

Supplement 2-05 to Agenda Item 6

Audits of Less Complex Entities – ED-ISA for LCE – Views are sought on the Authority (or scope) of ED-ISA for LCE (Part A of the proposed standard). In particular: Is the Authority as presented implementable? If not, why not?

Section 4B – Authority of the Standard\Question 3 - Views on the Authority of ED-ISA for LCE \Question 3(a) - Is the Authority implementable\1) Yes

4. National Auditing Standard Setters

Hong Kong Institute of Certified Public Accountants

We believe the Authority is implementable.

The Authority requires a four-level assessment together with the “stand back” requirement by the engagement partner to ensure the appropriate use of the proposed standard, thereby minimizing the risk of any inappropriate application.

With respect to specific areas of the Authority, we have detailed our comments in our responses to Question 4.

Indonesian Institute of Certified Public Accountants (IAPI)

Yes

Malaysian Institute of Accountants

The authority is implementable in Malaysia.

5. Accounting Firms

PKF International Limited

In our view the Authority is implementable.

6. Public Sector Organizations

Audit Scotland

The Authority as presented is implementable.

Auditor-General of New Zealand

We agree that the Authority, as presented, can be implemented.

Office of the Auditor General of Alberta

Yes, the proposed Authority is implementable.

7. Professional Accountancy and Other Professional Organizations

Botswana Institute of Chartered Accountants

The Authority presented is implementable. In jurisdictions where there is no provision to define “less complex entities’ in the legislation, the application material in the standard provides sufficient guidance to be adopted on applicability of the standard.

Chamber of Auditors of the Republic of Azerbaijan

The scope as presented is theoretically implementable.

Chartered Governance and Accountancy Institute in Zimbabwe

We are of the view that the Authority of the proposed standard is implementable.

Eurasian Group of Accountants and Auditors

We understand the approach used by the IAASB to define the term “less complex entity.” We consider the introduction of express prohibitions, qualitative characteristics that allow to assess the complexity of the entity, the right of regulatory authorities at the jurisdictional level to amend the list of entities given in

paragraph A.7.(c), to be the right solution. In addition, proper application of the Scope is facilitated by the Authority Supplemental Guide.

Federation of Accounting Professions of Thailand

Yes. We believe it is implementable.

Finnish Association of Authorised Public Accountants

Yes.

Indonesian Committee on Public Accountant Profession (KPAP)

KPAP agrees that the Authority as presented is implementable.

Institute for the Accountancy Profession in Sweden (FAR)

The standard is implementable. The prohibited entities are reasonable in A7 a) – c). We acknowledge the issues in defining PIE that is applicable in a global context. Linking the definition to IESBA is a good way to mitigate this.

Institute of Certified Public Accountants in Israel

It is our understanding that the decision as to which entities the standard will apply to is largely subject to the discretion of the auditors and the body that sets the standards (in Israel - ICPAI). ICPAI believes that the definition of the authority of the standard is in line with the standard's objective.

Institute of Certified Public Accountants of Rwanda

The authority as presented is implementable.

Institute of Certified Public Accountants of Uganda

ICPAU believes that the Authority as presented in the ISA for LCEs is implementable. This is especially true for the requirements relating to the scope and applicability of the proposed standard. To further enhance the implementability of the Authority, we also believe that the implementation guidance should be released as soon as possible to support firms in developing policies or procedures in relation to the use of proposed standard.

Institute of Chartered Accountants of Ghana

Yes. It is very much implementable. It sets out very clear guidelines on what is prohibited quite broadly while allowing local jurisdictions the leeway to fine tune what is relevant in their local jurisdictions. There is even a provision for qualitative characteristics which fine tunes the distinction of what is an LCE even further to the engagement level thereby providing for input from individual practitioners (audit firms). The clearly prohibited entities are easily understood and unambiguous in identification. So, it is simple yet allows the standard to be fine-tuned for the various jurisdictions internationally.

Institute of Chartered Accountants of Jamaica

YES

Institute of Singapore Chartered Accountants

The Authority as presented is generally clear and implementable. We agree that the specific prohibitions for the use of ISA for LCE (for example, listed entities, entities with public interest characteristics, etc) are appropriate. We also agree that regulators/standard-setters of individual jurisdictions should have the flexibility to decree jurisdiction-specific criteria, as different countries can have unique circumstances. This has been clearly indicated in ISA for LCE.

International Federation of Accountants' Small and Medium Practices Advisory Groups

We believe the Authority is implementable. Of course, there will be differing interpretations and adaptations done in the various jurisdictions, but we believe Part A will be a good starting point for determining whether or not an entity would be able to use this standard.

Malaysian Institute of Certified Public Accountants

The Authority is implementable in Malaysia.

Nordic Federation of Public Accountants

Taking into account that this is a global standard, we believe the draft Authority strikes a reasonable balance between being too prescriptive and allowing too much judgment. The actual usefulness of the standard will depend on the acceptance and active engagement on national level from especially legislative and regulatory authorities and relevant local bodies with standard-setting authorities.

We anticipate that, at least in the beginning, there might be some inconsistent application, but such inconsistencies should be manageable. Considering that the application of the standard relies on national regulators' active engagement and supervision, and that the IAASB should not wait too long to perform a post implementation review, any unintended application or major inconsistencies should be able to be dealt with in a timely manner.

Polish Chamber of Statutory Auditors Warsaw (Regional Branch)

The implementation is possible in practice with the specification of the orders to which it applies.

Self-Regulatory Organization of Auditors Association (SRO AAS)

The Authority as presented looks implementable. The approaches used by IAASB to define a 'less complex entity' are clear. The introduction of direct prohibitions, qualitative characteristics that allow us to assess the complexity of the entity, the power of regulatory authorities at the level of jurisdictions to make changes to the list of entities given in paragraph A.7. (c), is the right decision. In addition, the correct application of the Scope is facilitated by Additional Guidance on the Authority of the standard.

Section 4B – Authority of the Standard\Question 3 - Views on the Authority of ED-ISA for LCE \Question 3(a) - Is the Authority implementable\2) Yes with Comments\2a) Concern over Judgment

7. Professional Accountancy and Other Professional Organizations

Wirtschaftsprüferkammer (WPK)

The concept of qualitative characteristics in the Authority is basically convincing. However, without further support and guidance we see the risk of inconsistent application across different jurisdictions, audit firms or even audit teams, as the assessment of whether a criterion is met may be interpreted differently. Accordingly, we recommend that additional guidance should be provided, especially regarding the entity's business activities, business model or the industry in which the entity operates.

9. Individuals and Others

Vera Massarygina

Yes, but there may appear difficulties with qualitative characteristics and detection of limitations relating to the use of the standard during the audit process (for example para.6.5.11).

Section 4B – Authority of the Standard\Question 3 - Views on the Authority of ED-ISA for LCE \Question 3(a) - Is the Authority implementable\2) Yes with Comments\2c) Other Comments

3. Regulators and Audit Oversight Authorities

Botswana Accountancy Oversight Authority

It could be included in the draft that, the ISA elected for application, should be applied consistently, unless the Entity ceases to be a Less Complex Entity.

The Authority as presented is implementable as it is detailed enough.

4. National Auditing Standard Setters

Austrian Chamber of Tax Advisors and Public Accountants (KSW)

The authority of the LCE standard will be determined by local authorities. Therefore, we acknowledge the limitations of the IAASB's mandate with this respect. Local authorities will most likely also use quantitative criteria (e.g., number of employees, balance sheet total or revenues) for defining the scope of the LCE standard.

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

Yes, we consider that the Authority of the standard as presented is implementable. However, we recommend replacing the term "Authority" by "Scope" because, in fact, the authority can only be given by law or regulation or by an official third party.

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

We believe that the Authority (or scope) of the proposed standard is implementable at a jurisdictional level. Nevertheless, additional jurisdictional requirements and guidance need to be provided for implementation at a national level in Germany. However, since the Authority contemplates jurisdictional requirements and guidance (e.g., in relation to the types of entity and their size), the Authority has in most cases gone as far as it can. However, as we note in our comments on the Authority below, we do believe that significant improvements can be made to the Authority.

7. Professional Accountancy and Other Professional Organizations

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

The authority for ISA for LCE will be set by the national regulators for statutory audits and by client demand for voluntary audit engagements. We agree that the authority cannot be set uniformly at a global level, and

that the guiding principles to present a direction and scope to the national authorities are sufficiently provided under this section.

Wirtschaftsprüferkammer (WPK)

We believe that the Authority (or scope) of the proposed standard is implementable at a jurisdictional level. Nevertheless, additional jurisdictional requirements and guidance need to be provided for implementation at a national level in Germany. However, since the Authority contemplates jurisdictional requirements and guidance (e.g., in relation to the types of entity and their size), the Authority has in most cases gone as far as it can. However, as we note in our comments on the Authority below, we do believe that significant improvements can be made to the Authority.

Section 4B – Authority of the Standard\Question 3 - Views on the Authority of ED-ISA for LCE \Question 3(a) - Is the Authority implementable\3) No or Mixed Views with Comments\3a) Authority is too Open or Judgmental

1. Monitoring Group

International Forum of Independent Audit Regulators (IFIAR)

Scope of the standard

The scope of the ISA for LCE is unclear. We encourage the IAASB to ensure that the scope of the ISA for LCE is precise and limited. The provisions contained in the exposure draft leave room for the auditor to evaluate whether the standard is applicable to an audit, and this could lead to situations where different auditors, firms and/or jurisdictions may interpret the acceptability of using the ISA for LCE differently for entities that exhibit similar characteristics. This may contribute to confusion for users of the financial statements and undermine the objective of achieving global consistency. Therefore, the scope of the separate standard should be clearly stated if the ISA for LCE is adopted.

International Organization of Securities Commissions (IOSCO)

To the extent that the IAASB implements elements of the Paper despite our objections, we emphasize the need for clear limitations for the use of ISA for LCE,

3. Regulators and Audit Oversight Authorities

Committee of European Auditing Oversight Bodies

One of our main concerns is that the application of the LCE standard would ultimately be subject to the auditor's professional judgment. The ISA for LCE contains a lot of details on the qualitative criteria, either in the standard itself or in the supplemental guidance for its authority. However, the choice to apply the LCE standard is still subject to professional judgments and to subjectivity, leading certainly to a lack of consistency within the market as this could lead to situations where the same entity under the same circumstances could be audited according to the ISAs or according to the ISA for LCE, depending on the auditor's decision.

For example, it should be noted that defining whether the audit may not be performed using the ISA for LCE if an entity meets the qualitative characteristics set out in paragraph A8 could require the exercise of a lot of judgment and this could result in an inconsistent application of the standard.

The lack of objective criteria included in the ISA for LCE to determine its suitable application may lead to possible bias by auditors in the qualitative analysis, in order to apply this standard and may even lead auditors to compete on whether or not an audit could be performed under the ISA for LCE, determining an inappropriate application of the standard and preventing auditors from changing to a full ISA audit if needed. The lack of indisputable criteria could also lead to some pressure by entities on the auditor to carry out an audit applying the ISA for LCE, with a perspective to reduce costs and audit quality.

We would encourage the IAASB to clearly state in the ISA for LCE its scope of application. The option included in the standard and in the supplemental material for the regulatory or legislative bodies in different jurisdictions to determine whether this standard is applicable to certain entities or not would lead to a lack of harmonized approach. Additional provisions should be included in the ISA for LCE to ensure a consistent scope of entities in or out, based on objective criteria. It is important that this is clearly stated in the ISA itself and not in the non-authoritative material that IAASB may issue, to ensure a harmonized approach.

Financial Reporting Council (UK)

Scope and Authority of the ED-ISA for LCE

The FRC believes the scope and authority of the ED-ISA for LCE is too loosely defined. In particular, the qualitative characteristics allow too much scope for auditor judgement as to whether the use of this standard is appropriate in the circumstances. If practitioners apply the wrong set of standards, reasonable assurance will not be obtained. In addition, the interpretation of the qualitative characteristics by auditors may be difficult when entities are at the threshold of being less complex and will lead to inconsistent practice, both locally and internationally.

Independent Regulatory Board for Auditors (IRBA)

Based on our comments above and below, we do not agree that the Authority of the proposed standard can be implemented in a consistent manner, which is pivotal to its successful implementation and adoption.

The proposed standard needs to be consistently implementable across jurisdictions by audit firms and on audit engagements. As such, the Authority of the proposed standard needs to be clear, unambiguous, provide little room for professional judgment, and provide a clear direction and sufficient guidance. This is fundamental to its successful implementation and adoption.

The unintended consequence of using the proposed standard when it should not be used would result in the auditor not obtaining sufficient appropriate audit evidence to support a reasonable assurance opinion and potentially expressing an inappropriate opinion. The Authority of the proposed standard thus needs to be sufficiently robust to avoid these eventualities.

Irish Auditing and Accounting Supervisory Authority

If the IAASB proceeds to issue a separate standard, the scope of the standard should be clearly stated to ensure consistent application in practice.

The scope of the ISA for LCE is subjective and likely to lead to inconsistent use of the standard. The provisions contained in the exposure draft leave room for the auditor to evaluate whether the standard is applicable to an audit, and this could lead to situations where different auditors, firms and/or jurisdictions may interpret the acceptability of using the ISA for LCE differently for entities that exhibit similar characteristics. This may contribute to confusion for users of financial statements and undermine the objective of achieving global consistency.

National Association of State Boards of Accountancy (NASBA)

Additional Comments

As previously stated, we do not support the separate stand-alone auditing standard for LCEs; however, if the IAASB proceeds, the following are additional items for consideration:

We do not believe that the authority as noted in Part A of the proposed standard (Authority) is implementable as presented. We are concerned that the parameters contained in the Authority are complex and will require that extensive use of judgement be employed in establishing applicability of the LCE standards. We believe that there is a risk that differing conclusions could be reached when evaluating the same or substantially similar fact patterns.

4. National Auditing Standard Setters

American Institute of Certified Public Accountants

If a separate standalone standard for audits of LCEs is issued, we strongly believe that a clear, understandable, and workable definition of an LCE is necessary. Definitional clarity would resolve concerns regarding when the Exposure Draft would apply and differentiate between an audit performed in accordance with the Exposure Draft and an audit performed in accordance with the ISAs. A clear definition is in the public interest and the absence of one will exacerbate users' expectation gap. We would be pleased to work with the IAASB in developing a definition of an LCE.

If a definition of an LCE is not developed, then the criteria in the proposed Supplemental Guidance for the Authority of the Proposed ISA for Audits of Financial Statements of LCEs (the “Authority Document”) need to be revised to ensure more consistent use of the Exposure Draft. As currently presented, the criteria for application of the Exposure Draft are largely based on auditor judgment. While we support the principle of the auditor applying professional judgment, we believe the shortcomings in the Authority Document will confound the appropriate exercise of professional judgment

Australian Auditing and Assurance Standards Board

There were also concerns that the high level of subjectivity included in the different qualitative characteristics which currently govern the use of the proposed standard may lead to inconsistent application in practice and unintentionally undermine the confidence users have on LCE audits.

The AUASB acknowledges the difficulty in balancing the specific prohibitions while allowing professional judgement, however, considers that the Authority as presented has too many layers and allows for too much judgement that will lead to inconsistency in practice not only across jurisdictions, but within Firms themselves. Such an outcome is contrary to the public interest matter of promoting consistent practice and behaviours by auditors globally.

The AUASB considers that the Authority of the proposed ED-ISA for LCE Standard poses several implementation challenges.

The AUASB’s stakeholders shared a strong preference that clearer, more objective criteria should govern the application of the proposed ED-ISA for LCE Standard.

There were also concerns that the high level of subjectivity included in the different qualitative characteristics which currently govern the use of the proposed standard may lead to inconsistent application in practice and unintentionally undermine the confidence users have on LCE audits.

Canadian Auditing and Assurance Standards Board

No. We have concerns that the assessment of qualitative characteristics is open to interpretation and requires significant professional judgment. We set out further detail and suggestions in our response to Question 4(b).

Royal Netherlands Institute of Chartered Accountants (NBA)

Furthermore, the definition of LCE and the qualitative characteristics are subjective and may lead to discussions about the interpretation thereof. From the discussions with practitioners and stakeholders we learned that this is a major issue. When the definition and the applicability of the standard are not clear, the added value is limited.

5. Accounting Firms

Deloitte Touche Tohmatsu Limited

We believe that the level of professional judgment necessary when evaluating the qualitative characteristics described in the Authority to determine whether an entity could be audited under the proposed standard could lead to inconsistencies in application, and possible misuse of the proposed standard. Without additional examples in the Authority Supplemental Guidance of what entities would be considered in scope, the Authority could be open to significant interpretations and lead to situations in which either: 1) auditors more easily and inappropriately justify use of the proposed standard when in actuality the ISAs should be followed, or 2) auditors are hesitant to use the proposed standard due to concerns that they might be challenged by regulators.

Duncan & Toplis Limited

We also believe that the ability to use the standard is too subjective. It is understandable why, but this could lead to difficulties of local competent authorities not being able to enforce the reasonable use of the full ISAs, outside of the prohibited list. In turn, this could lead to significant divergence from country to country, avoidance of which was one of the main reasons for creation of the standard in the first place.

Ernst & Young Global Limited

Our overall recommendation is to progress the ED-ISA for LCEs by focusing on reducing the scope of applicability of the separate standalone standard to only entities at the lowest level of complexity and potentially size (i.e., refine the Authority) and deliver a standard that is obviously different from the full suite of ISAs (i.e., a standard that excludes many audit circumstances, is much more condensed and has sufficient guidance). We also believe that this approach would address the strongest calls for a separate auditing standard, which are coming from stakeholders of these small audits.

The Authority as presented in the ED-ISA for LCE will achieve the intended objective of appropriately informing stakeholders about the scoping of the proposed standard but we believe that a large range of entities could qualify for using the ED-ISA for LCE and there is not a sufficient differentiation in the population of those entities that would qualify under the ED-ISA for LCE and those entities being audited under the full suite of ISAs. This lack of distinction could lead to inconsistency, misunderstanding and confusion by stakeholders on why two entities, very similar in nature, might be audited under two different standards. We also believe that for the authority to be implementable, the authority needs clarification, either by the IAASB or by the jurisdictions that adopt the standard, on when the ED-ISA for LCE applies.

KPMG IFRG Limited

Consider further refining and narrowing the authority of the standard by:

- Explicitly identifying, within the authority section of the standard where “proxies for complexity” within the audit are described, other specific aspects of the entity, in addition to those currently identified by the IAASB, which may involve complexity, such as matters that may give rise to significant risks and/or require the auditor to exercise significant professional judgement (refer to our examples set out in our response to Question 3c) in Appendix 2 of this letter). When matters of this nature are likely to be present and involve complexity, the auditor should conclude that it is not appropriate to conduct the audit in accordance with the LCE ISA and instead use the full-scope ISAs.
- Furthermore, we recommend that the IAASB scale the related LCE ISA requirements accordingly, by removing requirements intended to address complexity relating to such matters; and/or
- Further restricting the authority of the standard so that it can only be applied to “small” entities that are also likely to be less complex.

In light of the IAASB’s intention that this is a standalone auditing standard, we believe it is critical that the authority regarding the use of the standard is clear, is capable of appropriate implementation and also takes account of different legal and regulatory environments in different jurisdictions.

We therefore recommend that the IAASB further refine and narrows the entry point to this standard by explicitly requiring auditors to consider other aspects of the entity which may involve complexity, such as matters that may give rise to significant risks and/or require the auditor to exercise significant professional judgement (see the examples listed above), as proxies for complexity within the authority section of the standard. We believe explicit inclusion of these additional matters would assist the auditor in applying the overriding principle underpinning the authority (i.e. “if in doubt you are out”). We also believe they could reduce the judgment required with respect to application of paragraph A9, as we describe above. Accordingly, when matters of this nature are likely to be present and involve complexity, the auditor should conclude that it is not appropriate to conduct the audit in accordance with the LCE ISA and instead use the full-scope ISAs. Furthermore, we suggest that the IAASB scale the related LCE ISA requirements accordingly, so that any requirements specifically intended to address complexity relating to these matters are removed. We also recommend that consideration be given to whether matters that give rise to significant risks or significant unusual transactions would likely ever not involve a reasonable degree of complexity. If the conclusion is that this would be rare, then consideration should be given to excluding requirements that address responding to these risks altogether, and instead make it clear that when risks of this nature are identified, it is no longer appropriate to apply the LCE ISA.

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.

We recognise that, as a result of these proposals, auditors would need to develop a sufficient understanding of the entity, upfront, to be able to determine whether such matters are present or are likely to arise and involve complexity and therefore whether it would be appropriate to use the LCE ISA. To obtain sufficient understanding would likely necessitate performing certain risk assessment procedures. However, we consider that this would be necessary to enable the auditor to reach appropriate conclusions regarding whether it is appropriate to use the LCE ISA or not. We believe that these recommendations would also help to reduce the likelihood that a transition to the full-scope ISAs may be needed during the audit, as only entities with characteristics that indicate that they are clearly at the lower end of the complexity spectrum would likely initially meet the criteria to use the LCE ISA, and thus give the auditor sufficient confidence that the conclusion that the LCE ISA is appropriate to use is highly unlikely to change as the audit progresses. We highlight that the inherent subjectivity of some of the qualitative characteristics described above may also be further exacerbated by the fact that the scope of entities originally envisaged as falling within the scope of this standard has broadened as the project has progressed from the small and clearly not complex, to those further along the spectrum of complexity, i.e. which are less complex [emphasis added] but still may contain elements of complexity and may not be small at all. We believe this broadening in scope is a key driver of several of our concerns related to the LCE ISA, e.g. in respect of the subjectivity regarding the entry point to the standard; commercial pressure to apply the standard; an increased likelihood in terms of the need to transition to the full-scope ISAs; more complex reporting considerations, as well as our view that there is a need for significantly more EEM to provide context and guidance to auditors.

Mazars

No, we believe it will not be easily implementable as this too much country specific changes – making the standard not really international, comparable etc, leaving room for potential quality failures. The authority is left to the decision of the jurisdiction, the regulatory bodies, the firm than to the engagement team.

But we believe the question is more about scope more than authority, as authority will be vested in respective the decision of each jurisdictions first.

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.

PriceWaterhouseCoopers

The ISAs set out an appropriate basis for delivering a high-quality reasonable assurance audit that, in our view, should represent the presumptive basis for an audit of financial statements. We believe the manner in which the scope and authority of the proposed ISA for LCE has been defined undermines this presumption. As drafted, it sets an expectation that the LCE standard can be used for any audit unless the auditor determines that complexity exists. We believe that the opposite should hold true: an audit should be conducted in accordance with the ISAs unless the auditor determines that the specific criteria for use of the LCE standard can be met. This would serve to protect the primacy of the ISAs as the “default” global auditing standards. As such, we recommend revising the qualitative characteristics to focus on the characteristics that are indicative of an LCE and that, when exhibited, would make the standard appropriate for use. We describe these changes in our response to question 4(b).

We have significant concerns that the Authority is not implementable in a manner that will result in outcomes that achieve the Board’s second and fourth public interest objectives: “Helping auditors of LCEs undertake consistent, effective, and high-quality audits” and “Promoting a more consistent application of the auditing standards to audits of LCEs”.

Establishing what constitutes an LCE is challenging. Defining the scope of entities for which the standard may be applied has implications for its content, and vice versa. We agree with the Board’s assessment that a “significant” level of judgement in determining the applicability of the standard is not appropriate from a consistency perspective. However, we find the level of subjective judgement required in applying the qualitative characteristics described within the Authority section to remain at a level that we consider “significant”. We are concerned that the subjectivity in judgements about what does and does not constitute

complexity could result in decisions being made that the standard is appropriate for use on potentially quite large private entities. This level of subjectivity could also lead to inconsistent judgements being drawn by different auditors, both within and across jurisdictions, which would not be desirable from an audit quality or comparability perspective.

As noted in our response to question 1, we believe that a reasonable assurance audit in accordance with the ISAs remains the appropriate benchmark for all audits other than those that truly represent smaller and less complex entities. Therefore, in our view, the boundaries for when use of the standard is appropriate needs to be more narrowly defined, based on more specific criteria, to drive greater clarity on the intended scope of its application and to mitigate the risks arising from the inherent subjectivity of applying solely qualitative characteristics describing what constitutes complexity.

We believe that this can be achieved through a combination of two changes within the Authority:

Refocusing the qualitative characteristics on those that are commonly associated with attributes of an LCE and that would make use of the standard appropriate, rather than describing characteristics of complexity that would indicate use of the standard is not appropriate. This would drive a more conscious determination of whether the entity is truly considered to be smaller and less complex and that it was therefore appropriate to not apply the ISAs, rather than the current implied construct of only being forced to use the ISAs if the auditor cannot justify using the ISA for LCE. We support the message in the standard that “if in doubt, use the ISAs” and we believe this approach better reinforces that warning - we address this in detail in our response to part (b) below and question 4(b); and

For listed, public interest entities (PIEs) and medium/larger-sized private entities, we firmly 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 and less complex end of the audit market could create risks that undermine that premise unless designed very carefully. In our view, it is essential that any separate LCE standard:

be targeted at a sufficiently well-defined population of smaller and less complex entities; and
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.

While the ED contains a number of practical enhancements that are responsive to individual specific concerns identified by certain stakeholders, we have two overarching and interrelated concerns with the basis of development of the proposed ISA for LCE, described below, that lead us to conclude that it will not meet the overall expectations of users without further significant revisions.

Reasonable Assurance and Applicability

The ISAs set out an appropriate basis for delivering a high-quality reasonable assurance audit that should represent the presumptive basis for an audit of financial statements. We believe the manner in which the Authority of the proposed ISA for LCE has been defined creates an impression that the LCE standard is the presumptive starting position for an audit unless complexity is deemed to exist, which is based on highly subjective criteria. We do not consider this premise, and resultant potential breadth of scope of application of the ISA for LCE standard, to be appropriate. In our view, the Authority needs to be much more narrowly defined based on more specific, and less subjective, criteria, and be clear that the presumptive starting point for an audit is the ISAs.

7. Professional Accountancy and Other Professional Organizations

Association of Practising Accountants

Concern that the authority is not sufficiently prescriptive and therefore open to different interpretations between firms and regulators.

The guidance needs to be very clear and provide specific examples as to when it would be appropriate to use the draft Standard and when not. Otherwise the risk is it becomes too time consuming at the planning stage to ensure you have categorised whether it was appropriate to use it or not – something that will deter people from adopting the standard i.e. if you end up having to switch between this standard and the main standards it will increase the time and cost, as firms will need to redo engagement letters, revise fee quote, reconsider planning etc.

Belgian Institute of Registered Auditors (IBR-IRE)

There is a broad definition of what “complex” encompasses. In addition, interpretation of the definition is quite subjective which - in the end - could lead to the proposed standard not likely to be used that often as it might be intended by the IAASB. If the interpretation of the word “complex” and the scope of the standard is defined in every country in a different way, the standard will lose its added value.

Chamber of Auditors of the Czech Republic

However, we assume that the current wording of the applicability rules of the standard (mainly the existence of many qualitative criteria) could be a significant barrier for practical usage or adoption of the standard. The evaluation of qualitative criteria requires a significant professional judgement by the auditor. These criteria need to be assessed not only at the beginning but also at the final stage of the audit. Auditors may be hesitating to use this standard as they would be afraid that their professional judgement might be questioned (e.g. by the regulator) or that they will have to switch to the full set of ISAs at the end of an audit (upon discovery of some qualitative criteria that are not met). The standard shall be constructed to lower this risk to the maximum possible extent. For example, if only one qualitative criterion is not met, the use of the standard shall still be allowed with certain “add-ons” responding to the qualitative criterion not met. We believe that the most common issue might be the existence of certain complex estimate(s) that may be possibly overcome by additional procedures within the ISA for LCE rather than switching to full set of ISAs.

CPA Ireland

CPA Ireland considers that the limitation of the standard’s use through qualitative characteristics may prove to be challenging. It is considered that the judgement requirement may prove difficult for firms and their regulators to assess. Similar challenges may also arise for the users of the financial statements, particularly where the characteristics assessed may not be straightforward.

Institute of Certified Public Accountants of Kenya

General Comments

The proposed standard needs to be consistently implemented across jurisdictions, by firms and on engagements. As such, the Authority of the proposed standard needs to be clear, unambiguous, provide little room for professional judgment, and provide clear direction and sufficient guidance.

Institute of Chartered Accountants of the Maldives

Scope: The proposed standard does not provide clear guidelines on criteria to be met for an entity to be classified as LCE. The IAASB has sought to define by adopting a highly principles-based approach in determining when the ISA for LCE may be used rather than defining a specific population, for example by use of quantitative measures based on revenue, assets, employee numbers. In seeking to describe qualitative characteristics, this results in a highly subjective determination at the firm and engagement level. Many of the individual characteristics, such as the complexity of the IT system, transactions or accounting estimates, may be subject to very different interpretations, both within a firm, across firms and across jurisdictions.

Pan-African Federation of Accountants (PAFA)

The proposed standard needs to be consistently implemented across jurisdictions, by firms and on engagements. As such, the Authority of the proposed standard needs to be clear, unambiguous, provide little room for professional judgment, and provide clear direction and sufficient guidance.

The unintended consequence of using the proposed standard when it should not be used, resulting in the auditor not obtaining sufficient appropriate audit evidence to support a reasonable assurance opinion and potentially expressing an inappropriate opinion, would be severe. Therefore, the Authority of the proposed Standard needs to be sufficiently robust to avoid these eventualities.

South African Institute of Chartered Accountants (2)

Partially. Due to the judgement involved in determining whether the LCE Standard may be used and the additional documentation requirements in reaching this conclusion, intended efficiencies envisioned by the LCE standard may be lost through this process. The judgement around qualitative factors will also lead to

differences in practice, which could lead to auditors competing on an inappropriate basis due to opinion shopping by clients, which impacts ethical considerations as well. The Authority may also include consideration of time and effort, reporting framework applied, industry, etc. to promote consistency, and remove some of these concerns.

South African Institute of Professional Accountants

We have a concern regarding the level of professional judgement required together with the understanding of the term complex transactions. This could lead to inconsistent application between auditors on very similar organisations.

8. Academics

Brunel University London

The Authority is clearly set out. However, we have some reservations as to Authority because the LCE concept with its qualitative criteria will be difficult to implement and may result in inconsistent application.

9. Individuals and Others

Andrew Wallis

I would implore the IAASB to remove auditor discretion/judgement from the assessment as to whether the entity 'qualifies' as an LCE. This comment comes from my experience at dealing with many entities at this end of the market who perceive audit intrusions into their affairs as an unnecessary waste of time and expense. Unless specific thresholds are introduced on variables such as turnover, geographical operation, total gross assets and employee population there will continue to be unhealthy pressure placed on auditors to self-assess LCE status for either the chance to 'win' new clients or 'preserve' an existing client base.

Section 4B – Authority of the Standard\Question 3 - Views on the Authority of ED-ISA for LCE \Question 3(a) - Is the Authority implementable\3) No or Mixed Views with Comments\3d) Need more guidance to Implement

3. Regulators and Audit Oversight Authorities

Finance Professions Supervisory Centre Indonesia

Further guidance, training and tools would all be necessary implementation supports initially and on an ongoing basis. In particular, Professional Engagement Guide checklists adapted to the proposed standard would be necessary as a clarity to where the standard fits within an assurance hierarchy.

7. Professional Accountancy and Other Professional Organizations

Chamber of Auditors of the Czech Republic

It is also important to note that in many jurisdictions, the local authorities may intend to mandate the use of this standard for certain well-defined groups of entities. Such definitions may be based on quantitative criteria (financial and non-financial) to provide legal certainty as to which standard is required to be used. We would welcome more clarity for such situation when the local authorities introduce a set quantitative criteria for mandatory use of ISA for LCE without requiring (or allowing) the auditor to apply the qualitative criteria contained in the standard.

Chamber of Financial Auditors of Romania

Although the standard includes specific classes of entities for which the ISA for LCE is prohibited and it also includes some qualitative characteristics that might indicate the standard is not proper to use for those types of entities. It is a matter of question whether it is recommendable that each jurisdiction should issue either guidance or regulations in order to include or exclude entities from the LCE category, as there are specific matters to be considered at national level. Such an approach might limit the level of personal judgement by auditors and it will leave less space for error or misjudgement.

IAASB should consider to issue specific guidance both for practitioners as well as regulators, including practical examples, in order to help reduce the risk of misuse of the standard.

Institute of Chartered Accountants in England and Wales

IAASB should also engage closely with Supreme Audit Institutions to ensure appropriate and consistent adoption of the standard in the public sector.

We welcome the clear statement in the Preface that the standard can be applied to public sector entities. However, jurisdiction-specific guidance will be required regarding the type of public sector bodies in scope. Many of the examples at A9, such as complex oversight structures and significant regulation, could be interpreted as applying to almost all public sector bodies in many jurisdictions, even though many have simple operations and transaction streams.

Institute of Chartered Accountants of Pakistan

Paragraphs A.8 and A.9 of the proposed ISA for LCE set out qualitative characteristics of entities that could make them complex entities. We acknowledge that this would be an area of auditor's professional judgment. However, the scoping based on qualitative characteristics could result in differing views and application of the ISA for LCE. The decisions to scope-in or scope-out entities on the basis of qualitative characteristics could pose implementation challenges. For example, deciding the scoping based on absence or presence of complex accounting estimate would be subjective and two different auditors may have two different views. It is suggested that implementation guidance with illustrative examples is provided for common understanding and consistent application of the ISA for LCE.

Instituto Mexicano de Contadores Públicos (IMCP)

If, in general terms, to reduce subjectivity in the applicability of the standard, we suggest including examples in the explanatory material or as part of the implementation guidance.

Instituto Salvadoreño de Contadores Públicos (ISCP)

The ISA for LCE in sections A. 8 and A. 9 of the qualitative characteristics does not describe the characteristics of a “less complex entity”, but the characteristics that an entity must not have, in order to carry out an audit; but in the Draft Supplemental Guide, the characteristics that are commonly associated with a LCE are described and explained in item 28 of section III “Limitations for the Use of the [Draft] ISA for LCE”. Analyzing the content of both documents, we consider that the qualitative characteristics are consistent and adequately describe an LCE; but they are not enough to determine if the ISA for LCE is appropriate or not for a given entity, so we suggest incorporating quantitative aspects.

Section 4B – Authority of the Standard\Question 3 - Views on the Authority of ED-ISA for LCE \Question 3(a) - Is the Authority implementable\3) No or Mixed Views with Comments\3e) Comments on Use of Quantitative Thresholds

3. Regulators and Audit Oversight Authorities

Finance Professions Supervisory Centre Indonesia

In this case, we agree that legislative or regulatory authorities or relevant local bodies with standard-setting authority may set quantitative size criteria (other specific needs that may be relevant in the jurisdiction) in designating for which audits within that jurisdiction the ISA for LCE standard can be used.

Swedish Inspectorate of Auditors

The proposed standard contains guidance on the application of the standard. It foresees that national regulators can limit the application further at national level. The SIA would, if the standard comes into force, consider establishing quantitative thresholds regarding which entities that could not be allowed to be audited in accordance with ISA för LCE.

4. National Auditing Standard Setters

New Zealand Auditing and Assurance Standards Board

The NZAuASB supports the approach of not including any quantitative threshold for the scoping of the standard with ED-ISA for LCE, and agrees that it is appropriate for such thresholds to be established at a jurisdiction level and at a firm level. We agree that local national standard setters and firms play an active role in ensuring there are proper limitations being set, including quantitative limitations or qualitative characteristics specific to the jurisdiction's circumstances. The IAASB could also develop a “library” or

checklist and implementation guide to work through the determination if classification as the LCE is appropriate, and provide further clarity on the QCs of complexity as discussed in Question 4, which would drive more consistency in use in practice.

5. Accounting Firms

HLB International

We do not believe the Authority as presented is implementable. As ED-ISA for LCE cannot define complexity this has to be done on a national level. It is not practicable to set quantitative thresholds at the global level, so local authorities and firms will define the scope of the standard more precisely, including quantitative criteria such as entity size. There might be instances where two auditors come to different conclusions regarding the complexity assessment for the same entity and this might confuse entity's management, users and the regulators. It should be emphasised that existence of qualitative characteristics may not give rise to complexity on its own and the aggregate impact of the characteristics should be considered by the auditor when deciding on the appropriateness of ED-ISA for LCE.

KPMG IFRG Limited

We suggest, therefore, that the IAASB consider further restricting the authority of the standard so that it can only be applied to less complex entities that also meet size thresholds to be considered small. We believe this could be achieved by the provision of further guidance for national standard setters/regulators regarding the establishment of size criteria for entry into the standard. Such size thresholds could be expressed in terms of ranges, rather than absolute figures, to help avoid the situation whereby entities may fall within the scope of the standard in certain years, and outside the scope of the standard in other years, which would clearly not be desirable.

We consider that the establishment of such size thresholds is particularly important if the IAASB decides to proceed to issue the LCE ISA in its current form, i.e. without including substantially more EEM and/or without further restricting the authority of the standard to identify other specific areas as proxies for complexity, in addition to those currently described by the IAASB, as this could lead to inconsistency in practice and reduced audit quality, as we describe elsewhere in this letter. Whilst we agree with the IAASB in principle that a large entity may nevertheless not be complex, size is still an, albeit imperfect, proxy for complexity, and we are concerned that the risks in relation to inconsistency in practice and reduced audit quality as a result of using this standard may be more consequential if the standard can be used to conduct audits of larger entities. Although sub-optimal outcomes would clearly not be desirable in respect of an audit of any entity, we consider that restricting use of the LCE ISA to the small and clearly non-complex entities originally contemplated at the outset of this project would substantially reduce the occurrence and potential impact of such outcomes and therefore we believe this course of action would be in the public interest.

Whilst including size thresholds in the standard itself is unlikely to be practicable, the IAASB could achieve the desired outcome by describing in the authority section of the LCE ISA that use of the standard is only permitted when the appropriate body in the particular jurisdiction has formally approved the standard for use. This would place an active responsibility on such bodies regarding approval and avoid the outcome that, as a result of inaction by such bodies, the standard could be used when in fact it would be inappropriate to do so. We recommend that the IAASB provide guidance to strongly encourage such bodies to establish size thresholds appropriate to their respective jurisdictions as part of their approval process.

Further restricting the authority of the standard so that it can only be applied to "small" entities that are also likely to be less complex.

We suggest, therefore, that the IAASB place a more active responsibility on national standard setters/regulators to formally approve the standard, and as part of this approval process, to establish size criteria for entry into the standard, as appropriate to their jurisdictions. These thresholds could be expressed in terms of ranges, rather than absolute figures, to help avoid the situation whereby entities may fall within the scope of the standard in certain years, and outside the scope of the standard in other years, which would clearly not be desirable.

We consider that the establishment of such size thresholds is particularly important if the IAASB decides to proceed to issue the LCE ISA in its current form, i.e. without including substantially more essential

explanatory material (“EEM”) as we set out in option 1) above, and/or without further restricting the authority of the standard by identifying other specific areas as proxies for complexity, in addition to those currently described by the IAASB, as we set out in option 2a) above.

PriceWaterhouseCoopers

As noted in our response to question 1, we believe that a reasonable assurance audit in accordance with the ISAs remains the appropriate benchmark for all audits other than those that truly represent smaller and less complex entities. Therefore, in our view, the boundaries for when use of the standard is appropriate needs to be more narrowly defined, based on more specific criteria, to drive greater clarity on the intended scope of its application and to mitigate the risks arising from the inherent subjectivity of applying solely qualitative characteristics describing what constitutes complexity.

We believe that this can be achieved through a combination of two changes within the Authority:

- Refocusing the qualitative characteristics on those that are commonly associated with attributes of an LCE and that would make use of the standard appropriate, rather than describing characteristics of complexity that would indicate use of the standard is not appropriate. This would drive a more conscious determination of whether the entity is truly considered to be smaller and less complex and that it was therefore appropriate to not apply the ISAs, rather than the current implied construct of only being forced to use the ISAs if the auditor cannot justify using the ISA for LCE. We support the message in the standard that “if in doubt, use the ISAs” and we believe this approach better reinforces that warning - we address this in detail in our response to part (b) below and question 4(b); and
- Introducing quantitative thresholds that, in combination with the consideration of the qualitative characteristics, safeguard audit quality by providing clear and important public interest boundaries around the size of entity for which use of the standard is deemed appropriate - described below.

While we recognise and agree that there are challenges in specifying quantitative thresholds for application due to jurisdictional variations, we believe the IAASB needs to reconsider the decision not to specify applicable quantitative thresholds to indicate the intended scope of application. Although the IAASB had good reasons for moving from a concept of “smaller” entities to that of “less complex” entities, we believe that size of the entity is a factor to be considered alongside characteristics that indicate an entity is less complex.

Specifying the size of entity the IAASB had in mind when developing the standard allows the Board to be much clearer in its justification of the requirements to be included in the standard and provides a clear message to users about the intended scope of application. It would serve to remove much of the debate over whether certain requirements need to be included, because the scope is so subjective and broad, and help the Board coalesce around agreeing a work effort that is deemed appropriate for such entities. And, as we describe in our response to question 1, this would allow the Board to be bolder in developing a proposal that is more distinguishable from the ISAs, potentially delivering a more targeted work effort that users were seeking from the project, without undermining the work effort associated with an ISA audit.

Furthermore, to directly address the fact that different jurisdictions adopt varying thresholds for defining small entities or statutory audit requirements, we recommend the Board could amend the principle already proposed in paragraph A6 and explicitly permit legislative or regulatory authorities or relevant local bodies with standard setting authority to amend those thresholds as deemed appropriate for their jurisdiction. This retains the flexibility the Board sought to include in the Authority, while establishing a clear baseline and safeguard for audit quality, which is also important for those jurisdictions that directly adopt the IAASB’s standards without amendment.

Our recommendations for the content of the standard, described primarily in response to question 7 and appendix 2, are based on an assumption that such quantitative thresholds be established to clearly define the intended population of entities for whom the standard may be applied. We suggest that appropriate thresholds could be (entities that meet at least two of the following):

- Turnover not exceeding: [Currency] 10,000,000
- Balance Sheet total not exceeding: [Currency] 7,500,000

- Number of employees not exceeding: 100

In suggesting the above thresholds, we had regard to the Accountancy Europe analysis of audit exemption thresholds in Europe, as a proxy for the size of entity that, above which, we deem an audit in accordance with ISAs to be appropriate. Where audit exemption thresholds do not exist, we believe the proposed ISA for LCE could be used as an appropriate standard.

As described, the quantitative thresholds would act as public interest safeguards, or “boundaries”, around what would be considered the appropriate use of the standard and would need to be considered alongside the rearticulated qualitative characteristics. We provide our further recommendations with respect to the qualitative characteristics in our response to question 4(b).

7. Professional Accountancy and Other Professional Organizations

Accountancy Europe

We agree that it is not practicable to set quantitative thresholds at global level. At local level, however, we expect that local authorities and firms may choose to define the scope of the standard more precisely, including quantitative criteria.

Association of International Accountants

Scope and application may also be problematic in the absence of any specific definition or threshold which helps define an LCE (as noted in the previous section). For example, an apparently ‘simple’ entity may be more complex than first thought or vice versa. There may also be differences of opinion between auditors and clients where the potential application of the proposed ISA for LCEs is concerned. Again, this may be an area where thresholds, or some other eligibility criteria, may help to reduce this problematic scope issue.

Chamber of Auditors of the Czech Republic

Clearly, the authority of a separate standard for less complex entities will be determined by local authority as we are. We agree that it is not practicable to set quantitative thresholds at global level. At local level, however, we expect that we as a local authority will define the scope of the standard more precisely, including quantitative criteria such as company size.

It is also important to note that in many jurisdictions, the local authorities may intend to mandate the use of this standard for certain well-defined groups of entities. Such definitions may be based on quantitative criteria (financial and non-financial) to provide legal certainty as to which standard is required to be used. We would welcome more clarity for such situation when the local authorities introduce a set quantitative criteria for mandatory use of ISA for LCE without requiring (or allowing) the auditor to apply the qualitative criteria contained in the standard.

European Federation of Accountants and Auditors for SMEs

Qualitative characteristics – there are many of these and inevitably their application will be highly subjective. While we appreciate the effort taken to develop, articulate and describe these criteria we suspect the degree of subjectivity may mean they are not implementable. While the LCE concept is conceptually appealing and in keeping with the notion that ISAs underpin a risk-based audit LCE has many drawbacks. LCE is a new and unproven concept. LCE is not a sector. LCE is highly subjective and hard to define. Quantitative criteria are needed to supplement or supersede qualitative.

We note that the ED (paragraph 64) says that the IAASB debated the use of quantitative or other exemption thresholds or more specific criteria to scope the standard but “agreed that it would not be practicable for the IAASB to define exemption thresholds or other criteria about what may constitute an audit of an LCE that would be capable of consistent global application because of, for example, the varying sizes of economies and sophistication of jurisdictions.” We have a different opinion.

We suspect there is a strong correlation between size and complexity. Ceteris paribus small entities are less complex than large. For example, all banks are perhaps complex relative to other types of business entity, but a small local bank is less complex than a large international one. Similarly, a multi-national supermarket chain will be much more complex than a corner shop. Furthermore, we suspect that most SMEs share the qualitative characteristics. Size criteria are objective, recognizable, understandable, and, in many

jurisdictions, is a tried and tested approach. In the EU size thresholds have been used successfully for many years in policy and regulation including in the field of accounting and auditing.

We therefore urge the IAASB to reconsider the role of size criteria. We see merit in explicitly including size as quantitative criteria – and provide some guidance as to how thresholds can be determined at jurisdiction level e.g., relative to mean or median sizes of companies in that jurisdiction or else using thresholds already commonly used in that jurisdiction. Furthermore, the IAASB might wish to explicitly state that all SMEs, defined according to size criteria decided at national level, are automatically considered as LCE unless there is strong evidence to the contrary, such as they exhibit a characteristic that indicates they are complex. Hence, we wonder whether there should be a rebuttable assumption that all companies that meet regionally or nationally determined size criteria are classified as less complex and as such eligible for using the standard.

If the IAASB sticks with the qualitative criteria we suspect many national standard setters and regulators in Europe will, to the extent to which EU Directives allow, apply simple size criteria instead or as well as the qualitative criteria. Guidance to help them do so with a degree of consistency from one jurisdiction to another would be welcome.

EXPERTsuisse

Scope of application

A very important aspect is the scope of application of the new LCE audit standard. We surely are aware of the fact, that quantitative thresholds are not necessarily an appropriate measure to differentiate between complex and less complex. Nonetheless, we would recommend setting quantitative criteria for the definition of the scope. Quantitative criteria is comparable and easy to determine for every professional. There could be set a range of quantitative thresholds on global level which could be refined by the jurisdictions on local level. Complementary qualitative criteria could be defined in cases where there are special circumstances (e.g. complex IT environment, complex business model, situation of capital loss or over-indebtedness). The assessment of the qualitative criteria could be made by the responsible auditor based on professional judgement.

The application of the standard should be determined based on quantitative and/or unambiguous criteria rather than qualitative criteria to make sure that the standard is used consistently.

Institute of Certified Public Accountants of Cyprus

We are concerned about the qualitative nature of the requirements rather than having quantitative requirements as a starting point as it leaves a lot of room for auditor's judgement that will likely lead to widely varying interpretations, and challenge by regulators. We understand that it would have been difficult for the IAASB to develop quantitative characteristics as this standard is designed to be applied globally. However, we encourage the IAASB to introduce a three-step approach:

- Prohibit the use of the standard for listed entities, or entities which meet one of the criteria specified in paragraph A.7 point (c).
- Assess the entity under quantitative criteria, i.e., Limit the use of the standard to small companies, and this is to be defined at a jurisdictional level.
- Assess the company's complexity, i.e. In cases whereby a small company is a complex company then it would not be able to be audited under this standard. The entity's complexity is to be assessed under qualitative criteria by placing the focus on characteristics that are typical to an LCE and that would render applying the standard appropriate rather than delineating features of complexity that would render the application of the standard inappropriate.

If the above-mentioned process is not possible to be implemented, we encourage the IAASB to add one more paragraph making it clear that legislative or regulatory authorities or relevant local bodies with standard setting authority in individual jurisdictions are allowed to apply quantitative characteristics if they consider these to be more appropriate than applying the paragraphs in the ISA for LCE that refer to qualitative characteristics. We note that IAASB itself in pg.6 refers to the number of SMEs being more than 90% across the world implying (not intentionally perhaps) that SMEs will most likely be LCEs.

Instituto Salvadoreño de Contadores Públicos (ISCP)

Yes, it meets the objective of the Standard; but it is necessary to include in the criteria to identify an entity as less complex (LCE) quantitative aspects that contribute to establish a more uniform classification of this segment and consequently also of the application of the Standard.

REA Auditores

Qualitative characteristics –. We appreciate the effort taken to develop, articulate and describe these criteria, nevertheless we suspect the degree of subjectivity may mean they are not implementable. There are many of these and their application will be highly subjective. LCE is a new concept and is highly subjective and hard to define. We think that quantitative criteria are needed to supplement or supersede qualitative.

As indicated in the ED, the IAASB debated the use of quantitative or other exemption thresholds or more specific criteria to scope the standard but “agreed that it would not be practicable for the IAASB to define exemption thresholds or other criteria about what may constitute an audit of an LCE that would be capable of consistent global application because of, for example, the varying sizes of economies and sophistication of jurisdictions.”

Nevertheless, we suspect there is a strong correlation between size and complexity. Small entities are usually less complex than large. Furthermore, the most SMEs share the qualitative characteristics. Size criteria are objective, recognizable, understandable, and, in many jurisdictions, is a tried and tested approach. In the EU size thresholds have been used successfully for many years in policy and regulation including in the field of accounting and auditing.

We therefore propose the IAASB to reconsider the size as quantitative criteria – and provide some guidance as to how thresholds can be determined at jurisdiction level e.g., relative to mean or median sizes of companies in that jurisdiction or else using thresholds already commonly used in that jurisdiction.

Furthermore, the IAASB might wish to explicitly state that all SMEs, defined according to size criteria decided at national level, are automatically considered as LCE unless there is strong evidence to the contrary, such as they exhibit a characteristic that indicates they are complex. Hence, we wonder whether there should be a rebuttable assumption that all companies that meet regionally or nationally determined size criteria are classified as less complex and as such eligible for using the standard.

We suspect that many national standard setters and regulators in Europe will, to the extent to which EU Directives allow, apply simple size criteria instead or as well as the qualitative criteria. Guidance to help them do so with a degree of consistency from one jurisdiction to another would be welcome

Society of Certified Accountants and Auditors of Kosovo (SCAAK)

We note that the ED (paragraph 64) says that the IAASB debated the use of quantitative or other exemption thresholds or more specific criteria to scope the standard but “agreed that it would not be practicable for the IAASB to define exemption thresholds or other criteria about what may constitute an audit of an LCE that would be capable of consistent global application because of, for example, the varying sizes of economies and sophistication of jurisdictions.” We agree with the IAASB conclusion.

9. Individuals and Others

Andrew Wallis

I would implore the IAASB to remove auditor discretion/judgement from the assessment as to whether the entity ‘qualifies’ as an LCE. This comment comes from my experience at dealing with many entities at this end of the market who perceive audit intrusions into their affairs as an unnecessary waste of time and expense. Unless specific thresholds are introduced on variables such as turnover, geographical operation, total gross assets and employee population there will continue to be unhealthy pressure placed on auditors to self- assess LCE status for either the chance to ‘win’ new clients or ‘preserve’ an existing client base.

I note para 64 allows for the possibility that ‘specific thresholds or criteria could be used by individual jurisdictions when evaluation the use of ISA- LCE’. I would support this position being applied to every jurisdiction with each jurisdiction being responsible for setting their own thresholds.

By adopting the threshold basis, the LCE application process obviates the need for audit professional judgement and the possibility of impairment to the independence of auditors. By this undertaking these

areas are removed from ongoing professional debate and concerns of government, community and other stake holders.

The thresholds imposed should reflect societal values of government (taxation), community (worker interests), stake holders (creditors and financiers) and of course proprietors (costs and time of compliance). In Australia we already have mandated audit thresholds pertaining to the audit of essentially large private companies where 'society' has an interest in the large private sectors ongoing compliance with laws and regulations. However, unfortunately, these rules are not strictly enforced by local authorities. Having the 'weight' of the IAASB standard will assist, in my opinion, in these entities being brought into the net of assurance review,

Rodoula Roussou

As noted above in 1(a) the lack of flexibility on the authority of the standard is not helpful. Judgment on the decision about whether the standard is appropriate to use for an audit should be made based on complexity. Indicators could be used, based on quantitative characteristics (total assets, turnover, and the number of employees) together with qualitative characteristics, such as the complexity of accounting standard used. The above could be used in a jurisdiction to allow using the standard by default, but should not exclude audit of other entities, considering the standard is appropriate to use, based on the complexity.

We agree that it is not practicable to set quantitative threshold at global level.

Section 4B – Authority of the Standard\Question 3 - Views on the Authority of ED-ISA for LCE \Question 3(a) - Is the Authority implementable\3) No or Mixed Views with Comments\3f) Approach too Complex or Too Many Layers

4. National Auditing Standard Setters

Australian Auditing and Assurance Standards Board

The AUASB considers that the Authority of the proposed ED-ISA for LCE Standard poses several implementation challenges. Our stakeholders shared a strong preference that clearer, more objective criteria should govern the application of the proposed standard. A consistent view we heard was that the authority of the proposed standard is too narrow and illogical, particularly because the proposed ED-ISA for LCE Standard is designed to achieve reasonable assurance and includes the same requirements as the ISAs, but still can't be used, for example, on any listed entities or group audits. There were also concerns that the high level of subjectivity included in the different qualitative characteristics which currently govern the use of the proposed standard may lead to inconsistent application in practice and unintentionally undermine the confidence users have on LCE audits.

The AUASB acknowledges the difficulty in balancing the specific prohibitions while allowing professional judgement, however, considers that the Authority as presented has too many layers and allows for too much judgement that will lead to inconsistency in practice not only across jurisdictions, but within Firms themselves. Such an outcome is contrary to the public interest matter of promoting consistent practice and behaviours by auditors globally.

5. Accounting Firms

Baker Tilly International

If you decide you need a separate standard then you need to define the standard's scope.

There are 44 explanatory paragraphs in the Authority document. This is one example of how the IAASB's chosen path introduces rather than removes complexity.

The auditor will have to explain the scope to management and seek to identify whether the entity falls within its scope. There might be matters of judgment which require investigation, discussion and documentation. Notwithstanding the technicalities management might have a preference for one path or another, which may or may not be a well-informed view based on management understanding of their audit report's users and

their preferences/needs. This is all additional effort to current practice and therefore represent impairments to adoption and implementation of a separate ISA for LCE.

The examples in paragraphs 27 and 68 demonstrate how a separate standard with accompanying defined scope could lead to problems in implementation. The auditor would initially undertake engagement level evaluation at the planning stage but as with all things in an audit what the auditor identifies at the planning stage may prove invalid or inaccurate as audit evidence is gathered. If the auditor identifies that the LCE is in fact outside the scope of the ISA for LCE during the course of the audit then all of the benefits of applying the ISA for LCE are lost and it would likely prove more complex, more expensive and less efficient to have to swap to ISAs midway through an audit assignment. This could be dealt with if the ISA for LCE has a rule to the effect “if the entity falls outside the scope of the ISA for LCE for two successive audit periods then the entity must be audited under ISAs in year 3” or “if during the course of an LCE audit it is identified that the entity falls outside the scope of the ISA for LCE and if circumstances still apply then the following year’s audit must be conducted under ISAs”. Coming back the other way “If while being audited under ISAs it is identified that an entity falls within the scope of the ISA for LCE and if circumstances still apply then the following year’s audit may be conducted under the ISA for LCE”. Consistent with the aim of reducing administrative burden for LCEs requiring an increasingly complex entity to move from the ISA for LCE to ISAs should be deferred and it should be quick for a decreasingly complex entity to be able to move from ISAs to the ISA for LCE.

The adopted approach to scoping mirrors the IAASB’s approach to standard setting more generally. The ISA for LCE effectively says the entity is not in scope until the auditor has answered no to 4 questions which are themselves increasingly judgmental in nature.

Grant Thornton International Limited

In our view, the Authority is not capable of consistent implementation. The Authority, as presented, is a multi-level decision tree, which allows for the application of judgment or modification at each of the levels. This can only lead to inconsistencies both across and within jurisdictions, which is contrary to the premise of developing standards that can be applied consistently. We do not believe that this lack of consistency, and therefore lack of comparability, is in the public interest.

In respect of the specific prohibitions, there will likely be variation in the types of entities for which use of the standard is prohibited. This may add an additional unnecessary layer of complexity to performing multi-national group audits, where local statutory audits are performed. Even if ED-ISA for LCE remains prohibited for group audits, certain jurisdictions may allow its use for components of a group that require statutory audits. Further, the prohibition of an entity with ‘public interest characteristics’ includes a number of criteria that prohibit the use of ED-ISA for LCE based on the ‘main function’ of the entity subject to audit. There is currently no guidance on how to determine or measure what would be an entity’s ‘main function.’ ED-ISA for LCE also allows for modification of these criteria, albeit through further restrictions, which gives rise to further inconsistent implementation of the standard.

Going down to the next level of prohibitions, there is again jurisdictional level prohibitions. It is not clear what is different between this level of jurisdictional prohibitions and those in the previous level.

There is then yet another level of prohibitions to consider based on firm policies or procedures, that may create yet another layer of inconsistent implementation.

Finally, the prohibitions extend to characteristics of the engagement. The qualitative characteristic of accounting estimates ‘subject to a higher degree of estimation uncertainty or ... requires complex methods that may involve multiple sources of historical and forward-looking data or assumptions, with multiple relationships between them’ is unlikely to be consistently interpreted and implemented and could have the unintended consequences as highlighted below.

Consequently, we are of the view that a standard developed on the premise of entities for which it could be used, with broad principles that allow local jurisdictions to determine the audits for which the standard could be used, based on local law and regulation, would be much simpler and easier to implement.

However, should the IAASB proceed with the Authority as proposed in ED-ISA for LCE, we believe that the role of the national standard setters will be critical in driving consistency of the application of the Proposed Standard. Further, we would expect that the determination at the firm level of whether ED-ISA for LCE can be used would not be common and recommend that this is reflected in the Authority.

Secondly, we find the levels of prohibition in the Authority to be overly complex and difficult to interpret. As we note in our detailed response below, we do not believe that the Authority, as written, is capable of consistent implementation across jurisdictions, and more importantly within a jurisdiction.

7. Professional Accountancy and Other Professional Organizations

Saudi organization for Chartered and Professional Accountants

As noted in the general comment, we could not see the necessity of offering two approaches to help professionals (professional regulators and practitioners) in deciding the eligibility of an entity to be deemed LCE. We believe that offering only certain qualitative characteristics can serve the purpose of enriching the judgment of auditors and satisfying the objectives of the standard while securing the proposed design and structure method of the Standard (the principle-based approach). Nonetheless, there are some straightforward prohibitions of certain classes of entities or not, the overall application of the proposed standard is still substantially restricted to auditors' professional judgment. Thus, we propose that the list of prohibited classes of entities can be rephrased and represented as a part of the qualitative characteristics that the auditors have to take into consideration while assessing the appropriateness of using the ED-ISA for LCEs. For example, A.7(c) can be rephrased and represented in the qualitative characteristics section as "one of the entity's main functions involves one of the following; taking deposits from the public, providing insurance to the public...etc." We believe that this could increase the clarity and understandability of the requirement since auditors do not need to get overwhelmed with the existence of two interrelated approaches. Applying this proposed approach is not expected to impact the authority requirement but instead it offers the advantage of limiting variances and repetition of ideas and increases the clarity and, consequently, the understandability and applicability of the requirement. Additionally, the reliance on only one approach which is the "qualitative characteristics" meets the principle-based nature of the ISA and enhances auditors' current responsibility to appropriately use their professional judgment to assess the appropriateness of applying the proposed standard to an entity. Finally, it should be noted that this approach does not contest the idea that the qualitative characteristics list cannot be exhaustive and auditors still need to apply their judgment to assess all relevant matters, nor it contradicts the strict prohibitions and exclusion of certain classes of entities. That can be highlighted, for instance, using a clear statement indicating that "the existence of only one characteristic included in (a), (b)...etc shall make the application of ED-ISA for LCEs inappropriate". The requirements are still the same, but the way they are presented could be more encouraging.

9. Individuals and Others

Cristian Munarriz

I think references to prohibitions and restrictions in specific jurisdictions are redundant because it is clear that auditors cannot use the ISA for LCE if not permitted in the jurisdiction. Also, even if the jurisdiction prohibits the use of ISA for LCE, the auditor may be able to use it in the audit of a component for group audit purposes, or if the financial statements are to be used in a foreign jurisdiction (i.e. a jurisdiction other than where the entity is located) where use of the ISA for LCE is permitted or required.

Prohibition by firm policy is also redundant because it is actually a voluntary decision (even if made at network level instead of local firm level). Stakeholders are unlikely to be aware of firm policies in this regard, so inappropriate use when firm policy prohibits its use, would be an "internal" matter of the audit firm to be resolved under the internal rules of that firm or network.

I also disagree with the prohibition for group audits as I will further explain later.

I think there should be a general restriction for PIEs.

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4. National Auditing Standard Setters

American Institute of Certified Public Accountants

If a separate standalone standard for audits of LCEs is issued, we strongly believe that a clear, understandable, and workable definition of an LCE is necessary. Definitional clarity would resolve concerns

regarding when the Exposure Draft would apply and differentiate between an audit performed in accordance with the Exposure Draft and an audit performed in accordance with the ISAs. A clear definition is in the public interest and the absence of one will exacerbate users' expectation gap. We would be pleased to work with the IAASB in developing a definition of an LCE.

Federación Argentina de Consejos Profesionales de Cs. Económicas

Although we recognize that defining LCE is a complex task, the authority of the standard should start from such a definition. Rather, authority is defined by limitations and prohibitions. It may be a pragmatic strategy, but we consider it methodologically incorrect.

5. Accounting Firms

BDO International

We are concerned with the lack of clarifying traits for what makes an entity 'less complex'. As drafted, the 'qualitative characteristics' paragraphs effectively state that an entity is not a 'less complex entity' if it exhibits complexity. (A.8) This does not help an auditor (or regulator) form a justifiable professional judgment about whether an entity was in scope of the standard or not. A.9 tries to go into more detail, but again defines a less complex entity by what it is not. For example, if an organisational structure is 'not simple', it is deemed 'complex'.

In relation to qualitative characteristics, defining the qualitative traits of less complex entities as being 'those that do not show complexity' (a paraphrase of paragraph A.9), does not assist with forming a professional judgment around whether an entity is in scope of the standard or not.

Grant Thornton International Limited

We are of the view that it would be preferable to include an Authority that focuses on when the Proposed Standard can be used rather than when it cannot be used, outline the broad criteria for its use and rely on national standard setters to determine how and when it can be used in their respective jurisdictions, given the use of the Proposed Standard, or otherwise, will ultimately be subject to local laws and regulations.

Moore Global Network Limited

The use of the terminology "Less Complex Entity" has not been explained sufficiently. Such entities should be considered as standard, with entities that are very complex in nature classified as such to apply more stringent procedures. This will aid in the understanding of users of the reports.

The classifications of the "Less Complex Entities" are not broad enough to include entities that are slightly larger, but well run and not complex. Organisations such as estate agents will for example be left out due to the trust accounts, although such entities are generally not complex in nature.

SRA

The Authority is described in terms of prohibitions to use the stand-alone standard. We note, that the September 2019 Discussion Paper describes LCE's in terms of qualitative characteristics and in a positive way: when can the set of LCE standards be used. We prefer this approach to describing the Authority or a combination of the two approaches (positive qualitative characterization and certain prohibitions)

6. Public Sector Organizations

Government Accountability Office (USA)

We believe that the Authority section does not clearly discuss what audits would be allowed to use the proposed standard. The Authority section in the ED-ISA for LCE provides the scope of what is excluded from using the proposed standard, but we believe that information should be added to explain the nature and scope of entities to be considered a LCE.

We believe that the Authority section needs to communicate the type and structure of an entity that would be considered an LCE. We do not believe that solely focusing on the prohibitions and limitations for the type of entity that the standard can be applied to is sufficient.

7. Professional Accountancy and Other Professional Organizations

Association of International Accountants

Scope and application may also be problematic in the absence of any specific definition or threshold which helps define an LCE (as noted in the previous section). For example, an apparently 'simple' entity may be more complex than first thought or vice versa. There may also be differences of opinion between auditors and clients where the potential application of the proposed ISA for LCEs is concerned. Again, this may be an area where thresholds, or some other eligibility criteria, may help to reduce this problematic scope issue.

Belgian Institute of Registered Auditors (IBR-IRE)

There is a broad definition of what "complex" encompasses. In addition, interpretation of the definition is quite subjective which - in the end - could lead to the proposed standard not likely to be used that often as it might be intended by the IAASB. If the interpretation of the word "complex" and the scope of the standard is defined in every country in a different way, the standard will lose its added value.

GGI Global Alliance

We advocate for a more precise definition of a "less complex entity"

We think that the definition as proposed by the draft new standard for defining a "less complex entity" could lead to different interpretations. This could favour even free riders among auditors jeopardizing the credibility of the profession as a whole, and harmful competition within it.

We ask therefore IAASB to define the concept of "less complex entity" without any ambiguity. This could be done with clear rules, including positive and negative criteria. For instance, the evaluation by the auditor of the impact of the IT tools used by the auditee should be straightforward for deciding that an entity is "less complex" or "more complex".

Moreover, we have to avoid excessive volatility in the answer to the question of "complexity" of an entity. If an entity is "less complex" year one, it should keep that status year two, except if something very obvious and undisputable has changed within the entity or its environment. Therefore, the rules and criteria should be also robust.

It should be expected that many entities would try, maybe for a question of cost, to present themselves as "less complex", and/or prefer an audit proposal based on the assumption that they are "less complex".

Therefore, the rules and criteria should be also designed as allowing the entities themselves to make a self-assessment in order to know if they are "less complex" or "more complex". Of course, this self-assessment, which could take the form of a decision tree, should be checked by the auditor on a later stage, with all possible consequences if the self-assessment is not confirmed by the auditor's assessment. The final decision of the selection of the applicable ISA remains with the auditor.

Instituto Salvadoreño de Contadores Públicos (ISCP)

Answer

Between the key changes: a) Define the concept of "less complex entities" and the parameters for their classification

Malta Institute of Accountants

the definition of 'Less Complex Entities'. The qualitative characteristics are based on when an entity is not considered not to be a less complex entity on the basis of complexity rather on what is a less complex entity. In our view, defining what is a less complex entity is critical. We feel that there is ambiguity in this regard. The fact that the Standard does not try to narrow down which entities are captured (rather than what is not captured) may actually result in 'large' private entities being captured. Having such a broad scope makes it more difficult to simplify certain aspects given the varying nature of the entities that could otherwise be eligible. If the entities that are captured had to be narrowed further, it may be easier to simplify certain processes and procedures within the proposed Standard.

South African Institute of Chartered Accountants

Consideration should be given to what an LCE is, rather than focussing on what an LCE is not, which would eliminate the consistency issue highlighted above.

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5. Accounting Firms

Famme & Co. Professional Corporation

We believe the Authority is implementable, with the addition of some expanded definitions. For instance, “public interest characteristics” is open to a wide range of interpretations. Many government-funded social service providers and not-for-profit entities may have some “public interest characteristics”, in that they have a certain exposure and prominence in a local community. However, they otherwise might fit the definition of “less complex”. “Public interest” is a difficult concept to measure or assess and it is unclear how entities of this nature are to be considered under this proposed standard.

RSM International

In our opinion, the Authority as set out in ED-ISA for LCE can be implemented, however we have concerns that it will not be implemented unless IAASB addresses:

- the approach to incorporating all of the ISA requirements in ED-ISA for LCE as set out in our response to question 7;
- the reference to ISA for LCE in the Auditor’s Opinion as set out in our response to question 10;

7. Professional Accountancy and Other Professional Organizations

Accountancy Europe

Clearly, the authority of a separate standard for less complex entities will be determined by local authorities and market demand. We acknowledge the limitations of the IAASB’s mandate on this aspect. A standard with concise requirements and a clear structure will have a higher chance of recognition and adoption.

EXPERTsuisse

In addition, we suggest that the number of criteria applicable to all LCE - no matter the jurisdiction they are based in - should be further reduced in order to allow the jurisdictions more room for development of their own rules; this might reduce the real threat that they develop and implement their own local GAAS for LCEs. Ultimately, we could imagine that the application of full ISAs would only be required for PIEs.

Institute of Chartered Accountants of Namibia

Approach to the authority of the draft standard

The standard and the authority of the standard are aimed at entities that are less complex and can therefore use the draft standard. The draft standard currently allows for instances where entities with certain complexities can use the draft standard if the assessment by the auditor is that the draft standard remains appropriate.

We believe that this approach ignores audit risk, such as cases where, despite the lack of complexity, the risk of material misstatement and the risk that the auditor does not identify the misstatements remains higher. In these cases, the draft standard would not necessarily be appropriate. Examples of such cases include:

- Where substantive procedures alone are insufficient.
Where the significant risks are related to completeness. Completeness is inherently a complex assertion to obtain audit evidence on.
- Where the audit report includes significant “Other legal and regulatory reporting requirements”.
Any other instances where audit risks are identified in the client and engagement acceptance procedures.
- Instances where the nature of the entity results in significant inherent risks which increase audit risk.

Where reliance is required on complex IT systems or significant and complex computer-assisted audit techniques. This differs from the current authority because currently where there is a complex IT system, it's an indicator of complexity, however, if the systems are not relied on for the audit, the draft standard should still apply.

Conversely, there may be instances where entities are more complex but the audit risk remains low. In addition, there may be cases where the users of the financial statements are limited and the public interest is very low or even zero. In these cases, despite some complexity, the audit risk is low. For example, where substantive tests of detail alone are sufficient, where external confirmations alone are sufficient etc. Examples of such cases include:

Entities within a group that are considered insignificant by the group auditors, where no group reporting is required. The audit of these entities is not necessarily complex.
Group audits where there are many subsidiaries with component auditors but where the group owns 100% of all its subsidiaries and where there are limited intercompany transactions.
Where the audit can be performed purely with substantive procedures for example where the figures can be confirmed with external confirmations or vouched to simple rental agreements or supporting documentation.
Complex valuations where the valuations are performed by appointed valuers. The audit work would be limited to evaluating the expertise etc. of the valuator.

We recommend changing the approach to be aimed at “Less complex audits” rather than “less complex entities”. We believe the authority should be based on audit risk rather than the entity's complexity.

We believe the authority should be aligned to audit risk rather than the entity's complexity. This is explained in our general comments above.

Instituto dos Auditores Independentes do Brasil

We have some concerns in the implementation of the standard. In general terms, we agree with the specific prohibitions and qualitative characteristics considerations, although defining what constitutes a LCE is still challenging. Maybe defining common characteristics for these entities could help better identifying when to apply this specific standard.

The analysis of whether the standard is appropriate should not be made based on complexity only, especially because for some set of entities (e.g., listed ones, public interest entities (PIEs), medium/larger-sized private entities etc), we understand that a reasonable assurance audit conducted in accordance with the actual ISAs is already a widely accepted premise. On the other hand, what level of complexity should present a SPAC (or similar structure) particularly during the period when the funds are not yet invested in acquisitions? Somehow, it contradicts the concept that ISA for LCEs will result in appropriate and sufficient evidence on which to base an audit opinion.

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3. Regulators and Audit Oversight Authorities

Finance Professions Supervisory Centre Indonesia

We believe professional judgment should be permitted to be applied in establishing whether an entity is an LCE and that application is documented in the engagement file

5. Accounting Firms

Crowe Macro Brazil

We suggest not to abandon the need of professional judgement, especially taking into consideration that facts and circumstances that define a LEC will undoubtedly quite different throughout jurisdictions.

KPMG IFRG Limited

We note that the considerations are complex and we welcome the improvements in clarity of the ED issued over previous drafts, as well as the issuance of the supplementary guidance. We believe that the approach taken, in respect of the inclusion of explicit prohibitions and qualitative characteristics that serve as proxies for complexity, together with the supplementary guidance, as well as a role for local jurisdictions to make further refinements to the authority of the standard, is appropriate.

6. Public Sector Organizations

Government Accountability Office (USA)

We believe the ED-ISA Authority section is structured to identify where the standard should not be used and, as far as identifying prohibited or limitations the proposed Authority section, appears reasonable and implementable.

7. Professional Accountancy and Other Professional Organizations

ASSIREVI

In light of the strong interconnection between the questions above, we believe it is appropriate to address them jointly.

As set out in point 1(a), we believe that the development of a standalone, separate standard is not the best solution given the challenges in auditing LCEs, as we deem that the benefits achievable through the greater scalability and proportionality of the ISAs are greater. For the purposes of this consultation, however, we provide our viewpoint on ED-ISA for LCE and agree that it is necessary to regulate the scope of its application.

Given the difficulties in defining the characteristics of an LCE in sufficient detail, we understand the approach applied by the IAASB to instead define the various classes of entities for which it is prohibited to use the proposed standard and the characteristics of the entities that do not qualify as LCEs and for which, therefore, application of the standard would not be appropriate.

CPA Australia

The qualitative characteristics in the authority require significant judgement to determine when to apply the LCE standard, which is likely to create different interpretations and inconsistency across and within jurisdictions. This creates a risk for auditors that regulators could reach a different conclusion regarding when the LCE standard can be applied. The need for supplemental guidance indicates, arguably, an unnecessary level of nuance in the determination of what fits within the scope of an LCE. The clearer the criteria in the authority the more consistently the LCE standard will be applied. Nevertheless, these qualitative characteristics do allow for jurisdictions to develop their own requirements regarding the nature of entities which can apply the LCE standard in their jurisdiction. Whilst we consider that the description of the qualitative characteristics is very lengthy in the LCE standard, especially when combined with the supplemental guidance, we have nevertheless not identified any specific items to be amended. We consider that these characteristics can be considered in the post-implementation review and refined if needed.

Whether the concept of “if in doubt you are out” is an appropriate test can also be reviewed as part of a post-implementation review.