

Supplement 2-09 to Agenda Item 6

Audits of Less Complex Entities – ED-ISA for LCE – Q3(e) – Views are sought on the Authority (or scope) of ED-ISA for LCE (Part A of the proposed standard). In particular: Is the proposed role of legislative or regulatory authorities or relevant local bodies with standard setting authority in individual jurisdictions clear and appropriate?

Section 4B – Authority of the Standard\Question 3 - Views on the Authority of ED-ISA for LCE \Question 3(e) - Is the proposed role of local authorities clear and appropriate\1) Yes

3. Regulators and Audit Oversight Authorities

Botswana Accountancy Oversight Authority

The documentation is clear, these are bodies that the professions interact with regularly. These are appropriate as they have more in sight on the different entities in their jurisdictions and as such, would have a more relevant and informative approach to Entities classified as less complex.

4. National Auditing Standard Setters

Australian Auditing and Assurance Standards Board

The proposed role of legislative or regulatory authorities or relevant local bodies is clear and appropriate.

Austrian Chamber of Tax Advisors and Public Accountants (KSW)

Yes

Canadian Auditing and Assurance Standards Board

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

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

Yes, it is clear that additional restrictions can be imposed by local bodies on the use of the standard.

Federación Argentina de Consejos Profesionales de Cs. Económicas

We understand that yes

Indonesian Institute of Certified Public Accountants (IAPI)

Yes

Institute of Chartered Accountants of India

In our view, the proposed role of legislative or regulatory authorities or relevant local bodies with standard setting authority in individual jurisdictions is clear and appropriate.

New Zealand Auditing and Assurance Standards Board

The NZAuASB is of the view that the proposed role of legislative or regulatory authorities or relevant local bodies with standard setting authority in individual jurisdictions is clear and appropriate.

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.

5. Accounting Firms

Azets Audit Services

(e) Yes.

BDO International

Yes, we believe it is clear and appropriate, as it allows those bodies to add further prohibitions or qualitative characteristics if considered necessary.

Crowe Global

We agree that national legislative and regulatory bodies, and standard setters should make the decision as to whether the standard is proposed for application in an individual jurisdiction, and what the scope of any application ought to be, taking into account national considerations such as audit exemption thresholds and the market need for audits that fall within the intended scope of the standard.

Crowe Macro Brazil

Fully agreed, as this ISA for LCEs is intended to be applied in many jurisdictions.

ETY sas

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.

Famme & Co. Professional Corporation

We believe this section clear and appropriate

RSM International

Yes, this is clear and appropriate. Local legislative or regulatory authorities or standard setting bodies may wish to add their own, more restrictive, rules around the use of the proposed standard.

SRA

Yes

6. Public Sector Organizations

Audit Scotland

Yes. In Scottish public sector audit, the term “audit” is not well defined in legislation. This means that the commissioners of public sector audit (the Auditor General for Scotland and the Accounts Commission) define their requirements in a Code of Audit Practice. As such, the Auditor General for Scotland and Accounts Commission would act as “a legislative or regulatory authority or relevant local body with standard setting authority in the jurisdiction” in determining if any classes of entities should be excluded from the scope of the ISA for LCEs.

Auditor-General of New Zealand

We consider that the proposed standard appropriately and clearly explains the roles of bodies with standard setting authority within individual jurisdictions.

Government Accountability Office (USA)

The subsection of the Authority section on the role of legislative and regulatory authorities provides sufficient information.

7. Professional Accountancy and Other Professional Organizations

Accountancy Europe

Yes, it is clear that additional restrictions can be imposed by local bodies on the use of the standard.

Association of Practising Accountants

Yes. Although there seems to be a reluctance on the part of the UK regulator to engage on this and it is therefore unclear as to whether it will be an option within the UK and if what thresholds might be introduced.

Belgian Institute of Registered Auditors (IBR-IRE)

This is clear. Locally, additional restrictions can be imposed on the use of this standard.

Botswana Institute of Chartered Accountants

The role of jurisdictional bodies in defining applicability of the standard is clear and appropriate.

Chamber of Auditors of the Czech Republic

Yes.

Chamber of Auditors of the Republic of Azerbaijan

The proposed role of legislative and regulatory authorities with the standard setting power in individual jurisdictions is quite clear.

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

Yes, we find that the proposed role of legislative and regulatory authorities or relevant local bodies with standard setting authority in individual jurisdictions role is clear and appropriate. Such authorities have a key role to play, particularly, in considering whether further prohibitions should be set out a jurisdictional level making the adoption and use of the standard more attractive and relevant.

Chartered Accountants Ireland

The proposed role of legislative or regulatory authorities or relevant local bodies with standard setting authority in individual jurisdictions is clear and appropriate.

Chartered Governance and Accountancy Institute in Zimbabwe

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.

Confederation of Swedish Enterprise

Yes, we agree. We consider that when applying the Authority at jurisdictional level it may for practical reasons be necessary to also consider size of the audit client. We support using thresholds at jurisdictional level.

CPA Australia

The role of national regulators and standard-setters in tailoring the Authority to their jurisdiction is clear and appropriate.

Eurasian Group of Accountants and Auditors

The role assigned by ED to regulators at the jurisdictional level is appropriate. Regulators have the ability to limit the application of the standard at a specific jurisdiction level, to include additional types of entities on list A7(c), or to establish specific quantitative thresholds, such as indicators of income, assets, and/or number of employees (A.7.(c)(v)).

European Federation of Accountants and Auditors for SMEs

We believe the proposed role of legislative or regulatory authorities or relevant local bodies with standard setting authority in individual jurisdictions to be clear and appropriate.

In the European Union ('EU') the Directives are the highest source of authority. As far as we know the Directives do not appear to preclude individual Member States ('MS') from unilaterally adopting the standard.

Federation of Accounting Professions of Thailand

Yes.

Indonesian Committee on Public Accountant Profession (KPAP)

The proposed role of legislative or regulatory authorities or relevant local bodies with standard-setting authority in individual jurisdictions is clear and appropriate.

Institute of Certified Public Accountants in Israel

The proposed role of legislative or regulatory authorities or relevant local bodies with standard setting authority are clear.

Institute of Certified Public Accountants of Kenya

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.

Institute of Certified Public Accountants of Rwanda

The role of the regulatory authorities such as ICPAR is clear and appropriate.

Institute of Chartered Accountants in England and Wales

The proposed role of legislative or regulatory authorities or relevant local bodies with standard setting authority is clear. They have an important role in clarifying at a local level the regulatory context within which the qualitative measure will be applied.

Institute of Chartered Accountants of Ghana

We believe so. Certain classes of prohibited entities need no interaction from relevant local bodies or standard setting authorities such as listed entities or group audits. Others, such as those prohibited by law or regulation and public interest entities, where there is some judgment from legislative/regulatory authorities or relevant local bodies are clearly defined in the draft.

The role through law or regulation is obvious. The role through public interest entities allows relevant local bodies/standard setting authorities to;

Add a class of entities to the list of prohibited entities

Permit specific sub-sets within a set to be able to use the standard

Use quantitative thresholds to prohibit use of the standard for certain entities.

They may remove or amend modifications that they have made.

Institute of Chartered Accountants of Jamaica

YES

Institute of Chartered Accountants of Namibia

Yes.

Institute of Chartered Accountants of Pakistan

We note that the guidance on this area is appropriate and clear

Institute of Chartered Accountants of Scotland

The proposed role of legislative or regulatory authorities or relevant local bodies with standard setting authority in individual jurisdictions is clear and appropriate.

Institute of Singapore Chartered Accountants

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.

Instituto Mexicano de Contadores Públicos (IMCP)

We consider that the proposed role of legislative or regulatory authorities or relevant local bodies with standard setting authority is clear for our jurisdiction.

Instituto Salvadoreño de Contadores Públicos (ISCP)

Yes, the responsibilities of the legislative or regulatory authorities or relevant local bodies, established by this Standard, are clearly explained and appropriate. It will be up to the legislative and regulatory authorities, to establish the obligation, being able to add or modify, but not eliminate the classes of entities for the use of the ISA for LCE, in the case of El Salvador it will correspond to the Surveillance Council of the Accounting Profession Public and Audit pronounce and define the criteria that will be used for the use of the ISA for LCE.

International Federation of Accountants' Small and Medium Practices Advisory Groups

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

Korean Institute of Certified Public Accountants

The proposed roles of the relevant authorities or bodies are relatively clear.

Polish Chamber of Statutory Auditors Warsaw (Regional Branch)

Yes.

REA Auditores

We believe the proposed role of legislative or regulatory authorities or relevant local bodies with standard setting authority in individual jurisdictions to be clear and appropriate. In the European Union ('EU') the Directives are the highest source of authority.

Self-Regulatory Organization of Auditors Association (SRO AAS)

The proposed role of legislative or regulatory authorities or relevant local bodies with standard setting authority in individual jurisdictions is clear and appropriate. The role assigned by ED to regulatory authorities at the level of jurisdictions is appropriate. Our local Regulatory authorities have the opportunity to limit the application of the standard at the level of a specific jurisdiction, to include additional types of organizations in List A7 (c) or to set specific quantitative thresholds, such as, for example, amount of income, assets and/or the number of employees (A.7. (c) (v)).

Society of Certified Accountants and Auditors of Kosovo (SCAAK)

We believe the proposed role of legislative or regulatory authorities or relevant local bodies with standard setting authority in individual jurisdictions to be clear and appropriate.

South African Institute of Professional Accountants

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

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

Yes, on top of existing restrictions, individual jurisdictions can impose additional requirements.

Wirtschaftsprüferkammer (WPK)

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

8. Academics

Accounting and Finance Association of Australia and New Zealand

We believe that the role of legislative and regulatory authorities is appropriate. Auditing is seen in most jurisdictions as a public good such that it is mandated. Different jurisdictions apply this mandate in different ways (Minnis and Shroff 2017). For example, private firms are generally neither required to disclose their financial results nor have their financial statements audited in the US and Canada. By contrast, many firms with limited liability in other countries are required to file at least some public information and are required to have their financial statements audited. We believe that it is appropriate for individual jurisdictions to make informed decisions, on the basis of their individual circumstances, about when the proposed standalone standard can be employed.

Argentine institute of Auditing Professors

The Authorities' proposal to establish individual jurisdictional rules is clear and appropriate.

9. Individuals and Others

Vera Massarygina

Yes, it is.

Section 4B – Authority of the Standard\Question 3 - Views on the Authority of ED-ISA for LCE \Question 3(e) - Is the proposed role of local authorities clear and appropriate\2) Yes with Comments or Refinement\Editorials

3. Regulators and Audit Oversight Authorities

Independent Regulatory Board for Auditors (IRBA)

Further, we encourage the IAASB to consider:

Editorial changes to paragraph A6 – Refer to our response to question 3(a): Authority – Specific Prohibitions (second bullet point) for suggestions.

Editorial changes to paragraph A10 – The last sentence of paragraph A10 potentially adds little value or at least the reference to the ISAs is not necessary.

“... 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.”

OR

“... 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 suggest the following editorial changes to paragraphs A12 and A13 in the Firms and Auditors section:

In paragraph A12 – “consider” is a more appropriate “work effort verb” than “take into account”:

“... In doing so, the firm considers takes into account the specific prohibitions for use of the [draft] standard ...”

In paragraph A13 – “consider” is a more appropriate action verb than “take into account”:

“... For this purpose, the engagement partner considers takes into account: ...”

5. Accounting Firms

ETY sas

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:...”

7. Professional Accountancy and Other Professional Organizations

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)

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.

However, we encourage the IAASB to consider the following:

As addressed in our response to question 3(a):

The description of how legislative or regulative authorities or relevant local bodies with standard-setting authority can modify each class of entities described in paragraph A7(c) should be clarified in paragraph A6. The description as it is currently drafted may be considered difficult to understand. It is suggested that paragraph A6 be “bulleted” and some wording from paragraph 19 of the guidance contained in the Authority Supplemental Guide be moved to the Authority of the proposed standard to provide clarity and to prevent inappropriate use.

The standard allows modification on certain classes. The modification will result in a different set of requirements than what is in ISA for LCE so the question is that can the audit still asserted that they have audited according to LCE where the guidance on applicability is based on what the local regulators says rather than the LCE standard in its current state. i.e After modification, is the standard still the ISA for LCE or its not a modified ISA for LCE. Please provide guidance on how to approach auditing framework issue where some modifications have been done.

Suggested editorial:

“Legislative or regulatory authorities or relevant local bodies with standard-setting authority can modify each class described in paragraph A.7.(c) but a class cannot be removed. Modifications can be made by:

Adding a class of entities to the list of prohibited entities;,

Permitting specific sub-sets within a class of entities which do not exhibit public interest characteristics to be able to use the [draft] standard; or

Using quantitative thresholds to prohibit use of the [draft] standard.”

Editorial to paragraph A10 – The last sentence of paragraph A10 potentially adds little value or at least the reference to the ISAs is not necessary.

“...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.”

OR

“...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 – “consider” is a stronger and more appropriate “work effort verb” than “take into account”:

“...In doing so, the firm considers takes into account the specific prohibitions for use of the [draft] standard...”

Editorial to paragraph A13 – “consider” is a stronger and more appropriate action verb than “take into account”:

“...For this purpose, the engagement partner considers takes into account:...”

Section 4B – Authority of the Standard\Question 3 - Views on the Authority of ED-ISA for LCE \Question 3(e) - Is the proposed role of local authorities clear and appropriate\2) Yes with Comments or Refinement\Make clear Jurisdictional Expectation to Act

4. National Auditing Standard Setters

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

We believe that the proposed role of legislative or regulatory authorities, or relevant local bodies with standard setting authority, is clear and appropriate, but the IAASB should augment the Authority to explain the IAASB's expectation that local authorities or standard setters will provide additional requirements and guidance on scope as described in the examples of jurisdictional determination of the Supplemental Guidance for the Authority of the [Draft] Standard.

Section 4B – Authority of the Standard\Question 3 - Views on the Authority of ED-ISA for LCE \Question 3(e) - Is the proposed role of local authorities clear and appropriate\2) Yes with Comments or Refinement\More Jurisdictional Guidance (View with Q5b)

4. National Auditing Standard Setters

Malaysian Institute of Accountants

The proposed role is clear but implementation guidance for those authorities may be required.

7. Professional Accountancy and Other Professional Organizations

Instituto dos Auditores Independentes do Brasil

In addition, the Board could consider including some consideration for local jurisdictions' determination of the LCE for their territories.

Institute of Certified Public Accountants of Uganda

While ICPAU agrees with the prohibition of entities with complex matters or circumstances relating to the nature and extent of activities, operations, ownership and corporate governance arrangements, we believe that further guidance could be provided by the IAASB to jurisdictions on quantitative thresholds to be considered when specifying additional prohibitions from use of the proposed standard.

Saudi organization for Chartered and Professional Accountants

We believe that reasonable efforts have been devoted in the ED-ISA for LCEs to consider the important roles of the different levels (including the IAASB level, local regulatory bodies and firm levels) in authorizing the application of the proposed standard to certain entities. The proposed standard has given sufficient room for jurisdictional regulatory bodies to make more specifications that correlate more with their local environments. However, we believe there is a need for more guidelines on the best approaches to help jurisdictional accounting regulators to map out this proposed standard against their jurisdictional laws, regulations, or guidelines addressing the identification of SMEs as well as the audit of these entities.

South African Institute of Chartered Accountants (2)

The proposed role of legislative or regulatory authorities is clear and appropriate. Differences in interpretation and implementation of the standard may arise in different jurisdictions resulting in a fragmented approach in terms of how the LCE standard is implemented. It is important that the IAASB engages with regulators in this regard to ensure that there is some level of consistency at the global level. Similar discussions may need to happen for public sector audits i.e. with Supreme Audit Institutions. Furthermore, various jurisdictions will have their nuances, therefore, it is important that the LCE standard clarifies and allows local regulators to make the necessary changes to the scope of the LCE standard so that the standard may be implementable.

Section 4B – Authority of the Standard\Question 3 - Views on the Authority of ED-ISA for LCE \Question 3(e) - Is the proposed role of local authorities clear and appropriate\2) Yes with Comments or Refinement\Other Comments

5. Accounting Firms

Duncan & Toplis Limited

Yes, but again, the standard must encourage comparable implementation across the globe, or one of the main motivating factors for introducing the standard, international consistency, may well be lost.

Mazars

Yes. Although we see a challenge as PIE definition and adoption of the LCE standard can differ considerably even within the same region while advocate for a consistent approach.

Price Bailey LLP

Yes. However the IAASB should engage with jurisdictions regulators and standard setters and encourage use of the standard. There is reluctance from the UK regulator to engage on the LCE standard and therefore unclear as to whether it will be an option within the UK or what thresholds would be introduced.

6. Public Sector Organizations

Office of the Auditor General of Alberta

Yes, the proposed role of legislative or regulatory authorities is clear, however we note that it may not be appropriate for the IAASB to state that a legislative authority does not have the authority to modify the ED-ISA for LCE. A legislative authority may determine it appropriate for their jurisdiction to modify one of A.7.c (i)-(iv) and the IAASB does not have the jurisdiction over the legislative authority. We believe the IAASB should instead characterize use of the ISA for LCE as where permitted by law or regulation.

7. Professional Accountancy and Other Professional Organizations

Finnish Association of Authorised Public Accountants

The proposed role is appropriate. However, if group audits were not included in the scope of ISA for LCE, the restrictions regarding them could (at least) be made similar with restrictions in A.7(c), meaning that national modifications are allowed. We would emphasize, though, that we prefer removing group audits from A.7(d) as commented in Section 5.

Institute for the Accountancy Profession in Sweden (FAR)

Yes. Although we see a challenge within common markets (i.e. EU) local bodies in different territories can add different prohibitions that affect transfer of services between territories and we ask IAASB to encourage regions to apply a consistent approach to limiting the use of the proposed standards.

Institute of Certified Public Accountants of Uganda

Except for our comments in 1(c) above, 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.

Institute of Singapore Chartered Accountants

Quantitative Criteria

The ED currently only considers specific prohibitions and qualitative characteristics in determining whether an entity is an LCE. In considering whether quantitative criteria should be included as part of the Authority of ISA for LCE to set out the scope of the standard, we note that many jurisdictions apply a set of quantitative criteria when determining qualification for audit exemption. While quantitative criteria could be viewed as more transparent and easier to apply as it involves less judgement (in the context of assessing if the entity meets the quantitative criteria to qualify as a less complex entity), we are supportive of IAASB's approach of focusing on qualitative criteria as quantum may not be indicative of complexity. Jurisdictions which prefer to include quantitative criteria can develop these on their own, which is allowable under ISA for LCE.

Instituto dos Auditores Independentes do Brasil

Yes, as it allows the addition of further prohibitions or qualitative characteristics if needed. However, as mentioned above, we are worried about differences in the application of this standard between jurisdictions.

Malaysian Institute of Certified Public Accountants

The proposed roles of the various authorities are clear though implementation guidance for the authorities will be useful.

We suggest the IAASB to allow sufficient time for the respective jurisdiction to deliberate and determine whether any additional prohibitions may be required.

Nordic Federation of Public Accountants

The proposed role of legislative or regulatory authorities or relevant local bodies with standard-setting authority is very similar to the drafting approach used in the IESBA's PIE project. Considering that it is not within the IAASB's mandate to make any demands on this stakeholder group, we believe the proposed role is appropriate.

At the same time, we think the drafting of their role can be further clarified in relation to A.7. For example, we wonder why their role is limited to modifications related to the prohibition section of the Authority and does not include any possibilities to further modify the qualitative characteristics, where relevant.

As further explained in our responses to questions 22-26, we do not support including group audits in the prohibition list as drafted. However, we do understand that striking the right balance regarding how to deal with group audits in a global standard will be a challenge. Groups can be used for different purposes that might even be jurisdiction specific, often group structures are used as a consequence of other national legislation, especially tax law. Taking that into account, we suggest that if group audits – in any form - should continue to be on the prohibition list, they should not be considered as outright prohibitions but rather included in the list of prohibited entities that could be modified by legislative or regulatory authorities or relevant local bodies with standard-setting authority.

Although mentioned in paragraph 17 in the Supplemental Guide, we believe that it could be further stressed in the Authority itself that national legislators etc. could modify the scope by defining what entities are covered by the prohibitions. For example, similar language as can be found in the newly approved 400.16 A1 in the Code of Ethics could be used.

Section 4B – Authority of the Standard\Question 3 - Views on the Authority of ED-ISA for LCE \Question 3(e) - Is the proposed role of local authorities clear and appropriate\3) No

5. Accounting Firms

Baker Tilly International

No, there should be greater flexibility for scoping in at jurisdiction level.

Ernst & Young Global Limited

We believe that the proposed role of legislative or regulatory authorities or relevant local bodies with standard setting authority in individual jurisdictions is clear. However, we do not believe it is appropriate. We believe the proposed Authority of the ED-ISA for LCE needs further customization by jurisdictions to provide firms with clear guidance on when the standard applies in a jurisdiction. We believe there is high risk of inconsistent application if local authorities do not fulfill this role (i.e., leaves the decision for use of the ED-ISA for LCE to be made by firms or practitioners). We believe that audit firms should not have the responsibility for establishing additional classes of entities prohibited from using the ED-ISA for LCE that have not already been determined by local jurisdictions.

If clear guidance is not provided by the legislative or regulatory authorities or relevant local bodies, we find the criteria to be very subjective and we do not believe that audit firms will be able to consistently apply the criteria set out in the Authority. We believe that the potential for inconsistent application across audit firms will cause transition problems (i.e., change in auditors or changes in characteristics at an entity could prompt different decisions in applicability of the ED-ISA for LCE). Additionally, differences in local regulations could have implications for group audits if use is allowed by the ED-ISA for LCE. For example, there could be situations when the ED-ISA for LCE could be allowed to be used for group audit purposes and not for statutory audit purposes or vice versa.

We also believe that the role of legislative or regulatory authorities or relevant local bodies is to communicate and educate stakeholders on the rationale for the applicability and any specific prohibitions, which would help differentiate the ED-ISA for LCE from the ISAs to stakeholders.

We also recognize that having legislative or regulatory authorities or relevant local bodies responsible for determining the additional classes prohibited from using the ED-ISA for LCE for their local jurisdiction will result in inconsistent application across jurisdictions (i.e., it is possible that for two essentially identical entities that are domiciled in different jurisdictions that one may qualify for an audit under the ED-ISA for LCE and one may not due to differences in local regulations). However, if the IAASB were to take our recommendation of narrowing of the scope of applicability of the standard to entities at the lowest level of complexity, we believe that such differences would be reduced, and would be less impactful, such that there would be greater international consistency in the authority of the standard.

7. Professional Accountancy and Other Professional Organizations

Chamber of Financial Auditors of Romania

The proposed role of regulatory authorities and relevant professional bodies is rather unclear at the moment and we are unsure whether the standard should offer flexibility necessary to approach and address national challenges regarding the identification of less complex entities, therefore leaving certain matters for national jurisdictions to sort out, or it should be consistent and leave fewer unsolved areas of concern for national jurisdictions. For consistent application of the standard, we believe further discussions are necessary before the possible adoption of the standard.

CPA Ireland

It is considered that it may be appropriate to reflect prohibitions within law at a national level to provide for consistency of application and approach.

The absence of such jurisdictional prohibitions may result in challenges for regulators in the enforcement of use of the standards.

We believe that the proposed role of legislative and regulatory authorities could be enhanced and given more focus and clarity.

Institute of Indonesian Chartered Accountants (IAI)

Nonetheless, the proposal (par A.11) to allow regulators or national standard setters in each jurisdiction to modify (but not remove) classes of entities prohibited to use the ED in par A.7.(c)(i)-(iv), for example by determining specific quantitative criteria, may raise concern as to how the modified criteria (the subset) will not be arbitrary and will still be consistent with other prohibitions in par A.7 as they are originally intended by the IAASB.

Section 4B – Authority of the Standard\Question 3 - Views on the Authority of ED-ISA for LCE \Question 3(e) - Is the proposed role of local authorities clear and appropriate\4) Mixed or No Specific Steer

4. National Auditing Standard Setters

Public Accountants and Auditors Board Zimbabwe

The standard allows modification on certain classes. The modification will result in a different set of requirements than what is in ISA for LCE so the question is that can the audit still asserted that they have audited according to LCE where the guidance on applicability is based on what the local regulators says rather than the LCE standard in its current state. i.e After modification, is the standard still the ISA for LCE or its not a modified ISA for LCE. Please provide guidance on how to approach auditing framework issue where some modifications have been done.

5. Accounting Firms

Grant Thornton International Limited

As noted in our response above, it is unclear why there are different levels of legislative or regulatory prohibitions in the Authority. Ultimately adoption and application of a standard will always be on the authority of local jurisdictional regulatory bodies. As noted above, we believe that the jurisdictional national standard setters have a critical role in achieving consistency of adoption of ED-ISA for LCE should the IAASB proceed with the Authority as currently proposed.

We believe that, with their status and knowledge of the local environment, national standard setters are key to the consistent implementation of ED-ISA for LCE should it be issued with the current proposed Authority. For example, we note that the Authority provides a blanket exclusion of use of ED-ISA for LCE for all listed entities. In some jurisdictions, there are a large number of listed entities that are not complex entities and would not meet any other criteria in the Authority that would prevent the entity from being audited under ED-ISA for LCE. For example, junior mining companies are often listed entities but often only incur and report expenditures in their financial statements, making them less complex.

KPMG IFRG Limited

We believe their proposed role is appropriate, although we consider it inevitable that jurisdictional differences in interpretation and application of the standard will arise.

As we set out in our response to part c) of this Question, we encourage the IAASB to reconsider establishing size thresholds for use of the standard, which would be particularly important in the event that the IAASB does not implement our recommendations in respect of inclusion of a much more substantial body of application guidance within the standard, as described in our response to Question 7d) and/or our recommendations regarding further restricting the authority of the standard by explicit identification of areas of the audit where there are specific matters, in addition to those currently described by the IAASB, which may give rise to complexity in the audit, as described in our response to part c) of this Question. In these circumstances we would consider it important that a more active responsibility is placed on jurisdictional bodies to formally approve the standard for use, to 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 such bodies to establish appropriate size thresholds in their respective jurisdictions as part of their approval process.

PriceWaterhouseCoopers

Concern that proposal will not meet user expectations

Understanding the specific needs of users in different segments of the audit market is critical in delivering a product that best meets those needs. We acknowledge the extensive outreach performed to date by the IAASB in this project but recognise there are limitations on the ability of the IAASB, on a global basis, to understand individual market segment needs across different jurisdictions. Therefore, we support the proposed role of jurisdictional bodies in determining the appropriate use of the standard in their own jurisdictions. It will be essential that the legislative or regulatory authorities, or relevant local bodies with standard-setting authority, seek input from relevant users in their market (such as banks, owners, private equity firms, and others) on whether to adopt the proposed ISA for LCE.

We recognise there is a role for legislative or regulatory authorities or relevant local bodies with standard setting authority to further refine or restrict the application of a standard in a particular jurisdiction based on an evaluation of needs in the particular market, including user input. That is the case today. However, as with the ISAs, we believe the Board needs to establish a stronger baseline for what it considers to be the nature and circumstances of an entity for which the standard is appropriate for use (see response to part (a) of this question).

Similarly, while we recognise the challenges that certain classes of entity might be treated in a specific way within a jurisdiction, we believe there is an inherent tension between, on the one hand, stating that entities that have public interest characteristics could embody a level of complexity in fact or appearance (and are therefore specifically prohibited from using the standard), and then permitting legislative or regulatory authorities or relevant local bodies with standard setting authority to modify (override) those prohibitions to allow use of the standard for sub-classes of such entities. For example, if an entity exhibits characteristics of a PIE then we believe the ISAs remain the appropriate standards to be applied. We therefore support local bodies being permitted to expand, but not reduce, the population of entities deemed to exhibit PIE characteristics. We view the consideration of PIE characteristics to be of a higher public interest matter as compared to our recommendation that local bodies be granted authority to amend (including increasing) any quantitative thresholds specified in the standard.

7. Professional Accountancy and Other Professional Organizations

Institute of Certified Public Accountants of Cyprus

Please refer to our response in question 4.

Extract from Q4:

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.

In addition, it is risky (at least from the very beginning) to leave it to the practitioners to decide whether a company is an LCE or not as it involves a lot of judgement. Practitioners also have the policies and procedures methodologies they follow. It could be the case that they are happy with the methodology already established for a company and switching to the ISA for LCE would seem more burdensome and costly (passing the cost on to SMEs) than using the ISAs.

9. Individuals and Others

Cristian Munarriz

Refer to comments in 3 (a)

Extract from 3(a) - 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.