

# Supplement 2-12 to Agenda Item 6

**Audits of Less Complex Entities – ED-ISA for LCE – Q5(a) – Regarding the Authority Supplemental Guide Is the guide helpful in understanding the Authority? If not, why not?**

**Section 4B – Authority of the Standard\Question 5 - Authority Supplemental Guide\Question 5(a) - Is the guide helpful in understanding the Authority\1) Yes**

## **3. Regulators and Audit Oversight Authorities**

### **Botswana Accountancy Oversight Authority**

The guide is very helpful.

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

We are supportive of the Authority of the Supplemental Guide and note that it is necessary to read the Supplemental Guide alongside the Authority in the proposed standard to obtain a complete understanding of the authority of the proposed standard.

The examples provided in the Authority Supplemental Guide of what could constitute an LCE are useful.

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

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

Yes, the guide will be helpful for local authorities.

### **Federación Argentina de Consejos Profesionales de Cs. Económicas**

We find the guide very helpful in better understanding the exposure draft as well as in interpreting the challenges it presents.

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

Response: Yes

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

We believe that the guide is helpful in understanding the Authority.

### **Institute of Chartered Accountants of India**

In our view, the guide is helpful in understanding the Authority.

### **Japanese Institute of Certified Public Accountants**

Yes, the guide is helpful in understanding the Authority.

### **Malaysian Institute of Accountants**

Response: Yes.

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

Response: Yes the guide is helpful

## **5. Accounting Firms**

### **Azets Audit Services**

(a) Yes, the Authority Supplemental Guide clarifies the authority.

### **Crowe Global**

The guide is helpful in understanding the Authority.

### **Duncan & Toplis Limited**

Yes, it helps to more clearly explain the Authority.

### **MHA Monahans**

Yes the guide is useful. Most judgement will be around whether the audit is in scope. The actual content of the standard for LCE represents a common sense approach to these types of audits. Therefore the guide will be most useful in helping to decided when the LCE standard can be used.

### **RSM International**

Yes, we welcome the Authority Supplemental Guide and consider that it is a useful additional resource. In particular:

The diagram on page 2 sets out clearly the pathway to using the proposed standard;

The table on pages 7-11 provides useful additional guidance on the types of entity that are included or excluded from ED-ISA for LCE.

## **6. Public Sector Organizations**

### **Audit Scotland**

Yes.

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

The Authority Supplemental Guide will also assist auditors and their firms to develop a policy that regulates the application of the proposed standard to the entities, and classes of entity, that the firm audits.

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

We believe that the guide is helpful to understanding the Authority section of the ED-ISA for LCE.

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

### **Accountancy Europe**

Yes, the guide will be helpful for local authorities when deciding on whether to adopt the ISA for LCE and for firms when they develop their internal policies.

### **Belgian Institute of Registered Auditors (IBR-IRE)**

The Authority Supplemental Guide is more than helpful.

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

Yes.

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

The Guide provided is sufficiently helpful in understanding the Scope.

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

Yes, we find the guide to be helpful in understanding the Authority.

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

We believe the guide is helpful.

### **Confederation of Swedish Enterprise**

Response: We believe it is helpful in general.

### **CPA Ireland**

CPA Ireland considers that the supplemental guide is useful.

### **Federation of Accounting Professions of Thailand**

Yes. The supplemental guide enough helpful explanations.

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

We believe the guide is more than sufficient to help understand the Authority.

### **Institute of Certified Public Accountants in Israel**

The guide is helpful in understanding the standard's authority. It is normal practice in Israel to publish guides that are not considered an integral part of the standard; those guides provide guidance and provisions that help the auditor to implement the provisions of the standard.

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

Yes.

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

The guide is helpful since it provides additional information that may be of assistance when adopting and implementing the IAASB's proposed International Standard on Auditing for Audits of Financial Statements of Less Complex Entities (ISA for LCE).

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

We believe that the Supplemental Guide is helpful in understanding the Authority.

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

YES

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

The Supplemental Guide is helpful in understanding the Authority of the proposed standard.

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

Yes, we believe that the Authority Supplemental Guide is helpful in understanding the Authority.

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

Yes, we believe this guide will be helpful in understanding the authority of the standard.

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

The Authority Supplemental Guide is helpful in understanding the Authority of the Guide.

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

Yes, the guide is helpful in understanding the Authority.

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

Yes.

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

The materials of the Authority Supplemental Guide are useful for understanding.

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

The guide is helpful both for the national regulators in setting criteria and thresholds and the audit firms to develop in firm implementation principles.

### **Wirtschaftsprüferkammer (WPK)**

Yes, the Guide is helpful in understanding the Authority.

## **8. Academics**

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

We conclude that the Authority's Supplementary Guidance is very useful.

### **Hunter College Graduate Program**

We believe the guide is helpful because it provides additional information pertaining to the Authority. Users, such as firms and auditors, can look to the Supplemental Guide for assistance surrounding the use of the ISA for LCE. It also emphasizes important subjects pertaining to the use of the ISA for LCE such as its limitations and modifications.

## **9. Individuals and Others**

## Vera Massarygina

Yes, it is.

### **Section 4B – Authority of the Standard\Question 5 - Authority Supplemental Guide\Question 5(a) - Is the guide helpful in understanding the Authority\2) Yes with refinement or comments\2a) Concern over Non-Authoritative Status**

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

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

Paragraph 28 of the Supplemental Guidance for Authority of the proposed standard does include examples of QCs that are commonly associated with an LCE or otherwise. However, the supplemental guidance is not authoritative. We recommend that information included in those paragraphs are essential explanatory material that should be included within the standard.

The NZAuASB found the guide helpful to gain a better understanding of the Authority of the standard. The examples of QCs included in the supplemental guide should assist the firms and auditors in establishing policies and procedures, and in assessing if an entity could apply ED-LCE or otherwise. However as discussed in question 4 above, we are of the view that the examples of QCs included in the Supplemental Guide should instead be part of the proposed standard to provide more clarity about what the QC considerations are.

#### **5. Accounting Firms**

##### **BDO International**

Response: Yes, the Authority Supplemental Guide is useful. However, since it is a non-authoritative guide, its use is limited in practice. Questions such as how regulators may interpret the supplemental guidance in practice also arise: for example, in some jurisdictions, regulators tend to view examples as exhaustive lists rather than examples (even when standard setters do not intend them as such).

Making the Supplemental Guide part of the LCE standard itself would be preferable; though we acknowledge the IAASB's position that the standard should be as streamlined as possible. Perhaps, then, introducing it as an appendix to the standard, rather than a standalone separate document, would ensure that more users of the standard refer to it. We recognize that this may exacerbate the issue of regulators' expectations.

##### **Ernst & Young Global Limited**

We believe that the proposed supplemental guidance for the authority of the proposed International Standard on Auditing for Audits of Financial Statements of LCEs will help eliminate some inconsistencies, however, because this is non-authoritative guidance, we question if users of the ED-ISA for LCE will refer to this supplemental guidance.

##### **ETY sas**

We also support the Supplemental Guidance for the Authority of the Standard much needed and useful to an auditor alongside the proposed standard in order to understand the Authority of the proposed standard in full. However auditors may not get the need to read the Authority Supplemental Guide and not obtain a full understanding authority, as the authority of a guide differ from a stan. Thus an innovative approach is required from IAASB to mitigate this risk.

##### **Grant Thornton International Limited**

We believe that the Supplementary Guidance is helpful in understanding aspects of the Authority. However, we would highlight that the need for supplementary guidance itself is an indicator of the complexity of the proposed Authority. Further, the authority of the Supplementary Guidance is not clear. Typically, guidance issued by the IAASB is non-authoritative material. Also, by introducing it as a separate document, it unavoidably results in a certain amount of repetition of that adds to the overall length and complexity of ED-ISA for LCE.

## **KPMG IFRG Limited**

We consider the content of the Authority Supplemental Guide to be helpful in understanding the Authority. However, we note that the specific reference to the guide from paragraph A4 of the standard may call into question the authority of the guide, as the IAASB does not usually refer to non-authoritative guidance in authoritative standards, so some may feel compelled to act as if the guidance is authoritative, despite the fact that it is explicitly identified as being non-authoritative.

We believe certain elements of application material have been placed in Supplemental Guides with the primary aim of shortening the standard. However, we consider this overriding objective of shortening the standard per se to be unhelpful to auditors and potentially other stakeholders. We do not consider that rearrangement of elements of important guidance into supplementary materials makes the LCE ISA any easier to understand/ navigate, and it also creates confusion regarding the authority of such guidance, as we note above.

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

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

The IAASB could also consider carefully whether the guidance given in the Authority Supplemental Guide would be better incorporated in Part A of the standard instead (e.g. as EEM or Appendix).

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

The Authority Supplemental Guide is useful for the intended users. However, issuing a supplemental guide outside the standard is not in accordance with the intention to keep the standard comprehensive and with only limited guidance and explanatory material outside the standard itself.

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

The Supplemental Guide is helpful. However, a separate document rather than an appendix appended within the standard means it is longer than it needs to be as it repeats what is already in the Authority. Stripping this out would facilitate shorter and more succinct guidance which could readily sit within the standard as guidance material, either appended to the Authority or within it.

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

Response: To help with an understanding of when the standard is appropriate to use, the IAASB has developed the “Authority” of the standard and the Supplemental Guidance for the Authority of the Standard. We believe its important for auditors to read the standard and the Supplemental Guidance for the Authority of the Standard together in order to determine if the standard is appropriate.

We are concerned that not all auditors will consider the importance of the guide and the need to read the guide with the standard.

## **Section 4B – Authority of the Standard\Question 5 - Authority Supplemental Guide\Question 5(a) - Is the guide helpful in understanding the Authority\2) Yes with refinement or comments\2b) Concern over Length**

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

### **Australian Auditing and Assurance Standards Board**

The AUASB considers that the Guide clarifies the Authority of the standard. However, the AUASB questions the need for such extensive supplemental guidance, particularly in relation to the qualitative characteristics, demonstrating just how challenging it is to operationalise the proposed ED-ISA for LCE Standard.

## **5. Accounting Firms**

### **PKF International Limited**

The Authority Supplemental Guide is helpful in understanding the authority. However, the extent of the volume of detail in the guide highlights that the qualitative characteristics set out in the Authority require the application of significant judgement. We note that no other ISA has such lengthy guidance to explain its

scope: it seems unfortunate that an auditing standard on the audit of a less complex entity, should have a more complex scope than any other ISA.

## **SRA**

We suggest to limit the guide to the minimum.

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

### **CPA Australia**

The Supplemental Guidance for the Authority is very comprehensive and we have not identified anything to be added. However, it is very long and detailed, repeating some of the material in the LCE standard and so consideration could be given to consolidating the material. Alternatively, this could be done as part of the post-implementation review.

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

We propose that the IAASB consider the following enhancements to the Authority Supplemental Guide: Remove extracts from the Authority of the proposed Standard to reduce its length.

## **Section 4B – Authority of the Standard\Question 5 - Authority Supplemental Guide\Question 5(a) - Is the guide helpful in understanding the Authority\2) Yes with refinement or comments\2c) Want More Examples**

### **5. Accounting Firms**

#### **Ernst & Young Global Limited**

Additionally, we believe that the supplemental guidance for the authority needs comprehensive examples to be useful and to help reduce inconsistencies in application. We recommend that the IAASB develop a series of comprehensive examples that demonstrate the application of the specific prohibitions and qualitative characteristics and include these examples in the supplemental guidance. This will be particularly important for the firms if the IAASB does not narrow the applicability of the ED-ISA for LCE to only audits of lowest complexity, and realizing some jurisdictions will not either, then these examples will be needed by the firms to apply the ED-ISA for LCE consistently.

The Authority Supplemental Guide is helpful to further discuss different characteristics of LCEs. However, the Authority Supplemental Guide lacks examples of a qualifying LCE, which diminishes its usefulness. We suggest several comprehensive examples be included (refer to Q3a).

#### **Price Bailey LLP**

Response: The guide is helpful but could be improved with more specific examples in regard to actual accounting estimates, e.g. share option valuations, valuation of defined benefit pension scheme, property valuation, provisions etc. Once it is clear it will be easier for firms to consider whether the LCE standard will be appropriate and assist with the documentation of that consideration.

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

### **ASSIREVI**

Without prejudice to the critical issues noted in our responses to the previous questions and with reference to the role assigned to firms to establish possible additional limitations to the use of the proposed standard for certain classes of entities or business sectors as per question 6, we believe that the Authority Supplemental Guide is, overall, useful as it refers to and gives more detail about the considerations made in the Explanatory Memorandum.

Specifically, thanks to the examples provided, the Guide assists the auditor to understand when (due to qualitative characteristics) the use of the proposed standard is appropriate in order to decide whether or not it can be applied to audit a specific entity.

The list of examples of qualitative characteristics of entities, provided by the Guide in order to facilitate an understanding of the appropriate use for a specific engagement, is not exhaustive and the Guide clarifies that other relevant matters may also need to be considered. In addition, both the Guide and the proposed standard clarify that the existence of a characteristic of complexity does not automatically exclude the use of

the proposed standard for an entity although, theoretically, this could be the case. Therefore, the matters described in the list are intended to be considered both individually and in combination. However, if there is uncertainty about whether, based on the consideration of typical characteristics associated with complexity, an audit is or is not an audit of an LCE, it is appropriate to conclude it not to be an audit of an LCE and so be excluded from using the proposed standard. Accordingly, application of the full ISAs would be appropriate. Moreover, as already stated, it is clear that, as these assessments are made by an auditor using their professional judgement, their assessment about a specific entity may differ from that of another auditor. This leads us to conclude that it may not be possible to apply the proposed standard consistently.

Nevertheless, in order to minimise the risk of inconsistent application, we recommend operating guides be prepared or that the content of the Authority Supplemental Guide be extended with additional examples that cover:

those characteristics that determine complexity levels that make it inappropriate to apply the proposed ISA for LCE, with particular reference to characteristics related to the entity's:

business activities, business model and industry;

organisational structure;

ownership and oversight structures;

applicable regulatory framework;

accounting processes;

IT environment and system;

examples of complex accounting estimates, clarifying whether the following situations fall into this definition:

the measurement (including performance of the impairment tests) of goodwill, intangible assets (especially for start-ups), equity-accounted investments, provisions for risks and charges (for which the entity uses its own experts);

the analysis of business plans and/or budgets to assess the going concern assumption;

the circumstance whereby the proposed ISA for LCE cannot be applied due to the existence of a single complex accounting estimate or the presence of several complex accounting estimates.

### **Association of Practising Accountants**

The guide is helpful but could be improved with more specific examples – at the moment it will be difficult to be able to document the justification for the use of this standard,

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

More examples could be given (see comments to question 4.b)

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

Yes, it's considered helpful; however, we considered that the essential explanatory material should be expanded with examples; also implementation material may be a helpful document to assist with this matter.

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

Response: We believe the guide is very helpful in understanding the Authority and we will appreciate more examples and cases to assist auditors when assessing qualitative characteristics.

## **Section 4B – Authority of the Standard\Question 5 - Authority Supplemental Guide\Question 5(a) - Is the guide helpful in understanding the Authority\2) Yes with refinement or comments\2d) Proposed Edits**

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

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

Stakeholders supported having the Authority Supplemental Guide as it sets out further considerations for determining or evaluating the use of ED-ISA for LCE. However, they strongly felt that this Guide needs further clarity.

AASB views and recommendations

We believe that a supplemental guide is needed to assist practitioners with the understanding and application of the Authority.

### **5. Accounting Firms**

#### **BDO International**

We have no further suggestions for the guide, other than to incorporate some of the guidance we suggested previously on non-complex listed entities, non-complex groups, non-complex public sector entities, post-employment benefit plans and insurance providers.

#### **PriceWaterhouseCoopers**

We find the “green tick” examples described in the supplemental guidance on the Authority to be more compelling and persuasive in guiding auditors. They describe characteristics of a less complex entity. We recommend replacing the qualitative characteristics that describe what makes an entity “complex” with these direct statements about the characteristics typical of an entity for which use of the standard is appropriate. The additional examples of characteristics that may indicate complexity could be retained as a supplemental guidance appendix to the standard. We provide additional comments in appendix 3.

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

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

and unnecessary repetition should be avoided.

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

Response: The Supplemental Guide is very helpful. It jumps right into the draft standard from the first sentence and directly provides guidance in simple language with no frills. It purposely focuses on the major concepts therefore simplifying the guidance. We also like the fact that it goes through in detail jurisdictional determinations (areas where legislative or regulatory authorities may consider and have an impact when it comes to the implementation of this draft exposure draft for LCE’s.) We would like to however suggest that there be a table of contents or some sort of direction at the beginning to enable readers more easily transverse this guidance.

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

Having a Supplemental Guide would be helpful, and we especially support the draft table.

In substance, we encourage the IAASB to further clarify in the table where the threshold is intended to be in relation to the entity’s accounting estimates. In our view, the drafted examples are not helpful since they are too obvious. However, if that is the intent, i.e. the examples correctly reflect a “black or white” approach when determining the use of the draft standard, this needs to be clarified. On the other hand, if the standard could still be applicable even though the entity’s accounting estimates might involve some level of judgment, this should also be clarified. In case of the latter, we suggest adding some examples that deal with areas such as work in progress, goodwill and real estate.

Overall, we notice that the Supplemental Guidance includes a lot of duplications from the draft standard itself and we wonder how necessary that is. In terms of structure, we also think that the messages in section III Limitations for Using the Draft ISA for LCE might be easier to understand if the same drafting approach as in A.11. in the draft standard was used, i.e. by first clearly dealing with situations related to A.11 (a) and then dealing separately with situations related to A.11 (b).

One challenge in the Supplemental Guide is to strike the right balance between clarifying and exemplifying what is in the Authority and adding necessary or new information which should rather be included in the Authority. For example, paragraph 7 in the Supplemental Guidance states: “Other classes of entities may be able to be “modified” in limited circumstances by legislative or regulatory authorities or relevant local bodies with standard-setting authority”. We believe that the reference to “in limited circumstances” is not reflected in the Authority itself, neither literally nor implicitly. If this is an important message, we encourage the IAASB to consider where the correct placement should be.

Paragraph 8 seems to deal with modifications in general. However, the third bullet refers to using quantitative thresholds to prohibit use of the draft standard for certain entities. This message is a bit confusing, especially in relation to paragraph 22 which states that the modifications can also be made more broadly by further prohibiting classes of entities through creating quantitative thresholds. In our understanding the former statement refers to modifications regarding entities covered by A.7 (c) (i-iv) and the latter refers to a general prohibition regardless of the entities’ public interest characteristics in A.7 (c) (v). We suggest clarifying these differences.

As mentioned in our response to question 3 (c), this mixture of emphasizing public interest characteristics and complexity has resulted in a blurred message which makes it difficult to determine which factor is the decisive one. For example, according to paragraph A.9 and A.12 listed entities are excluded from the scope of this standard exclusively based on the public interest. Paragraphs 18-20 also focus on public interest characteristics, while the blue box on page 14 regarding Jurisdictional Determinations only focuses on complexity.

Furthermore, paragraph 18-20 refers to modifications that can be made based on an entity’s level of public interest characteristics. However, permissible modifications according to paragraph 22 do not seem to take public interest characteristics into account.

## Pan-African Federation of Accountants (PAFA)

As with the Qualitative Characteristics section of the proposed standard, amend the Qualitative Characteristics section of the Authority Supplemental Guide (paragraphs 24-29) by clarifying what “complex”, “simple”, etc. means or using different ways to describe how the Qualitative Characteristics will influence the auditor’s decision as to whether an entity is an LCE.

Editorial to paragraph 19:

“...For example. there may be entities within a local context that are scoped in out when they, in fact, do not exhibit public interest characteristics as contemplated in paragraph 15 above...”

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...”

## Saudi organization for Chartered and Professional Accountants

Yes, we found the authority supplemental guide very helpful in understanding authority matters. The Essential Explanatory Material (EEM) as well as the table containing different exemplary cases have made the authority stipulations clearer. However, as noted in our comment earlier, the strong emphasis on the idea of limiting the use of the proposed standard could have unintended consequences. Therefore, some rephrasing is required to lower this prohibiting and limiting tone without harming the intended objectives of the proposed standard.

### 9. Individuals and Others

#### ASK KSA Consulting Inc.

The Supplemental Guide is somewhat helpful in understanding the standard however overall, we believe it creates more confusion. For each area listed in paragraph A.9, there are further examples and an indication as to whether they are indicative, or not, in a less complex entity. However, in reading the Guide, the concept of a checklist mentality comes into play. How many checks before an entity cross from less complex to complex? This is not clear.

There is an inconsistency in the introduction to the table. The last sentence of paragraph 28 states: “The individual characteristics Supplemental Guidance for the Authority of the [Draft] Standard Page 7 of 17 listed are not mutually exclusive (i.e., the presence of one ‘complex’ characteristic exhibited by an entity does not necessarily exclude the use of the [draft] ED-ISA for LCE for that entity). However, the introduction to paragraph A.9 states: “...if any entity exhibits one or more of the following characteristics”. This is further confused by the fact of is it one or more within each category (ie. Within each bullet) or one more of the characteristics itself.

### **Section 4B – Authority of the Standard\Question 5 - Authority Supplemental Guide\Question 5(a) - Is the guide helpful in understanding the Authority\2) Yes with refinement or comments\2e) Remove Repetition with Standard**

## 7. Professional Accountancy and Other Professional Organizations

### 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.

### **Section 4B – Authority of the Standard\Question 5 - Authority Supplemental Guide\Question 5(a) - Is the guide helpful in understanding the Authority\2) Yes with refinement or comments\2x) Other Comments**

## 4. National Auditing Standard Setters

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

Yes, we consider that the Authority Supplemental Guide could be helpful to understand the Authority of the standard, but we have the following concerns.

We find the table in paragraph 28, which provides examples of characteristics of complexity for the entity to qualify or not as a LCE, to be too binary (green tick mark / red cross) in its presentation. We believe it would be more appropriate to present the qualitative characteristics listed as criteria to be considered rather than the pass or fail approach which seems to be implied in the actual presentation of the table of paragraph 28. If we go into more details, we have the following concerns:

some characteristics mentioned in paragraph 28, such as the ownership structure (single shareholder), technological obsolescence of products/ services, entity characteristics (start-up) seem to be treated in too binary a way and the positions taken may be challenged, especially with regard to the entities in the start-up stage of their life cycle;

the table in paragraph 28, as it is presented, seems to wrongly exclude professional judgment when deciding whether an entity is complex or not.

We are not opposed to the IAASB developing a tool in the supplemental guidance to the standard, but we consider that the format of paragraph 28 needs to be rethought. Otherwise, such a table could lead to the conclusion that the audit is simply a series of questionnaires that the auditor answers by ticking boxes.

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

We however wish to draw your attention to our responses to Question 4 regarding an example in the proposed Authority Supplemental Guide that ED-ISA for LCE is inappropriate in the case of fair value accounting estimates that use unobservable inputs, i.e. Level 3 inputs under IFRS 13 Fair Value Measurement, to measure fair value of an asset or liability.

## **5. Accounting Firms**

### **Mazars**

Regarding the content of the guide, we believe it could be perceived as a “check list” approach. Some characteristics make it very binary especially for the start-ups and seems to remove professional judgment especially with the “tick marks”. “One size fits all” approach may be difficult to apply.

The Authority Supplemental Guide is helpful for the intended users. However, issuing a supplemental guide outside the standard is not in accordance with the intention to keep the standard comprehensive and with only limited guidance and explanatory material outside the standard itself.

### **PKF International Limited**

Assuming that the IAASB does not make any significant changes to the qualitative characteristics set out in the ED-ISA for LCE, in our view the guide will still be a helpful way for users of the standard interpret the qualitative characteristics and it will help to promote a level of consistency in the standard’s application. Notwithstanding the helpful nature of the Supplemental Guide, our concern remains that the qualitative characteristics, as currently presented, will still cause a degree of inconsistency of application of the proposed standard.

### **PriceWaterhouseCoopers**

The perceived usefulness of the Supplemental Guide depends on the target stakeholder group: Legislative or regulatory authorities or relevant local bodies with standard-setting authority - For this stakeholder group, this document can provide a mechanism for sharing additional insight into the IAASB’s thought process and could serve a specific purpose. See, however, our response to question 4 on the extent to which we believe jurisdictional tailoring is deemed appropriate.

Firms - While the document may provide some insight into the IAASB’s thought process (as for legislative or regulatory bodies), we do not believe the content will significantly assist firms in determining the types of entities for which they may wish to further restrict use of the standard. As explained in our response to question 4(b) we believe revising the articulation of the criteria for which use of the standard is deemed appropriate within the Authority section itself is more important, which may largely negate the need for firms to make subjective judgements about how to further restrict use of the standard.

Audit engagement teams - Much of the material is targeted at legislative or regulatory authorities, or relevant local bodies with standard-setting authority to assist in local jurisdictional tailoring. As noted in our response to question 3, we believe engagement teams require sufficient clarity on the scope of entities for which the standard may be used, and such clarity needs to be built into the body of the standard. Our responses to questions 3 and 4(b) describe our recommendations for how to address this.

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

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

The Authority Supplemental Guide is very helpful in understanding the Authority of ISA for LCE. It cannot, however include all local or national characteristics therefore, it is important that the Standard allows for national legislative or regulatory authorities to modify the classes of entities for which the standard is prohibited without the possibility of removal of an entire class, as well as to set quantitative thresholds in order to avoid misjudgment. IAASB could recommend to individual jurisdictions to issue supplemental local

guidance regarding the types of entities that can be considered LCEs and types of entities for which the standard could not be used.

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

We believe the guide is very helpful in understanding the Authority.

The guide is in fact essential given the multiple facets to Authority as summarized in the diagram in paragraph 50.

If, as we suggest, the IAASB determines that size criteria be the main or overriding criteria for the determination as to the scope of the standard then parts of this guide will be superfluous. And if it does not there will still be a case to provide some guidance as to how individual jurisdictions can go about the determination on appropriate size thresholds.

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

References in the tables that seem excessively wide-ranging include references to legal liability or reputational risk, the use of business angels or employee share schemes, and to a separate IT department.

### **REA Auditores**

We believe the guide is very helpful in understanding the Authority.

The guide is in fact essential given the multiple facets to Authority as summarized in the diagram in paragraph 50. If the IAASB finally determines that size criteria be the main or overriding criteria for the determination as to the scope of the standard, we think will be necessary to provide some guidance as to how individual jurisdictions can go about the determination on appropriate size thresholds.

In Spain, the audit reports of SME entities were 87% of the total published, according to ICAC source. In this sense, the importance of this standard is huge.

## **Section 4B – Authority of the Standard\Question 5 - Authority Supplemental Guide\Question 5(a) - Is the guide helpful in understanding the Authority\3) Unclear or No**

### **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.

### **5. Accounting Firms**

#### **Baker Tilly International**

Just having a guide indicates that the LCE project may not deliver on its intended goals.

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

Not sufficiently, it is still unclear exactly how relief has been given. The full comparison between the ISAs and the LCE is nearly too detailed to establish on an executive level what the broad approach was to save time or effort for the audit.

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

#### **Chartered Accountants Ireland**

In relation to the Authority Supplemental Guide (Guide) on balance we do not believe it is helpful in furthering the understanding of the Authority of the draft standard. The indicators are expressed in a manner which is too broad and therefore excludes entities which are not complex, for example non-complex entities that sell products and services will have a risk of technological obsolescence, legal liability or reputational risk. However, it is only when such risks create an associated accounting complexity in the financial statements that the audit becomes the audit of complex entity financial statements.

In our view, the Guide lacks a fundamental link to factors or transactions that result in accounting complexity in the financial statements as without complexity in the financial statements the audit of an entity is not complex.

The Guide also uses subjective terms such as “few lines of business” “few products”, “multiple levels and reporting lines” and “few levels of management” without providing examples of what such terms are meant to capture.

### **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. In addition, the IAASB does not usually refer to non-authoritative guidance in authoritative standards, so some may interpret this to mean that it is authoritative,

### **Section 4B – Authority of the Standard\Question 5 - Authority Supplemental Guide\Question 5(a) - Is the guide helpful in understanding the Authority\4) Refers to Prev Comments Only**

#### **5. Accounting Firms**

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

The guide is helpful; see general comments below at Question 11.

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

##### **Malta Institute of Accountants**

Response: Please refer to above comments

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

Refer to our response to question 3(a).

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

Yes, however also refer to our response to Q3.

#### **9. Individuals and Others**

##### **Cristian Munarriz**

I think the guide is useful in general, but the comments in 3 (a) should be considered.