

Supplement 2-07 to Agenda Item 6

Audits of Less Complex Entities – ED-ISA for LCE – Q3(c) – Views are sought on the Authority (or scope) of ED-ISA for LCE (Part A of the proposed standard). In particular: Are there specific areas within the Authority that are not clear?

Section 4B – Authority of the Standard\Question 3 - Views on the Authority of ED-ISA for LCE \Question 3(c) - Are there areas in the Authority that are not clear\1) No (Authority is clear)

3. Regulators and Audit Oversight Authorities

Botswana Accountancy Oversight Authority

The specific areas in the Authority are clear.

4. National Auditing Standard Setters

Australian Auditing and Assurance Standards Board

The Authority of the Standard along with the Supplemental Guidance is clear.

Austrian Chamber of Tax Advisors and Public Accountants (KSW)

No

Malaysian Institute of Accountants

Response: No, although as mentioned above, implementation may be different in different territories.

5. Accounting Firms

Baker Tilly International

No.

Ernst & Young Global Limited

There are no specific areas with the Authority that are not clear.

RSM International

The Authority is clearly set out.

6. Public Sector Organizations

Audit Scotland

No.

Auditor-General of New Zealand

We consider the scope of the proposed standard is clear.

7. Professional Accountancy and Other Professional Organizations

Botswana Institute of Chartered Accountants

None noted.

Chamber of Financial Auditors of Romania

There are no other specific areas within the Authority that are not clear.

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

No.

Chartered Governance and Accountancy Institute in Zimbabwe

believe that all areas in the Authority are clear.

Confederation of Swedish Enterprise

We believe that areas described are sufficiently clear. It is also accepted that judgement is needed when interpreting the Authority. It is not a matter of clarity. Instead, we consider that complexity, especially when assessing the qualitative characteristics, is the main concern when applying the Authority. Please also see our response to question (d) below.

CPA Australia

We have not identified any areas of the Authority that are not clear, although there is a lot of detail and some repetition of the standard in the supplemental guidance which could perhaps be consolidated.

CPA Ireland

We have not identified any specific areas that are not clear.

European Federation of Accountants and Auditors for SMEs

We believe the Authority to be clear but, as we explain in our response to Q4, may prove difficult to implement in the case of the qualitative criteria

Indonesian Committee on Public Accountant Profession (KPAP)

Specific areas within the Authority are all clear.

Institute of Certified Public Accountants of Kenya

None.

Institute of Chartered Accountants of Ghana

All the specific areas within the Authority are very clear.

Institute of Chartered Accountants of Jamaica

NO

Institute of Singapore Chartered Accountants

The Authority as presented is generally clear and implementable

International Federation of Accountants' Small and Medium Practices Advisory Groups

We believe that setting specific prohibitions as well as listing qualitative characteristics that might prohibit an entity from being able to adopt this standard is a good approach, and also allows local jurisdictions to modify (including modifying qualitative characteristics) as needed.

REA Auditors

We believe the Authority to be clear but, as we explain in our response to Q2 and Q4, it can be difficult to implement in the case of the qualitative criteria.

Self-Regulatory Organization of Auditors Association (SRO AAS)

The 'decision-making funnel' of the decision on the application of the standard is convincing. There are no specific areas within the Authority that are not clear.

Society of Certified Accountants and Auditors of Kosovo (SCAAK)

Response: We believe the Authority to be clear but, as we explain in our response to Q4, may prove difficult to implement in the case of the qualitative criteria.

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

No, the authority is clear being principle based.

Section 4B – Authority of the Standard\Question 3 - Views on the Authority of ED-ISA for LCE \Question 3(c) - Are there areas in the Authority that are not clear\2) Yes\2a) Drafting & Editorials

7. Professional Accountancy and Other Professional Organizations

Nordic Federation of Public Accountants

We believe that paragraph A.6. with its current draft might be redundant and therefore also could be deleted. It is confusing to begin by stating that A.7. sets out the classes of entities for which the use of the draft standard is specifically prohibited – and then move on to state that some of these prohibitions can be modified. Also, this paragraph needs to be read in conjunction to both A.7. and A.11 in order to be fully understood.

One way to clarify this two-tier approach to prohibitions would be to clearly separate the drafting of those entities that are in fact always prohibited from those entities where legislators or regulators can modify the scope. This could be achieved by addressing outright prohibitions in one paragraph (for example in a revised A.6.). The fact that these entities cannot be modified should also be explicitly mentioned in that paragraph. Paragraph A.7. could then deal with those entities which can be modified. That paragraph should also include a reference to A.11.

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

However, we encourage the IAASB to consider:

Editorial to paragraph A10 – reference to ISAs in the last sentence of paragraph A10 is not necessary due to the standalone nature approach of the standard.

“...professional accountancy organizations or others as appropriate) in individual jurisdictions. This applies to the International Standards on Auditing (ISAs) and the [draft] ISA for LCE.”

In addition, we recommend the following editorials to paragraphs A12 and A13 in the Firms and Auditors section:

Editorial to paragraph A12 – it will be appropriate to add “shall” (Paragraph 9 of draft CUSP Drafting Principles and Guidelines) and replace “take into account” by “consider” a more suitable “work effort verb” to make action required more prescriptive and authoritative :

“...In doing so, the firm shall consider the specific prohibitions for use of the [draft] standard...”

Editorial to paragraph A13 – it will be appropriate to add “shall” (Paragraph 9 of draft CUSP Drafting Principles and Guidelines) and replace “take into account” by “consider” a more suitable “work effort verb” to make action required more prescriptive and authoritative:

“...For this purpose, the engagement partner shall Consider:...”

Pan-African Federation of Accountants (PAFA)

Editorial to paragraph A5 – Entities don't use the ISA for LCE, the ISA for LCE is used by auditors for the audit of entities:

“Entities that have public interest characteristics could embody a level of complexity in fact or appearance and are. Therefore the [draft] ISA for LCE is specifically prohibited from being used for these entities using the [draft] ISA for LCE.”

Section 4B – Authority of the Standard\Question 3 - Views on the Authority of ED-ISA for LCE \Question 3(c) - Are there areas in the Authority that are not clear\2) Yes\2b) Other Comments

4. National Auditing Standard Setters

Institute of Chartered Accountants of India

Clarity is required on whether there is any specific exemption for:
An entity which has obtained borrowing from banks/Financial institutions up to a certain threshold.
Entities engaged in NBFC activities.

5. Accounting Firms

BDO International

Paragraph A.12 related to firms establishing policies on the permitted use of the ISA for LCE by the firm's engagement teams is not needed within the standard. Firms will do this even if this paragraph is not included in the standard.

If a non-listed entity is planning an Initial Public Offering within a certain number of years in the future (e.g., 2 years), it appears that the ISA for LCE could still be applied despite the potential public interest in historical financial results. We think that guidance should be added to the EEM regarding this situation, or perhaps it could be included as another example of public interest characteristics in paragraph A.7.(c).

Duncan & Toplis Limited

We believe that the authority is clear, but perhaps needs to include less subjective areas. The balance between giving the local jurisdictions power to set their own authority characteristics and ensuring a comparable use of the standard across ISA using jurisdictions will not be an easy task.

7. Professional Accountancy and Other Professional Organizations

Accountancy Europe

What is considered to be complex is subjective and thus requires application of professional judgement. However, any unclarity brought by this will eventually have to be considered and resolved locally.

Belgian Institute of Registered Auditors (IBR-IRE)

What is found to be complex or not is subjective which leads to several professionals having a different view. This might then lead to uncertainty as to whether the ISA for LCE can be applied.

Institute of Certified Public Accountants of Uganda

It is explained in the Executive Summary that the IAASB considered the IASB's "public accountability" approach to the applicability of the IFRS for SMEs, to describe the scope for which entities the standard is not appropriate. In addition, that the IAASB decided against the use of the IASB concept of public accountability.

We believe that use of the IASB public accountability approach would have ensured a consistency in use of both the IFRS for SMEs and the ISA for LCEs. Due to the importance of this issue, we recommend that additional explanatory material be provided to clarify the distinction in type of entities that apply the IFRS for SMEs vis a vis the entities for which the ISA for LCEs is acceptable.

Malaysian Institute of Certified Public Accountants

We suggest the IAASB to provide greater clarity on the definition of complexity, such as providing guiding principles to decide the complexity of an audit for both jurisdiction and firm determination. Though the Supplementary Guidance for the Authority of the Standard (Page 14) has provided some examples of jurisdiction determination, we suggest a list of guiding principles to be provided properly.

8. Academics

Argentine institute of Auditing Professors

We understand that both certain prohibitions and qualitative characteristics are left to subjective professional criteria, the application of this rule. In this sense, some kind of complement (indexes, ratios, something like that) would help to establish certain limitations to consider or not less complex entities.

Section 4B – Authority of the Standard\Question 3 - Views on the Authority of ED-ISA for LCE \Question 3(c) - Are there areas in the Authority that are not clear\2) Yes\2x) Refers to comments made elsewhere only

4. National Auditing Standard Setters

Canadian Auditing and Assurance Standards Board

Yes. Please refer to our response to Question 4(b).

New Zealand Auditing and Assurance Standards Board

The Authority of the Standard, as currently set out, is clear in articulating the message it intends to deliver on the scoping of the standard.

However, we are concerned at the potential risk that the lack of clarity on the QCs would result in inconsistent application of the proposed standard and undermine its credibility. Refer to response in Question 4(b) for detailed discussion on the QCs.

5. Accounting Firms

Crowe Global

The Authority is clearly presented, but we comment below our view regarding application of the standard for the audit of group financial statements.

ETY sas

Refer to our response to question 3(a).

Famme & Co. Professional Corporation

See point (a) above.

Grant Thornton International Limited

See our response to parts (a) and (b) above.

7. Professional Accountancy and Other Professional Organizations

Institute of Certified Public Accountants in Israel

Subject to the additional clarifications stated in the above questions, there are not further topics that require clarification.

Institute of Certified Public Accountants of Cyprus

Please refer to responses in the rest of the document.

Institute of Certified Public Accountants of Rwanda

We have requested for more clarity on Section 5: Group audits. Other areas are clear.

Institute of Chartered Accountants of Pakistan

On the matters explained in our response in questions 3(a) and 3(b) above, we believe that further explanation and implementation guidance would be helpful.

Instituto dos Auditores Independentes do Brasil

As mentioned before, we do not believe the characteristics and guidance described in the standard are sufficient to help market driving consistent judgements across entities / audit firms.

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

Refer to our response to question 3(a).

Pan-African Federation of Accountants (PAFA)

Refer to our response to question 3(a).

South African Institute of Professional Accountants

Our concerns were raised in 3(a) above

Wirtschaftsprüferkammer (WPK)

Please see question 3(a).

9. Individuals and Others

Cristian Munarriz

Refer to comments in 3 (a)