, and the audit staff/team members have not been appropriately trained nor have the necessary experience to perform an ISA audit, and/or the audit firm does not have the appropriate quality management systems in place.

Swedish Inspectorate of Auditors

The SIA also sees that the creation of two separate standards give rise to a risk that the auditors focused on small and less complex entities will have a possible lack of competency when it comes to audits requiring the full set of ISAs. Further it may cause difficulties when it comes to the auditor exam required to become authorized as an auditor in Sweden, if all the experience that the auditor has is in audits in scope of ISA for LCE. 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.

4. National Auditing Standard Setters

New Zealand Auditing and Assurance Standards Board

Some stakeholders expressed concern that if audit practitioners primarily use the LCE standard once issued, they may no longer have the competency to conduct audits using the full ISAs. On this view, there may be some auditors or audit firms that will never do a full ISA audit due to its clients' size and nature, therefore do not have the knowledge or ability to step up or transition if needed in the future. The NZAuASB doubts this is likely to be a problem in an ISA-capable profession such as New Zealand. However, we recommend that the IAASB consider the level of familiarity with the ISAs as a precondition prior to using the proposed standard. This is also important to enable auditors to adopt transition provisions correctly if there is a need to transition from the LCE standard to the full ISAs.

7. Professional Accountancy and Other Professional Organizations

Association of Practising Accountants

This could lead to a two tier profession and make it more difficult for auditors to move from firms that may only audit LCE's.

Chamber of Financial Auditors of Romania

It will be challenging for an auditor who will have used the ISA for LCE for a longer period of time to apply ISAs in their entirety when the situation will deem it necessary (whether because of new more complex clients or because an entity could no longer be considered less complex and therefore ISAs will become applicable). Transition from one set of standards to another might create confusion and impact the audit quality.

The entire process of continuous professional development of auditors will have to be reconsidered in order to ensure proper training for all auditors. The process of authorization of new auditors will also suffer modifications and the access to profession exams will need to be adjusted so that all professional organizations will have to make sure their members have the necessary expertise both in ISAs and ISA for LCEs.

CPA Australia

In turn the LCE standard may lead to a market segmentation amongst firms or auditors, whereby firms or teams within firms exclusively or primarily auditing LCEs may face challenges in attracting and retaining staff. We have heard of concerns about auditors of LCEs being unable to move readily to more complex audits if they have worked exclusively with the LCE standard. This may be seen as career limiting for individuals and limiting flexibility for the audit profession. However, we do note that many auditors or firms already choose to specialise in LCE audits, such as associations, small to medium charities or trust accounts.

Institute of Certified Public Accountants of Uganda

ICPAU is conscious of the possible consequence that auditors whose clients are mainly LCEs may subsequently only rarely refer to or apply the ISAs when the new standard is released. This raises concern over the training and development implications in using the Standard. The new standard is likely to create need to training, retraining and continuing professional development to ensure consistency in application of the ISA for LCEs and the ISAs. It is therefore imperative that the supplemental guidance is provided to addresses these issues and any concerns that may arise regarding the level of assurance provided by the ISA for LCEs.

Institute of Chartered Accountants of Pakistan

However, we also note that the proposed approach of a stand-alone ISA for LCE may lead to unintended consequences of establishing a two tiered auditing profession and creating a perception about the audits performed in accordance with the ISA for LCE as of less level of assurance and quality.

South African Institute of Chartered Accountants

Another aspect to consider is the impact of the LCE standard on the training environment for aspiring accountants. There is a significant number of firms in South Africa whose client profiles include few PIEs with a large proportion of LCEs. The introduction of the LCE standard would require such firms to maintain two audit methodologies and this could have cost implications for the firms. Globally, the audit profession faces the challenge of market concentration, specifically for PIE audits. Therefore, firms that are predominantly exposed to audits of LCEs may not develop the skills required to audit PIEs due to the lack of exposure in applying the ISAs. This does not help in addressing the challenges caused by market concentration. Such distinction may also begin to exist at the individual level where certain auditors only get exposure to audits of LCEs and may not have the skills to apply the main ISAs. This may create serious competency challenges where due to some complexity the auditor may not use the LCE standard and is required to use the main ISAs. Such fragmentations, in general, are not beneficial to the profession, particularly in a country like South Africa where there are skills shortages.

Section 4A – Overarching Positioning of ED-ISA for LCE\Question 1 - Overarching views\Question 1(a) - Standalone proposed Standard - Concerns or obstacles\3) Agree with Comments\3h) Sufficiency of Guidance\EEM

4. National Auditing Standard Setters

Canadian Auditing and Assurance Standards Board

We remain mindful of the IAASB's objective to balance how much EEM is incorporated so as not to add unnecessary length to the standard, but at the same time develop a standalone "self-contained" standard. Therefore, we suggest that the additional EEM focus on:
addressing the pain points replicated in ED-ISA for LCE, and
adding guidance from the ISAs that, if not provided, may create significant application challenges.

Hong Kong Institute of Certified Public Accountants

In applying the proposed guidelines on complexity, understandability, scalability and proportionality (CUSP), the IAASB has made good efforts in keeping the ED concise and succinct. We would suggest the IAASB to revisit the sufficiency of essential explanatory material (EEM) and extend it as necessary to ensure consistent understanding and application of ED-ISA for LCE.

7. Professional Accountancy and Other Professional Organizations

Chartered Accountants Ireland

We do not believe that the EEM currently presented is sufficient and consider that application material from the ISAs should only be removed if it relates to a requirement that is not included in the ED-ISA for LCE (Question 7).

We agree with the standalone nature of the standard but have some concerns around the lack of clarity of guidance on "complexity" as set out in our response to question 3, the sufficiency of the EEM as set out in our response to question 7 and the exclusion of group audits from the proposed scope of the standard as set out in our response to question 22.

Section 4A – Overarching Positioning of ED-ISA for LCE\Question 1 - Overarching views\Question 1(a) - Standalone proposed Standard - Concerns or obstacles\3) Agree with Comments\3h) Sufficiency of Guidance\Implementation or Other Guidance Outside Standard

3. Regulators and Audit Oversight Authorities

Independent Regulatory Board for Auditors (IRBA)

Except for our concerns mentioned above, we are supportive of the standalone nature of the proposed standard. Positioning it as a separate proposed standard makes it clear that it cannot be used together with the full set of ISAs. However, to fully achieve the objective of the standalone nature of the standard and

have a consistent performance of a quality audit, there are few matters that we recommend be considered before finalising the proposed standalone standard.

Since the proposed standard contains no Application Material (AM) and very limited Essential Explanatory Material (EEM), it is recommended that Implementation Guidance be issued as soon as possible after the issue of the final standard to support auditors by providing further explanation of the requirements and guidance for carrying these out. Certain users of the proposed standard may not have a working knowledge of the ISAs, and will depend on the Implementation Guidance to supplement their understanding of the proposed standard for consistent application thereof. Examples of areas where Implementation Guidance would be particularly necessary are:

Materiality:

No guidance as to the determination of materiality is provided in the proposed standard. The auditor cannot revert to the ISAs for guidance. As such, clear guidance needs to be incorporated into this standard.

Materiality is the one area that could influence the efficiency of the audit procedures.

Transitioning:

The transitioning procedures to be implemented, if during the audit the evaluation of complexity of the entity changes and transitioning to the ISAs is required;

Switching between the proposed standard and the ISAs from one year to the next and the resulting impact, for example, as it relates to opening balances, comparative information, reporting requirements, etc.; and

Would the expectation be to transition to the ISAs for one year and thereafter transition back to the proposed standard in the next year? It would seem cumbersome to need to move back and forth.

Going concern.

Accounting Estimates.

Subsequent Events.

4. National Auditing Standard Setters

Canadian Auditing and Assurance Standards Board

Further, we recognize that there may be guidance in the ISAs on scalability that may not meet the IAASB's principle for including as EEM but helps explain the proper application of a requirement.

Hong Kong Institute of Certified Public Accountants

Developing additional application guidance outside the standard would also be helpful without adding to the volume of the standard.

5. Accounting Firms

Crowe Macro Brazil

Implementation guidelines will be very welcome.

7. Professional Accountancy and Other Professional Organizations

Association of International Accountants

However, auditors will need to have a sound understanding of the clear distinction between the proposed ISA for LCEs and the mainstream ISAs and appreciate that there is no overlap or ability to 'top-up' from the mainstream ISAs in the event of ambiguity or contentious issues when applying proposed ISA for LCEs.

This should be achieved through training in the proposed standard's use as well as through the IAASB's own publications to ensure that everyone who will be involved in the application of the proposed standard fully understands its scope and prohibitions. AIA considers the use of 'case study' style scenarios or 'Q&As' to be more beneficial to aid the learning process rather than reliance of text within the proposed standard itself.

Indonesian Committee on Public Accountant Profession (KPAP)

KPAP supports the decision to separate the ED-ISA for LCE from the ISAs. If auditors are given the ability to refer to the ISAs, there will be consequences, as mentioned in paragraph 28. As said in paragraph 30, although the proposed standard has been designed to help auditors with the basic requirements, KPAP also

sees that further supporting guidance for the standard will be necessary to ensure the standalone nature of the ED-ISA for LCE.

Institute of Certified Public Accountants of Uganda

ICPAU is conscious of the possible consequence that auditors whose clients are mainly LCEs may subsequently only rarely refer to or apply the ISAs when the new standard is released. This raises concern over the training and development implications in using the Standard. The new standard is likely to create need to training, retraining and continuing professional development to ensure consistency in application of the ISA for LCEs and the ISAs. It is therefore imperative that the supplemental guidance is provided to addresses these issues and any concerns that may arise regarding the level of assurance provided by the ISA for LCEs.

South African Institute of Chartered Accountants (2)

The adoption of the LCE standard is dependent on the various jurisdictions across the globe, including the additional scoping requirements that they may impose. Therefore, there could still be a fragmented scenario where some jurisdictions adopt and others do not. It remains crucial that the IAASB continues to address complexity, understandability, scalability and proportionality in the main ISAs when drafting and revising standards. The importance of guidance documents also cannot be emphasised enough as these are of great assistance to practitioners.

South African Institute of Professional Accountants

It is recommended that Implementation Guidance is issued to support auditors by providing further explanation of the requirements and guidance on which entities to use this standard on and how to apply and guidance on carrying out these audits.

Section 4A – Overarching Positioning of ED-ISA for LCE\Question 1 - Overarching views\Question 1(a) - Standalone proposed Standard - Concerns or obstacles\3) Agree with Comments\3i) Authority Concerns (General - View with Q3A)

5. Accounting Firms

Mazars

It is difficult to determine which entities are LCEs as the definition is subjective and leaves room for interpretation and professional judgment, which is useful, but we are aware that in some jurisdictions this standard will not be endorsed. Therefore, their application can vary among jurisdictions, thereby reducing the comparability of audit reports issued under this standard. 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. Therefore, while a LCE entity is not in general a transnational entity and is aimed to address local needs of “SME”, we advocate for a certain consistency worldwide in the auditing standards.

However, if the separate standard ISA for LCE progresses, the standard should incorporate a definition for Less Complex Entities to avoid broad inconsistency in application across jurisdictions, leading to lack of comparability and other unintended consequences.

Definition of “complex matters or circumstances” (paragraph 27 of the ED- ISA for LCE) – how is this defined, difficulty of treating complexity as a binary issue (yes or no) – rather complexity should be evaluated on a continuous scale. We suggest that Paragraph 27 should be referenced as being from the Explanatory Memorandum ED ISA for LCE.

Nexia Smith and Williamson

Possible obstacles that may impair the “standalone” approach are:

Regulatory and client challenge. The subjective nature of some of the scope criteria will inevitably lead to challenge from regulators and clients regarding whether a particular audit should be scoped in or out. As auditors, we are used to using our professional judgement and justifying the position taken, and we do not

suggest that the qualitative criteria in the Proposed Standard are inappropriate. We simply observe that this is an additional factor that, in combination with those outlined above, may make the Proposed Standard less attractive.

7. Professional Accountancy and Other Professional Organizations

Belgian Institute of Registered Auditors (IBR-IRE)

In addition, the use of the ISA for LCE is potentially limited given the definition of "complex". If an entity is characterised by complex features, this would imply that this standard cannot be used. Especially, for example, having regard to point 27 of section 4A relating to the overarching positioning of ED-ISA for LCE: if estimates are complex, this does not imply that all aspects of an entity are complex. A broader application of the proposed standard could therefore be found if the definition of complex were to be less comprehensive.

Chamber of Financial Auditors of Romania

However, here are certain areas of concern regarding the use of the new standard:

1. In case the authority of the standard is not properly stated, both globally through the standard and individually at jurisdiction level, auditors might find themselves in the situation to make an arbitrary decision to use this standard, although it might not be appropriate for their audit client and for the needs of the users of the financial statements. Applying ISA for LCE on entities where ISAs should be applied might be tempting.

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

Overview of feedback and refinements

We have consulted with a wide range of stakeholders in ASEAN, Canada, UK, Europe, Australia and New Zealand. 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.

The following is a high-level overview of the feedback received on key aspects of the ED.

Authority of the standard. Stakeholders generally are satisfied with the qualitative characteristics, though some suggested that perhaps consideration should be given to whether there are any additional characteristics that might be useful for auditors of public sector entities to consider. In relation to the specific prohibitions in the standards, there is general support for the exclusion of entities with public interest characteristics, however we heard mixed feedback on whether all listed entities should be excluded. In some jurisdictions, due to the nature of the local markets, some listed entities can be relatively simple and listing itself, does not necessarily increase the complexity of the audit. Nevertheless, we agree that on balance the exclusion of listed entities is in the public interest. The exclusion of all group audits is largely not supported by our stakeholders. Practitioners identified that there can be many non-complex groups as consolidation is not necessarily complex and that, particularly given that the recently approved ISA 600 (Revised) now expands the definition of groups, excluding all groups would make the standard less attractive to use as there would be too many circumstances where small practitioners would still have to use the full ISAs for some of their engagements.

Chartered Accountants Ireland

We agree with the standalone nature of the standard but have some concerns around the lack of clarity of guidance on "complexity" as set out in our response to question 3, the sufficiency of the EEM as set out in our response to question 7 and the exclusion of group audits from the proposed scope of the standard as set out in our response to question 22.

Institute of Chartered Accountants of Scotland

Our biggest area of concern is that the intended scope of the standard excludes all group audits.

Instituto dos Auditores Independentes do Brasil

We also suggest the Board provide a more specific definition of the population to which this standard would be applied. And consider whether it may be valuable to provide requirements that may not directly reflect the ISA requirement but address the appropriate audit work level to an LCE.

Saudi organization for Chartered and Professional Accountants

As noted above in our general comment, the development of a standalone standard is beneficial to the needs of certain stakeholders, specifically SMPs and LCEs. However, the excessive emphasis on the limitations of the proposed standard's usage may imply that the standard provides a lower level of assurance and quality. Additionally, assessing the applicability of the proposed standard to a client (an entity) is an additional requirement of judgment which may add burden on auditors' judgment which is already overloaded with many judgmental issues. It is noteworthy that these expressed concerns should only be considered, and they do not affect the quality of what has been established in the ED-ISA for LCEs.

Society of Certified Accountants and Auditors of Kosovo (SCAAK)

We agree with the standalone nature of the proposed standard.

There has to be detailed guidelines for auditors in making initial judgment if an entity can be audited using this standard in order to avoid circumstances when it is needed to change to ISAs.

We agree that auditor must not refer to specific ISA when dealing with issue not fully addressed in ISA per LCE.

8. Academics

Hunter College Graduate Program

We believe that the standalone nature of the proposed standard is useful for auditors to have a one stop reference point. However, we have identified some areas of improvement that are provided in our next section that would be helpful for better understanding of the standard. We also foresee some challenges on when the standard can be applied due to not having a complete list of what LCE comprises but appreciate that the standard provides some guidance such as when an entity has complex accounting transactions, ISA 540 is the most appropriate auditing standard.

Section 4A – Overarching Positioning of ED-ISA for LCE\Question 1 - Overarching views\Question 1(a) - Standalone proposed Standard - Concerns or obstacles\3) Agree with Comments\3j) Single Complex Area

7. Professional Accountancy and Other Professional Organizations

Association of Practising Accountants

It makes sense for the standard to be standalone, and hopefully will ensure that there is not scope creep from regulators in individual jurisdictions through “best practice” requirements which do not form part of the standard itself. However, the authority needs to be clearer as to when this standard can be applied as the standalone nature of this standard does make transition very difficult during an audit if complexities were to arise which meant this standard may no longer be appropriate.

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

Transition and the standalone nature of the standard. We have heard mixed feedback regarding the strict standalone requirement of using the standard. The feedback from practitioners who audit LCEs is that encountering a single complex issue that was not identified during engagement acceptance and continuance or planning may not be as rare as contemplated in the ED. The prospect of having to go back and perform a full ISA audit if an isolated issue is discovered will be a deterrent to practitioners who may otherwise adopt the standard. An example frequently raised by our stakeholders is in respect of accounting estimates with many suggesting that the standard should provide some flexibility in this area as this will allow a significantly larger pool of entities to be scoped in the standard and in return making its adoption a lot more attractive for firms.

In addition, stakeholders have pointed out that, in jurisdictions where the practitioners are well versed in the full ISA suite, it is difficult for a practitioner to identify where they may be applying their experience of the full ISAs in performing an ISA for LCE which may result in an inadvertent “uplifting” of procedures. This would also potentially result in issues where regulators form different judgments about what procedures should have been applied.

While it may be that LCE audit specialisations develop and are addressed by the educational programs of professional bodies, initially, the majority of auditors using the standard will have a good knowledge of the full suite of ISAs. We believe that a practical solution which would allow an auditor to ‘uplift’ procedures when an isolated ‘complex’ issue that isn’t specifically addressed by the standard would present an approach that is more easily able to be implemented. This could be accompanied by a requirement for the auditor to reassess the audit of the following engagement period and to determine whether it should continue to be performed under ISA for LCEs going forward. This approach would necessitate some guidance on the nature and extent of issues that would still trigger the need to revert to a full ISA audit.

Section 4A – Overarching Positioning of ED-ISA for LCE\Question 1 - Overarching views\Question 1(a) - Standalone proposed Standard - Concerns or obstacles\3) Agree with Comments\3k) Transition Concerns

5. Accounting Firms

BDO International

In addition, the fact that the relevant ISAs cannot be used as a top-up when a circumstance arises that was not contemplated in the design of the proposed LCE standard is another obstacle to implementing the proposed LCE standard. This may be a deterrent for teams to use the proposed LCE standard, especially on first-time engagements, as switching to the full suite of ISAs later could lead to significant time and cost pressures.

7. Professional Accountancy and Other Professional Organizations

Association of Practising Accountants

It makes sense for the standard to be standalone, and hopefully will ensure that there is not scope creep from regulators in individual jurisdictions through “best practice” requirements which do not form part of the standard itself. However, the authority needs to be clearer as to when this standard can be applied as the standalone nature of this standard does make transition very difficult during an audit if complexities were to arise which meant this standard may no longer be appropriate.

Chamber of Financial Auditors of Romania

It will be challenging for an auditor who will have used the ISA for LCE for a longer period of time to apply ISAs in their entirety when the situation will deem it necessary (whether because of new more complex clients or because an entity could no longer be considered less complex and therefore ISAs will become applicable). Transition from one set of standards to another might create confusion and impact the audit quality.

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

Transition and the standalone nature of the standard. We have heard mixed feedback regarding the strict standalone requirement of using the standard. The feedback from practitioners who audit LCEs is that encountering a single complex issue that was not identified during engagement acceptance and continuance or planning may not be as rare as contemplated in the ED. The prospect of having to go back and perform a full ISA audit if an isolated issue is discovered will be a deterrent to practitioners who may otherwise adopt the standard. An example frequently raised by our stakeholders is in respect of accounting estimates with many suggesting that the standard should provide some flexibility in this area as this will allow a significantly larger pool of entities to be scoped in the standard and in return making its adoption a lot more attractive for firms.

CPA Australia

Transitioning:

By having a separate standard for LCE audits, it creates difficulties in transitioning to the ISAs if the client becomes more complex and vice versa. Transitioning is likely to create additional work to ensure the ISA requirements have been adequately met, documentation is revised and the engagement letter is updated, especially when it occurs part way through an audit. If the transition occurs between periods, the implications for the auditor’s report when comparatives have been audited under a different standard and inefficiencies of being unable to leverage the prior period’s audit file, will create additional work effort. Whenever it occurs, additional documentation will be needed to address this transition, unless the LCE standard is integrated into the suite of ISAs.

Institute of Singapore Chartered Accountants

However, one concern that auditors have in relation to a standalone standard is the risk of having to change to applying the full suite of ISAs during the course of an audit arising from changes in the circumstances of the audited entity. For example, when the audited entity enters into complex transactions that were not made known to the auditor during the planning phase. Implications arising from this could include disruptions or delays to the audit timeline due to top-up procedures having to be performed and client dissatisfaction. While we note the IAASB’s view that such situations of switching to ISAs may be uncommon, some guidance on how auditors can identify and deal with such scenarios could be helpful.

South African Institute of Chartered Accountants (2)

Practical application of transition between ISAs and ISA for LCEs is unclear. The following question needs to be clarified in the LCE standard, “Is it possible to transition from ISAs to ISA for LCE and vice versa and what would such a process entail?”

Section 4A – Overarching Positioning of ED-ISA for LCE\Question 1 - Overarching views\Question 1(a) - Standalone proposed Standard - Concerns or obstacles\3) Agree with Comments\3l) Make Clear Can't Top up if Prohibited

3. Regulators and Audit Oversight Authorities

Independent Regulatory Board for Auditors (IRBA)

In addition, the Authority of the proposed standard should state that the auditor is not allowed to “top-up” a requirement(s) and/or AM from the ISAs, if it is not part of the core requirements in the proposed standard, (that is, there is no intended need to directly reference back to the requirements or application material in the ISAs in the application of the proposed standard and relevant ISA requirements cannot be used to “top-up” the ISA for LCE). Please refer to our further comments in response to question 3.

4. National Auditing Standard Setters

Austrian Chamber of Tax Advisors and Public Accountants (KSW)

We are not quite sure if the requirement in paragraph 1.3.3.(a) contradicts the standalone nature of the standard. Paragraph 1.3.3.(a) states whether any audit procedures in addition to those required by the relevant Part are necessary to achieve the objectives stated in the draft standard. This could lead that the auditor goes back to ISA without changing the scope of the audit.

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

As mentioned above, we fully support the standalone nature of the proposed standard for audits of LCEs. The standalone nature of this standard is completely in line with the one that France chose for its own standard relating to the audit of small entities.

With respect to the conditions of use of the proposed standard, we believe that they should be clarified in the standard itself. We believe, in particular, that the principles set in paragraph 26 of the explanatory memorandum (which explains that cherry picking specific paragraphs of the ISAs to address a particular circumstance in the audit of an LCE (for example a complex estimate by referring to ISA 540) is not permitted) is not sufficiently reflected in the draft ISA. Therefore, we consider that paragraph A9 of the draft ISA for LCE should be amended to reflect the principle set in paragraph 26 of the explanatory memorandum i.e. relevant ISA requirements cannot be used to “top-up” ED-ISA for LCE in order to address a particular circumstance.

5. Accounting Firms

BDO International

If the IAASB retains the principle that the need to refer to other ISA requirements means auditors cannot use the LCE standard, it should be clarified in the proposed standard that it is acceptable for the auditor to consider referring to the ISAs to help understand requirements that exist in the LCE standard. The prohibition related to referring to the ISAs would then only apply if auditors sought guidance in the ISAs for requirements that the LCE standard excluded.

Nexia Smith and Williamson

Paragraph 26 of the Explanatory Memorandum says that: “... if there is a circumstance that has not been contemplated in the design of ED-ISA for LCE as addressed in the Authority of the proposed standard (Part A), relevant ISA requirements cannot be used to “top-up” ED-ISA for LCE in order to address the circumstance.” We cannot find this requirement in the Proposed Standard itself, and believe this may inhibit auditors from drawing on their existing knowledge of ISAs if appropriate when making judgements. This seems an artificial boundary to draw, and appears to conflict with the requirement in paragraph 2.2.2 of the Proposed Standard that “The auditor shall design and perform audit procedures that are appropriate in the circumstances for the purpose of obtaining sufficient appropriate audit evidence.”

7. Professional Accountancy and Other Professional Organizations

Institute of Certified Public Accountants of Kenya

ICPAK supports the standalone nature of the proposed standard.

Additionally, we are of the view that the Authority of the proposed standard should make it clearer that the auditor cannot cherry pick a requirement(s) from the ISAs if it is not part of the core requirements in the ISA for LCE.

South African Institute of Professional Accountants

The one area of concern we have identified is the initial determination of the appropriateness of applying this standard. It should be clear that the auditor cannot apply the standard and add on additional areas from the ISA's as this standard is a standalone standard.

Section 4A – Overarching Positioning of ED-ISA for LCE\Question 1 - Overarching views\Question 1(a) - Standalone proposed Standard - Concerns or obstacles\3) Agree with Comments\3m) Reporting Considerations\Mixed Views

4. National Auditing Standard Setters

New Zealand Auditing and Assurance Standards Board

Given that ED-ISA for LCE contains the relevant audit requirements from the full ISAs and achieves similar assurance, the NZAuASB considers that reference to the ED-ISA for LCE in the LCE auditor's report risks confusing users as to the nature of the audit and the level of assurance being provided. This will further exacerbate the potential misperception that the ED-ISA for LCE is less than the full ISAs, which is a fundamental perception issue.

We also note that the specific content and format of the auditors' report would further complicate the transitioning provision requirements, as discussed in Question 13 below. The auditors' report should be more flexible in stating the basis of auditing standards being used.

However, this concern is not shared by all stakeholders we engaged with. The smaller audit firms and sole practitioners do not think referencing ED-ISA for LCE in the auditor's report will cause a concern to users of financial statements, as it provides the same level of assurance and improves the transparency of auditors' reporting. These practitioners consider that users are primarily concerned with the audit opinion (unqualified or otherwise) and whether audit opinion provides the highest possible level of assurance, and less about which auditing standards that have been used. Furthermore, it might be self-evident to the users of such financial statement that the entity is less complex in nature and hence the use of ED-ISA for LCE will be understood as appropriate. It should be noted that however, our outreach had limited users' representation. Hence, the NZAuASB still believes that this could be a perception issue that should be addressed by the IAASB. There is a need for ongoing education to avoid this misperception.

We consider that the use of the proposed standard should be communicated with TCWG. From our outreach, most participants considered it appropriate for auditors to determine and to communicate to TCWG which auditing standards will be used in the engagement letter, and many support the communication of the rationale for using the LCE standard to TCWG for transparency purposes. Some participants thought that the communication of the rationale to use LCE standard would be appropriate in the first year of use and then to communicate on exception basis if there has been changes in circumstances.

5. Accounting Firms

BDO International

However, the standalone nature of the standard presumes that the audit opinion must refer to an audit performed under 'ISA for LCE'. Some BDO firms believe that referring to 'ISA for LCE' in the auditor's report is likely to add confusion and increase the expectation gap for users, as well as lead to a perception of a

sub-standard audit having been delivered, notwithstanding that an audit under the currently proposed ISA for LCE will have achieved reasonable assurance. If the aim is to provide the same level of assurance, we do not think it is necessary to differentiate the standard used in the auditor's report (i.e., it should just refer to ISAs rather than ISA for LCE). If the IAASB does change the proposed LCE standard further such that an LCE audit has significantly reduced requirements and provides a lower level of assurance, then we fully agree that the auditor's report should refer to ISA for LCEs.

The feedback we received from our various firms indicated that if auditors need to refer to the ISA for LCE in the auditor's report, there should be substantive differences between the LCE requirements and the full suite of ISA requirements, while acknowledging that such LCE audits may provide something less than reasonable assurance depending on the significance of the reduced requirements for LCEs. For example, reduced work effort or documentation around risk assessment procedures, in particular related to obtaining an understanding of internal controls, may be an area where differentiation from the ISAs could be justified as it applies to LCEs.

7. Professional Accountancy and Other Professional Organizations

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

Perception and the risk of an expectation gap. Some stakeholders have expressed concerns that ISA for LCEs has the potential to widen the expectation gap with users, if they perceive it to be a "lesser quality" audit or reduced work effort with the risk of creating two tiers of auditors. This topic was raised in relation to a number of aspects, but mostly when it came to auditor reporting and transparency. While the majority of practitioners are supportive of the need for the auditor to communicate with those charged with governance that the engagement will be performed under ISA for LCEs, there are mixed views on whether it is necessary for the auditor's report to also reference the standalone nature of the standard. Those who are against it raised concerns with the expectation gap and a push from users to lower audit fees for ISA for LCEs engagements. They expressed the view that if the requirements in the ED are all from the ISAs, it is, in essence, still an ISA audit. The counter argument is the need for transparency in communications from the auditor for the users of the financial statements.

Institute of Chartered Accountants in England and Wales

Audit opinion: to include a reference to this standard is transparent, but risks creating the impression that a different audit has been performed. Support for this approach from those who do not believe that this standard can deliver reasonable assurance is therefore unsurprising. However, upholding the principle that all audits are equal and simply referring to the ISAs, and including this standard among them, lacks transparency. A reference to the standard, together with a statement to the effect that it is equivalent to the ISAs, would be both transparent and uphold the principle that all audits are carried out to the same standard.

Instituto dos Auditores Independentes do Brasil

Additionally, we are concerned that the auditor's reports could create lack of clarity for users or other stakeholders regarding the audit service, as to the nature of an audit engagement conducted in accordance with this standard and how this compares to/differs from an audit performed in accordance with the full-scope ISAs, considering both would achieve a reasonable assurance. This is a particular concern given the current "expectation gap" regarding public perception as to what an audit is and is not. This is challenging because we believe that the principal difference between the ISA for LCE and full-scope ISAs resides in lack of application material and "permission" to exercise a greater degree of professional judgement in determining how to execute requirements.

Nordic Federation of Public Accountants

In terms of referring to ISA for LCE in the audit report, we recommend the IAASB to carefully consider the pros and cons of doing so bearing in mind that audits of LCEs according to the ISAs or to this LCE standard will both result in the same audit opinion. We recognize that reference to ISA for LCE has an undisputed value from a transparency and full disclosure perspective. At the same time there might be unnecessary

negative consequences such as discussions about audit fees and the robustness of the standard (an A or B audit); both factors that might affect the use of the standard.

Section 4A – Overarching Positioning of ED-ISA for LCE\Question 1 - Overarching views\Question 1(a) - Standalone proposed Standard - Concerns or obstacles\3) Agree with Comments\3m) Reporting Considerations\Should refer to ISA for LCE

3. Regulators and Audit Oversight Authorities

Swedish Inspectorate of Auditors

The SIA acknowledges the risk that two separate standards for auditing (full ISAs and ISA for LCE) might cause confusion. In order to avoid that the SIA's view is that it should clearly be stated in all reporting under which standard the audit has been performed. Further the audit client should be also able to decide that the audit is to be performed under the full set of ISAs, even if the ISA for LCE could have been used.

4. National Auditing Standard Setters

Institute of Chartered Accountants of India

- Proposed standard requires auditor to make clear in auditor's report which standard(s) have been used to provide transparency to users of financial statements.

We agree with following matters related to ED-ISA for LCE as discussed in Section 4A:

7. Professional Accountancy and Other Professional Organizations

South African Institute of Professional Accountants

It was also agreed that it needed to clear in the auditor's report which standard(s) have been used so that users of the financial statements have transparency as to which standards have been applied in conducting the audit.

9. Individuals and Others

ASK KSA Consulting Inc.

We agree with the approach taken with regard to auditor reporting requirements. We feel it is important from a transparency perspective to reference ED-ISA for LCE.

Section 4A – Overarching Positioning of ED-ISA for LCE\Question 1 - Overarching views\Question 1(a) - Standalone proposed Standard - Concerns or obstacles\3) Agree with Comments\3m) Reporting Considerations\Should refer to ISAs

4. National Auditing Standard Setters

Australian Auditing and Assurance Standards Board

The AUASB considers that if reasonable assurance is achieved and the audit work is proportionate to the nature of an LCE audit engagement, then there should be no need to premise this as an audit under a separate standard in the audit report. While supportive of transparency, the AUASB considers that this transparency may infer that an audit conducted using the proposed ED-ISA for LCE Standard is perceived as a second-rate assurance product, resulting in very limited acceptance of the standard.

Austrian Chamber of Tax Advisors and Public Accountants (KSW)

We acknowledge the quality of the ISA for LCE standard summarizing the requirements for relevant audits in a less complex environment. We did not identify any material differences in audit procedures and requirements between full ISA scaled for small and medium sized entities and ISA for LCE. Hence, we recommend that the auditor's report under ISA for LCE including the same opinion should not explicitly refer to a different set of standards. Especially, we are concerned that there is potential for confusion for users of auditor's reports as to the nature of an audit engagement conducted in accordance with this standard and how this differs from an audit performed in accordance with the full ISAs.

5. Accounting Firms

BDO International

We do not agree with the requirement to refer to 'ISA for LCE' in our auditor's report if practitioners still need to comply with all relevant ISA requirements and obtain reasonable assurance. While referring to 'ISA for LCE' is more transparent to users, many feel that it just increases the expectation gap and may prevent practitioners from adopting the LCE standard when the work / documentation requirements are the same as those in the ISAs. If the IAASB revises the proposed LCE standard such that there were reduced performance and documentation requirements, possibly resulting in a lower level of reasonable assurance, then we believe it would be critical to refer to the 'ISA for LCE' in the auditor's report.

Mazars

All requirements in the ISA, applicable for LCE, are included as requirements in ISA for LCE. In our view this means that an opinion based on ISA for LCE has the same level of assurance as ISA. We think that the auditor's report should be the same for ISA and ISA for LCE except for reference to the applicable ISA used. Requiring that the auditor's reports should be different would not be a simplification rather introducing two parallel systems for forming opinions.

RSM International

The reference in the auditor's report to the conduct of the audit under the "ISA for LCE" may result in users of the financial statements believing that the assurance provided is lower than an audit for the same entity under ISAs, even though this is not the case. Our concern is that this misconception could impact the adoption of the standard. We recommend that the IAASB reconsiders whether referring to ISA for LCE is helpful to the users of the financial statements.

7. Professional Accountancy and Other Professional Organizations

CPA Australia

Our key recommendations are:

Identify the LCE standard as an International Standard on Auditing (ISA)

Rather than the ISA for LCE standard being separate from the ISAs, we suggest that it sits within the suite of ISAs. This would mean that the auditor's report would not need to specify that the audit had been conducted in accordance with the LCE standard alone, instead it could reference the ISAs. As the audit outcome is intended to be the same, this would reduce any user perceptions that an LCE audit is of a lesser standard than an audit under the ISAs.

Presentation/content/completeness: We consider that specific reference to the LCE standard in the auditor's report should not be necessary as the audit outcome should be the same whether the ISAs were used or the LCE standard. It may create a concern for users that the LCE audit is different or of a lesser quality than an audit under the ISAs. As the audit product should be exactly the same whether the ISAs or LCE standard are applied, it will create unnecessary confusion for users as to whether the auditors' reports are comparable. If entities have a perception that an audit under the ISAs is preferable, particularly as there will be no anticipated costs saving, they may request the LCE standard not be used. To enable generic referencing of the ISAs, it may be necessary for the LCE standard to be titled as an auditing standard so that the auditor's report can continue to state "We conducted our audit in accordance with International Standards on Auditing (ISAs)" or national equivalents.

GGI Global Alliance

ne model report and one audit opinion

In order also to avoid any misperception about the equivalent quality of an audit according to the new standard and an audit according all other audit standards, we strongly advocate that neither the audit opinion nor the other parts of the audit report contain any reference to the application of the standard for LCEs. Indeed, an audit according to the new standard is supposed to be fully compliant with the level of assurance delivered by an audit, when this standard LCE is applicable (in function of clear criteria and rules: see our previous section).

Introducing a distinction would on the contrary create possible misunderstandings by the readers of the audit reports, including the banks and the financial markets when a LCE (usually a SME) wants to access these markets and therefore discloses its previous financial statements possibly audited according to the new standard.

Section 4A – Overarching Positioning of ED-ISA for LCE\Question 1 - Overarching views\Question 1(a) - Standalone proposed Standard - Concerns or obstacles\3) Agree with Comments\3y) Supporting Comments (Standalone Nature)

3. Regulators and Audit Oversight Authorities

Independent Regulatory Board for Auditors (IRBA)

Except for our concerns mentioned above, we are supportive of the standalone nature of the proposed standard. Positioning it as a separate proposed standard makes it clear that it cannot be used together with the full set of ISAs. However, to fully achieve the objective of the standalone nature of the standard and have a consistent performance of a quality audit, there are few matters that we recommend be considered before finalising the proposed standalone standard.

4. National Auditing Standard Setters

Hong Kong Institute of Certified Public Accountants

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 agree on the standalone nature of the proposed standard.

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.

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

We support having a stand-alone standard because having an LCE standard refer to the full ISAs would undermine the purpose of an LCE standard, which is to not require auditors (and not have audit regulators seek to require auditors) to apply the requirements of the ISAs when these may not be proportionate to the nature and size of an entity whose financial statements are being audited. For this reason, with the exception of drawing upon the ISAs to help delineate the scope of application of the LCE standard, we believe that the LCE standard should be sufficiently comprehensive and therefore stand-alone (that is, be fully detached from the ISAs) without needing to refer to the ISAs.

Institute of Chartered Accountants of India

We agree with the standalone nature of the proposed standard.

5. Accounting Firms

Crowe Macro Brazil

Fully agreed.

MHA Monahans

We agree that the proposed standard should be stand alone in nature as it facilitates the implementation into our audit methodology and will be easier for audit teams to follow.

Nexia Smith and Williamson

We agree with the general principle that the Proposed Standard should stand alone, albeit with the clear link to the ISAs that IAASB has maintained. We believe that the latter is essential if the Proposed Standard is to enable reasonable assurance to be expressed, which we believe to be the correct approach.

PKF International Limited

We agree that the ED-ISA for LCE should be presented as a standalone standard.

RSM International

We agree with the standalone nature of the proposed standard. Having one standard which contains all of the requirements for the audit of an LCE makes it easier to understand, use and apply.

6. Public Sector Organizations

Audit Scotland

A standalone standard is the right approach to setting proportionate auditing standards for audits of less complex entities.

7. Professional Accountancy and Other Professional Organizations

ASEAN Federation of Accountants

Roundtable discussion poll: More than 80% of our informal poll respondents support the introduction of a standalone standard for audits of LCEs.

The majority of our respondents support the introduction of the standard as a standalone and self-contained standard. Keeping any references to ISAs to a minimum is important to ensure consistency in implementation and avoid unintended practical consequences from having multiple audit standards. This would mean that the standard needs to be self-sufficient, provided with necessary and relevant implementation guidance to help consistent application.

Association of International Accountants

AIA supports the standalone nature of the proposed standard. There must be 'clear water' between the mainstream ISAs and the proposed ISA for LCEs. AIA feels that proposed standard achieves this through the application of a conceptual and contextual approach in the essential explanatory information.

Association of Practising Accountants

It makes sense for the standard to be standalone, and hopefully will ensure that there is not scope creep from regulators in individual jurisdictions through "best practice" requirements which do not form part of the standard itself.

Belgian Institute of Registered Auditors (IBR-IRE)

From the point of view of the professionals who use the ISA for LCE, it is good to have a reduced standard. Indeed, the proposed standard itself is approximately 110 pages, which is clearly less than the 1000 plus pages of the ISAs.

The option of having its own standard for less complex entities, without having to include certain aspects of the ISAs, seems valid, because otherwise uncertainty would arise about when certain ISAs or parts of it should still be applied and when not.

Chamber of Auditors of the Czech Republic

We support the standalone nature of the proposed standard for LCE. The key to success is whether the ISA for LCE will be comprehensive enough on its own (i.e., fully detached from the ISAs) and concise at the same time.

Chamber of Financial Auditors of Romania

The development of a separate standalone standard applicable only for audits of less complex entities, which is easier to understand and follows the stages of the audit engagement, considering the complexity of the existing ISAs, is an outcome expected in the audit market both by smaller audit firms and sole practitioners who find ISAs very difficult to navigate in relation to their less complex audits, but also by big audit firms, whose portfolio of clients include smaller entities and yet, in order to comply with ISAs requirements, find themselves in the situation to use the same amount of resources, rendering smaller audits inefficient.

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

Structure and flow of the standard. Structuring the standard to follow the steps of an audit engagement improves the ease of use for practitioners and our stakeholders were very supportive of the structure. ISA for LCEs may be useful, outside of the performance of engagements, to help students and new entrants to the profession gain an understanding of the underlying process of an ISA audit in an easily understood format. Our stakeholders also highlighted that the current structure will be very helpful for training programs within their firms. Additionally, some noted that the flow of the standard, the colour coding and the italics used are very clear and that they will also be very effective in translating into visual impairment tools.

Authority of the standard. Stakeholders generally are satisfied with the qualitative characteristics, though some suggested that perhaps consideration should be given to whether there are any additional characteristics that might be useful for auditors of public sector entities to consider.

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

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 needs of LCE entities instead of having to spend time scaling the full suite of ISAs which are designed with complex audits in mind.

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.

We support the development of ISA for LCEs to provide a framework for a consistent, efficient, high-quality audit that still provides reasonable assurance. We believe it will have a positive impact on audit quality and the efficiency of the audit process for SMPs when performing audits of LCEs. The existence of a global standard for LCE audits versus the development of solutions in individual jurisdictions is important to support audit quality internationally.

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 an extreme shortfall of audit professionals in Canada, the United States, the UK, 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.

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 developing such a product would likely to take a much longer time and of course would also deliver a product which could be seen as inferior in quality to that supported by the full suite of ISAs. We therefore, consider that the ISA for LCE presents a pragmatic approach to addressing the need to improve the efficiency of scaling an ISA audit for an LCE in a timely manner.

CPA Australia

Perceived benefits of a stand-alone LCE standard:

Length:

Having all of the core requirements contained in one standard provides a more holistic perspective. This may facilitate increased audit efficiency as justification for not applying irrelevant requirements does not need to be documented. More precisely, the relatively short length of the standard makes it more user-friendly and easier to interpret.

The requirements of the standard reflect the core content of the ISAs but is presented in a condensed form which reflects the flow of an audit engagement.

Practicability:

The LCE standard is intended to still require the same amount of audit effort to obtain reasonable assurance. Therefore, it is unlikely to reduce the auditor's work and audit fees, but should make it easier for auditors to identify the requirements to be met. This would be advantageous especially to those who perform audits as just one of a number of service offerings or those who have limited resources to develop their own methodologies, such as small practices or sole practitioners.

For small and mid-tier firms or individual auditors for whom all, or at least the majority, of their clients are LCEs the standard is likely to enable greater efficiencies in their audits as they are guided by a shorter, more targeted LCE standard.

Audit quality:

By tailoring the requirements to better direct the LCE auditor's focus, the standard has the opportunity to enhance audit quality as it reduces the volume of requirements and application material that the full suite of standards presents. This could result in a reduction in relevant requirements being overlooked in audits of LCEs and better focus the audit effort.

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). 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. The agile approach of the IAASB is welcomed in getting the standard drafted and issued in a shorter timeframe than has occurred historically.

European Federation of Accountants and Auditors for SMEs

We agree with the standalone nature of the proposed standard.

A similar approach to the one being proposed has been adopted and used by the IASB for its IFRS for SMEs. IFRS for SMEs is not widely used in the European Union ('EU'). Notwithstanding this we urge the Board, if it has not already, to liaise with the IASB regarding ongoing deliberations on the standalone status of its IFRS for SMEs.

Finnish Association of Authorised Public Accountants

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".

Indonesian Committee on Public Accountant Profession (KPAP)

KPAP supports the decision to separate the ED-ISA for LCE from the ISAs. If auditors are given the ability to refer to the ISAs, there will be consequences, as mentioned in paragraph 28.

Institute of Certified Public Accountants of Uganda

As per the survey results (Appendix II), ICPAU is supportive of the standalone nature of the proposed standard. In Uganda, there are a significant number of entities that fulfil the criteria for classification as LCEs. Therefore, majority of the practitioners in the country are likely to adopt the new standard.

Institute of Chartered Accountants of Namibia

We agree that the standard should be stand-alone.

Institute of Chartered Accountants of Pakistan

We would also like to highlight that in order to make the proposed standard 'fit for all' audits of LCEs it is important that all aspects that in general are relevant and related to such audits are covered with in the standard.

We agree with the IAASB's approach to develop a separate standard for the audits of LCEs. In context of the structure and approach of the proposed standard we note that it follows the flow of audit and is based on the premise of core ISAs requirements using the risk-based approach. The proposed standard also covers the fundamental principles, emphasizing the need for use of professional judgement and exercise of professional scepticism. The structure and drafting of the proposed standard is expected to make it understandable and practicable for auditors.

Institute of Chartered Accountants of Scotland

We are supportive of the standalone nature of the standard. Of course, such an approach creates a tension between seeking to ensure that the standard is comprehensive i.e., includes the key elements of the full suite of ISAs but at the same time is also more proportionate in terms of the auditing procedures that should be applied on the audits of LCEs.

Institute of Singapore Chartered Accountants

We agree with IAASB's current approach in positioning ISA for LCE as a standalone standard as it would be more concise, and easier to read and apply. Currently, there is no option in ISA for LCE to refer back to the ISAs. This is good as allowing any such option will cause confusion in application as auditors will grapple with the question when they should refer to ISAs instead of ISA for LCE.

South African Institute of Professional Accountants

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).

We agree and understand that smaller, less complex entities (LCEs) make a critical contribution to the world economy and account for the great majority of audits globally, we agree with the standalone nature of the proposed standard.

We agree that the proposed standard is separate from the ISAs with no intended need to directly reference back to the requirements or application material in the ISAs in its application.

If there is a circumstance that has not been contemplated in the design of ED-ISA for LCE as addressed in the Authority of the proposed standard (Part A), relevant ISA requirements cannot be used to "top-up" ED-ISA for LCE in order to address the circumstance.

Section 4A – Overarching Positioning of ED-ISA for LCE\Question 1 - Overarching views\Question 1(a) - Standalone proposed Standard - Concerns or obstacles\3) Agree with Comments\3z) Other Comments

3. Regulators and Audit Oversight Authorities

Independent Regulatory Board for Auditors (IRBA)

Lastly, it is not clear as to why the amendments to the Preface and the Glossary have not been done in a similar or consistent manner. The Preface has been updated with the LCE principles, but a separate Glossary has been included in the proposed standard.

4. National Auditing Standard Setters

Austrian Chamber of Tax Advisors and Public Accountants (KSW)

We support the standalone nature of the draft LCE standard. Although the final LCE standard must be clear, concise, and easy to apply. We encourage the IAASB to use the principles laid down in the CUSP project.

Canadian Auditing and Assurance Standards Board

What stakeholders told us

Stakeholders generally supported a standalone standard but felt that it might not be practical. Stakeholders noted that it is not uncommon for LCEs to exhibit some elements of complexity in their operations and financial statements. It is only the very simplest of entities that have no elements of complexity.

Consequently, to avoid frequent transitioning to the ISAs, they felt that the ability to "top-up" ED-ISA for LCE

with relevant ISA requirements is a practical solution to addressing elements of complexity common in LCEs.

AASB views and recommendations

We agree with the approach of developing ISA for LCE as a separate standalone standard, designed to be proportionate to the typical nature and circumstances of an LCE. Consequently, we agree that a separate standalone standard would not reference back to the ISAs or allow “top-up” with ISA requirements.

However, we acknowledge stakeholders’ concerns that ED-ISA for LCE in its current form has possible obstacles that may impair its ability to be a standalone standard. These include that:

the pain points in the ISAs are not addressed in ED-ISA for LCE;

the Authority is not easily implementable;

there is a lack of guidance on transitioning; and

EEM is not sufficient or complete.

New Zealand Auditing and Assurance Standards Board

The NZAuASB acknowledges that the proposed separate standalone standard will be helpful in assisting practitioners in many jurisdictions to navigate and scale the full suite of International Standards on Auditing (ISAs) which have become increasingly lengthy and difficult to navigate. However, we express concerns that a standalone standard might signal that an LCE audit is less than an ISA audit, or imply a two-tier auditing environment.

The NZAuASB is supportive of an approach which generally does not allow topping up with reference to the full ISAs. This avoids the issue of having to apply the LCE standard and refer to the ISAs if there were no relevant audit requirements included in the LCE standard.

5. Accounting Firms

Crowe Macro Brazil

The IAASB should include an express mention to highlight that large and complete knowledge of the ‘full’ ISAs is a prerequisite for the auditor to be capable of deciding which set to apply and to properly apply this ISA for LCEs.

Mazars

However, we have the following comments:

There might be potential unexpected consequences among some stakeholders.

Some could consider that ISA for LCE means less audit risk therefore less work hence less audit fees.

However, the objective of this standard is not less work but the right amount of work to reach audit quality in a more efficient manner.

On the contrary, very often, as it is not possible to rely on controls during audits of less complex entities, a more fully substantive approach will be taken resulting into more work and more time spent. Hence, this standard will not lower cost for the audit firm.

As the ISA for LCE are based on the Drafting Principles and Guidelines being developed by the Complexity, Understandability, Scalability and Proportionality (CUSP) Working Group of the IAASB, some believe that this ED ISA for LCE could be applicable for all engagements except for PIE, and that there would be soon a set of ISA for PIE and another one for non-PIE

Yes. We are in favor by principle to have a standalone standard for LCE which is very often a counterpart to perform audit in many countries for non-PIEs. In a context of increased uncertainty, many going concern issues and other difficulties because of the economic crisis, we believe it is in the interest of the general public-interest to make sure the audit of LCE is done with high quality audit standards without any impediment.

The work done by the task force in transforming the ISA to the standalone format is a great achievement in improving the accessibility to the audit standards.

One of the main differences between ISA and ISA for LCE is the lower number of Application and Other Explanatory Material (in ISA for LCE named EEM). The Application and Other Explanatory Material forms part of the basis for the auditor’s professional judgement.

Notwithstanding the concerns we express elsewhere in this response, if we agree a separate standard for Less Complex Entities is needed, we agree with the decision to propose a new standard class within the IAASBs suite of standards “International Standard on Auditing (ISA) for Audits of Financial Statements of Less Complex Entities (ISA for LCE).

6. Public Sector Organizations

Government Accountability Office (USA)

We believe that using a stand-alone standard for less complex entities (LCE) is a preferred approach to integrating the requirements throughout the other standards. However, we noted that the language for the requirements from the other International Standards on Auditing (ISAs) differs from the language for the requirements in the Exposure Draft (ED) ISA for LCE. Our concern is that differences between requirements in the other ISAs and the ED-ISA for LCE will increase the risk of inconsistent implementation of the requirements. We recommend providing guidance to identify the requirements in the ED-ISA for LCE and the corresponding requirements in the other ISAs. As part of this guidance we suggest including the requirements that are not part of the ED-ISA for LCE to help users identify requirements of the ISAs that are not part of the ED-ISA for LCE.

7. Professional Accountancy and Other Professional Organizations

Accountancy Europe

Overall, we support the standalone nature of the proposed standard for LCE. The key to success is whether the ISA for LCE will be comprehensive enough on its own (i.e., fully detached from the ISAs) and concise at the same time.

ASEAN Federation of Accountants

The Board may also need to provide further clarification on the future of this standard, in the context of the Board’s Complexity Understandability Scalability Proportionality (CUSP) project of ISAs. Questions have been raised about whether the standard is intended to be an interim measure until the CUSP project is concluded.

Belgian Institute of Registered Auditors (IBR-IRE)

As a preliminary remark, audit firms that wish to apply ISAs must still be allowed to do so.

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

In addition, stakeholders have pointed out that, in jurisdictions where the practitioners are well versed in the full ISA suite, it is difficult for a practitioner to identify where they may be applying their experience of the full ISAs in performing an ISA for LCE which may result in an inadvertent “uplifting” of procedures. This would also potentially result in issues where regulators form different judgments about what procedures should have been applied.

Overview of feedback and refinements

We have consulted with a wide range of stakeholders in ASEAN, Canada, UK, Europe, Australia and New Zealand. 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.

Structure and flow of the standard. Structuring the standard to follow the steps of an audit engagement improves the ease of use for practitioners and our stakeholders were very supportive of the structure. ISA for LCEs may be useful, outside of the performance of engagements, to help students and new entrants to the profession gain an understanding of the underlying process of an ISA audit in an easily understood format. Our stakeholders also highlighted that the current structure will be very helpful for training programs within their firms. Additionally, some noted that the flow of the standard, the colour coding and the italics used are very clear and that they will also be very effective in translating into visual impairment tools.

In relation to using ISA for LCEs, there are three main areas where we received feedback from stakeholders for the board to consider in relation to the structure.

While stakeholders understand that the standard is not intended to necessarily reduce the work effort in performing an audit of an LCE, practitioners are keen for the standard to deliver efficiencies where possible. The board should consider if the requirements and documentation are as streamlined as possible. The areas commonly mentioned during our outreach were risk assessment and internal controls. Practitioners suggested that the board consider if there can be a further reduction of requirements to provide the most efficient solution for LCEs where the practitioner knows they will be using a substantive approach. This is an area commonly raised in discussions about scalability of the full suite of ISAs. While practitioners accept that it is necessary to understand the entity and assess risks, they feel the requirements and documentation can still be onerous when a substantive approach will be taken. We understand the challenge that the IAASB is facing here, since LCEs consist of a very large pool of entities ranging from very simple LCEs who may lack the resources to have robust controls where practitioners therefore need to take a substantive approach to larger entities that may have appropriate controls in place. The standard needs to be scalable for all situations. We therefore suggest making some of the requirements conditional depending on the circumstances in order to overcome the concerns raised above by our stakeholders.

Essential explanatory material (EEM). Some stakeholders would prefer that the explanatory material was provided separately to the standard as the current presentation may present challenges for practitioners in jurisdictions, such as Australia, where the standards are legislative instruments and have force of law. We recommend that the board consider the implications for these jurisdictions in finalising how the EEM is presented. There was some discussion about the appropriate amount of EEM to include and this is an area that will need to evolve once the standard is implemented by practitioners.

Inclusion of the 800 series. Most practitioners were in favour of the standard addressing special purpose financial statements and audits of elements of financial reports or single statements. Particularly in the NFP sectors, less complex entities may receive government funding that requires a grant acquittal audit or similar engagement or may prepare special purpose financial statements under their regulatory frameworks or governing documents. If practitioners have to perform special purpose engagements under the full ISAs, it is a disincentive to adopt ISA for LCEs as they will not necessarily wish to maintain two audit methodologies.

We also note that the ISA for LCE, similar to ISAs, is a principle-based standard and does not rely on detailed, prescriptive rules. This allows the LCE standard to be scalable and customised to be effective based on the facts and circumstances of the audit. However, we find that because the requirements are principle-based, it is inherently difficult for the practitioners (and regulators) to say definitively whether the LCE standard has been applied or the full ISA has been applied in at least some circumstances. As a result, the distinction can be quite arbitrary.

CPA Australia

Although we support the IAASB in acting on stakeholders' calls for a standard to meet the needs of auditors of LCEs, we note that it may not be suitable for adoption as a mandatory standard for audits of LCEs in all jurisdictions. The proposed standard may nevertheless be useful as a voluntary standard in such jurisdictions. Ultimately it will be up to each national standard-setter to determine whether it will be issued in their jurisdiction, but this need not preclude those jurisdictions, who will find it useful, having access to such a standard.

Jurisdictional differences:

Jurisdictions in which auditing standards are mandated by legislation, such as Australia and New Zealand, are likely to have difficulty in mandating the LCE standard in its current form, due to the structure of the standard and the extensive judgement needed in determining which entities are LCEs. The use of essential explanatory material (EEM) in shaded boxes without numbered paragraphs, for example, may create difficulties in identifying the requirements which can be enforced and the non-mandatory guidance material which need not be enforced.

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.

While we support the introduction of the proposed LCE standard, we question the practicality of its standalone nature for several reasons:

the risk of divergence in approach from the ISAs over time as auditors of LCEs become unfamiliar with the ISAs,

it prevents auditors using the material in the ISAs as guidance in conducting an LCE audit, which could create challenges given that the LCE guidance in the form of EEM is limited, and

the risk of creating a users' perception that the LCE audit is of lesser quality, as the ISAs are not all applied. Below, we summarise potential benefits and challenges of the LCE standard which we have identified in consultation with our key stakeholders. We do not consider on balance that any of these factors should prevent this standard being issued, as it would be beneficial to publish the standard at least initially for voluntary application to test out its usability. The extent to which these benefits and challenges are realised can be evaluated in a post-implementation review.

Institute of Certified Public Accountants of Kenya

We are in agreement that the proposed standard has been developed to include core requirements to allow an auditor to express a reasonable assurance audit opinion.

Institute of Chartered Accountants of Pakistan

Further, the standalone status of ISA for LCE may trigger the fee reduction pressures from audit clients possibly leading to adverse impacts on client relationship and fee structures.

Malta Institute of Accountants

The above concerns also jeopardise the goal of achieving better harmonisation across the different jurisdictions as different jurisdictions will continue working on their own solution(s).

There is concern that if trying to keep aligned with the ISAs, changing the wording of the requirements introduces ambiguity about whether the intent is the same or not. In the current environment, opening the door to different interpretations is not in the public interest and increases the expectation gap.

We feel that there is not enough clarity on how the Standard will be adopted and how it will impact procedures when compared to current ISAs. This may lead to more confusion for practitioners.

South African Institute of Chartered Accountants

It is crucial that the LCE standard has the same standing, relevance and applicability as any other standard in the suite of ISA standards and that this standard does not facilitate any differentiation between an audit of a LCE and an audit of a non-LCE. In our view, the purpose of the LCE standard should be to facilitate and provide requirements and guidance to auditors specific to audits of entities determined to be less complex in support of increased efficiencies, issuing of an audit opinion, providing reasonable assurance after taking into account the different and less complex nature and circumstances of a less complex entity being audited.

SAICA's view is that the LCE standard is based on the principles of the ISAs and that there does not appear to be any reduced work effort for the practitioners that arises from applying the LCE standard. In this regard, we are of the opinion that consideration of the inclusion of the LCE standard as a special considerations standard in the main suite of ISAs would be more appropriate to assist auditors of LCEs rather than a separate stand-alone standard as the current draft is not detached from the ISAs. e.g. as a special considerations standard like ISA 600, Special Considerations – Audits of Group Financial Statements (including the work of component auditors).

8. Academics

Hunter College Graduate Program

We believe that the standalone nature of the proposed standard is useful for auditors to have a one stop reference point. However, we have identified some areas of improvement that are provided in our next section that would be helpful for better understanding of the standard. We also foresee some challenges on when the standard can be applied due to not having a complete list of what LCE comprises but appreciate that the standard provides some guidance such as when an entity has complex accounting transactions, ISA 540 is the most appropriate auditing standard.

Section 4A – Overarching Positioning of ED-ISA for LCE\Question 1 - Overarching views\Question 1(a) - Standalone proposed Standard - Concerns or obstacles\4) Disagree with Comments\4a) Inability to refer to ISAs\For Guidance Only

9. Individuals and Others

Cristian Munarriz

Nonetheless, I think that specific complexity factors (which are not pervasive for the engagement), for example the existence of a few complex estimates, should not prohibit the use of the ISA for LCE. In fact, except for some very small entities, it would be rare for an engagement to not have at least some complexity (e.g. significant risks, other than mandatory fraud risks, typically exist in virtually all audits, and significant risks are likely to have at least some complexity). It would be better for the ISA for LCE to mention that if there are some specific complex issues in the audit (which are not so pervasive that makes use of the ISA for LCE inappropriate) the auditor should perform additional procedures to address the complexity and the auditor may consider the requirements in ISAs as guidance (in practice, the audit firm methodology will probably address those issues, for example requiring use of specific procedures for complex estimates). I generally support the standalone nature of the ISA for LCE.

Section 4A – Overarching Positioning of ED-ISA for LCE\Question 1 - Overarching views\Question 1(a) - Standalone proposed Standard - Concerns or obstacles\4) Disagree with Comments\4a) Inability to refer to ISAs\For Requirements

4. National Auditing Standard Setters

American Institute of Certified Public Accountants

1. Prohibition against the auditor “topping-up” the work performed by consulting the ISAs

The Exposure Draft states:

The IAASB developed ED-ISA for LCE as a standalone “self-contained” standard. The proposed standard is separate from the ISAs with no intended need to directly reference back to the requirements or application material in the ISAs in its application. This means that if there is a circumstance that has not been contemplated in the design of ED-ISA for LCE as addressed in the Authority of the proposed standard (Part A), relevant ISA requirements cannot be used to “top-up” ED-ISA for LCE in order to address the circumstance. Accordingly, the overall decision for the audit engagement is whether ED-ISA for LCE is appropriate for use given the nature and circumstances of the entity; the proposed standard does not address complex matters or circumstances, and is not permitted to be used for audits that are not audits of financial statements of LCEs.

As currently designed, the Exposure Draft would require the auditor, utilizing the Authority Document and exercising professional judgment, to make a good-faith determination regarding whether the entity whose financial statements are subject to audit is an LCE. If the auditor makes such a good-faith determination only to encounter an area (or areas) that is not addressed in the Exposure Draft, then the Exposure Draft would require the auditor to perform such an engagement in accordance with the ISAs. It is impractical to prohibit the auditor of an LCE from consulting the ISAs for additional guidance when the auditor encounters unexpected issues (for example, in the case of auditing an estimate). The ability to continue to use the Exposure Draft and consult the ISAs for additional guidance would facilitate high-quality audits by providing auditors with the resources to be able to conclude that reasonable assurance has been obtained.

Our recommendation that the IAASB use the material in the Exposure Draft to create a guide on the application of ISAs for audits of LCEs would eliminate this concern, and the development of a clear and understandable definition of an LCE (as recommended previously) would significantly reduce this concern. Further, allowing auditors the ability to consult the ISAs would be consistent with:

the fundamental requirement in paragraph 21 of ISA 200 (Revised), Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance With International Standards on Auditing, which states that to achieve the overall objectives of the audit, the auditor shall determine whether any audit procedures in addition to those required by individual ISAs are necessary and evaluate whether sufficient appropriate audit evidence has been obtained.

the approach to obtaining limited assurance in an engagement performed in accordance with International Standard on Review Engagements 2400 (Revised), Engagements to Review Historical Financial Statements. In such engagements, the practitioner is required, in obtaining sufficient appropriate evidence as the basis for a conclusion on the financial statements, to design and perform inquiry and analytical procedures but is not precluded from performing other procedures when the practitioner determines that limited assurance has not been obtained from the inquiry and analytical procedures alone. When the practitioner performs such additional procedures (for example, procedures from the ISAs), the nature of the engagement (that is, a review), is unchanged.

If the IAASB decides to continue with the development of a separate standalone standard for audits of LCEs, further action is needed to improve the Exposure Draft. Specifically, we are concerned that the Exposure Draft will hinder the auditor's ability to obtain reasonable assurance due to:

A prohibition against the auditor "topping-up" the work performed in accordance with the Exposure Draft by consulting the ISAs;

5. Accounting Firms

HLB International

We respectfully disagree with the standalone nature of the proposed standard. There are many components of the ISAs that are applicable and helpful in the audit of an LCE. We view knowledge of the complete body of the ISAs to be a pre-requisite to choosing to utilize ED-ISA for LCE. Removing the ability to utilize relevant ISA requirements when faced with a circumstance that has not been contemplated in the design of ED-ISA for LCE will impair the ability of practitioners to utilize professional judgement in planning and executing an audit. In addition, we do not believe that giving auditors the ability to refer to the ISAs is likely to result in inappropriate usage of ED-ISA for LCE.

7. Professional Accountancy and Other Professional Organizations

Korean Institute of Certified Public Accountants

In principle, we agree with development of ISA for LCE as a standalone standard.

However, there may be a need to consider allowing reference back to the ISA in limited circumstances when accounting estimates involving complex modeling is discovered ("module" approach described in paragraph 138 of Explanatory Memorandum).

For example, according to paragraph 137 of Explanatory Memorandum, if a complex accounting estimate is discovered that involves complex modeling, the use of the ISA for LCE shall be excluded without considering other elements, because it was not considered when designing the ISA for LCE. However, if there is no fundamental change in an entity's level of complexity, i.e., when there is only one exceptional accounting estimate involving complex modeling, it doesn't appear to be appropriate to exclude the use of the ISA for LCE completely. There is a need to allow referencing to relevant ISA requirements only in such limited circumstances.

In such limited circumstances, it is not appropriate to use the ISA even from the perspective of information users as set forth in paragraph 28(a) of Explanatory Memorandum. And if a 'module' approach is used and it is indicated in the auditor's report that the ISA for LCE is used, it is not inappropriate to refer to the ISAs in the auditor's report even when the audit has not fully complied with all ISAs relevant to the audit.

Furthermore, only in such limited circumstances, it is deemed to be possible to identify additional discrete modules of "incremental requirements" described in paragraph 138 of Explanatory Memorandum.

Some have views that it is more appropriate to include the requirements on complex modeling in the ISA for LCE (See the answer to Question 12).

REA Auditores

We agree with the standalone nature of the proposed standard.

In cases where the LCE standard does not specifically address a transaction, other event, or condition we wonder whether the auditor may use their judgment to decide how best to proceed and, in making this judgment, whether the auditor may also consider the requirements and guidance in the full ISAs dealing with similar and related issues. This is permitted under IFRS for SMEs.

Section 4A – Overarching Positioning of ED-ISA for LCE\Question 1 - Overarching views\Question 1(a) - Standalone proposed Standard - Concerns or obstacles\4) Disagree with Comments\4a) Inability to refer to ISAs\For Voluntary Procedures

7. Professional Accountancy and Other Professional Organizations

REA Auditores

Similarly, we wonder whether auditors using the LCE standard will be allowed to use full ISA requirements or application material in case they wish to voluntarily perform additional audit procedures.

Section 4A – Overarching Positioning of ED-ISA for LCE\Question 1 - Overarching views\Question 1(a) - Standalone proposed Standard - Concerns or obstacles\4) Disagree with Comments\4b) Reasonable Assurance Comments\May not Achieve Reasonable Assurance

3. Regulators and Audit Oversight Authorities

Financial Reporting Council (UK)

Structure and content of the ED-ISA for LCE

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.

4. National Auditing Standard Setters

American Institute of Certified Public Accountants

Hindrances to the Auditor in Obtaining Reasonable Assurance

If the IAASB decides to continue with the development of a separate standalone standard for audits of LCEs, further action is needed to improve the Exposure Draft. Specifically, we are concerned that the Exposure Draft will hinder the auditor's ability to obtain reasonable assurance due to:

A prohibition against the auditor "topping-up" the work performed in accordance with the Exposure Draft by consulting the ISAs;

Omitted requirements from the ISAs;

Insufficient explanatory material to guide the auditor in the proper and consistent application of the requirements; and

Wording differences between the Exposure Draft and the ISAs that may suggest a lesser work effort than is intended.

Key Findings: Our work determined that there are three ISAs for which the corresponding requirements in the Executive Summary will not, in our view, result in the auditor obtaining reasonable assurance. Those ISAs are:

ISA 315, Identifying and Assessing the Risks of Material Misstatement

ISA 450, Evaluation of Misstatements Identified During the Audit

ISA 550, Related Parties

Across these standards, the pattern we see is that the impediments to obtaining reasonable assurance are most prominent with the omission or revision of certain audit procedures associated with assessing risk over the course of an audit.

Additionally, we identified omissions or revisions to 16 ISAs - which in and of themselves may not result in an impediment to an auditor obtaining reasonable assurance - but taken together most likely will threaten obtaining reasonable assurance. Many of those changes center on certain aspects of quality management.

Section 4A – Overarching Positioning of ED-ISA for LCE\Question 1 - Overarching views\Question 1(a) - Standalone proposed Standard - Concerns or obstacles\4) Disagree with Comments\4b) Reasonable Assurance Comments\Other Comments

5. Accounting Firms

Baker Tilly International

We agree that the level of assurance from an LCE audit should be the same as from an audit of a more complex entity.

ETY sas

In the context of our view expressed in above paragraph (b), we support that the proposed standard has been developed to include core requirements to allow an auditor to express a reasonable assurance audit opinion.

HLB International

We agree that ED-ISA for LCE should contain requirements that will result in a reasonable assurance opinion.

7. Professional Accountancy and Other Professional Organizations

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

In the context of our view expressed in above paragraph (b), we support that the proposed standard has been developed to include core requirements to allow an auditor to express a reasonable assurance audit opinion.

Section 4A – Overarching Positioning of ED-ISA for LCE\Question 1 - Overarching views\Question 1(a) - Standalone proposed Standard - Concerns or obstacles\4) Disagree with Comments\4c) Make More Distinct From ISAs (View with Q7A)

4. National Auditing Standard Setters

Royal Netherlands Institute of Chartered Accountants (NBA)

We are concerned that this proposed standard will not achieve its purpose. As most of the requirements of the ISAs are incorporated in this standard, the added value is doubtful in our opinion. It does not necessarily require less audit procedures, however it may be seen as a lower-quality audit. From the discussions we had with practitioners and stakeholders this perception was confirmed. Therefore we still consider the simplification of all ISAs a better alternative as we mentioned in our earlier response.

7. Professional Accountancy and Other Professional Organizations

ASSIREVI

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:

while obviously keeping faith with the general objectives of the ISAs, the proposed standard does not seem to have been simplified enough to justify its standalone nature compared to the complete set of ISAs. In fact,

some requirements, the application of which is tied to and/or dependent on the existence or not of certain events and circumstances, have been eliminated or, in some cases, rewritten, and, therefore, they would presumably not be relevant to the audit of an LCE. On the other hand, for example, the risk assessment process which underpins the entire audit process, as set out in the proposed standard, has maintained nearly all the rules envisaged by ISA 315R, including the need to assess inherent risk (both with respect to the likelihood of occurrence and the magnitude of a misstatement) and control risk separately. The requirement to measure all components of the internal control system, as established by this proposed standard, continues to hold true, including the entity's risk assessment process and the monitoring of controls, which are often difficult to assess or are not suitably structured in LCEs. Indeed, in our view, the analysis and evaluation of internal controls is the main challenge in the audit of an LCE: as a matter of fact, the LCE's structure normally implies a less sophisticated internal control system as well as, often, an insufficient segregation of duties.

Section 4A – Overarching Positioning of ED-ISA for LCE\Question 1 - Overarching views\Question 1(a) - Standalone proposed Standard - Concerns or obstacles\4) Disagree with Comments\4d) Importance of User Change in Perception

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.

4. National Auditing Standard Setters

Public Accountants and Auditors Board Zimbabwe

The standalone nature of the standard is a big issue because IAASB is introducing a different framework which is distinct for the current ISA. It is important to note that entities/audits that will be affected by this new framework are already applying full ISA in their audits, so it is important that this new framework is not perceived to be lesser/inferior as compared to the full ISA. In our jurisdiction, the uptake of IFRS for SMEs was greatly hindered by just the perception that it is an 'inferior cousin' to the full IFRS. There was a perception that your financial information would change if full IFRS is applied on IFRS for SMEs financials. If the ISA for LCE is going to be adopted for audits that meet the criteria it should be seen in the same light as full ISA. An audit report that refers to the ISA for LCEs does not increase confidence for entities who in the previous years (before ISA for LCE) used full ISA. There could be doubt around whether the same opinion could be given if the same financials are audited under full ISA and this could lead to requests for re-audits especially where a corporate transaction is being envisaged.

Again, an entity that is applying ISA for LCEs may enter into a transaction/event which may lead to it meeting the conditions for complex hence the audit is now done under ISA. If in subsequent years, the effects of that once off transaction are not there anymore and the audit is now done using ISA for LCE. This change from one framework to the next may send wrong message to users who rely on the audit report.

5. Accounting Firms

Auren

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.

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, an 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.

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.

Baker Tilly International

A consequence of having an ISA for LCE is that the audit report refers to the ISA for LCE. An ISA for LCE reference in the audit report brings a risk that users of audited information perceive the LCE audit is inferior to a more complex audit. If users perceive a difference in the level of assurance between the two audit reports then that will threaten broad acceptance of the differentiated LCE audit opinion and encourage fragmentation. Early signs of fragmentation were one of the prompts for the IAASB to undertake the LCE project. We recommend that there is no difference in reporting – after all an LCE audit is ISA compliant – and that the ISA for LCE is deemed to be part of the body of ISAs – because it is just helping LCE auditors apply ISAs more efficiently and it is not changing the weight of evidence necessary to give reasonable assurance.

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.

SRA

In our view there are a number of strong arguments against the choice for a stand-alone standard for LCE's:

Two different sets of standards can be regarded by stakeholders as leading to an audit with a difference in status: an A-Audit and a B-Audit. Using two sets of standards as well as the effects on the status of these different audits because of that, could seriously increase the expectation gap between users and auditors and diminishes the value of the audit.

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. This could widen the expectation gap or even create the perception that there are two different audit categories:

the audit of LCEs for which just one standard is sufficient (“...with no intended need to directly reference back to the requirements or application material in the ISAs in its application...” and, hence, without having to reference the entire set of ISAs); and

the audit of more complex entities to be conducted in accordance with an articulated and complete set of standards.

This different approach to the audit of LCEs, which could diminish stakeholders’ confidence due to the standalone nature of the proposed standard, would be seen in the auditor’s report as it cannot (correctly) refer to the complete set of ISAs.

This could decrease the reliance placed on the financial statements of the LCEs and the auditor’s report by their potential users as well as reduce the overall degree of confidence in the audit profession.

Malaysian Institute of Certified Public Accountants

We would also recommend that the IAASB assists practitioners clearly and better articulate the benefits of using this standalone standard to third party stakeholders (i.e. users, preparers, regulators) and on how it will enhance the quality of audits performed. Additionally, engagements with these third-party stakeholders should be carried out in advance on the implementation of this standard to address any misconceptions

REA Auditores

Regarding the perception of audit quality, we consider it is vital that audits conducted in accordance with the new standard will be widely perceived and recognized as producing an audit that is of the same high quality as that of an audit using the full ISAs. This will demand a universal, consistent, and robust information campaign from all authoritative sources.

We think that is vital that the communications and educational activities of the international organisations (IAASB, IFAC, PAOs...), national regulators, accounting firms and others on and around the new standard consistently and robustly stress that use of this standard results in an audit of equivalent quality to an audit performed using the ISAs.

Section 4A – Overarching Positioning of ED-ISA for LCE\Question 1 - Overarching views\Question 1(a) - Standalone proposed Standard - Concerns or obstacles\4) Disagree with Comments\4f) Burdensome or Hard to Implement

3. Regulators and Audit Oversight Authorities

Irish Auditing and Accounting Supervisory Authority

The auditor is required to determine that the use of ISA for LCE is appropriate for the audit engagement. 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 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 or when potential fraud activities are detected (since in these situations the risk can increase in various areas). We are concerned that auditors will not be able to identify such situations if they have focused their training and experience on the ISA for LCE and do not have an understanding of the full ISAs. A related concern is that switching to the ISAs part-way through an audit might be difficult and may lead to additional time when compared to applying ISAs from the outset

of the audit. Auditors may also be reluctant to transition to a full ISA audit due to the increased costs and time required.

5. Accounting Firms

Auren

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.

Nexia International

Next, certain procedures and reporting were removed from the ISA for LCEs. This could create difficulty when a LCE encounters such items during the audit engagement. The result would likely lead one to believe that if and when these items are encountered, you could not use the ISA for LCEs. In addition, difficulties would arise where unexpected complexities are discovered during the audit forcing the auditor to abandon the use of the LCE standard and move to the full body of ISAs. This might make a cautious auditor unwilling to adopt the standard.

SRA

Any update of standards will be much more complex for all parties involved in the process in the case of two different sets of standards. For example consultation will be made more complex without reason. Updating two sets bears also the risk of inconsistency between both sets.

As a consequence, using ISA for LCE according to the draft exposure will be too complicated in practice; And as a result there is a serious risk that the use of the standard will be very limited. The aim of the IAASB in developing this standard will then not be reached.

In our view there are a number of strong arguments against the choice for a stand-alone standard for LCE's:

Use of a stand-alone set for LCE's will also lead to transition problems when moving from one set to the other.

In an audit of group financial statements group auditors may, in order to achieve an efficient audit, have to deal with 2 different sets of standards. This may lead to inconsistencies in the group-audit.

From an educational perspective it is best to have one consistent set of standards, based on one framework.

9. Individuals and Others

Vera Massarygina

Explanatory Memorandum describes the history of developing a separate standard for LCE and the need for the ISAs to be scalable in order to be used for audits of all entities, regardless of size or complexity.

Unfortunately it does not formulate clearly the reasons of that need. That is excessiveness of the full set of

ISAs for audits of LCEs. Such excessiveness appears in two ways: a) excessive ISAs which are not applicable for certain audits of LCE; b) excessive requirements of some ISAs for audits of LCE. The first «problem» is successfully settled in the ED as such excessive ISAs are excluded from its text. But this «problem» is not a problem at all as that which is not applicable and cannot be applied is not applied. The second problem is more serious. Furthermore, as it is mentioned in para.4 recent revision of ISAs such as ISA 540 (Revised) and ISA 315 (Revised 2019), as well as revisions to the IAASB's quality control standards, ISQM 1 and ISA 220 (Revised), and the development of new ISQM 2 grew concern about the length, complexity, and understandability of these standard and their application to audits of LCEs. This problem is not settled in the ED. The only thesis of the full ISAs which is really excessive for audits of LCEs and which is not included into ED concerns audit strategy. But this point is not of great significance. Under such circumstances it may seem doubtful if audit organizations would use such a standard. Costs of using it may exceed benefits.

Section 4A – Overarching Positioning of ED-ISA for LCE\Question 1 - Overarching views\Question 1(a) - Standalone proposed Standard - Concerns or obstacles\4) Disagree with Comments\4g) Fragmentation of the Audit Profession & Long Term Training/Skills Gap

3. Regulators and Audit Oversight Authorities

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 Fragmentation of the Audit Profession & Long Term Training/Skills Gap 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

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.

7. Professional Accountancy and Other Professional Organizations

ASSIREVI

There could be an issue with the potential inconsistent application of the Authority in the long term that could prevent the use of ED-ISA for LCE or trigger its discontinuation depending on the entity's qualitative characteristics. We believe that, over time, the existence of auditors specialised in the audit of LCEs and, therefore, with less expertise with the ISAs, could imply that these auditors would not have all the knowledge necessary to appropriately evaluate the qualitative characteristics. This would increase the risk of the inappropriate application of ED-ISA for LCE.

Section 4A – Overarching Positioning of ED-ISA for LCE\Question 1 - Overarching views\Question 1(a) - Standalone proposed Standard - Concerns or obstacles\4) Disagree with Comments\4h) Sufficiency of Guidance\EEM

1. Monitoring Group

International Forum of Independent Audit Regulators (IFIAR)

The proposed new standard does not provide enough guidance to auditors and will 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 (ISA 200), 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 A61 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 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 of level of assurance as the ISAs.

3. Regulators and Audit Oversight Authorities

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.

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 level of assurance as the full ISAs.

4. National Auditing Standard Setters

American Institute of Certified Public Accountants

3. Insufficient explanatory material

In response to stakeholder feedback, the IAASB has issued an Exposure Draft that is significantly less in scope and shorter than the full ISAs. However, in many instances in which the Exposure Draft contains requirements that are the same as, or very similar to, the requirements in the ISAs, the corresponding application material from the ISAs has been omitted entirely or significantly shortened in the corresponding explanatory material in the Exposure Draft. As a result, the Exposure Draft does not contain sufficient explanatory material to guide the auditor in proper and consistent application of the requirements (in particular, in relation to risk assessment). This lack of guidance creates a risk that the standard will not enable consistent achievement of audit quality or reasonable assurance, especially when coupled with the IAASB's stated view that there is no need to directly reference back to the application material in the ISAs.

5. Accounting Firms

Grant Thornton International Limited

Application of ED-ISA for LCE

The Proposed Standard is currently positioned as a standard that is capable of being applied without knowledge of, or reference to, the ISAs. On balance, we agree that this is preferable, despite reference to the ISAs being a potential means to reduce the instances when transition into and out of the Proposed Standard may be necessary. Assessing whether the Proposed Standard can truly be applied without reference to the ISAs is difficult due to auditors' existing general knowledge of the ISAs. However, initial indications would suggest that there are sections of the Proposed Standard that may not be capable of being applied without reference to the related application material in the underlying ISA. This is particularly prevalent in Part 6 of the Proposed Standard, where we believe that additional, or indeed different, essential explanatory material (EEM) is required to enable consistent and appropriate application of the requirements therein.

Section 4A – Overarching Positioning of ED-ISA for LCE\Question 1 - Overarching views\Question 1(a) - Standalone proposed Standard - Concerns or obstacles\4) Disagree with Comments\4h) Sufficiency of Guidance\Implementation or Other Guidance Outside Standard

5. Accounting Firms

ETY sas

However, to fully achieve the objective of a standalone standard and to achieve a consistent performance of a quality audit, the IAASB should consider the following:

since the ISA for LCE contains no Application Material and few Essential Explanatory Material, it is recommended that Implementation Guidance is issued as soon as possible after the issue of the final standard to support auditors by providing further explanation of the requirements and guidance for carrying

them out. The standalone nature of the standards therefore requires the issue of standalone guidance and implementation materials as they may exist for ISAs.

As certain users of the proposed standard may not have a working knowledge of the ISAs and will depend on Implementation Guidance to supplement their understanding of the proposed standard for consistent implementation thereof, where implementation guidance would be particularly necessary are:

Planning

Risk assessment

Audit evidence and documentation

Materiality

Conversation with those charged with governance

Accounting Estimates.

Going Concern.

Subsequent Events.

7. Professional Accountancy and Other Professional Organizations

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

If retained, to fully achieve the objective of a standalone standard and to achieve a consistent performance of a quality audit, the IAASB should consider the following:

Issue as soon as possible implementation guidance, after the release of the final standard, to support auditors by providing further explanation of the requirements and guidance for carrying them out. The standalone nature of the standards therefore requires the issue of standalone guidance and implementation materials as they may exist for ISAs.

Certain users of the proposed standard may not have a working knowledge of the ISAs and will depend on Implementation Guidance to supplement their understanding of the proposed standard for consistent implementation thereof, thus, areas where implementation guidance would be particularly necessary are:

Planning

Risk assessment

Audit evidence and documentation

Materiality

Conversation with those charged with governance

Accounting Estimates.

Going Concern.

Subsequent Events.

Section 4A – Overarching Positioning of ED-ISA for LCE\Question 1 - Overarching views\Question 1(a) - Standalone proposed Standard - Concerns or obstacles\4) Disagree with Comments\4i) Authority Concerns (General - View with Q3A))

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.

5. Accounting Firms

Nexia International

First, the most significant questions and concerns has been around the definition of an LCE. The subjective nature of this definition will create confusion and inconsistent conclusions by auditors and entities as to what entities are able to be audited using ISAs for LCEs. Due to this reason alone, the new standard will be difficult to apply.

7. Professional Accountancy and Other Professional Organizations

ASSIREVI

As explained in paragraphs 26 and 27 of the Explanatory Memorandum, the proposed standard's standalone nature and the impossibility to reference back to the ISAs makes it very rigid, requiring the auditor to assess and decide - before conducting the audit - whether the standard is appropriate for use based on the nature and characteristics of the entity. Moreover, if certain circumstances arise during the audit engagement, the auditor has to decide whether to transition to the ISAs, which could be a complex and onerous process. Therefore, the auditor could encounter complications with the definitions contained in the proposed standard, as given the difficulty in defining the characteristics of the LCEs with sufficient precision and/or detail, the IAASB has decided to define the characteristics of entities that do not qualify as LCEs and for which the use of the proposed standard is prohibited or can only be applied with limitations.

Section 4A – Overarching Positioning of ED-ISA for LCE\Question 1 - Overarching views\Question 1(a) - Standalone proposed Standard - Concerns or obstacles\4) Disagree with Comments\4j) Single Complex Area

4. National Auditing Standard Setters

Public Accountants and Auditors Board Zimbabwe

Again, an entity that is applying ISA for LCEs may enter into a transaction/event which may lead to it meeting the conditions for complex hence the audit is now done under ISA. If in subsequent years, the effects of that once off transaction are not there anymore and the audit is now done using ISA for LCE. This change from one framework to the next may send wrong message to users who rely on the audit report. We therefore recommend that ISA for LCE not be published as a standalone standard but rather as a suit of standards with the ISA. See diagram below

5. Accounting Firms

Baker Tilly International

Paragraph 27 describes "...the circumstance where an entity has an accounting estimate calculated using a bespoke, complex model that is not contemplated by the proposed standard, but is otherwise an LCE". The ED says the auditor cannot "top up", the auditor is not allowed to use the ISA for LCE and so the auditor must revert to full ISAs. This is a consequence of having a separate standard. Yet if this circumstance is discovered during the course of an audit (it is not uncommon for increased complexity to be discovered during the course of an audit, whether or not it has been identified by the audited entity) it means the audit needs to be replanned under ISAs, possibly within a separate audit tool and consequently places the auditor in a difficult situation with management of the audited entity.

Section 4A – Overarching Positioning of ED-ISA for LCE\Question 1 - Overarching views\Question 1(a) - Standalone proposed Standard - Concerns or obstacles\4) Disagree with Comments\4k) Transition Concerns

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. A related concern is that switching to the ISAs part-way through an audit might be difficult and may lead to additional time when compared to applying ISAs at the outset of the audit.

3. Regulators and Audit Oversight Authorities

Canadian Public Accountability Board

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.

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:

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.

Irish Auditing and Accounting Supervisory Authority

The auditor is required to determine that the use of ISA for LCE is appropriate for the audit engagement. 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 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 or when potential fraud activities are detected (since in these situations the risk can increase in various areas). We are concerned that auditors will not be able to identify such situations if they have focused their training and experience on the ISA for LCE and do not have an understanding of the full ISAs. A related concern is that switching to the ISAs part-way through an audit might be difficult and may lead to additional time when compared to applying ISAs from the outset of the audit. Auditors may also be reluctant to transition to a full ISA audit due to the increased costs and time required.

4. National Auditing Standard Setters

Royal Netherlands Institute of Chartered Accountants (NBA)

The transfer to the full ISAs is cumbersome. If there is one element of complexity, the LCE Standard is not applicable. In practice, this will happen regularly with for example accounting estimates. Furthermore, the exclusion of ISA 600 is undesirable. Group audits are not necessarily complex and should be included when the group audit is fairly straightforward. Otherwise, the LCE Standard will not be applicable for many audits.

5. Accounting Firms

Sayer Vincent LLP

The one concern we would have in the stand alone nature of the standard is how you would manage a situation where you had intended to use the Standard for Less Complex entities for performing the audit but part way through the audit you identify a single more complex area. While you would hope any complex areas might emerge at planning, this may not always be the case.

In this instance the scope of the audit would change, potentially leading to the need to reperform work already completed. Consequently this could lead to the risk already identified in the ED of inappropriate use of ED-ISA for LCE when the ISAs were appropriate.

See further in comments on question 13.

SRA

Use of a stand-alone set for LCE's will also lead to transition problems when moving from one set to the other.

7. Professional Accountancy and Other Professional Organizations

ASSIREVI

As explained in paragraphs 26 and 27 of the Explanatory Memorandum, the proposed standard's standalone nature and the impossibility to reference back to the ISAs makes it very rigid, requiring the auditor to assess and decide - before conducting the audit - whether the standard is appropriate for use based on the nature and characteristics of the entity. Moreover, if certain circumstances arise during the audit engagement, the auditor has to decide whether to transition to the ISAs, which could be a complex and onerous process. Therefore, the auditor could encounter complications with the definitions contained in the proposed standard, as given the difficulty in defining the characteristics of the LCEs with sufficient precision and/or detail, the IAASB has decided to define the characteristics of entities that do not qualify as LCEs and for which the use of the proposed standard is prohibited or can only be applied with limitations.

Section 4A – Overarching Positioning of ED-ISA for LCE\Question 1 - Overarching views\Question 1(a) - Standalone proposed Standard - Concerns or obstacles\4) Disagree with Comments\4l) Make Clear Can't Top up if Prohibited

5. Accounting Firms

ETY sas

The Authority of the proposed standard should make it clearer that the auditor cannot cherry pick a requirement(s) from the ISAs if it is not part of the core requirements in the ISA for LCE. Please refer to additional comments made in response to question 3

7. Professional Accountancy and Other Professional Organizations

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

The Authority of the proposed standard should make it clearer that the auditor cannot cherry pick a requirement(s) from the ISAs if it is not part of the core requirements in the ISA for LCE. Please refer to additional comments made in response to question 3

Section 4A – Overarching Positioning of ED-ISA for LCE\Question 1 - Overarching views\Question 1(a) - Standalone proposed Standard - Concerns or obstacles\4) Disagree with Comments\4m) Reporting Considerations\Mixed Views

4. National Auditing Standard Setters

Public Accountants and Auditors Board Zimbabwe

The standalone nature of the standard is a big issue because IAASB is introducing a different framework which is distinct for the current ISA. It is important to note that entities/audits that will be affected by this new framework are already applying full ISA in their audits, so it is important that this new framework is not perceived to be lesser/inferior as compared to the full ISA. In our jurisdiction, the uptake of IFRS for SMEs was greatly hindered by just the perception that it is an 'inferior cousin' to the full IFRS. There was a perception that your financial information would change if full IFRS is applied on IFRS for SMEs financials. If

the ISA for LCE is going to be adopted for audits that meet the criteria it should be seen in the same light as full ISA. An audit report that refers to the ISA for LCEs does not increase confidence for entities who in the previous years (before ISA for LCE) used full ISA. There could be doubt around whether the same opinion could be given if the same financials are audited under full ISA and this could lead to requests for re-audits especially where a corporate transaction is being envisaged.

Again, an entity that is applying ISA for LCEs may enter into a transaction/event which may lead to it meeting the conditions for complex hence the audit is now done under ISA. If in subsequent years, the effects of that once off transaction are not there anymore and the audit is now done using ISA for LCE. This change from one framework to the next may send wrong message to users who rely on the audit report. We therefore recommend that ISA for LCE not be published as a standalone standard but rather as a suit of standards with the ISA. See diagram below

The implication of this diagram is whether the standards used for audit are the current ISAs or ISA for LCE, the framework is one and the audit report will just state that the audit has been performed using ISA.

Section 4A – Overarching Positioning of ED-ISA for LCE\Question 1 - Overarching views\Question 1(a) - Standalone proposed Standard - Concerns or obstacles\4) Disagree with Comments\4m) Reporting Considerations\Should Refer to ISAs

5. Accounting Firms

Baker Tilly International

We agree that the level of assurance from an LCE audit should be the same as from an audit of a more complex entity. A differentiated report undermines that principle in the eyes of management and users.

It appears that part of the justification for not allowing “topping up” (of procedures required by the ISA for LCE when the auditor encounters more complex audit issues) is a desire on the part of the IAASB to ensure transparency to users of what individual standards have been applied. That would be inconsistent with how an ISA audit is currently reported under ISAs and holds the ISA for LCE report to a higher standard of transparency than the ISA report. For example, the current audit report does not refer to first time use of standards for service organisations, related parties or external confirmations. This problem would not arise if there was no separate ISA for LCE or if the ISA for LCE were deemed to be part of the body of ISAs for example in the way that ISA 600 on group audits is.

A consequence of having an ISA for LCE is that the audit report refers to the ISA for LCE. An ISA for LCE reference in the audit report brings a risk that users of audited information perceive the LCE audit is inferior to a more complex audit. If users perceive a difference in the level of assurance between the two audit reports then that will threaten broad acceptance of the differentiated LCE audit opinion and encourage fragmentation. Early signs of fragmentation were one of the prompts for the IAASB to undertake the LCE project. We recommend that there is no difference in reporting – after all an LCE audit is ISA compliant – and that the ISA for LCE is deemed to be part of the body of ISAs – because it is just helping LCE auditors apply ISAs more efficiently and it is not changing the weight of evidence necessary to give reasonable assurance.

HLB International

We agree that ED-ISA for LCE should contain requirements that will result in a reasonable assurance opinion. However, we disagree that the audit opinion should identify which standard(s) have been applied in conducting the audit and should instead refer only to being conducted in accordance with the ISAs. As long as the standards utilized result in a reasonable assurance opinion, we believe the framework utilized is the judgement of the practitioner. To have an audit opinion refer to anything but the ISAs overall may create the perception of a lower quality audit.

SRA

Taking into account the comments provided under 1.(a) and 1.(b) above, the reference in the auditor’s report should be to ISA’s and not to ISA’s for LCE, to avoid confusion with stakeholders about the status of the audit which has been performed.

Section 4A – Overarching Positioning of ED-ISA for LCE\Question 1 - Overarching views\Question 1(a) - Standalone proposed Standard - Concerns or obstacles\4) Disagree with Comments\4z) Other Comments

3. Regulators and Audit Oversight Authorities

Canadian Public Accountability Board

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.

Irish Auditing and Accounting Supervisory Authority

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.

Auditor training and experience

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.

5. Accounting Firms

Baker Tilly International

We do not agree that a separate standalone ISA for LCE is desirable or necessary. It risks the LCE project not delivering on its potential.

ETY sas

We are not supportive of the standalone nature of the proposed standard as that will require new adoption process in OHADA and Burkina Faso jurisdictions. Moreover the standalone nature in our view is not aligned with the goal to set consistent, accepted unique and global standard. Furthermore, a different standard existing in conjunction with the ISAs for the same level of assurance, even if not designed for the same type of entities, can arise in the perception of less quality or less confidence in the output for stakeholders. Finally, it can lead to an overabundance of audit standards with potential training and education difficulties or issues.

We support the approach carried out during the clarity project, being ISAs with LCE consideration integrated inside.

SRA

In our view there are a number of strong arguments against the choice for a stand-alone standard for LCE's:

Two different sets of standards will exist while the framework for these sets is uniform.

7. Professional Accountancy and Other Professional Organizations

ASSIREVI

The proposed standard's structure, organised by considering the audit work flow rather than by topic, like the ISAs, means it is easier to understand and apply, especially by auditors that do not have in-depth and consolidated knowledge and experience in applying the ISAs and the related objectives and general

requirements. Conversely, auditors that have always applied the ISAs may continue to refer to them rather than to the proposed standard using the Mapping Documents to intercept inapplicable requirements. Again in this case, there is a risk that the quality of the audit may vary depending on the nature and characteristics of the audited entity.

Malaysian Institute of Certified Public Accountants

As articulated in our cover letter highlighting several areas of concern, we do not support this as a separate standalone standard, but rather it be issued as an approved guidance so as not to lose the positives of this effort.

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

We are not supportive of the standalone nature of the proposed standard as that will require new adoption process in OHADA and Burkina Faso jurisdictions. Moreover the standalone nature in our view is not aligned with the goal to set consistent, accepted unique and global standard. Furthermore, it is our view and our members' that a different standard existing in conjunction with the ISAs for the same level of assurance, even if not designed for the same type of entities, can arise in the perception of less quality or less confidence in the output for stakeholders. Finally, it can lead to an overabundance of audit standards with potential training and education difficulties or issues.

We really appreciated and supported the approach carried out during the clarity project, being ISAs with LCE consideration integrated inside.

Section 4A – Overarching Positioning of ED-ISA for LCE\Question 1 - Overarching views\Question 1(a) - Standalone proposed Standard - Concerns or obstacles\5) Mixed Views or Unclear Direction\5a) Inability to refer to ISAs\For Guidance Only

4. National Auditing Standard Setters

Malaysian Institute of Accountants

Given the fact that the LCE standard is substantially extracted from the current ISAs, there is this expectation that the auditors can and will refer to the present ISAs for additional information, guidance and examples, where necessary.

5. Accounting Firms

Ernst & Young Global Limited

We believe that auditors performing an audit using the ED-ISA for LCE will need to, and should, directly reference the Application Material in the ISAs and this is not intended in the ED-ISA for LCE as the explanatory memorandum to the ED-ISA for LCE states that if there is a circumstance that has not been contemplated in the design of ED-ISA for LCE as addressed in the Authority of the proposed standard, relevant ISA requirements cannot be used to “top-up” ED-ISA for LCE in order to address the circumstance.

Price Bailey LLP

The LCE standard needs to be clearer as to what standalone means in this context. The wording implies that auditors cannot use their knowledge of the main ISA's or refer to them if they want additional guidance on a specific point.

Standalone should mean standalone.

Standalone should mean that complying with the requirements within this standard is sufficient to obtain reasonable assurance on an LCE audit and there is no requirement to make reference to the other standards. Auditors can use their existing knowledge and are able to make reference to guidance within the ISA's if they need or want to. They cannot be expected to carry out the audit with restrictions on the resources available. However this doesn't mean that there should be any expectation of the auditor to consider the existing ISA's.

7. Professional Accountancy and Other Professional Organizations

International Federation of Accountants' Small and Medium Practices Advisory Groups

In addition, we suggest the IAASB consider clarifying in the Basis of Conclusions that an auditor can refer to application material in the ISAs when it would prove to be helpful.

8. Academics

Accounting and Finance Association of Australia and New Zealand

We are, however, concerned with the explicit and implicit relationships and demarcation between the standalone standard and the full suite of standards. The current proposals forbid the 'topping-up' of the standalone standard with reference to the full suite of standards. In this situation, the standalone standard could not be used. This requires that all matters (current and future) relevant to an audit of a less complex entity have been captured within the proposed standalone standard. To the extent that requirements have not been included, the standalone standard cannot be applied, and the auditor would need to transition to an audit based on the full suite of standards.

As we discuss in our response to Question 7a, the approach to developing the proposed standard is such that it is unlikely to have incorporated all matters relevant to an audit of a less complex entity. For example, research suggests that the use of internal auditors in less complex entities may be more common than the IAASB believes to be the case (Carey et al. 2000) and, with reference to the current approach, would mean that an audit of an otherwise less complex entity would need to be undertaken with reference to the full suite of standards. With reference to research that speaks to the dimensions of complexity (e.g., Anderson 1999; Dooley 2002) and the proxies for complexity that are widely used in academic research (see our response

to Question 4b), the need to seek further guidance from the full suite of standards is likely informative, but not definitive, of a more complex entity.

We further note that auditors draw on their knowledge and experience when making judgments (e.g., Libby and Luft 1993) and that some of these judgment processes may occur at a subconscious level (e.g., Kahneman 2011). Auditors with expertise in applying the full suite of standards are likely to, and would be expected to, draw on this knowledge and experience when applying the standalone standard. Does this mean that the standalone standard should not be used as it is being supplemented with material in the full suite of standards? To what extent is this really a standalone standard, and to what extent is any demarcation artificial and difficult to implement?

We recommend that the need to refer to the full suite of standards be a factor that may be indicative of complexity rather than as a definitive signal that the standalone standard cannot be used.

Section 4A – Overarching Positioning of ED-ISA for LCE\Question 1 - Overarching views\Question 1(a) - Standalone proposed Standard - Concerns or obstacles\5 Mixed Views or Unclear Direction\5a) Inability to refer to ISAs\For Requirements

5. Accounting Firms

Crowe Global

Auditors cannot ignore their knowledge and understanding of the requirements of the full ISAs. Therefore, in the interests of good audit quality and the exercise of professional judgment, we do not understand why an auditor should not apply a requirement of the full ISAs in an audit of LCE, where the auditor considers this necessary. The reasons for applying the requirement of the full ISAs should be documented.

Moore Global Network Limited

Topping up the standard might be appropriate in certain instances. However, how this could be managed will have to be set out carefully as part of the proposed standard. Currently, if not set out clearly in the standard, auditors will fall back naturally on the knowledge they have as auditors of ISAs, without referring to the standards that they are applying.

9. Individuals and Others

Rodoula Roussou

The prohibition to «top-up» where necessary. That is, if there is a circumstance that has not been contemplated in the design of ED-ISA for LCE as addressed in the Authority of the proposed standard (Part A), relevant ISA requirements cannot be used to “top-up” ED-ISA for LCE in order to address the circumstance.

Section 4A – Overarching Positioning of ED-ISA for LCE\Question 1 - Overarching views\Question 1(a) - Standalone proposed Standard - Concerns or obstacles\5 Mixed Views or Unclear Direction\5b) Reasonable Assurance Comments\Other Comments

3. Regulators and Audit Oversight Authorities

Committee of European Auditing Oversight Bodies

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?

5. Accounting Firms

Ernst & Young Global Limited

The IAASB could also possibly explore developing educational guidance that could assist stakeholders in determining if a review (instead of an audit) is a satisfactory alternative for their needs (i.e., a review can involve a range of limited assurance that can approach reasonable assurance). One of these approaches may be better understood by users of LCE financial statements and would provide a clear distinction from an audit performed/conducted under the full ISAs.

Price Bailey LLP

We are also concerned that the market may misunderstand the standard and assume less work will be required and therefore expect the audit fees to be reduced. Therefore it is important the standard achieves reasonable assurance to the same level as ISA's. The same level of assurance can be achieved by keeping quality audit work but the audit work is carried out differently due to the fact LCE's are different.

PriceWaterhouseCoopers

Delivering a product that directly satisfies the smaller and less complex segment of the audit market should be the IAASB's overarching priority. In doing so, we believe a more targeted application provides greater latitude for the Board to more directly articulate an appropriate work effort for an audit of such entities, without seeking to directly mirror an ISA audit. The Board and its stakeholders may ultimately conclude that such work effort continues to constitute reasonable assurance for an entity of that size and complexity. Or, consensus may be reached that the appropriate level of work effort is not considered sufficient to obtain reasonable assurance, but is nevertheless a desirable assurance product for that sector of the market. In our view, both outcomes are acceptable if the needs of users and the market are addressed.

7. Professional Accountancy and Other Professional Organizations

Institute of Chartered Accountants of the Maldives

level of assurance: Practice in some jurisdictions is that different types of engagements, such as review engagements, or "review plus" engagements are used widely in obtaining assurance for smaller entities. The Board's decision to pursue a reasonable assurance audit opinion is likely being influenced by the existence of legislation or regulation in some jurisdictions that require "audits" for all entities, and/or a perception that users of the financial statements want "an audit" and will not understand differential models of assurance. By its nature - specifically the fact that the ISA for LCE has fewer requirements than the ISAs - there is a risk that an audit conducted in accordance with the ISA for LCE is perceived as "ISA-light" and resulting in a lower level of assurance than an audit conducted in accordance with the full ISAs.

Section 4A – Overarching Positioning of ED-ISA for LCE\Question 1 - Overarching views\Question 1(a) - Standalone proposed Standard - Concerns or obstacles\5) Mixed Views or Unclear Direction\5c) Make More Distinct From ISAs (View with Q7A)

5. Accounting Firms

Ernst & Young Global Limited

We believe the requirements included in the ED-ISA for LCE along with sufficient EEM that draws from the relevant application material from the ISAs is what is needed to obtain reasonable assurance. We suspect that the ED-ISA for LCE is longer than expected by stakeholders and may be met with some resistance. However, the length of the document is impacted by: (a) the standard must still retain the objective of enabling auditors to obtain reasonable assurance, (b) the authority criteria covers a wide range of entities and (c) the standard allows for a wide range of audit circumstances (e.g., tests of controls, specialists, service organizations, etc.). We recognize that adding EEM would make the ED-ISA for LCE even longer. As set forth in our response to Q1(a), we recommend that the IAASB narrow down the criteria in the Authority to make the ED-ISA for LCE applicable to only entities at the lowest level of complexity and potentially size, which we believe would allow the standard to be substantially reduced in length.

While the aim of the ED-ISA for LCE is to make the audit of LCEs more effective and efficient, it is our view that in substance it does not change any requirements to core procedures or documentation, but rather is a rewriting of the ISAs following the flow of the audit, with certain exclusions making the standard not applicable in many instances of otherwise less complex audits.

KPMG IFRG Limited

Lack of Clarity as to Overall Objective/Purpose of the Standard

The content of the LCE ISA is closely aligned with the requirements of the full-scope ISAs, as these have been used as the starting point for development of this standard, and the objectives and principles of the full-scope ISAs have been retained.

A detailed review of the mapping analysis appears to indicate that an audit performed in accordance with the LCE ISA should achieve a very similar outcome to that of using the full-scope ISAs scaled as relevant to an entity that is an LCE as described in the ED, from the perspective of relevant requirements. The IAASB makes reference to the retention of “core requirements” but does not attempt to articulate where differences in the work that would be performed in an audit of an LCE when using the LCE ISA, versus using the full-scope ISAs, appropriately scaled for an LCE, actually lie, at a requirements level.

This makes it challenging to understand, at a conceptual level, the overall purpose/nature of the standard and how an audit performed in accordance with this standard actually differs to an audit performed in accordance with the full-scope ISAs. As a result, it is difficult to respond meaningfully to certain questions of the IAASB, in particular, with respect to the authority of the standard; its positioning on a standalone basis; the requirement to specifically identify, in the auditor’s report, that the audit has been performed in accordance with the LCE ISA, as well as the approach taken to prohibit “topping up” and to require a transition to the full-scope ISAs in certain circumstances.

We believe that the principal difference between the LCE ISA and the full-scope ISAs appears to be that the IAASB has removed most of the application material that is an integral part of the full-scope ISAs and instead has included only very high-level EEM within the ED, which appears to envisage auditors exercising a significantly greater degree of professional judgement in determining how to execute requirements. However, the IAASB does not articulate this and since, at an objectives and requirements level, the relevant requirements are expected to be nearly the same as applying the full-scope ISAs, appropriately scaled, we believe that, without clarification from the IAASB as to where the difference lies, this could cause confusion in both the marketplace and for the profession. We understand that there has been discussion among various stakeholders who may have an initial perception that this is a different level of assurance to an “ISA audit”, i.e. an audit performed in accordance with the full-scope ISAs, being somewhere between such an audit and a review.

We are also concerned that, in being described as an audit, but with a perceived lesser work-effort than an audit performed in accordance with the full-scope ISAs (a perception that is likely to be reinforced by the fact that the LCE ISA is substantially shorter in length than the full-scope ISAs), this may create confusion and potentially undermine other services performed in accordance with the IAASB’s standards, in particular, full-scope ISA audits. Therefore, issuance of this standard, without clearer articulation by the IAASB of the differences between this standard and the full-scope ISAs, could have significant implications for the audit profession as a whole, including for networks/firms which may actually plan not to use this standard.

PriceWaterhouseCoopers

In our view, greater divergence from the ISAs is also necessary to achieve the underlying intent of the standard. We believe the decision taken by the IAASB that it was necessary to base the proposed standard on the objectives and requirements of the ISAs has constrained the Board’s ability to think more radically, resulting in a product that many stakeholders may feel is too similar, in terms of work effort, to an audit performed in accordance with ISAs. Consequently, the expectations of stakeholders at the smaller end of the market who were seeking a proposal that resulted in greater efficiency, and a reduction in required work effort and documentation, are unlikely to be met. At the same time, whilst wanting to be fully aligned with the ISAs yet combining some requirements and modifying the wording of others to simplify them, ambiguity has been created about whether or not the intention is that the requirements drive the same work effort. We provide further comment on this issue in our response to questions 7 and 17.

6. Public Sector Organizations

Australian Council of Auditors General

Managing expectation gaps

ACAG offices do not expect there to be a reduction in the audit effort to obtain sufficient appropriate audit evidence to issue a reasonable assurance opinion. However, ACAG offices are concerned that an expectation gap between cost and quality may occur.

ACAG offices already have scalable methodologies to support audits of less complex entities. However, stakeholders may expect a reduction in audit effort and audit fees for an audit conducted under the ED ISA - LCE. This expectation gap would need to be managed to reduce the risk the auditor undertakes a low quality or non-compliant audit in response to pressure from the clients.

7. Professional Accountancy and Other Professional Organizations

Institute of Chartered Accountants of the Maldives

Single set of ISA with appropriate scalability: As a fundamental principle, ISAs have been developed as a single, integrated, and scalable set of standards, which are to be adjusted and adapted on the type of entities (sizes and types). Based on the risks that are specific to the entity in the particular engagement circumstances, the application of ISAs on a consistent basis, drives audit quality and it is significant for the public interest. Therefore, it is critical that any proposed solution(s) should retain the fundamental principle of a single set of ISAs with a detailed framework but with appropriate scalability. Furthermore, the Audit report under LCE is similar to the audit report issued under full ISAs except for reference given to ISA for LCE. Therefore, in our view the audit report users and stakeholders may expect the same level of comprehensive work as part of planning, execution and completion of audit work by practitioners as under full ISAs before issuing such assurance reports, this could ultimately create expectations gaps.

9. Individuals and Others

Dmitrii Romanov

Good day! After reviewing the International Standard on Auditing for Less Complex Organizations, I have formulated some feedback on this standard that the IAASB may find valuable:

1. It is not entirely clear what the practical need for the development of a new standard is. Based on the provisions of the new standard, there is clearly no indulgence for the auditor when performing an audit of the financial statements of less complex organizations. In essence, all the responsibilities that are assigned to the auditor in the draft standard have been repeated from the ISAs already adopted. In this connection, it is not clear what is the difference between an audit conducted in accordance with ISA of financial statements of less complex organizations and an audit conducted in accordance with already adopted ISA? In the draft ISA for LCO, in terms of communication, it is provided with persons with management, if management and persons responsible for corporate governance, as well as owners, are one and the same person. However, in my opinion, this difference is not enough to justify the development of a new standard. This distinction could be made in the existing ISA.

Section 4A – Overarching Positioning of ED-ISA for LCE\Question 1 - Overarching views\Question 1(a) - Standalone proposed Standard - Concerns or obstacles\5) Mixed Views or Unclear Direction\5d) Importance of User Change in Perception

3. Regulators and Audit Oversight Authorities

Committee of European Auditing Oversight Bodies

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.

5. Accounting Firms

Crowe Global

There is a perception that the standard will give rise to “second class audits performed by second class auditors”. Eligible entities might request an audit under this standard as they might perceive the audit as costing less and being less rigorous. During implementation the IAASB together with adopting national oversight authorities and standard setters must rebut this perception, communicate the foundational principles of the standard, and generally that the standard has been developed in the interests of delivering quality audits. However, it may be difficult to mitigate this perception in countries where there is no oversight or where the oversight process is less developed. Post implementation review should include looking for evidence that the standard has resulted in an impairment of audit quality and identifying what must be done to remediate this.

Deloitte Touche Tohmatsu Limited

Standalone nature

There is a risk of confusion in the marketplace, including perception that a separate standard implies that it produces “a different, lesser quality audit” but yet one that still provides reasonable assurance to users.

Ernst & Young Global Limited

We are concerned that stakeholders may not value an opinion that indicates an audit was performed in accordance with the ED-ISA for LCE if an audit will involve the same effort (and therefore similar cost) as an audit under the full ISAs. If an audit under the full ISAs would have an equivalent work effort and cost, such an audit may be more desirable to stakeholders, which may affect the usage and value of the ED-ISA for LCE. Generally, users of the financial statements of private companies (i.e., owners, bankers and potential investors) expect a quality audit that provides reasonable assurance, like they expect from public company audits. In our view, application of a separate auditing standard with the specific reference to it in the audit opinion might create a perception of a lesser quality audit to stakeholders. We are concerned that the ED-ISA for LCE could be viewed as an ‘ISA diluted product’ (i.e., perhaps viewed to be closer to a review), which would be an unfortunate consequence as we do not believe the standard will result in a reduced cost or work effort compared to an audit under the full ISAs.

We also see the following potential unintended consequences for the ED-ISA for LCE arising from our overarching concerns:

Because it appears to us that an audit using ED-ISA for LCE and an ISA audit will involve the same work effort (and therefore similar cost), stakeholders may not see value in an opinion that indicates an audit was performed in accordance with the ED-ISA for LCE (i.e., if an audit under the full suite of ISAs would have an equivalent work effort and cost, such an audit may be more desirable to stakeholders, which may affect the usage and value of the ED-ISA for LCE). Additionally, application of a separate auditing standard with the specific reference to it in the audit opinion might create a perception of a lesser quality audit to stakeholders.

Grant Thornton International Limited

Communication

Despite the fact that there appears to be little modification to the audit procedures required to be performed under ED-ISA for LCE, there is the perception amongst some stakeholders that an audit performed under ED-ISA for LCE will result in a reduction of the audit procedures to be performed and therefore a ‘cheaper’ audit. In addition, there may also be an assumption that the audit opinion under ED-ISA for LCE provides a lower level of assurance. This may, in part, be the result of the differences in the Basis for Opinion section of the auditor’s report under ED-ISA for LCE. We would therefore highlight the importance of the IAASB issuing communications detailing or outlining not only what is different about an audit performed under ED-ISA for LCE, but also why use of the Proposed Standard does not result in an audit of a lesser quality or an audit that provides a lower level of assurance.

KPMG IFRG Limited

Lack of Clarity as to Overall Objective/Purpose of the Standard

Risk of Commercial Pressure to Apply Standard

We are concerned that the standard may be understood by stakeholders to be simpler and with a perceived lesser and more efficient work-effort than an audit performed in accordance with the full-scope ISAs, which may give rise to commercial pressure from certain stakeholders for auditors to reduce fees/cost when using this standard. This could have a negative impact on audit quality for such LCE auditors as we believe the standard would drive the same work-effort since it has the same objectives and requirements (although with less consistency in execution due to the significant reduction in application material) as the full-scope ISAs when appropriately scaled for a less complex entity.

We are also concerned that there may be commercial pressure from stakeholders for auditors to perform an audit in accordance with the LCE ISA rather than the full-scope ISAs, as they may view this as a less costly way to obtain an ISA audit opinion. Decisions regarding use of this standard involve a degree of subjectivity/judgement on the part of the auditor when assessing the qualitative characteristics of an LCE, and there may therefore be pressures to reach an inappropriate decision.

We believe that the principal difference between the LCE ISA and the full-scope ISAs appears to be that the IAASB has removed most of the application material that is an integral part of the full-scope ISAs and instead has included only very high-level EEM within the ED, which appears to envisage auditors exercising a significantly greater degree of professional judgement in determining how to execute requirements. However, the IAASB does not articulate this and since, at an objectives and requirements level, the relevant requirements are expected to be nearly the same as applying the full-scope ISAs, appropriately scaled, we believe that, without clarification from the IAASB as to where the difference lies, this could cause confusion in both the marketplace and for the profession. We understand that there has been discussion among various stakeholders who may have an initial perception that this is a different level of assurance to an “ISA audit”, i.e. an audit performed in accordance with the full-scope ISAs, being somewhere between such an audit and a review.

We are also concerned that, in being described as an audit, but with a perceived lesser work-effort than an audit performed in accordance with the full-scope ISAs (a perception that is likely to be reinforced by the fact that the LCE ISA is substantially shorter in length than the full-scope ISAs), this may create confusion and potentially undermine other services performed in accordance with the IAASB’s standards, in particular, full-scope ISA audits. Therefore, issuance of this standard, without clearer articulation by the IAASB of the differences between this standard and the full-scope ISAs, could have significant implications for the audit profession as a whole, including for networks/firms which may actually plan not to use this standard.

We recognise the IAASB’s rationale for developing the LCE ISA as a separate and standalone standard. However, we are concerned that there is potential for confusion for users of auditor’s reports/ other stakeholders, as to the nature of an audit engagement conducted in accordance with this standard and how this compares to/differs from an audit performed in accordance with the full-scope ISAs. This is a particular concern given the current “expectation gap” regarding public perception as to what an audit is and is not and we are concerned that issuance of this LCE ISA could add to confusion and misunderstanding in the marketplace and potentially widen this gap.

Price Bailey LLP

We are concerned that there will be a misunderstanding in the market place that the LCE standard significantly reduces the work required and that it is considered a lower level of assurance, as a result clients may expect their fees to be reduced. It is important that the messaging around the LCE standard is clear that it does achieve reasonable assurance.

7. Professional Accountancy and Other Professional Organizations

Pan-African Federation of Accountants (PAFA)

View 2

The standalone nature of the standard is a big issue because IAASB is introducing a different framework which is distinct from the current ISA. It is important to note that entities/auditors that will be affected by this new framework are already applying full ISA in their audits, so it is important that this new framework is not perceived to be lesser/inferior as compared to the full ISA. In some jurisdictions, the uptake of IFRS for SMEs was greatly hindered by just the perception that it is an ‘inferior cousin’ to the full IFRS. There was a perception that your financial information would change if full IFRS is applied on IFRS for SMEs financials. If the ISA for LCE is going to be adopted for audits that meet the criteria it should be seen in the same light as full ISA. An audit report that refers to the ISA for LCEs does not increase confidence for entities who in the previous years (before ISA for LCE) used full ISA. There could be doubt around whether the same opinion could be given if the same financials are audited under full ISA and this could lead to requests for re-audits especially where a corporate transaction is being envisaged.

Again, an entity that is applying ISA for LCEs may enter into a transaction/event which may lead to it meeting the conditions for complex hence the audit is now done under ISA. If in subsequent years, the effects of that once off transaction are not there anymore and the audit is now done using ISA for LCE. This change from one framework to the next may send wrong message to users who rely on the audit report. We therefore recommend that ISA for LCE not be published as a standalone standard but rather as a suite of standards with the ISA

9. Individuals and Others

Rodoula Roussou

There are many concerns that the ISA for LCE will falsely be perceived as a lower-quality audit with fewer procedures: See above in 1(a).

Section 4A – Overarching Positioning of ED-ISA for LCE\Question 1 - Overarching views\Question 1(a) - Standalone proposed Standard - Concerns or obstacles\5) Mixed Views or Unclear Direction\5f) Burdensome or Hard to Implement

5. Accounting Firms

KPMG IFRG Limited

Lastly, if auditors/firms decide to conduct audits in accordance with both sets of standards, they will need to develop, implement and maintain methodologies, workflows/workpaper templates and training to perform engagements in accordance with both sets of standards, including in respect of transitioning between the LCE ISA and full-scope ISAs. This could be very burdensome and would also create a significant quality management and compliance challenge with respect to compliance with ISQM 1. This would be the case, in particular, as the timing of certain changes to the LCE ISA may not be fully aligned to those of the full-scope ISAs, as described by the IAASB, and therefore the two may diverge over time or for periods of time. This may ultimately encourage auditors/firms to only conduct audits in accordance with ‘one or the other’ and discourage use of the LCE ISA due to an inability to transition.

Please also see our comments in our response to Question 13 regarding challenges when applying the LCE ISA when auditing components in a group audit scenario, in which the group auditor is required to use the full-scope ISAs.

Moore Global Network Limited

The relief given by the standard is not sufficient to warrant the additional work required to justify the use of the LCE standard vs the full ISAs. Auditors will be required to develop or source:

training on the new standard

a new methodology for the LCE standard specifically, (or adapt an existing methodology)

a new audit tool (or adapt an existing one)

This could have a significant impact on the planning of resources especially for smaller firms with tight budgets.

6. Public Sector Organizations

Australian Council of Auditors General

Initial and ongoing support costs

A significant barrier for ACAG offices would be the initial set-up and ongoing costs to develop a new methodology to comply with the ED ISA - LCE, templates, training, and communication with clients and key stakeholders.

Section 4A – Overarching Positioning of ED-ISA for LCE\Question 1 - Overarching views\Question 1(a) - Standalone proposed Standard - Concerns or obstacles\5) Mixed Views or Unclear Direction\5g) Long Term Training Skills Gap

3. Regulators and Audit Oversight Authorities

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.

4. National Auditing Standard Setters

Malaysian Institute of Accountants

In addition, while this may not be an issue for the current crop of practitioners (since they are already trained in the full ISAs), over time, we may end up with LCE auditors that are not as well versed with the ISAs and hence, additional implementation support in some of the areas are to be expected. The commitment by the IAASB to ensure the long-term implementation and maintenance of the standard is important.

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.

Ernst & Young Global Limited

Additionally, since the ED-ISA for LCE does not provide guidance on how to execute a LCE audit and the requirements are largely extracted from the ISAs, we believe that users will have to apply the requirements of the ED-ISA for LCE based on their knowledge of the ISAs or rely on implementation guidance issued by the IAASB. The former will become increasingly challenging as new auditors come into the profession who may lack the legacy knowledge of the full ISAs.

Because of the broad applicability of the ED-ISA for LCE, we believe issuing a separate standard as proposed risks creating a two-tier profession where some auditors may only conduct audits under the ED-ISA for LCE (i.e., many auditors may have few audits in their portfolio that would not qualify for the ED-ISA for LCE) and these auditors may not develop the breadth of experience and expertise of auditing under the full suite of ISAs that has been a foundation of promoting public confidence in the audit profession. It is our view that it is important that auditor qualifications remain based in robust knowledge of the full suite of ISAs.

Issuing a separate standard that has broad capability of application risks creating a two-tier profession where some auditors may only conduct audits under the ED-ISA for LCE (i.e., many auditors may have few audits in their portfolio that would not qualify for the ED-ISA for LCE) and these auditors may not develop

the breadth of experience and expertise of auditing under the full ISAs that has been a foundation of promoting public confidence in the audit profession. Given the broad applicability of the ED-ISA for LCE, it is our view that it is important that auditor qualifications remain based in robust knowledge of the full suite of ISAs.

KPMG IFRG Limited

Furthermore, if training/qualification and ongoing professional development do diverge over-time, this could create a two-tier audit profession, both within firms and across the broader profession. We recommend that the IAASB fully explore these considerations, which are particularly important in light of discussions in certain jurisdictions, e.g., in the UK, in which the Brydon Report recommends the creation of distinct professions of “corporate auditor” versus “statutory auditor”.

Longer-Term Implications for the Audit Profession

It is also important to consider other potential consequences of this standalone approach and how this is to be operationalised by auditors in terms of the potential longer-term implications for the profession.

We assume that auditors using only the LCE ISA would not need to maintain their knowledge of the full-scope ISAs and, as a consequence, professional qualification and training programmes may diverge over time. This may have long-term implications as follows:

Requiring professionals to undertake training that enables them to conduct audits in accordance with both the full-scope ISAs and the LCE ISA may seem burdensome and unnecessarily costly if certain audit professionals are not expected to apply both sets of standards. Such a requirement may undermine the objectives of the IAASB to help smaller auditors.

Having said this, if an auditor only trains/updates certain audit professionals on the LCE ISA, their knowledge of the full-scope ISAs will be lost over time or may never be established.

Longer-Term Implications for the Audit Profession

We believe it is important to consider the potential longer-term implications for the audit profession as a result of this standard, in particular, in respect of the following:

Whether auditors that only conduct audits using the LCE ISA will obtain the same professional qualifications and receive training equivalent to auditors that conduct audits using the full-scope ISAs, or whether professional qualifications and training programmes may diverge over time.

We highlight that the former may seem burdensome and unnecessarily costly if such auditors are not expected to apply both sets of standards, and this may appear to undermine the objectives of the IAASB.

However, the latter approach would give rise to concerns that if an auditor only trains/updates their knowledge regarding the LCE ISA, their knowledge of the full-scope ISAs will be lost over time or may never be established. This could increase the risk of inappropriately determining whether an audit should be “in” or “out” of this new standard; a failure, when using this standard, to recognise a situation that indicates it is necessary to transition out of this standard to the full-scope ISAs, e.g. due to the existence of additional requirements addressing complexity in the relevant ISA, and a reduced ability to identify and perform the procedures necessary to appropriately transition.

Separation of training/qualification and ongoing professional development could create a two-tier audit profession, both within firms and across the broader profession. We recommend that the IAASB fully explore these considerations, which are particularly important in light of discussions in certain jurisdictions, e.g., in the UK, in which the Brydon Report recommends the creation of distinct professions of “corporate auditor” versus “statutory auditor”;

Any decision by auditors/firms to conduct audits in accordance with both sets of standards would likely have cost implications, as well as placing additional demands on their System of Quality Management and compliance with ISQM 1, which could be onerous/burdensome when compared to only conducting audits using the full-scope ISAs.

Price Bailey LLP

Over time this could lead to an additional tier in the profession and make it more difficult for auditors to move from firms that may only audit LCE's and vice versa. In addition there is insufficient information as to whether the different software providers will be able to provide the 2 different systems and have a method of transitioning if required.

8. Academics

Accounting and Finance Association of Australia and New Zealand

We believe that a standalone standard has the potential to meaningfully help in addressing the challenges that impact audits of less complex entities. We are of the view, however, that the proposed relationship between the standalone standard and the full suite of standards means that the approach is significantly impaired.

Research highlights that the existing suite of standards require a level of understanding that many practitioners in small and medium practices do not believe is necessary or relevant given their portfolio of clients (e.g., van Buuren et al. 2018). In addition, research highlights the importance of experience, in addition to knowledge, when developing expertise (e.g., Davis 1996; Cahan and Sun 2015; Chi et al. 2017). To the extent that auditors do not have the opportunity to regularly apply the principles contained in the full suite of standards, even with knowledge, there is a risk that the application of the full suite of standards to audits of less complex entities will fall short of expectations. A separate standalone standard has the potential to address these issues, but the IAASB will need to consider the level of knowledge auditors applying the standalone standard would be expected to have.

Section 4A – Overarching Positioning of ED-ISA for LCE\Question 1 - Overarching views\Question 1(a) - Standalone proposed Standard - Concerns or obstacles\5) Mixed Views or Unclear Direction\5h) Sufficiency of Guidance\EEM

5. Accounting Firms

Ernst & Young Global Limited

As a separate standalone standard, we do not believe that the ED-ISA for LCE contains sufficient explanatory material to guide the auditor in proper and consistent application of the requirements. This lack of sufficient guidance creates a risk that the standard will not enable consistent achievement of audit quality or reasonable assurance. Refer to Q1(a) for more details.

In our view, the ED-ISA for LCE is not a standalone separate standard for audits meeting the Authority of the Standard requirements because the ED-ISA for LCE does not contain sufficient Application Material from the ISAs. We do not believe that audits that would qualify for using the ED-ISA for LCE will be capable of consistent application of the standard without underlying knowledge and of, and access to, the Application Material in the ISAs. The Essential Explanatory Material (EEM) in the ED-ISA for LCE is currently not detailed enough to consistently execute a high-quality audit that achieves reasonable assurance.

Additionally, auditors using the ED-ISA for LCE may find it difficult to discern why certain ISA requirements have been omitted from or modified in the ED-ISA for LCE, which may be better understood through clarifying EEM.

We have the following overarching concerns:

Grant Thornton International Limited

To be capable of being applied as a standalone standard for the audit of less complex entities, ED-ISA for LCE would need to include requirements tailored to the needs of the audit of a less complex entity and clear direction on the application of those requirements through the inclusion of appropriate essential explanatory material (EEM) that negate the need to reference the ISAs.

Assuming the standard is issued as a standalone standard, we do have concerns that the standard, as currently proposed will be capable of such application. Specifically, we have concerns that the requirements will not be consistently and appropriately applied with the limited amount of EEM included in the proposed

standard. The existing suite of ISAs include significantly more guidance on the application of the requirements, and whilst we appreciate some of that guidance is focused on the application of the requirements to more complex circumstances, we believe that substantially more of that guidance would need to be incorporated into ED-ISA for LCE. Auditors who have never performed audits under the ISAs and, over time, auditors that exclusively perform audits under ED-ISA for LCE, will not have the detailed application knowledge of the ISAs and will be solely reliant on the guidance contained within the LCE standard.

KPMG IFRG Limited

Furthermore, the current lack of EEM to provide context and guidance in performing audit procedures in relation to these matters exacerbates the risks of inconsistent application and reduced audit quality should the auditor conclude that the LCE ISA can be applied to address such matters when they involve complexity, which would not be in the public interest.

As a result of the significance of these concerns, we strongly encourage the IAASB to take the necessary time to appropriately address these matters prior to issuance of the LCE ISA by taking one or, ideally, both of the following courses of action:

Include significantly more application guidance within the standard itself, having conducted a thorough review of where this is needed. This would provide context and clarify how the requirements are expected to be applied when conducting an LCE audit, along the lines of the material included within the full-scope ISAs. We do recognise that such application guidance is likely to extend the length of the standard significantly, however, we consider that, without such guidance, the LCE ISA would not be sufficiently robust to drive consistency in its application and to support audit quality across the profession; and/or

Removal/Reduction of Application Guidance and the IAASB's Intentions

We consider that the principal difference between the LCE ISA and the full-scope ISAs appears to be that the IAASB has removed most of the application material that is an integral part of the full-scope ISAs and instead has included only very high-level EEM within the ED. The IAASB has also developed supplementary guidance in respect of certain key aspects of the standard, which is placed outside the standard itself and is non-authoritative. We believe this approach has been taken principally to shorten the standard with the aim of making this easier to use/navigate for LCE auditors.

If this assumption is correct, we consider this overriding objective of shortening the standard per se to be unhelpful to auditors and potentially other stakeholders, e.g., regulators, who would have a very limited framework/ basis against which to perform their quality inspections. We have significant concerns that without adding substantially more application guidance there could be unintended consequences. In particular, there could be significant inconsistency and divergence in practice, as a result of different interpretations amongst auditors as to what would be appropriate without the additional context and the “guardrails” of more detailed application material. Inconsistency may arise within particular jurisdictions, and also across different jurisdictions, if local regulators take different views in the absence of detailed application guidance, leading to divergence in practice. Furthermore, we do not consider that rearrangement of elements of important guidance into supplementary materials makes the LCE ISA any easier to understand/ navigate, and the fact that the supplemental materials are also identified as non-authoritative is likely to cause confusion with respect to application. We suggest that the IAASB perform detailed outreach with regulatory bodies from a wide range of jurisdictions, to understand whether they have any concerns regarding the lack of EEM.

We also believe that this inconsistency in practice is likely to worsen over time, as the understanding of the full-scope ISAs by practising auditors may degrade over time, and future auditors may not receive training or gain experience of applying the full-scope ISAs. Although we recognise that the lower complexity of the entities subject to audit as contemplated by this standard somewhat reduces the risks associated with providing less application guidance, we highlight that one of the IAASB's key objectives is to drive global consistency in application of auditing standards, and removal of the majority of the application material risks undermining this key objective, which we do not consider to be in the public interest.

We also recommend that the IAASB include additional EEM in the LCE ISAs for the above matters if they do arise but do not involve “complexity”. This EEM would also provide helpful context to give the auditor greater confidence as to whether they should be conducting the audit using the LCE ISA or not.

PriceWaterhouseCoopers

We know first-hand how important the application material in the ISAs is to understanding how the ISAs’ requirements are intended to be interpreted and applied. As a result of the lack of essential explanatory material (EEM) in the draft ISA for LCE, we are concerned that there may be an implied reliance on an understanding of the ISAs, in particular the application material, to properly understand and apply the requirements of the proposed standard. This puts auditors in a difficult position – the standard claims to be stand-alone, but there is a high likelihood of being challenged as to why they did not refer to the ISAs for additional guidance in a particular circumstance. Considerably more EEM is needed in the draft ISA for LCE to guide consistent understanding of its requirements (and specifically what is not required). The lack of sufficient EEM creates a significant threat to audit quality and increases the potential for misunderstandings which increase the expectation gap (see further discussion in our response to question 7(d)).

7. Professional Accountancy and Other Professional Organizations

Institute of Chartered Accountants of the Maldives

Essential Explanatory Material: We remain skeptical as to whether there is sufficient Essential Explanatory Material (EEM) within the standard. By choosing to base the requirements of the standard on the ISA requirements, we find difficulty in reconciling a view that application material deemed necessary for the appropriate application of requirements in the ISAs, is not necessary for the same requirements in the ISA for LCE. We agree that any separate standard must be capable of being applied without presuming existing ISA knowledge of the auditor. However, we are skeptical as to whether the standard contains sufficient EEM to achieve this objective. There appears to be an implicit assumption of existing ISA knowledge on the part of auditors in expectation of ability to effectively and consistently apply the requirements. Perceptions of length of the standard may have been unduly prioritised over effective understanding and application.

Section 4A – Overarching Positioning of ED-ISA for LCE\Question 1 - Overarching views\Question 1(a) - Standalone proposed Standard - Concerns or obstacles\5) Mixed Views or Unclear Direction\5h) Sufficiency of Guidance\Implementation or Other Guidance Outside Standard

4. National Auditing Standard Setters

Malaysian Institute of Accountants

Based on our various engagements, we have mixed views among our members. While, some support a standalone standard, others questioned the need for a separate standard if it is just an extraction of the existing ISAs without any major revamp on the procedures. At the same time, if this proposed standard is to be adopted, further clarity and guidance would be important given the level of judgment which may be involved based on the current description of qualitative characteristics of an LCE to ensure a consistent conclusion would be reached by the auditor in considering whether an entity meets the definition of an LCE or otherwise.

Response: The principles are appropriate. However, this is an area where more literature outside of the standard will also be well received especially when it pertains to an LCE audit.

7. Professional Accountancy and Other Professional Organizations

International Federation of Accountants’ Small and Medium Practices Advisory Groups

While the SMPAG believes the standard as drafted provides a good foundation for the auditor to perform an audit of an LCE, we believe that additional implementation guidance outside of the standard may be needed to assist with consistent implementation.

Pan-African Federation of Accountants (PAFA)

There are 2 views on this matter from the PAFA member bodies.

View 1

The majority of members are supportive of the standalone nature of the proposed standard. However, to fully achieve the objective of the standalone standard and to achieve a consistent performance of a quality audit, there are two matters that the IAASB should consider before finalising the proposed standard: Since the ISA for LCE contains no Application Material and very little Essential Explanatory Material, it is recommended that Implementation Guidance is issued as soon as possible after the issue of the final standard to support auditors by providing further explanation of the requirements and guidance for carrying them out. One needs to remember that the proposed standard has been written by staff and a task force and approved by the members of the IAASB who have a working knowledge of the ISAs. Certain users of the proposed standard may not have a working knowledge of the ISAs and will depend on Implementation Guidance to supplement their understanding of the proposed standard for consistent implementation thereof. Examples of areas of where implementation guidance would be particularly necessary are:

Planning

Risk assessment

Audit evidence and documentation

Materiality

Conversation with those in charge with governance

Accounting Estimates.

Going Concern.

Subsequent Events.

Section 4A – Overarching Positioning of ED-ISA for LCE\Question 1 - Overarching views\Question 1(a) - Standalone proposed Standard - Concerns or obstacles\5) Mixed Views or Unclear Direction\5i) Authority Concerns (General - View with Q3A)

9. Individuals and Others

Rodoula Roussou

The standalone nature of the proposed standard could also be positive, but there are many areas of concern regarding the proposed standard:

- The prohibition to include group audits based on the complexity of the group.
- The lack of flexibility on the authority of the standard. As mentioned in §54 of EM even a smaller, 'straightforward' listed entity could be included within the scope of the proposed standard if the judgment on the decision about whether the standard is appropriate to use for an audit would be made based on complexity only.

Section 4A – Overarching Positioning of ED-ISA for LCE\Question 1 - Overarching views\Question 1(a) - Standalone proposed Standard - Concerns or obstacles\5) Mixed Views or Unclear Direction\5j) Single Complex Area

5. Accounting Firms

Duncan & Toplis Limited

We are concerned that an entity displaying a stand-alone area that is not considered to be 'less complex' would have to resort to performing a 'full' ISA audit, rather than being able to just refer back to one ISA but being able to continue to use the LCE standard for the rest of the file. We do not believe that 1 'more complex' are is indicative of the entire entity not being 'less complex'.

Section 4A – Overarching Positioning of ED-ISA for LCE\Question 1 - Overarching views\Question 1(a) - Standalone proposed Standard - Concerns or obstacles\5) Mixed Views or Unclear Direction\5k) Transition Concerns

3. Regulators and Audit Oversight Authorities

Committee of European Auditing Oversight Bodies

Transitioning between ISA for LCE and other ISA

Another concern that we would like to highlight is that while the ISA for LCE requires the auditor to consider whether the use of the ISA for LCE continues to be appropriate, it does not state what action is required where the auditor concludes that use of the ISA for LCE is no longer appropriate.

Further while some detail is provided in the explanatory memorandum on transitioning between the ISA for LCE and the ISAs, this should be developed further to provide clear information to auditors on the work required of them in this situation. In particular, in case of a change in the auditor by the audited entity when the new auditor decides to move to the full set of ISAs instead of applying the ISA for LCE. It is not clear what action is required in the audit of opening balances.

5. Accounting Firms

Deloitte Touche Tohmatsu Limited

We are also concerned about the lack of transition guidance for those instances when it is necessary to move from using the proposed standard back to the full ISAs (especially in the longer term when auditors may no longer have the knowledge of the ISAs as a base); accordingly, we recommend including transition guidance in the Authority Supplemental Guidance.

KPMG IFRG Limited

Requiring professionals to undertake training that enables them to conduct audits in accordance with both the full-scope ISAs and the LCE ISA may seem burdensome and unnecessarily costly if certain audit professionals are not expected to apply both sets of standards. Such a requirement may undermine the objectives of the IAASB to help smaller auditors.

Having said this, if an auditor only trains/updates certain audit professionals on the LCE ISA, their knowledge of the full-scope ISAs will be lost over time or may never be established.

We are concerned that this may increase the risk of inappropriately determining whether an audit should be “in” or “out” of this new standard; a failure, when using this standard, to recognise a situation that indicates it is necessary to transition out of this standard to the full-scope ISAs, e.g. due to the existence of additional requirements addressing complexity in the relevant ISA, and a reduced ability to identify and perform the procedures necessary to appropriately transition.

The IAASB acknowledges that transition could be challenging, however, it does not discuss solutions in more detail, noting only that it envisages that such transition should be rare. Given the challenges involved, we recommend that the IAASB consider the implications in more depth, and provide clear guidance to auditors regarding such a transition – please see also above regarding “topping up” and transition to the full-scope ISAs.

Transition to Full-Scope ISAs

We are concerned that the broadening, as the project has progressed, of the scope of the standard to permit use on entities that may have somewhat greater complexity, as well as to entities that are larger, may, as a result, give rise to an increased likelihood of situations arising that require the auditor to transition out of the LCE ISA to use the full-scope ISAs. We suggest, therefore, that the IAASB consider further restricting the intended use of the standard, within the authority section, to explicitly identify additional potential sources of complexity in the audit and/or to consider the establishment of size thresholds to focus the scope of the standard on small and clearly non-complex entities, which we believe was the original intent of this standard. Refer to Options 2a) and 2b) in the section entitled Recommended Courses of Action to Address Concerns with the LCE ISA. We believe this would substantially reduce the likelihood that a transition to the full-scope ISAs would be necessary.

We are also concerned that it is unclear as to what the work-effort would be in relation to a transition out of the LCE ISA and into the full-scope ISAs, and how this would be executed. We believe that the IAASB does not intend for auditors that have transitioned to the full-scope ISAs to perform specific, additional procedures in the discrete area that has given rise to the need for the transition, but rather would require auditors to reconsider and possibly perform additional procedures across the audit as a whole, including in respect of other areas of the audit that have not driven the increased complexity that underpins the need for transition. Since the requirements of the LCE ISA and the full-scope ISAs are closely aligned, but the IAASB has removed much of the application material in developing the LCE ISA, auditors would have applied these requirements as they considered appropriate when performing the audit in accordance with the LCE ISA and, therefore, we assume transition would involve re-considering all work performed with reference to the full-scope ISAs application material to fulfil the requirements in a more prescriptive way. We believe such an exercise would be extremely challenging, in practice.

We also refer to our comments elsewhere in this letter that over time certain auditors may no longer have sufficient knowledge and experience in dealing with full-scope ISAs. As a result, they may be less equipped to identify scenarios that would require transition. Furthermore, they may not have sufficient understanding of the differences between the LCE ISA and the full-scope ISAs to be able to design and perform audit procedures to appropriately transition.

Moore Global Network Limited

As noted above in the key points, the standard should maintain a link with existing ISA objectives, to make it easier for auditors to refer to extant ISAs where specific issues arose which need a more nuanced approach. The current proposed standard will result in the entity no longer being classified as a LCE when the user needs to apply any aspects outside of this standalone standard. We do not agree that a complexity arising during the engagement should lead to the declassification of an entity as a LCE, rather than applying the particular ISA the complexity is relevant to. Additionally, the potential need for transition part-way through the engagement could lead to unnecessary complications as discussed earlier in this letter.

he transitional requirements within the ED have significant practical challenges which are also likely to have significant resources implications, such as having to re-visit the audit under the ISAs, changing methodology and possibly changing software tools part-way through engagements. These challenges could act as a barrier to adoption of the standard

9. Individuals and Others

Rodoula Roussou

The lack of flexibility in the cases that the entity meets the definition of a Less-Complex Entity in one year but not in the subsequent year, especially regarding the additional documentation needed in opening balances in the course of an audit under ISAs. This is also unjustified since both standards provide the same assurance.

The standalone nature of the proposed standard could also be positive, but there are many areas of concern regarding the proposed standard:

Section 4A – Overarching Positioning of ED-ISA for LCE\Question 1 - Overarching views\Question 1(a) - Standalone proposed Standard - Concerns or obstacles\5) Mixed Views or Unclear Direction\5) Make Clear Can't Top Up if Prohibited

7. Professional Accountancy and Other Professional Organizations

Pan-African Federation of Accountants (PAFA)

The Authority of the proposed standard should make it clearer that the auditor cannot cherry pick a requirement(s) from the ISAs if it is not part of the core requirements in the ISA for LCE, (i.e., there is no intended need to directly reference back to the requirements or application material in the ISAs in the application of the proposed standard and relevant ISA requirements cannot be used to “top-up” the ISA for LCE). Please refer to additional comments made in response to question 3

Section 4A – Overarching Positioning of ED-ISA for LCE\Question 1 - Overarching views\Question 1(a) - Standalone proposed Standard - Concerns or obstacles\5) Mixed Views or Unclear Direction\5m) Reporting Considerations\Mixed Views

5. Accounting Firms

Ernst & Young Global Limited

Additionally, because the outcome of the audit using ED-ISA for LCE and an ISA audit will result in the same report, a potential unintended consequence of the ED-ISA for LCE is that stakeholders may not value an opinion that indicates an audit was performed in accordance with the ED-ISA for LCE. Referencing the ED-ISA for LCE may impact the perception of the quality of the audit undertaken, the perceived value of the audit and increase confusion amongst users of financial statements if they do not understand the difference between an ISA audit and an ISA for LCE audit. If the ED-ISA for LCE is intended to provide the same level of assurance that the ISAs provide (i.e., reasonable assurance), then stakeholders need to have sufficient transparency of the differences between the ED-ISA for LCE and the ISAs. If stakeholders find it difficult to determine the differences between an audit performed under the ED-ISA for LCE and an audit performed under the ISAs, a perception could be created that a different or lesser level of assurance will be obtained through application of the ED-ISA for LCE., irrespective of whether the same level of assurance is obtained. Users need to understand that application of the full suite of ISAs involves addressing many audit circumstances that are not present or relevant in audits of LCEs, and therefore are not included in the ISA for LCE. In our view, the auditor’s report on ED-ISA for LCE should provide transparency about the nature of the entity audited being less complex and about the difference between an ISA audit and ISA for LCE audit. For example, the auditor’s report for a LCE could be expanded to help users understand that an audit of a LCE is a streamlined application of the full suite of ISAs since certain audit circumstances do not exist in LCEs.

Section 4A – Overarching Positioning of ED-ISA for LCE\Question 1 - Overarching views\Question 1(a) - Standalone proposed Standard - Concerns or obstacles\5) Mixed Views or Unclear Direction\5m) Reporting Considerations\Should Refer to ISA for LCE

7. Professional Accountancy and Other Professional Organizations

Chamber of Financial Auditors of Romania

We consider it highly important for IAASB to communicate to the public that this standard contains requirements that will result in a reasonable assurance, the same level of assurance that the use of ISAs will result in. For transparency reasons, IAASB should stress on the importance of identifying clearly in the auditor’s report the framework that was applied in conducting the audit in all explanatory materials.

8. Academics

Accounting and Finance Association of Australia and New Zealand

In the interests of transparency, we support the Auditor’s Report referring to the standalone standard as the basis upon which work has been undertaken and the opinion formed. We do note, however, that a consequence of this is that users may look to infer characteristics of the entity from the use of the standalone standard. There is some research evidence to suggest that users may look to make inferences about the entity on the basis of the information contained in KAMs (see Gold and Heilman 2019 for a review), and information on the standard(s) used to achieve reasonable assurance may similarly lead to inferences that may be incorrect. For example, is ‘less complex’ ‘less sophisticated’? Will a transition from the standalone standard in one year to the full suite of standards in the following year be seen as indicating greater risk or something untoward?

Section 4A – Overarching Positioning of ED-ISA for LCE\Question 1 - Overarching views\Question 1(a) - Standalone proposed Standard - Concerns or obstacles\5) Mixed Views or Unclear Direction\5m) Reporting Considerations\Should Refer to ISAs

5. Accounting Firms

Grant Thornton International Limited

We also have concerns regarding the proposed content of the auditor's report. We note that the proposed Basis for Opinion section includes a statement that the audit has been conducted in accordance with ED-ISA for LCE. Given the opinion under ED-ISA for LCE is a reasonable assurance opinion, consistent with the reasonable assurance opinion given under the ISAs, we are unclear why this distinction is being made in this section of the auditor's report. Further, as noted above, this may add to the confusion and stakeholders' perception concerning the quality of the audit performed.

Moore Global Network Limited

We strongly believe that a specific reference to the LCE standard in the audit report is dangerous. If the LCE standard is intended to be an articulation of how to perform an ISA compliant audit for entities with low complexity, then an audit conducted using the LCE standard complies with ISAs and no specific reference should be needed. The current proposed audit report wording might lead users of the audit report to believe that an LCE audit is of a lesser value than a non LCE audit. We do not believe this was the original intention of the project.

7. Professional Accountancy and Other Professional Organizations

Institute for the Accountancy Profession in Sweden (FAR)

General: All requirements in the ISA:s, applicable for LCE, are included as requirements in ISA for LCE. In our view this means that an opinion based on ISA for LCE has the same level of assurance as ISA. We think that the auditor's report should be the same for ISA and ISA for LCE except for reference to the applicable ISA used. Requiring that the auditor's reports should be different would not be a simplification rather introducing two parallel systems for forming opinions.

9. Individuals and Others

Rodoula Roussou

Since the level of assurance for an audit of a Less-Complex Entity using the Standard for LCE remains always the same, it should not be considered as different compared to the level of assurance provided by all other ISAs, the audit report should have the same form and wording with the existing types of the audit reports, as stated in ISA 700. The reference "...we conducted our audit in accordance with the ISA for LCE" could cause several concerns or confusion to the intended users of the audit report.

Considering the above we believe the reference in the report is not appropriately informing stakeholders about the scoping of the proposed standard but is rather quite misleading. See also 1(a) and 1(b) above.

The above obstacles may not only impair this approach but would also undermine the proposed standard and make it useless.

Especially the reference in the audit report that "the audit was conducted in accordance with ISA for LCE", gives a message of a lower level of quality, and together with the difficulties and cost from changing from ISAs for LCE to ISAs and back and the lack of flexibility would make the standard not effective.

The standalone nature of the proposed standard could also be positive, but there are many areas of concern regarding the proposed standard:

The reference in the Audit Report that the audit was conducted in accordance with ISA for LCE is totally misleading and unjustified. This reference can lead the user to think that the audit is not providing the same level of assurance as to the ISAs. Also, could lead to the false perception that the auditor has not gathered

the same amount and quality of documentation and has not made the same effort, which is not true, since both standards provide the same assurance.

Section 4A – Overarching Positioning of ED-ISA for LCE\Question 1 - Overarching views\Question 1(a) - Standalone proposed Standard - Concerns or obstacles\5) Mixed Views or Unclear Direction\5n) Narrow Scope of Standard

5. Accounting Firms

Ernst & Young Global Limited

As set forth in our response to Q1(a), we recommend that the IAASB narrow down the criteria in the Authority to make the ED-ISA for LCE applicable to only entities at the lowest level of complexity and potentially size, which we believe would allow the standard to be substantially reduced in length.

Based on the above concerns, it is our view that the ED-ISA for LCE would need to be expanded if the Authority remains as proposed (i.e., application is permitted to a wide range of entities).

Our overall recommendation is for the IAASB to pursue one or both of the following options (to which we refer throughout the remainder of this letter) in moving the ED-ISA for LCE forward:

Option #1 - Narrow down the criteria in the Authority to make the ED-ISA for LCE applicable to only entities at the lowest level of complexity and potentially size (i.e., refine the authority of use) and deliver a standard that is obviously different from the ISAs (i.e., a standard that excludes many audit circumstances, is much more condensed and has sufficient EEM) and is clear that it is only meant for audits of entities at the lowest level of complexity. These entities would be those that have a very simple business model, are not group audits (but may be a subsidiary of a group) and would not have complex estimates. Additionally, based on our experience, audits of these entities are fully substantive audits and are not expected to exceed 1000 hours. This approach would clearly differentiate an ISA versus ISA for LCE audit and will also help to reduce the length of standard. To further support this view, we understand that one of the main reasons that the IAASB developed the ED-ISA for LCE was to provide an international solution, as many jurisdictions are developing their own versions of LCE standards that have significant differences among them. However, those jurisdictions that are developing these standards appear to be targeting the lowest level of complexity or smallest end of the market, whereby the IAASB ED-ISA for LCE is addressing a very wide range of entities and even many large audits greater than 1,000 hours would seem to potentially qualify for use of the ED-ISA for LCE. Therefore, it is our view that if the IAASB was to narrow the scope of the ED-ISA for LCE it would better address the needs of jurisdictions that want a LCE standard.

KPMG IFRG Limited

Decisions regarding use of this standard involve a degree of subjectivity/judgement on the part of the auditor when assessing the qualitative characteristics of an LCE, and there may therefore be pressures to reach an inappropriate decision.

Please also refer to our recommendations set out in our response to Question 3c), regarding further restricting the use of the standard, within the authority section, to focus the scope of the standard on small and clearly non-complex entities, which we believe was the original intent of this standard. We consider that such measures would significantly reduce the inherent subjectivity in determining whether it would be appropriate to use this standard, and would also, therefore, alleviate the likelihood of commercial pressure to apply the standard.

PriceWaterhouseCoopers

As explained in our response to question 3 on the Authority, we recommend the standard be designed and targeted at a more defined population that precludes the option for the standard to be applied to medium/larger-sized private entities, for which we believe the ISAs remain appropriately scalable. Delivering a product that directly satisfies the smaller and less complex segment of the audit market should be the IAASB's overarching priority. In doing so, we believe a more targeted application provides greater latitude for the Board to more directly articulate an appropriate work effort for an audit of such entities, without seeking to directly mirror an ISA audit. The Board and its stakeholders may ultimately conclude that such work effort continues to constitute reasonable assurance for an entity of that size and complexity. Or,

consensus may be reached that the appropriate level of work effort is not considered sufficient to obtain reasonable assurance, but is nevertheless a desirable assurance product for that sector of the market. In our view, both outcomes are acceptable if the needs of users and the market are addressed.

7. Professional Accountancy and Other Professional Organizations

Institute for the Accountancy Profession in Sweden (FAR)

he spectrum of audits where the proposed standard, ISA for LCE, is expected to be used is broad. From small owner managed companies with limited operations to larger entities where the complexity is close to prohibit the use of ISA for LCE. We think that the scalability and proportionality in ISA for LCE need to be clear in the final standard.

Section 4A – Overarching Positioning of ED-ISA for LCE\Question 1 - Overarching views\Question 1(a) - Standalone proposed Standard - Concerns or obstacles\5) Mixed Views or Unclear Direction\5z) Other Comments

4. National Auditing Standard Setters

Japanese Institute of Certified Public Accountants

As a general comment on ED-ISA for LCE, we believe that the practical differences between International Standards on Auditing (ISAs) and ISA for LCE should be clarified. The differences between the two are not clear from the Explanatory Memorandum and Mapping Documents. In particular, it is necessary to indicate whether there are any differences in audit procedures and/or documentation between applying the ISA for LCE and the ISAs for the same less complex entity, assuming that both audits provide the same level of assurance. Also if there are any differences, the differences need to be clearly explained. The practical implications of applying the ISA for LCE for less complex entities should be clarified to ensure that stakeholders do not have different expectations for it.

Malaysian Institute of Accountants

Whilst it is the intention of the proposed standard to provide a reasonable assurance framework comparable to the ISAs as a standalone alternative, the matter discussed on the proposed standard using concepts and principles already used in an ISA audit would technically require an auditor to be equally familiar with existing ISAs to appreciate the use and applicability of the proposed standard. This raises the question if the proposed standard is truly standalone in the first place.

The IAASB may need to consider addressing some of the concerns raised by stakeholders regarding:
what efficiencies or benefits are to be gained when using this new standard.

how pain points frequently encountered by practitioners in applying the ISAs (e.g., risk assessment, fraud procedures) have been eased, since the separate standard includes many of the core requirements of the ISAs.

how much judgment is required in determining whether the standard can be used on an audit, and how consistent application can be achieved.

to ensure that the proposed standard will eventually be adopted across various jurisdictions.

5. Accounting Firms

Ernst & Young Global Limited

Because of the broad Authority and the ability to apply the proposed standard to a wide range of entities (e.g., there is no limit, either based on engagement hours or entity revenues to guide usage of the proposed standard):

Option #2 - Repurpose the ED-ISA for LCE to be non-authoritative guidance for auditors of LCEs. We believe that the ED-ISA for LCE is very helpful in depicting the flow of an audit and repurposing it as non-authoritative guidance would be a timely solution to the issue of promoting consistency in the application of the ISAs across jurisdictions. Since the guidance that currently exists ('Guide to Using International Standards on Auditing in the Audits of Small- and Medium-Sized Entities, '), does not appear to be satisfying the needs of those auditing LCEs, issuing the ED-ISA for LCE as non-authoritative guidance would serve as a timely alternative and provide user-friendly guidance for auditors of LCEs. What the ED-ISA for LCE does

well is providing a roadmap in the flow of the audit of the relevant ISA requirements in the context of audits of LCEs. Guidance relating to the scalability of requirements (e.g., scalability of procedures or documentation) and hyperlinks to the relevant ISA could also be added. Additionally, a guide allows for more plain English explanations and could provide examples and directional guidance.

We believe that the current ED-ISA for LCE is very helpful in depicting the flow of the audit. However, its applicability is too broad, and we recognize that additional requirements will need to be included (see Questions 9 and 10) in the ED-ISA for LCE based on respondent's feedback. Additionally, we have concerns about the summarization of the Auditor Reporting Standards in the ED-ISA for LCE and, based on the proposed Authority of the ED-ISA for LCE, it is our view that group audits should not be excluded because they can be less complex in nature.

Grant Thornton International Limited

If reference to the ISAs is allowed, as and when the engagement team determines it is necessary, the lines between the requirements and guidance that are relevant to the audit will become blurred and the engagement team's judgment as to which requirements are appropriate will be increasingly open to challenge. It would also be unclear how many times or in how many areas, it is permissible to refer to the ISAs before it essentially becomes an audit under the ISAs.

However, there are benefits from allowing reference to the ISAs where necessary, whilst still allowing ED-ISA for LCE to be used as the primary audit standard. For example, if reference to the ISAs is allowed, it could potentially result in avoiding a situation where the application of ED-ISA for LCE standard is initially determined to be appropriate, however, during the audit, a complex estimate is identified, and the audit then has to be performed under the ISAs, given the audit team would be able to refer directly to the requirements and application material in ISA 540 (Revised) for that specific aspect of the audit.

There are clearly advantages and disadvantages to both scenarios but on balance, we agree that if a standard for LCEs is to be issued, it should be capable of being applied without reference to the existing suite of ISAs.

Moore Global Network Limited

In terms of the "standalone" nature of the standard, the proposed standard should maintain a link with existing ISA objectives, to make it easier for auditors to refer to extant ISAs where specific issues arise which needs a more nuanced approach. This will be of particular importance if there is no change to the proposed requirement that any complexities identified during the course of an audit would result in a transition to ISAs during the engagement.

In response to the initial discussion paper, we raised the danger of an unintended consequence of creating two different "classes" of audit and therefore auditor. We do not believe that the ED has sufficiently negated this threat.

Price Bailey LLP

The LCE standard needs to be clearer as to what standalone means in this context. The wording implies that auditors cannot use their knowledge of the main ISA's or refer to them if they want additional guidance on a specific point.

Standalone should mean standalone.

Standalone should mean that complying with the requirements within this standard is sufficient to obtain reasonable assurance on an LCE audit and there is no requirement to make reference to the other standards. Auditors can use their existing knowledge and are able to make reference to guidance within the ISA's if they need or want to. They cannot be expected to carry out the audit with restrictions on the resources available. However this doesn't mean that there should be any expectation of the auditor to consider the existing ISA's.

PriceWaterhouseCoopers

Understanding the specific needs of users in different segments of the audit market is critical in delivering a product that best meets those needs. For listed, PIE and medium/larger-sized private entities (i.e., those entities that do not meet the quantitative thresholds suggested in our response to question 3), we believe that a reasonable assurance audit conducted in accordance with the ISAs is the appropriate benchmark,

and that this is a widely accepted premise. Creating a separate standard for audits at the smaller end of the audit market could create risks that undermine that premise unless the standard is designed very carefully. If the IAASB proceeds with finalising a separate LCE standard, in our view, it is essential that the standard: be targeted at a sufficiently well-defined population of smaller and less complex entities; does not facilitate or encourage a diminution in audit quality, or erode the trust associated with the established concept of a reasonable assurance ISA audit; and is standalone in nature, and includes guidance as necessary to promote consistent application of its requirements.

7. Professional Accountancy and Other Professional Organizations

Federation of Accounting Professions of Thailand

We believe the proposed standard allows the consideration of local law and regulation of the countries that will apply this standard. Currently all audit firms, including small and medium size audit firms, in Thailand apply the ISAs when performing the audits of any size. As a result, we do not believe that there will be a significant impact from the application of this proposed standard in Thailand.

Institute for the Accountancy Profession in Sweden (FAR)

The work done by the task force in transforming the ISAs to the standalone format is a great achievement in improving the accessibility to the audit standard. One of the main differences between ISA and ISA for LCE is the lower number of Application and Other Explanatory Material (in ISA for LCE named EEM). The Application and Other Explanatory Material forms part of the basis for the auditor's professional judgement. There might be a risk that the auditor, and the regulator, seek guidance in the Application and Other Explanatory Material also when performing, or assessing, an audit performed under ISA for LCE. The standalone nature of the standard (subject to allowing use of the standard for group audits) is important to stress for practitioners, standard setters, regulators and other stakeholders in order to avoid that the ISA-standards are used for interpretation of ISA for LCE.

Institute of Certified Public Accountants in Israel

We believe that the standard should include a statement clarifying that the standard constitutes an standalone framework of professional rules covering all aspects of audit. Since the quality of the audit is not impaired, and since the opinion issued by the auditor refers to products of a properly conducted audit, having adapted the procedures to reflect the entity's complexity, we suggest considering to include in the auditor's report a statement that the audit was conducted in accordance with ISAs.

International Federation of Accountants' Small and Medium Practices Advisory Groups

The standalone nature of the proposed standard has both benefits as well as some perceived challenges. For auditors that only work with LCE clients and plan to adopt this proposed standard (provided it is allowed in their jurisdiction), it results in a shorter standard that is less complex and easier to read than the full set of ISAs.

There was some feedback about the amount of time potentially needed to determine whether or not an entity is prohibited from using the standard. However, the challenges of developing the authority of the standard at the global level is recognized as well as the need for professional judgment on qualitative characteristics.

Pan-African Federation of Accountants (PAFA)

We support that the proposed standard has been developed to include core requirements to allow an auditor to express a reasonable assurance audit opinion.

9. Individuals and Others

Rodoula Roussou

With the current draft, of ISA for LCE, is more cost-effective to design a tool, as many firms have already done, that will enable the auditors to perform the audit of an LCE with the existing ISAs.