

Supplement 2-08 to Agenda Item 6

Audits of Less Complex Entities – ED-ISA for LCE – Q3(d) – Will the Authority, as set out, achieve the intended objective of appropriately informing stakeholders about the scoping of the proposed standard?

Section 4B – Authority of the Standard\Question 3 - Views on the Authority of ED-ISA for LCE \Question 3(d) - Will the Authority appropriately inform stakeholders about scoping of the proposed standard\1) Yes (achieves objective)

3. Regulators and Audit Oversight Authorities

Botswana Accountancy Oversight Authority

The scope of the proposed standard is clear, it is our belief that stakeholders will clearly understand the intended information.

4. National Auditing Standard Setters

Austrian Chamber of Tax Advisors and Public Accountants (KSW)

Yes, but it will depend on the practitioners and local authorities to achieve the intended objectives.

Federación Argentina de Consejos Profesionales de Cs. Económicas

Probably yes

Indonesian Institute of Certified Public Accountants (IAPI)

Yes

New Zealand Auditing and Assurance Standards Board

The NZAuASB is of the view that the Authority, as set out, achieves the intended objective of appropriately informing stakeholders about the scoping of the proposed standard.

5. Accounting Firms

Crowe Global

The Authority as presented does appropriately inform stakeholders about the IAASB's intended scope of the standard.

Duncan & Toplis Limited

Yes, but how they then interpret it and introduce at a local jurisdiction level will not be straightforward

PKF International Limited

In our view, the Authority, as currently drafted, will achieve the intended objective of appropriately informing stakeholders about the scoping of the proposed standard.

RSM International

Yes, the Authority is clear and will inform stakeholders about the scoping of the proposed standard.

6. Public Sector Organizations

Audit Scotland

Yes.

Office of the Auditor General of Alberta

We believe the Authority, as set out in the ED, will appropriately inform users of the scoping of the standard.

7. Professional Accountancy and Other Professional Organizations

Botswana Institute of Chartered Accountants

We believe that the Authority will achieve its intended objective.

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

Yes.

CPA Australia

We consider that the Authority appropriately informs stakeholders about the scoping of the proposed standard.

European Federation of Accountants and Auditors for SMEs

We believe the Authority achieves the intended objective of appropriately informing stakeholders about the scoping of the proposed standard.

While the diagram in paragraph 50 (paragraphs A.5. – A.9. in ED-ISA for LCE) initially appears somewhat complex it is logical and informative to the dedicated reader.

Federation of Accounting Professions of Thailand

We believe we can achieve the intended objective to informing stakeholders about the scoping of the proposed standard.

Indonesian Committee on Public Accountant Profession (KPAP)

The Authority will be able to achieve the intended objective of appropriately informing stakeholders about the scoping of the proposed standard.

Institute of Certified Public Accountants of Kenya

Yes.

Institute of Chartered Accountants of Ghana

Yes. It would be extremely difficult to define exactly what an LCE is as there are a large variety of industries and corporate forms in the world and therefore, as per the exposure draft guidance provided “the IAASB had the view that this approach did not clearly capture all the circumstances that may make an entity less complex”.

A judgment approach (leaving to the practitioner) was considered, but this was not deemed appropriate from a consistency perspective.

The IAASB has settled on explaining the scope through “prohibiting the use of the proposed standard for certain classes of entities (negative approach), and further describing those qualitative characteristics that would make the standard inappropriate to use (i.e., collectively describing when the proposed standard is inappropriate for use because the audit would not be considered an audit of an LCE).”

As such, it is simpler and more direct to define what is not an LCE. Therefore, a clear description of the types of entities for which the ISA for LCE is not intended—as set out in the Authority of the Standard and described in paragraph 50—is essential so that:

(i) The IAASB could decide on the requirements that are appropriate for an audit of an LCE based on the typical nature and circumstances of such entities.

(ii) Legislative or regulatory authorities or relevant local bodies with standard-setting authority, firms and auditors will be informed of the intended scope of the proposed standard.

Institute of Chartered Accountants of Jamaica

YES

International Federation of Accountants’ Small and Medium Practices Advisory Groups

We believe the Authority sets a basis by which local jurisdictions will be able to provide additional guidance on scoping and perhaps even offer additional examples for specific jurisdictions.

Polish Chamber of Statutory Auditors Warsaw (Regional Branch)

Yes.

REA Auditores

We believe the Authority achieves the intended objective of appropriately informing stakeholders about the scoping of the proposed standard. The diagram in paragraph 50 and paragraphs A.5. – A.9. in ED-ISA for LCE, is logical and informative to the dedicated reader.

Self-Regulatory Organization of Auditors Association (SRO AAS)

It can be assumed that an intended user has been appropriately informed about the Authority of the proposed standard.

Society of Certified Accountants and Auditors of Kosovo (SCAAK)

We believe the Authority achieves the intended objective of appropriately informing stakeholders about the scoping of the proposed standard.

Wirtschaftsprüferkammer (WPK)

Yes, we assume that the Authority will inform stakeholders about the scoping of the proposed standard.

8. Academics

Argentine institute of Auditing Professors

We believe that the Authority will achieve its objective.

Section 4B – Authority of the Standard\Question 3 - Views on the Authority of ED-ISA for LCE \Question 3(d) - Will the Authority appropriately inform stakeholders about scoping of the proposed standard\2) Yes if consider comments\If Appropriate Communication Made

7. Professional Accountancy and Other Professional Organizations

Chamber of Financial Auditors of Romania

We believe that the Authority set out in in the standard, supplemented by additional guidance for auditors and regulators and communication for stakeholders might lead to proper understanding of the scope of the new standard.

CPA Ireland

It is considered that the informing of stakeholders will be essential at a jurisdictional level. It is considered that there will be extensive outreach and educational programmes necessary with relevant stakeholders.

Institute of Chartered Accountants of Pakistan

We believe that the Authority sets a basis for determining the scope and applicability of the proposed standard. Under the Auditory, there are areas involving auditor judgment and possible divergent views among stakeholders (especially regulators and engaging parties). We believe that additional guidance material including the scenario-based examples would be useful for understanding of all stakeholders.

South African Institute of Chartered Accountants (2)

Partially. The IAASB will have to work closely with professional accountancy organisations and regulators to promote awareness of the Authority as such stakeholders may not be necessarily aware of IAASB activities and pronouncements.

Section 4B – Authority of the Standard\Question 3 - Views on the Authority of ED-ISA for LCE \Question 3(d) - Will the Authority appropriately inform stakeholders about scoping of the proposed standard2) Yes if consider comments\If Consider Comments Made Elsewhere

4. National Auditing Standard Setters

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

Considering the comments made above, we believe that the Authority of the draft standard, as set out, will achieve the intended objective of appropriately informing stakeholders about the scoping of the proposed standard.

Public Accountants and Auditors Board Zimbabwe

Yes to an extent subject to comments already given

5. Accounting Firms

Ernst & Young Global Limited

The Authority, as set out, will achieve the intended objective of appropriately informing stakeholders about the scoping of the proposed standard. However as previously suggested, we recommend that the IAASB narrow down the criteria in the Authority to make the ED-ISA for LCE applicable to only entities at the lowest level of complexity and potentially size (i.e., refine the Authority) Our recommendation is that the Authority clearly indicate that the standard is only meant for audits of entities at the lowest level of complexity and potentially size, and that it excludes many audit circumstances that, if present, would require use of the full ISAs.

7. Professional Accountancy and Other Professional Organizations

Institute of Certified Public Accountants of Uganda

Except for the issues in 3 (c), we believe that the Authority, as set in the proposed standard, will achieve the intended objective of appropriately informing stakeholders about the scoping of the proposed standard.

Instituto Mexicano de Contadores Públicos (IMCP)

We consider that the Authority will achieve the objective of adequately informing the interested parties about the scope of the proposed standard once the clarifications proposed in the previous paragraphs are included and along with a large participation and dissemination by the NSS.

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

Overall, we believe that the proposed role of legislative or regulatory authorities or relevant local bodies with standard setting authority in individual jurisdictions is clear and appropriate.

[Rest of comment mapped to drafting]

Saudi organization for Chartered and Professional Accountants

In light of the comment we introduced in points (a) and (b), yes we believe that the authority section of the proposed standard satisfies the objectives of informing the standard's potential stakeholders.

South African Institute of Professional Accountants

We believe the Authority achieves the intended objective of appropriately informing stakeholders about the scoping of the proposed standard other than our concern stated in 3(a) regarding the high level of professional judgement required and inconsistent implementation.

Section 4B – Authority of the Standard\Question 3 - Views on the Authority of ED-ISA for LCE \Question 3(d) - Will the Authority appropriately inform stakeholders about scoping of the proposed standard\3) Unclear or No Clear Steer

7. Professional Accountancy and Other Professional Organizations

Accountancy Europe

We believe that the main audience for the standard will be the practitioners and national standard setters. For other stakeholders, the IAASB's promotion and outreach will be key to inform them appropriately.

Institute for the Accountancy Profession in Sweden (FAR)

Yes. However, defining entities into different categories is not easy. The definition of PIE is commonly used but can still have different meanings. Using the term LCE add a new type of category. The proposed LCE-standard has a built-in possibility for regulatory authorities or relevant local bodies with standard setting authority in individual jurisdictions to include further restrictions. This might cause confusion in interterritorial discussions.

Institute of Certified Public Accountants in Israel

As mentioned above, ICPAI believes there is no need to inform stakeholders about the type of standard that was applied, since the presumption is that the auditor has implemented those auditing standards that it deemed fit in order to form its opinion on the financial statements under these specific circumstances.

Institute of Chartered Accountants of Scotland

We appreciate this is a difficult task given the inclusion of qualitative criteria, of which we are supportive, and will be easier for some stakeholders to understand than others. The inevitable degree of subjectivity that is present may lead to some stakeholders e.g., the owners/management of audited entities having differing views from an audit firm on application of certain of the qualitative characteristics. Despite this, and subject to the matters on which we have sought clarification above, we believe that the proposed Authority will help to achieve the intended objective of appropriately informing stakeholders about the scoping of the proposed standard.

Malaysian Institute of Certified Public Accountants

In the event that this proposed ISA for LCE is issued as a separate standalone standard, we recommend that the IAASB clearly and better articulate the benefits of using this standalone standard to third party stakeholders (i.e. users, preparers, regulators) and on how it will enhance the quality of audits performed as the rationale for developing this standalone standards are very practitioner centric. Additionally, engagements with these third-party stakeholders should be carried out in advance on the implementation of this standard to address any misconceptions about audits performed using this standalone standard are of "lower quality" and requiring less efforts and cost.

Section 4B – Authority of the Standard\Question 3 - Views on the Authority of ED-ISA for LCE \Question 3(d) - Will the Authority appropriately inform stakeholders about scoping of the proposed standard\4) No with Comments\4a) Authority is too unclear

3. Regulators and Audit Oversight Authorities

Independent Regulatory Board for Auditors (IRBA)

Based on our response to question 3(a), including as stated that the required use of professional judgment is too high and that a higher level of prescription is required, the Authority, as set out, will not achieve the intended objective of appropriately informing stakeholders about the scoping of the proposed standard.

5. Accounting Firms

ETY sas

As addressed in our response to question 3(a), including as stated that the required use of professional judgment is too high and that a higher level of prescription is more desirable, we do not believe that the Authority, as set out, will achieve the intended objective of appropriately informing stakeholders about the scoping of the proposed standard.

KPMG IFRG Limited

As we note above, in our responses to the earlier parts of this question, we believe that, despite the efforts of the IAASB in describing in detail the authority of the standard, there is still scope for jurisdictional difference in terms of its application as well as differences in practice as a result of the inherent subjectivity in determining whether an entity has the qualitative characteristics of an LCE as envisaged by this standard.

Price Bailey LLP

No. As noted above we do not think the authority is clear and therefore stakeholders will not be able to understand the scoping of the standard.

PriceWaterhouseCoopers

The Authority section conveys an overarching principle of intent. However, as described in our responses to question 1 and the other parts of this question, we believe the degree of subjectivity required in applying the qualitative characteristics results in an unacceptably wide “grey area” of entities for which application of the standard is ambiguous.

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.

7. Professional Accountancy and Other Professional Organizations

Association of Practising Accountants

No. We do not believe that it is sufficiently informative for stakeholders, who need to understand its implications. At the moment the draft remains unclear in a number of areas as highlighted earlier in our response.

Chartered Accountants Ireland

We do not believe the Authority as set out will achieve its intended objective of appropriately informing stakeholders about the scope of the proposed standard due to subjectivity and lack of clarity regarding qualitative characteristics included in the Authority of the standard.

Finnish Association of Authorised Public Accountants

More clarity is needed.

Instituto dos Auditores Independentes do Brasil

No. As mentioned in question 3(a), we believe stakeholders will not understand fully the differences between ISA for LCE and full ISAs. Therefore, application of this standard between jurisdictions can differ significantly when evaluating if an entity has the qualitative characteristics of an LCE.

Korean Institute of Certified Public Accountants

As noted in (b), domestic stakeholders believe that a significant level of judgment is required with regard to the qualitative characteristics listed in paragraphs A.8 and A.9, making it challenging to achieve the objective of the Authority. Qualitative characteristics need to be more clearly defined to reduce involvement of judgement.

Malta Institute of Accountants

As discussed above, we feel that there is too much ambiguity that could therefore jeopardise the intended objective.

Pan-African Federation of Accountants (PAFA)

As addressed in our response to question 3(a), including as stated that the required use of professional judgment is too high and that a higher level of prescription is more desirable, we do not believe that the Authority, as set out, will achieve the intended objective of appropriately informing stakeholders about the scoping of the proposed standard.

Polish Chamber of Statutory Auditors (PIBR)

No. There are no clear criteria for the types of audited entities. i.e. which are not submitted yet and which are already submitted. I propose to add an additional criterion – new actualization may apply to shareholder managed entities i.e. the SF stakeholders. Moreover, in general, there is a need to introduce the classification of entities not in terms of their extent nor complexity but in terms of the mode, if it can be briefly called, of the taken decisions. In unit management, the key is making decisions or the way of making decisions, e.g. by stakeholders, and this determines the difficulties in the process of SF audit. In this context, the extent or complexity of an entity is not a hindrance.

9. Individuals and Others

ASK KSA Consulting Inc.

We do not believe the Authority as currently set out will achieve the appropriate objective. It leaves too much to interpretation and many less complex entities will be scoped out.

Section 4B – Authority of the Standard\Question 3 - Views on the Authority of ED-ISA for LCE \Question 3(d) - Will the Authority appropriately inform stakeholders about scoping of the proposed standard\4) No with Comments\4b) No due to comments already provided elsewhere

4. National Auditing Standard Setters

Canadian Auditing and Assurance Standards Board

No. As noted in our responses in (a)-(c), we do not believe the Authority in its current form will achieve the intended objective of appropriately informing stakeholders about the scoping of the ISA for LCE. Changes are necessary for the Authority to be appropriately and consistently implemented, which we have set out in our response to Question 4.

5. Accounting Firms

Baker Tilly International

As described in our answer to 3a scoping is a consequence of having a separate standard. The greatest problems are the practical need to have a scoping discussion with management of the entity (thereby introducing complexity and reducing efficiency), and the consequence of discovering during the course of the audit that the entity is outside the scope of the ISA for LCE.

Grant Thornton International Limited

See our response to parts (a) and (b) above. We are of the view that the scoping of the proposed standard would be understood better by stakeholders if the focus was on the entities that could be audited under the Proposed Standard rather than those that could not be

7. Professional Accountancy and Other Professional Organizations

Chartered Governance and Accountancy Institute in Zimbabwe

As addressed in our response to question 1(b) above, we believe that the Authority of the proposed standard will be better understood by stakeholders if the term SME is used.

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

Response:

As addressed in our response to question 3(a), including as stated that the required use of professional judgment is too high and that a higher level of prescription is more desirable, we do not believe that the Authority, as set out, will achieve the intended objective of appropriately informing stakeholders about the scoping of the proposed standard.

Confederation of Swedish Enterprise

We believe that the specific prohibitions and jurisdictional level limitations are sufficiently clear. There might be bigger challenges for stakeholders to understand firm policies and procedures and engagement level evaluation. Especially the engagement level is challenging since this requires knowledge and understanding of the qualitative characteristics. We are concerned that a complex assessment of a number of different facts and circumstances is needed, which might be difficult for the auditor. We also are concerned that stakeholders might not fully understand the qualitative characteristics and how they are interpreted and applied.

Section 4B – Authority of the Standard\Question 3 - Views on the Authority of ED-ISA for LCE \Question 3(d) - Will the Authority appropriately inform stakeholders about scoping of the proposed standard\4) No with Comments\4c) Not all Stakeholders will consult Authority

4. National Auditing Standard Setters

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

We are not convinced that most stakeholder groups will consult the Authority when considering the scoping of the standard. At most, we expect practitioners, national standard setters, and regulators to consult the Authority to inform themselves about the scoping. Other stakeholders would need to be informed by IAASB outreach and other promotional activities – in particular in relation to the achievement of reasonable assurance by the LCE standard.

Malaysian Institute of Accountants

Stakeholders may also not be fully informed of the ramifications and implications of the proposed standard relative to the existing ISAs.

7. Professional Accountancy and Other Professional Organizations

Belgian Institute of Registered Auditors (IBR-IRE)

Stakeholders will rarely bother reading the standard on auditing. It is important for IAASB to emphasize in its future communication to potential users of audit reports with regard to the proposed standard that it provides “reasonable assurance” and therefore equal to the assurance-level under the current ISAs.

South African Institute of Chartered Accountants (2)

Partially. The IAASB will have to work closely with professional accountancy organisations and regulators to promote awareness of the Authority as such stakeholders may not be necessarily aware of IAASB activities and pronouncements.

8. Academics

Accounting and Finance Association of Australia and New Zealand

We do not believe that the Authority itself informs audit report users of the scope of the proposed standard and recommend that this be addressed by other means (e.g., education).

The authority, of itself, will not inform users of the Auditor’s Report of the circumstances underlying the scoping of the individual entity into or out of the proposed standard. Audit report users do not have a good understanding of the audit process (e.g., Majoor et al. 2002; Gray et al. 2011) and are unlikely to know the circumstances allowing for the scoping in of a particular entity. For example, would users understand why an entity they believe to be less complex is not audited with reference to the proposed standard? For most users, the only link that they have to the proposed standard is via its title and reference to the standard in the Auditor’s Report.

We recommend that, at a minimum, the authority be supplemented by education of users of the scope of the proposed standard and, potentially, further disclosures in the Auditor’s Report when referencing audits undertaken according to the proposed standalone standard.

Section 4B – Authority of the Standard\Question 3 - Views on the Authority of ED-ISA for LCE \Question 3(d) - Will the Authority appropriately inform stakeholders about scoping of the proposed standard\4) No with Comments\4d) Users Unlikely to Understand

4. National Auditing Standard Setters

Australian Auditing and Assurance Standards Board

We have concerns that the Authority set out in the proposed standard does not achieve the intended objective of appropriately informing stakeholders about the scoping of the proposed standard, as different users of the audit may not fully appreciate or understand some of the criteria which govern the authority of the standard, especially as these are not intended to be specifically expressed in the proposed format of the proposed ED-ISA for LCE Standard audit report.

Malaysian Institute of Accountants

See above on potential confusion on comparability of audits performed under the proposed standard internationally. Stakeholders may also not be fully informed of the ramifications and implications of the proposed standard relative to the existing ISAs

5. Accounting Firms

Famme & Co. Professional Corporation

We do not believe the proposed standard will achieve the intended objective of informing stakeholders. In fact, we believe it will further widen the “expectations gap”. There is existing misunderstanding among stakeholders as to the differences between audits and reviews. Introduction of a second audit standard will only add to the existing confusion and misunderstanding.

Grant Thornton International Limited

Users of the auditor’s report are unlikely aware of the differences in prohibitions in one jurisdiction compared to another, are unlikely to have a detailed understanding of a firm’s policies and procedures and are unlikely to understand the other restrictions that may prohibit the use of the proposed standard.

KPMG IFRG Limited

We do not believe that less informed stakeholders will necessarily understand the scoping of the proposed LCE ISA and/or the differences between an audit performed in accordance with this ISA versus an audit performed in accordance with the full-scope ISAs, based on the Authority. Accordingly, we consider it critical that IAASB provide more clarity in this area.

6. Public Sector Organizations

Auditor-General of New Zealand

As noted in our response to Question 2, we are concerned that the proposed standard will not be readily accepted by some stakeholders because of a perception that an audit carried out under it will be inferior to an audit carried out under the full suite of the ISA. Although Part A does not explicitly state that there are two categories of audit (an audit carried out under the full suite of the ISA and an audit carried out under the proposed standard) a stakeholder might view an audit under the proposed standard as a lesser form of audit. This could be mitigated by including a statement at the front of the proposed standard that an audit carried out in compliance with this standard complies with the ISA.

8. Academics

Accounting and Finance Association of Australia and New Zealand

We do not believe that the Authority itself informs audit report users of the scope of the proposed standard and recommend that this be addressed by other means (e.g., education).

The authority, of itself, will not inform users of the Auditor’s Report of the circumstances underlying the scoping of the individual entity into or out of the proposed standard. Audit report users do not have a good

understanding of the audit process (e.g., Maijor et al. 2002; Gray et al. 2011) and are unlikely to know the circumstances allowing for the scoping in of a particular entity. For example, would users understand why an entity they believe to be less complex is not audited with reference to the proposed standard? For most users, the only link that they have to the proposed standard is via its title and reference to the standard in the Auditor's Report.

We recommend that, at a minimum, the authority be supplemented by education of users of the scope of the proposed standard and, potentially, further disclosures in the Auditor's Report when referencing audits undertaken according to the proposed standalone standard.