

Supplement 2-13 to Agenda Item 6

Audits of Less Complex Entities – ED-ISA for LCE – Q5(b) – Regarding the Authority Supplemental Guide: Are there other matters that should be included in the guide?

Section 4B – Authority of the Standard\Question 5 - Authority Supplemental Guide\Question 5(b) - Are there other matters that should be included in the guide\1) No - No Matters Identified

3. Regulators and Audit Oversight Authorities

Botswana Accountancy Oversight Authority

No other matters to be included in the guide have been identified.

4. National Auditing Standard Setters

Australian Auditing and Assurance Standards Board

No additional comment

Austrian Chamber of Tax Advisors and Public Accountants (KSW)

None

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.

We have not identified other aspects to include.

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

No.

Malaysian Institute of Accountants

Response: Not identified at present.

Public Accountants and Auditors Board Zimbabwe

Response: None noted

5. Accounting Firms

Crowe Global

There are no other matters that should be included in the guide.

6. Are there any other matters related to the Authority that the IAASB

Duncan & Toplis Limited

We have no additional suggestions.

Famme & Co. Professional Corporation

None.

KPMG IFRG Limited

We do not have additional matters to raise for inclusion in the guide.

PKF International Limited

There are no other matters that we suggest for inclusion in the guide.

RSM International

We have no other matters to note for inclusion in the guide.

6. Public Sector Organizations

Audit Scotland

No.

Government Accountability Office (USA)

We did not identify any other matters that should be included in the Authority Supplemental Guide.

7. Professional Accountancy and Other Professional Organizations

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

other matters for now.

Are there a

Confederation of Swedish Enterprise

Response: N/A

CPA Australia

The Supplemental Guidance for the Authority is very comprehensive and we have not identified anything to be added.

CPA Ireland

We have not identified further matters at this time that should be included in the guide.

Federation of Accounting Professions of Thailand

No.

Indonesian Committee on Public Accountant Profession (KPAP)

We believe the guide has covered all the essential details.

Institute of Certified Public Accountants in Israel

The guide is clear, and in our opinion there are no further topics that should be included therein.

Institute of Certified Public Accountants of Cyprus

We have not identified any other matters.

Institute of Certified Public Accountants of Rwanda

None

Institute of Chartered Accountants of Jamaica

NO

Institute of Chartered Accountants of Namibia

None.

Institute of Chartered Accountants of Scotland

We are not aware of other matters that should be included in the guide.

Instituto dos Auditores Independentes do Brasil

No.

Instituto Mexicano de Contadores Públicos (IMCP)

No.

International Federation of Accountants’ Small and Medium Practices Advisory Groups

We could not come up with any additional matters that should be included in the Authority Supplemental Guide.

Malaysian Institute of Certified Public Accountants

No other matters identified.

Nordic Federation of Public Accountants

We have no further comments.

South African Institute of Professional Accountants

None noted

8. Academics

Hunter College Graduate Program

We have no suggestions for other inclusions as we believe the guide addresses all matters.

Section 4B – Authority of the Standard\Question 5 - Authority Supplemental Guide\Question 5(b) - Are there other matters that should be included in the guide\2) No - With Comments

5. Accounting Firms

Azets Audit Services

(b) The application material included in the Supplemental Guide is comprehensive. It is, however, very long, which is a factor both of using nuanced and subjective qualitative characteristics and its presentation as a separate guide.

6 Are the

Baker Tilly International

The issues that the guide has to address indicate that a separate standard introduces complexity at the scoping stage and therefore impairs the potential benefits of the project.

SRA

We suggest to limit the guide to the minimum.

7. Professional Accountancy and Other Professional Organizations

Chartered Accountants Ireland

We do not believe there are other areas that need to be addressed in the Guide in light of the current scope of the Authority.

If the Authority is to be widened to include non-complex groups in the scope of the standard then it may be beneficial to include guidance in relation to such groups in the Guide.

Section 4B – Authority of the Standard\Question 5 - Authority Supplemental Guide\Question 5(b) - Are there other matters that should be included in the guide\3) Yes with comments\Clarify base for local jurisdictions

5. Accounting Firms

Mazars

Regulatory authorities or relevant local bodies with standard setting authority in individual jurisdictions should be encouraged to use this guidance and to add potential territorial amendments to the ISA for LCE standard and to include monetary thresholds according to their local jurisdiction.

7. Professional Accountancy and Other Professional Organizations

Accountancy Europe

Local authorities and standard setters should be encouraged to use this guidance as a starting point and to add potential local clarifications regarding the authority of the ISA for LCE where necessary.

Institute for the Accountancy Profession in Sweden (FAR)

Regulatory authorities or relevant local bodies with standard setting authority in individual jurisdictions should be encouraged to use this guidance and to add potential territorial amendments to the ISA for LCE standard and to include monetary thresholds where applicable.

REA Auditores

We have no suggestions as to other matters that should be included in the guide except as mentioned in our response to 5 (a) guidance on establishing appropriate size thresholds.

South African Institute of Chartered Accountants (2)

The Authority Supplemental Guide may need to be amended by the local regulators to take into account the different circumstances in various jurisdictions.

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

It should be noted that the guide is a reference point to build on for national regulatory arrangements.

Section 4B – Authority of the Standard\Question 5 - Authority Supplemental Guide\Question 5(b) - Are there other matters that should be included in the guide\3) Yes with comments\Library or Checklist

4. National Auditing Standard Setters

New Zealand Auditing and Assurance Standards Board

In our outreach, New Zealand stakeholders suggested the development of a “library” or checklist to work through to determine if classification as a LCE is appropriate. First time implementation guidance to facilitate consistent exercise of professional judgement would be especially helpful.

The NZAuASB did not identify other matters that should be included in the guide in relation to the Authority Supplemental Guide.

Section 4B – Authority of the Standard\Question 5 - Authority Supplemental Guide\Question 5(b) - Are there other matters that should be included in the guide\3) Yes with comments\More Examples

4. National Auditing Standard Setters

Canadian Auditing and Assurance Standards Board

Add more practical examples to help practitioners in their assessment. For example, the IAASB could add the characteristics of IT environments that may be less complex set out in ISA 315 (Revised 2019), Appendix 5, to clarify the qualitative characteristic relating to information systems and related processes.

Also, more examples of regulation or regulatory oversight and how it applies to different industries would be helpful.

5. Accounting Firms

Deloitte Touche Tohmatsu Limited

Without additional examples in the Authority Supplemental Guidance of what entities would be considered in scope, the Authority could be open to significant interpretations an

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.

Grant Thornton International Limited

As noted above, whilst the table in paragraph 28 of the Supplementary Guidance is helpful, given the judgement that will need to be applied in determining whether an entity maybe audited under ED-ISA for LCE based on qualitative characteristics, examples of how these characteristics should be considered and applied, both individually and in combination, would be helpful.

Price Bailey LLP

Response: Specific examples for accounting estimates.

7. Professional Accountancy and Other Professional Organizations

Association of Practising Accountants

Specific examples for accounting estimates.

Chamber of Financial Auditors of Romania

More practical examples of using judgement in the decision to use ISA for LCE or ISAs as such could be helpful.

Institute of Chartered Accountants of Ghana

The guide should include memo and other demonstration examples for the practitioners.

Institute of Chartered Accountants of Pakistan

As discussed in our response in Q3 and Q4 above, we suggest to include additional guidance on the implementation of 'Qualitative Characteristics' provided in paragraph A.8 and A.9 of the proposed standard. Further the applicability of the proposed standard for NGOs/ NPOs should also be provided.

Institute of Indonesian Chartered Accountants (IAI)

Taking into consideration that the qualitative characteristics are to be applied at the engagement level, we are of the view that further supplemental guidance is necessary. Determining whether each entity exhibits complex matters or circumstances, which may preclude the use of this standard, is judgmental matters. For example, determining whether the accounting estimates (following the requirements of the applicable financial reporting framework) applied by the entity are less complex, which will then warrant the use of this standard, might be an aspect requiring further supplemental guidance.

Institute of Singapore Chartered Accountants

Accounting Estimates

More guidance and examples on assessing the complexity of accounting estimates would be useful (i.e. what are considered complex accounting estimates). For instance, it can be common for entities with simple

structures and transactions to hold investment properties or investments in derivatives, and it may be difficult to assess whether the valuation of these investments would be considered as complex accounting estimates.

Korean Institute of Certified Public Accountants

Examples of how each qualitative characteristic is considered in combination; examples of situations when the ISA for LCE can be used although listed characteristics are demonstrated (see the answer to Question 3(c)); and diverse non-typical examples and case studies illustrating how professional judgment is exercised (see the answer to Question 4(b)).

Self-Regulatory Organization of Auditors Association (SRO AAS)

More examples to include would be helpful for users.

Society of Certified Accountants and Auditors of Kosovo (SCAAK)

Is the guide helpful in understanding the Authority? If not, why not?

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.

Are there other matters that should be included in the guide?

Response: We have no suggestions as to other matters that should be included in the guide except as mentioned in our response to 5 (a).

Section 4B – Authority of the Standard\Question 5 - Authority Supplemental Guide\Question 5(b) - Are there other matters that should be included in the guide\3) Yes with comments\Other Comments

5. Accounting Firms

Deloitte Touche Tohmatsu Limited

We are also concerned about the lack of transition guidance for those instances when it is necessary to move from using the proposed standard back to the full ISAs (especially in the longer term when auditors may no longer have the knowledge of the ISAs as a base); accordingly, we recommend including transition guidance in the Authority Supplemental Guidance.

Section 4B – Authority of the Standard\Question 5 - Authority Supplemental Guide\Question 5(b) - Are there other matters that should be included in the guide\3) Yes with comments\Other Proposed Edits

3. Regulators and Audit Oversight Authorities

Committee of European Auditing Oversight Bodies

Regarding the supplemental material provided alongside the draft ISA for LCE and considering their differing roles and responsibilities, we would advise that the supplementary guidance for the authority of the standard should be split more clearly between the guidance for national standard setters (NSS) and that for auditors. In particular, the guidance for NSS primarily relates to first time adoption of the standard, while that for auditors will be relevant on an ongoing basis and could be inside the standard.

Independent Regulatory Board for Auditors (IRBA)

We note that the diagram on page 18 of the Explanatory Memorandum and in the Authority Supplemental Guide has a different flow to how the “prohibitions” are listed in the proposed standard. We suggest that the diagram be aligned with the prohibitions as set out in the proposed standard.

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

Make it clearer in paragraph 31 that the auditor would be prohibited from applying the requirements as illustrated in (a)-(c) in an audit of an LCE because they do not form part of the core requirements in the proposed standard. Furthermore, include paragraph 27 of the Explanatory Memorandum to further illustrate this important concept.

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” and “simple”, among others, mean or by using different ways to describe how the Qualitative Characteristics will influence the auditor’s decision as to whether an entity is an LCE.

Editorial changes 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 ...”.

Irish Auditing and Accounting Supervisory Authority

Supplementary guidance for the authority of the standard

Considering their differing roles and responsibilities, we would advise that the supplementary guidance for the authority of the standard should be split more clearly between the guidance for national standard setters (NSS) and that for auditors. In particular, the guidance for NSS primarily relates to first time adoption of the standard, while that for auditors will be relevant on an ongoing basis and could be included in the standard.

4. National Auditing Standard Setters

Canadian Auditing and Assurance Standards Board

To address stakeholder concerns, we suggest that the IAASB:

Include more descriptions and explanations of the qualitative characteristics. This could include setting out why each qualitative characteristic should be considered and how it may impact the practitioner’s ability to obtain sufficient appropriate audit evidence under the ISA for LCE.

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.

Ernst & Young Global Limited

Other than comprehensive examples, we have not identified other matters that should be included in the Authority Supplemental Guide.

One specific comment we had on the Authority Supplemental Guide is that it is difficult to reconcile the ‘Classes of Entities Where the Prohibition For that Class Can be Modified’ section with the ED-ISA for LCE. It is assumed that this section is providing guidance to paragraph A7(c) in the ED-ISA for LCE and how those categories can be modified. If so, it would be clearer to start this section of the Authority Supplemental Guide with paragraph 16 in the Authority Supplemental Guide. Paragraph 16 restates what is in the standard and then the subsequent paragraphs could provide supporting explanation to that paragraph (i.e., that this approach was taken because Public Interest Entities are not defined globally and may have different jurisdictional definitions (current paragraph 14 of the Authority Supplemental Guide) and the categories in paragraph A7(c) in the ED-ISA for LCE are those that exhibit public interest characteristics (current paragraph 15 of the of the Authority Supplemental Guide) and then that some public interest characteristics could be defined at the jurisdictional level (current paragraph 17 of the Authority Supplemental Guide).

Moore Global Network Limited

Are there other matters that should be included in the guide?

Response: Summary of what the “relief” is in using the LCE vs the full ISAs.

Nexia Smith and Williamson

The table in paragraph 28 of the Authority Supplemental Guide (“the Guide”) refers to characteristics that are commonly not associated with an LCE. One of these is “Products and services that may result in... legal liability or reputational risk”. We believe this to be too broad: all products and services offered by entities, LCEs or not, will fall into these categories to a greater or lesser extent. This description needs to be refined.

We note that there appears to be a large amount of duplication between the Guide and the proposed Standard, which obscures the message that the Guide is trying to convey.

PriceWaterhouseCoopers

As noted in our response to question 3, we perceive an inherent contradiction in paragraph A9. In the absence of more specific, less subjective criteria for the Authority section as recommended in our response to question 4(b), we believe further guidance (in the body of the standard) is necessary to address the interaction of individual qualitative characteristics and how the auditor may judge these “in combination” with one another. Without this additional clarity, the level of subjectivity could lead to inconsistent judgements being drawn by different auditors, both within and across jurisdictions, which would not be desirable from an audit quality or comparability perspective.

7. Professional Accountancy and Other Professional Organizations

Belgian Institute of Registered Auditors (IBR-IRE)

Regarding the regulatory oversight, its scope needs to be defined. There are a lot of smaller entities subject to regulatory oversight which are not complex (e.g. entities subject to AML regulations (e.g. audit firms / accounting firms / etc.)).

Finnish Association of Authorised Public Accountants

The existence of paragraph 7.4.27. suggests that the use of auditor’s expert is not necessarily an implication of complexity. This could be mentioned in the Authority Supplemental Guide. See also comments to question 4.b).

Institute of Chartered Accountants in England and Wales

Further guidance could be included on how local regulators might develop and clarify the interaction between the different qualitative characteristic and examples of where entities should be in or out of scope.

South African Institute of Chartered Accountants (2)

Also consider including guidance on the re-issuing of the financial statements as we note paragraph 106 (c) (on page 32) states the following:

Management amendments to the financial statements after the date of the auditor’s report– Detailed requirements relating to the reporting on, and distribution of, previously issued financial statements when financial statements are amended are not included because in most jurisdictions this is expected to be rare.

Our view is that although it is seen as rare, amendments to the financial statements after the audit report are not limited to complex entities only, and due to the nature of the standard being a standalone standard, we believe guidance around this should be included in the standard.

8. Academics

Argentine institute of Auditing Professors

Matters should be included in the guidance on proposed changes, such as allowing the audit of groups of entities that have the same characteristics as the controlled entity and are defined as less complex entities. Other audit engagements (ISA 800) should also be considered.

Section 4B – Authority of the Standard\Question 5 - Authority Supplemental Guide\Question 5(b) - Are there other matters that should be included in the guide\3) Yes with comments\Updated Table (para 28)

4. National Auditing Standard Setters

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

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.

Japanese Institute of Certified Public Accountants

Although the guidance supplements the qualitative characteristics that would make the ISA for LCE inappropriate for use in the audit of certain types of entities, its current description of accounting estimates is insufficient, especially in terms of the degree of estimation uncertainty that would limit the use of ISA for LCE.

We also comment below on the table in Paragraph 28 of the proposed Supplemental Guidance for the Authority of the ISA for LCE.

The first 'X' in Business Activities, Business Model or Industry

The description, "Products and services that may result in technological obsolescence, legal liability or reputational risk." needs further clarification so that readers can identify what specific products and services are being referred to.

The second 'X' in Business Activities, Business Model or Industry

It lists "Entity operates in a new or emerging market or is in the start-up or development stage of its life cycle," as an example of characteristics commonly not associated with an LCE. However, an entity in the start-up stage is often small and not complex, thus it may be appropriate to apply the ISA for LCE to such entity. Moreover, if the business of the entity which is in the start-up was complex, it will not be appropriate to apply ISA for LCE based on A.8 and A.9. As such, the example of the start-up could be removed.

Section 4B – Authority of the Standard\Question 5 - Authority Supplemental Guide\Question 5(b) - Are there other matters that should be included in the guide\4) Reference to Earlier Comments Only

4. National Auditing Standard Setters

Indonesian Institute of Certified Public Accountants (IAPI)

Response: See comment on point 3

5. Accounting Firms

ETY sas

Refer to our response to question 3(a).

7. Professional Accountancy and Other Professional Organizations

ASSIREVI

See our previous response.

European Federation of Accountants and Auditors for SMEs

We have no suggestions as to other matters that should be included in the guide except as mentioned in our response to 5 (a) guidance on establishing appropriate size thresholds.

Institute of Certified Public Accountants of Uganda

Refer to our comments in 3 (c) and 4.

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).

Pan-African Federation of Accountants (PAFA)

Refer to our response to question 3(a).

9. Individuals and Others

Cristian Munarriz

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