

# Supplement 2-03 to Agenda Item 6

## Audits of Less Complex Entities – ED-ISA for LCE – Q1(b) – The title of proposed Standard

### Section 4A – Overarching Positioning of ED-ISA for LCE\Question 1 - Overarching views\Question 1(b) - Title of proposed Standard\1) Agree

#### 3. Regulators and Audit Oversight Authorities

##### Botswana Accountancy Oversight Authority

The title of the proposed standard is relevant and specific. It will also help the readers and users of the financial statements to know that the standard is applicable to Less Complex Entities.

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

We are supportive of the title of the proposed standard. It indicates the type of entities it is applicable to. It is also globally understandable.

#### 4. National Auditing Standard Setters

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

Agreed

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

We consider the title of the proposed standard appropriate which reflects its nature and objective.

##### Indonesian Institute of Certified Public Accountants (IAPI)

Agree

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

We support the proposed title of the standard because it appropriately describes the nature of the standard – that is, a standard for audits of financial statements of less complex entities.

##### Institute of Chartered Accountants of India

We agree with the title of the proposed standard.

##### Japanese Institute of Certified Public Accountants

We agree.

##### Malaysian Institute of Accountants

We agree with the title of the proposed standard.

#### 5. Accounting Firms

##### Azets Audit Services

The title of the standard is appropriate.

##### BDO International

We agree with the title for the proposed standard.

##### Crowe Global

We agree with the title of the proposed standard.

##### Duncan & Toplis Limited

We have no issues regarding the proposed title of the standard. It is clear and does not mislead the users as to its purpose.

##### Ernst & Young Global Limited

Yes, we believe the title of the proposed standard distinguishes the standard from the ISAs, while maintaining identification as a global IAASB standard.

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

The title of the proposed standard is cumbersome, but we do not see any viable alternative. It needs to clearly enunciate the content of the standard and we believe it achieves this.

### **Grant Thornton International Limited**

We have no concerns with the title of the proposed standard.

### **KPMG IFRG Limited**

We consider the title of the proposed standard to be clear and appropriate, based on the IAASB's stated intention that this is a standalone standard that is designed to set out requirements that will result in a reasonable assurance conclusion, in the form of an audit opinion.

### **Price Bailey LLP**

Seems appropriate.

### **RSM International**

Our view is that the name of the proposed standard is appropriate.

## **6. Public Sector Organizations**

### **Audit Scotland**

The title is appropriate.

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

The title of the proposed standard for the audits of financial statements of LCE is reasonable.

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

### **Accountancy Europe**

The proposed title for the ISA for LCE is appropriate.

### **ASSIREVI**

We believe the title of the proposed standard is consistent and appropriate given that it is a standalone, separate standard that is still, however, an international standard issued by the IAASB.

### **Association of Practising Accountants**

This seems appropriate.

### **Botswana Institute of Chartered Accountants**

The title of the standard is appropriate. We agree with the Board that jurisdictions should be allowed to define entities regarded as "less complex".

### **Chamber of Auditors of the Republic of Azerbaijan**

The title of the proposed standard is acceptable, and any other title would be synonymous.

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

Considering the explanatory memorandum, the title of the proposed ISA seems appropriate, as the standard will be used for audits of entities, based on the complexity of the business and not solely on the size and although it will include ISA, we do not consider it will create confusion since it will clearly include the reference to LCEs.

### **Chartered Accountants Ireland**

We have no concerns about the title of the proposed standard.

### **Confederation of Swedish Enterprise**

We support to name the standard ISA for LCE.

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

KPAP agrees on the title of the proposed standard.

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

The title ISA for LCE gives an obvious link to the ISAs.

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

We agree with the title as proposed.

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

We support the title of the proposed standard.

### **Institute of Certified Public Accountants of Rwanda**

We agree with the proposed title of the standard.

### **Institute of Certified Public Accountants of Uganda**

We are supportive of the title of the proposed standard.

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

We are content with the title of the proposed standard.

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

We believe the title is appropriate. While maintaining the wording ISA in its title, it distinguishes itself from other standards by referencing its use “for Less Complex Entities”.

Par. 36 “to avoid confusion about the standalone nature of the standard and ISAs being incorrectly used in conjunction with the standard, the IAASB opted against the placement of ED-ISA for LCE within the existing ISA series”

### **Institute of Chartered Accountants of Jamaica**

We are in agreement with the title

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

We are supportive of the title of the proposed standard.

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

We agree with the title for the proposed standard.

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

We agree with the title of the proposed standard.

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

The title “Audits of Financial Statements of Less Complex Entities” seems to be an appropriate title and should be well understood, even when translated to multiple languages.

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

We agree with the title of the proposed standard, “International Standards on Auditing for Audits of Financial Statements of Less Complex Entities (ISA for LCE)”.

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

If it is issued as a standard, we agree with the title.

### **Polish Chamber of Statutory Auditors Warsaw (Regional Branch)**

The title is adequate to the purpose of the standard

### **Self-Regulatory Organization of Auditors Association (SRO AAS)**

The title is succinct and reflects the senses of the standard. The name of the standard using the term ‘less complex entities’ (LCE) is not widely spread in our practice. Nevertheless, the scope of the standard allows to understand which entities it relates to.

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

The proposed title is appropriate

## **South African Institute of Chartered Accountants (2)**

We agree that the title also helps to distinguish the standard from the regular suite of ISAs.

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

We agree with the IAASB's view that the title should reflect a new category of international standard that effectively describes the proposed standard, while also making it recognizable as an IAASB standard. Therefore, it is proposed that the new standard be titled "International Standard on Auditing (ISA) for Audits of Financial Statements of Less Complex Entities (ISA for LCE)". We agree with the proposed title of the proposed standard.

It is important that the degree of confidence of intended users in the financial statements of an entity is still the same and that the public does not view an audit opinion based on this standard as a different level of assurance nor as an inferior standard than full ISAs

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.

## **Wirtschaftsprüferkammer (WPK)**

Yes, we agree.

## **8. Academics**

### **Hunter College Graduate Program**

We also believe that the title of the proposed standard sections is well explained in regard to distinguishing the title of the ED-ISA for LCE to avoid confusion with existing ISA standards. It was well explained how the naming of the ED-ISA for LCE was established for it to specifically refer to Less Complex Entities while also maintaining identification as a global IAASB standard.

## **9. Individuals and Others**

### **Cristian Munarriz**

I think the title is appropriate.

### **Vera Massarygina**

The title of the proposed standard is correct.

## **Section 4A – Overarching Positioning of ED-ISA for LCE\Question 1 - Overarching views\Question 1(b) - Title of proposed Standard\2) Agree With Comments\2a) Terminology Comments\‘Audits’ rather than ‘Entities’**

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

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

We support using the word ISA in the title – it is important. The standard could also have been called “ISA for less complex audits.” The audit of a less complex entity is also less complex, and referring to the complexity of the audit would not “disparage” entities (clients).

## **Section 4A – Overarching Positioning of ED-ISA for LCE\Question 1 - Overarching views\Question 1(b) - Title of proposed Standard\2) Agree With Comments\2a) Terminology Comments\‘LCE’ should be Defined**

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

#### **Association of International Accountants**

While AIA broadly supports the title ‘International Standard on Auditing of Financial Statements of Less Complex Entities’, we take the view that the phrase ‘less complex entities’ may need further elaboration or clarification. Is there room for the term to be formally defined, perhaps? Management of some entities may take the view that their organisation is not complex, whereas the proposed standard may take a different view.

Regard must also be had to interpretational issues among different jurisdictions. Some countries may interpret ‘less complex entities’ differently than other countries.

In some jurisdictions (for example, the UK), the size of a company is determined by reference to turnover thresholds, gross assets and average number of employees. Without some formal explanation or definition of what a ‘less complex entity’ is, there is the danger that some entities may interpret ‘less complex’ as being ‘small’ and hence apply the proposed ISA for LCEs to a small audit. If the small entity has transactions that are considered complex (such as a complex accounting estimate), the entity would be prohibited from applying the standard as it is currently drafted. Hence, AIA takes the view that a formal definition of ‘less complex entity’ would benefit (potential) users and reduce the scope for incorrect application.

### **8. Academics**

#### **Argentine institute of Auditing Professors**

We agree with the title of the proposed standard. However, we find a lack of definition as to what a complex entity is and consequently what a less complex entity is.

## **Section 4A – Overarching Positioning of ED-ISA for LCE\Question 1 - Overarching views\Question 1(b) - Title of proposed Standard\2) Agree With Comments\2a) Terminology Comments\Rather SME than LCE**

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

#### **REA Auditores**

The proposed title is appropriate. Nevertheless, if the main criteria for the determination as to scope ends up being size then we suggest: International Standard on Auditing (ISA) for Audits of Financial Statements of Small and Medium-sized Entities (‘ISA for SMEs’) in much the same way we have IFRS for SMEs

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

We found the proposed standard’s title revealing and explaining the content as well as the objective of the standard. However, although we appreciate the IAASB’s intention to make the standard proportionate to the nature of such entities rather than the mere size classification, offering new terminology may cause

unintended misconceptions. Therefore, we concur with the effort made to explain the new term against the common terminologies used to describe small and medium-sized entities. This is important to add to auditors' knowledge while making their judgement whether an entity is LCE or not.

## **Section 4A – Overarching Positioning of ED-ISA for LCE\Question 1 - Overarching views\Question 1(b) - Title of proposed Standard\2) Agree With Comments\2a) Terminology Comments\Concern over the Term 'Less'**

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

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

ISA for LCE is fit for purpose as a title, although LCE it is not easily meaningfully translated in a simple and concise manner to many languages and the question still remains “less complex compared to what”. “Less complex” is a subjective term compared to “non-complex” or just “simple”.

## **Section 4A – Overarching Positioning of ED-ISA for LCE\Question 1 - Overarching views\Question 1(b) - Title of proposed Standard\2) Agree With Comments\2a) Terminology Comments\2) Other Terminology Comments**

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

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

We support the proposed title. In particular, including “International Standard on Auditing (ISA)” in the title is important, since that will serve as a quality mark emphasizing this is a global standard developed by the IAASB.

Similar to the international accounting standard for SMEs: “IFRS for SMEs”, we suggest a small amendment in the proposed title so that it refers to LCEs in plural, i.e. ISA for LCEs. The title would then also be aligned with how it is actually being referred to in practice.

## **Section 4A – Overarching Positioning of ED-ISA for LCE\Question 1 - Overarching views\Question 1(b) - Title of proposed Standard\2) Agree With Comments\2b) Other\Consider Renaming ISAs**

### **6. Public Sector Organizations**

#### **Office of the Auditor General of Alberta**

We have no concerns with the title of the proposed standard, however we note that by the creation of ISA for Less Complex Entities (ISA for LCE), the current ISAs will therefore become the ISA for More Complex Entities (ISA for MCE). This will make it clear that there are two sets of ISAs and draw a sharper distinction that they are both separate standards, not that one standard (ISA for LCE) is a subset of the other (ISAs).

## **Section 4A – Overarching Positioning of ED-ISA for LCE\Question 1 - Overarching views\Question 1(b) - Title of proposed Standard\2) Agree With Comments\2b) Other\2) Other Comments**

### **5. Accounting Firms**

#### **ETY sas**

If the standalone approach is kept, we support the title of the proposed standard having taken into account the considerations in paragraph 16 and section 5.

Yes, in our jurisdiction assurance engagements within the scope of ISA-800 series are commonly required by Less Complex Entities. Thus the standalone nature of the [draft] ISA for LCE should require the ISA 800 series being taken into account for the standard to be complete and consistent with needs of auditors and stakeholders. It is suggested that IAASB modifies any wording of the name/title of the standard to reflect that choice and amend any other relevant wording accordingly.

## 7. Professional Accountancy and Other Professional Organizations

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

While we are supportive of the title, some stakeholders have expressed concerns that ISA for LCEs has the potential to widen the expectation gap with users and others, if they perceive an ISA for LCEs audit to be a “lesser quality” audit or to require reduced work effort. 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.

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

If the standalone approach is kept, we support the title of the proposed standard having taken into account the considerations in paragraph 16 and section 5.

Yes, in our jurisdiction assurance engagements within the scope of ISA-800 series are commonly required by Less Complex Entities. Thus the standalone nature of the [draft] ISA for LCE should require the ISA 800 series being taken into account for the standard to be complete and consistent with needs of auditors and stakeholders. It is suggested that IAASB modifies any wording of the name/title of the standard to reflect that choice and amend any other relevant wording accordingly.

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

Again, there are views presented from on this matter, however, on the main the members of PAFA are supportive of the title for the proposed standard..

#### View 1

Less complex entities is generally not a term that is used in most jurisdictions or laws. There is risk that entities may think that less complex entities are SMEs. Whilst we support the name, we think that the standard should clear that LCE is not synonymous with SME. We believe that complexity should not be measured in terms of size only.

#### View 2

If the intention from IAASB is to create a set of LCE standards that will have its on distinct process on further development i.e. will we see new standards being issued to LCE independently of the full ISA and vice versa like the relationship between IFRS and IPSAS. If that is the case, it is important to make the name more distinct from current ISA so that they are not confused as one for example Less Complex Entities International Auditing Standards (LCEIAS). However if the development of future changes is directly linked to changes in the full ISA then the naming is appropriate however see our comments on 1 above.

## 8. Academics

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

We agree with the title of the standard but caution that the Authority needs to be such that the perceived characteristics of entities scoped into the standard align with perceptions of what a less complex entity is. The proposed title is focused on who the standard is for (i.e., less complex entities) rather than what the standard is (i.e., condensed ISA requirements). We do not object to the title, but note that there is a need for the authority to align with perceptions of what a less complex entity is. In this area, we are informed by the discussion of the title of the corresponding financial reporting standard (i.e., International Financial Reporting Standard for Small and Medium Entities) and note that the selection of the title was contentious (Perera and Chand 2015). Reference to SMEs in the title has caused some confusion in that the meaning of SMEs as per the standard does not always align with the meaning of SMEs in the jurisdictions and settings in which it is applied (Perera and Chand 2015). In addition, reference to the term has led to some dissonance in that ‘small/medium’ is not how those who might apply the standard perceive the entity and wish the entity to be perceived (Perera and Chand 2015).

With reference to the proposed standard under consideration, and with reference to the experience of the equivalent financial reporting standard, we believe that care must be exercised to align the authority (i.e., the applicability of the standard) with that which the term ‘less complex’ is understood to mean in individual

jurisdictions. We do not believe that this is currently the case. As presently drafted, a more apt title would be 'ISA for LCEs that are not listed entities, do not employ an internal auditor, ...'. In our response to Question 4a, we recommend that there be no global prohibitions and that the authority is based more on qualitative characteristics to help stakeholders identify when the standalone standard may not be sufficiently comprehensive for the circumstances. We believe that doing so would also help jurisdictions align the Authority with what is understood in that setting to be less complex.

Research also suggests that less complex entities will select the nature of assurance (if any assurance) that best suits their circumstances (e.g., Palazuelus et al. 2020; Gong et al. 2021). To the extent that entities may feel that the use of a standard for less complex entities miscommunicates the nature of the entity (e.g., somehow less sophisticated), entities will choose an audit undertaken with reference to the full suite of standards.

The title of the standard also has implications for the way the audit is interpreted. As noted in our response to Question 10a, we agree with the proposed reference to the standalone standard in the Auditor's Report. We note, however, that users do not always appropriately interpret terms in auditor's reports (e.g., Maijor et al. 2002; Gray et al. 2011) and suggest that the IAASB remain cognizant of the possibility that the standard(s) with which the audit is undertaken may signal incorrect meaning to users of the Auditor's Report (e.g., if an audit is undertaken in one year with reference to the LCE standard and in the following year with reference to the full suite of standard, does this signal something untoward – is more complex more risky?) In this regard, we are informed by research on the perceived information content of KAM / CAMs. While research to date on the information content of KAMs (as it relates to information on the entity) reports mixed findings (Gold and Heilmann 2019), the research suggests that KAMs may be a factor in evaluating the entity. We believe, therefore, that there is the potential for reference to less complex entities in the title of the standard under which the audit will be undertaken (and referred to in the Auditor's Report) to be a factor in user interpretation of the entity being audited. A broad education program will be necessary to avoid incorrect inferences being drawn from referencing a standard with 'less complex entities' in its title.

In summary, we support the proposed title but recommend that the authority is revised such that jurisdictions are able to align the use of the standard with the meaning attributed to less complex entities and that attention be given to education of users of the meaning of audits being undertaken under the two approaches.

## **Section 4A – Overarching Positioning of ED-ISA for LCE\Question 1 - Overarching views\Question 1(b) - Title of proposed Standard\3) Disagree or Unclear with Comments\3a) Terminology Comments\Audits' rather than 'Entities'**

### **5. Accounting Firms**

#### **PKF International Limited**

We agree the words “entity” and “complex” both have relevance to the overall scope and objectives of the standard. However, regardless of their relevance, in our view these words are not sufficiently precise in context of the broader nature of the standard. Consequently, they may cause some users to infer that the standard has a narrower scope than it actually does.

Complexities which affect an audit may arise from the wider circumstances of the engagement as a whole, rather than exclusively arising from the entity. This point becomes more relevant when considered in conjunction with the responses we have provided on the Authority of the standard (see Question 4 below). For example, in our view a first-year audit can create additional complexity and could be a relevant circumstance to consider when setting the scope of the standard. Furthermore, a first year-audit is a circumstance which is not directly connected to the audit entity, rather it is a feature of the broader engagement circumstances.

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

#### **Institute of Chartered Accountants of Namibia**

We recommend that the standard be named for less complex audits rather than less complex entities. This is explained in our general comments above.

## **Section 4A – Overarching Positioning of ED-ISA for LCE\Question 1 - Overarching views\Question 1(b) - Title of proposed Standard\3) Disagree or Unclear with Comments\3a) Terminology Comments\LCE' should be Defined**

### **5. Accounting Firms**

#### **PKF International Limited**

The concerns we have with using the words “less complex entity” are compounded by the absence of a definition of the phrase “less complex entity” within the proposed standard or within the glossary to the proposed standard.

In our view, the title of an ISA should be precise and should convey a clear indication as to its scope. The accuracy and pertinence of the title is particularly necessary in conveying useful information to first-time users of the standard. In our view, a more precise and apt title could more accurately convey the full nature and scope of the proposed standard.

Should “Less Complex Entity” continue to be applied in the title of the proposed standard, we encourage the IAASB to consider including this term within the glossary to the proposed standard, which could be an opportunity to clarify more precisely what is meant by the phrase.

## **Section 4A – Overarching Positioning of ED-ISA for LCE\Question 1 - Overarching views\Question 1(b) - Title of proposed Standard\3) Disagree or Unclear with Comments\3a) Terminology Comments\Rather SME than LCE**

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

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

We are of the view that the title of the proposed standard may not be clear to some users. We propose the use of SME (small-and medium-sized entities) as opposed to LCE (less complex entities). We are of the view that in most cases, in many industries, complexity is relative to the size of an entity.

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

The proposed title is appropriate.

However, if, as we suggest below, the main criteria for the determination as to scope ends up being size then we suggest International Standard on Auditing (ISA) for Audits of Financial Statements of Small and Medium-sized Entities ('ISA for SMEs') in much the same way we have IFRS for SMEs.

## **Section 4A – Overarching Positioning of ED-ISA for LCE\Question 1 - Overarching views\Question 1(b) - Title of proposed Standard\3) Disagree or Unclear with Comments\3a) Terminology Comments\Concern over the Term 'Less'**

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

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

The NZAuASB also has a concern that the title could prompt clients to request auditors to adopt LCE on the perception that it may require reduced audit work effort and hence could be cheaper. Labelling the standard as a standalone International Standard on Auditing, while noting that it is an international standard on auditing may help address this risk. However, there is still a need for ongoing education to avoid this misperception.

The key issue is around the messaging about the proposed standard, especially to the preparers and the users of the financial statements. It needs to be highlighted or strengthened that the level of assurance and audit quality under both the LCE standard and the ISAs is the same.

During our outreach, this concern was not shared by the sole practitioners or auditors from smaller audit firms we heard from, as the majority support the title of the standard. These stakeholders did not think that the words 'less complex' affect the perception of an LCE audit. They considered that an LCE audit still provides reasonable assurance, and that the title rather highlights that it is the "right" amount of audit for this type of entity. This view is also supported by the AFAANZ, who liked the title because it includes the nomenclature 'Less Complex Entities' which is consistent with the scope of the proposed standard. However, as mentioned 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.

The NZAuASB has a concern that the title of the proposed standard, "International Standard on Auditing for Audits of Financial Statements of Less Complex Entities" might signal that an LCE audit is less than an ISA audit. The use of the term "less" in the title increases this risk.

### **5. Accounting Firms**

#### **Mazars**

In addition, when reading "less complex entities", the next question is "less than what?". So our suggestion would be "ISA for Non-Complex Entities"

#### **PKF International Limited**

We agree the words "entity" and "complex" both have relevance to the overall scope and objectives of the standard. However, regardless of their relevance, in our view these words are not sufficiently precise in context of the broader nature of the standard. Consequently, they may cause some users to infer that the standard has a narrower scope than it actually does.

Complexities which affect an audit may arise from the wider circumstances of the engagement as a whole, rather than exclusively arising from the entity. This point becomes more relevant when considered in conjunction with the responses we have provided on the Authority of the standard (see Question 4 below). For example, in our view a first-year audit can create additional complexity and could be a relevant circumstance to consider when setting the scope of the standard. Furthermore, a first year-audit is a circumstance which is not directly connected to the audit entity, rather it is a feature of the broader engagement circumstances.

Similarly, we note that the scope of the standard, as currently presented, is not driven exclusively by considerations of complexity. For example, when applying the Authority of the standard the auditor will also consider the level of public interest of the entity regardless of the level of complexity from the entity.

The phrase "less complex" infers a relative scale of complexity, but it begs the question "less complex than what?": The title provides little indication to the user as to where about on the scale of complexity the standard is intending with the phrase "less complex". This is an important point because many entities and

their auditors can have strongly held views that the entity’s audit is “less complex” and based on their interpretation of “less complex” they may simply assume that the ED-ISA for LCE can validly be applied.

## **Section 4A – Overarching Positioning of ED-ISA for LCE\Question 1 - Overarching views\Question 1(b) - Title of proposed Standard\3) Disagree or Unclear with Comments\3a) Terminology Comments\z) Other Terminology Comments**

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

#### **Canadian Auditing and Assurance Standards Board**

We believe the title of ED-ISA for LCE may create confusion about its standalone nature. The use of the term “ISA” is well understood for the existing set of international auditing standards. By titling the standard “ISA for LCE”, it may give the impression that it is a subset of the ISAs.

We suggest that the IAASB better distinguish the ISAs from the separate standard in the title. For example, the standard could be titled “International Standard for LCE Audit Engagements” or “IS-LCE Audit”.

### **5. Accounting Firms**

#### **Mazars**

We do not fully support the title: While we understand the objective of not taking a quantitative approach as it defers from one jurisdiction to another, the term LCE is new and may create some questions regarding the differences between LCE and SME.

#### **Moore Global Network Limited**

As noted in key points, the terminology “Less Complex Entities” still raises questions and concerns, including that of a two-tier approach to audit. We would prefer to see the terminology changed to ‘Entities of Low Complexity’ (ELC). We believe this would be easier to understand and would produce a more consistent approach. We believe that what constitutes ‘low complexity’ could be more easily defined than what constitutes ‘less complex’ and further we believe this would not prove a barrier to individual jurisdictions determining their own definition of low complexity if they so wished.

#### **PriceWaterhouseCoopers**

With respect to the title of the standard, consistent with our suggestions on quantitative limitations in response to question 3(a), we suggest the title needs to reflect an intent that it applies to smaller and less complex entities. Our recommendation for the title is: “International Standard for Financial Statement Audits of Smaller and Less Complex Entities”.

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

#### **CPA Ireland**

The terminology “Less Complex Entity” is not terminology that auditors or their clients would have an immediate recognition or acceptance of. It may be useful if the final terminology to be used could be agreed upon at national level. For example, from an Irish context it may be appropriate that certain entities for whom definitions are already available within current legislation would be appropriate.

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

Title: We believe that using “ISA” in its title may be confusing. The standard has been designed to be standalone, distinct from, and not reliant upon, the ISAs. Consequently, a title that avoids using the established term “ISA” would, in our view, better support this distinction. For example, the “International Standard for Less-Complex Entities Audits”.

## **Section 4A – Overarching Positioning of ED-ISA for LCE\Question 1 - Overarching views\Question 1(b) - Title of proposed Standard\3) Disagree or Unclear with Comments\3b) Other\Consider Renaming ISAs**

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

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

We believe that the proposed name of the standard may lead to an inappropriate perception and unwanted consequences. It may suggest that the ISAs are the main default standards while the ISA for LCE is a second-class standard for certain limited circumstances. We believe that the positioning of both sets of standards shall be reverted. In many countries, majority of audit engagements are likely to be audits of LCEs. The ISA for LCE should therefore be positioned as a basic standard while the full set of ISAs would be required to be used only in case the entity is not in the scope of this standard due to its complexity. The names of the standards shall reflect this concept. We therefore propose that the ISA for LCE is renamed (for example) to International Standard on Auditing while the existing ISAs are renamed to International standards on audit of complex entities.

## **Section 4A – Overarching Positioning of ED-ISA for LCE\Question 1 - Overarching views\Question 1(b) - Title of proposed Standard\3) Disagree or Unclear with Comments\3b) Other\z) Other**

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

#### **Public Accountants and Auditors Board Zimbabwe**

##### **View 1**

If the intention from IAASB is to create a set of LCE standards that will have its own distinct process on further development ie will we see new standards being issued to LCE independently of the full ISA and vice versa like the relationship between IFRS and IPSAS. If that is the case, it is important to make the name more distinct from current ISA so that they are not confused as one for example Less Complex Entities International Auditing Standards (LCEIAS). However if the development of future changes is directly linked to changes in the full ISA then the naming is appropriate however see our comments on 1 above.

##### **View 2**

Less complex entities is generally not a term that is being used in most jurisdictions or laws. There is risk that entities may think that less complex entities are SMEs. Whilst we support the name, we think that the standard should clear that LCE is not synonymous with SME. We believe that complexity should not be measured in terms of size only.

## **Section 4A – Overarching Positioning of ED-ISA for LCE\Question 1 - Overarching views\Question 1(b) - Title of proposed Standard\3) Disagree or Unclear with Comments\3c) Should be Part of the ISAs**

### **5. Accounting Firms**

#### **Baker Tilly International**

If you support the proposed positioning of an ISA for LCE then the title is fine. However, we do not support the positioning. In the absence of a building block approach then a separate standard should be within the body of ISAs and not separate.

#### **SRA**

The IAASB proposes to name the stand-alone standard: ISA for LCE's.

The main argument provided in the E.M. is, that the name could be distinguished from the ISA's.

The full name proposed is: International Standard on Auditing (ISA) for Audits of Financial Statements of Less Complex Entities (ISA for LCE). In our view this name suggests that the new standard is part of the ISA's, which is not intended by the IAASB.

As explained under 1.(a) above, we feel the best approach would be to integrate the requirements for LCE's in the present ISA's.

However, if the IAASB decides to issue a stand-alone standard for LCE's, such a standard should - in our view - be part of the existing ISA's in newly created series. Arguments for this approach are in our view provided in Par. 75 of the E.M., which states that all requirements of the (existing) ISA's which are relevant to an LCE, are included in the proposed standard. It is also vitally important that the LCE-audit is aimed at achieving reasonable assurance, as is the case in an ISA audit.

As a consequence, there is no reason to make a distinction in case of an LCE audit (e.g. in the engagement letter and in reporting) between an audit in accordance with ISA's and in accordance with the stand-alone standard, as all relevant requirements are complied with following the LCE-standard.

We conclude that a separate name for the proposed standard is unnecessary, and bears the risk to contribute to confusion with stakeholders about the status of an LCE-audit; the impression on the basis of e.g. the engagement letter and reporting could well be that a B-audit has been executed.

### **6. Public Sector Organizations**

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

We do not have any views on the title of the proposed standard. However, we have concerns that the proposed standard is not included in the ISA. In our view, if the proposed standard is assigned to a different category, this will have significant implications for its uptake because stakeholders might have concerns that the proposed standard will result in an audit that is inferior to an audit carried out under the full suite of the ISA. We expand on our concerns in our response to Question 2.

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

#### **CPA Australia**

As explained in our answer to question 10, we consider that the LCE standard should be titled as an auditing standard (ISA) as audits conducted using the LCE standard are equivalent to those conducted under the ISAs. LCE and ISA audits are all audits of financial statements and do not represent different services, so there is no need for different standards to be referenced. The basis for opinion in the auditor's report needs to be able to state "We conducted our audit in accordance with International Standards on Auditing (ISAs)" or national equivalents.

Whether or not the LCE standard is an ISA, we suggest that a numbering system should still be applied. This would allow for better referencing and grouping of any additional related standards should they be required in the future. If the LCE standard is placed in the suite of ISAs then it could use the 900 series.

In addition, we recommend the numbering of and clearer titles for the Supplemental Guidance. The titles need to be numbered, more succinct and could be appendices, attachments or guidance referenced more clearly to the LCE standard. This would be easier if the LCE standard was itself numbered.

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

Our suggestion for IAASB is to make the standard part of ISAs. The standard being a part of ISAs may be termed appropriately to make it distinguishable from other ISAs.

The suggested approach would also require some changes in the title of 'Audits of Historical Information' of the existing ISAs.

## **9. Individuals and Others**

### **Rodoula Roussou**

No comment on the title but some concerns on the classification of the standard within the suite of International Standards as discussed in §36 of EM. Considering the fact that whether an auditor performs the audit of an LCE, using the proposed standard for LCE or the ISAs, will end up performing the same audit, gathering the same documentation, and providing the same assurance, is difficult to understand IAASB's concerns around possible confusion that may result from a new auditing standard with a similar name to the ISAs and from adding ED-ISA for LCE to the existing ISAs (for example by creating a 900-series).

The connection with IFRS for SMEs in §38 is, in our opinion, irrelevant. In this case, if you use different accounting standards, you can end up with a different set of financial statements, which is not the case with ISAs and ISAs for LCE. As mentioned in §100-101 the purpose of the ISA for LCE is not to reduce the procedures the auditor is required to perform to support the overall quality of the audit but rather to make the standard easier to understand and apply, as auditors of LCEs will not need to spend time identifying what is applicable and what is not (e.g., as they would need to do if they were using the ISAs), as it should be clearer what the core requirements are, when the nature and circumstances of the entity and the audit are less complex. The auditor would therefore be able to invest more time executing appropriate procedures that more effectively target the risks of material misstatement when appropriately used for an audit of an LCE.