

Supplement 2-15 to Agenda Item 6

Audits of Less Complex Entities – ED-ISA for LCE – Q7(a) – Views are sought on the key principles used in developing ED-ISA for LCE as set out in this Section 4C. Please structure your response as follows : The approach to how the ISA requirements have been incorporated in the proposed standard (see paragraphs 74-77).

Section 4C – Key Principles Used in Developing ED-ISA for LCE\Question 7 - Views on the key principles used in developing ED-ISA for LCE\Question 7(a) - The approach to how the ISA requirements have been incorporated in the proposed standard\1) Agree with Approach

3. Regulators and Audit Oversight Authorities

Botswana Accountancy Oversight Authority

It is appropriate for IAASB to use the requirements in the ISAs as a foundation for the requirements within ED-ISA for LCE as the new requirements should be aligned to the full ISAs and core requirements of the standard will be part of the requirements. Any ISA audit procedures that are not relevant to an LCE should be excluded.

Independent Regulatory Board for Auditors (IRBA)

We agree with the approach taken by the IAASB in how the ISA requirements have been incorporated in the proposed standard.

4. National Auditing Standard Setters

Federación Argentina de Consejos Profesionales de Cs. Económicas

They are considered adequate

Hong Kong Institute of Certified Public Accountants

The requirements in the proposed ED-ISA for LCE are based on the ISAs, having the same overall objectives and inherent limitations as an ISA audit. This enables the ISAs to retain its principles and methodology while requirements applicable to LCE audits are carved out into a separate document. We believe the tight links with the ISAs will enhance confidence of stakeholders and users of auditor's reports in audits applying ED-ISA for LCE.

We are supportive of the IAASB's approach with respect to (a), (b) and (c).

Institute of Chartered Accountants of India

We agree with the approach to how the ISA requirements have been incorporated in the proposed standard particularly following aspects:

- Core requirements from various ISAs have been included.
- Risk-based audit approach has been used.
- Requirements are principles based.

New Zealand Auditing and Assurance Standards Board

The NZAuASB considers that the IAASB's key principles and overall approach is appropriate.

5. Accounting Firms

Baker Tilly International

If you have a separate standard then the approach is reasonable

Crowe Global

We are comfortable with the approach to how the ISA requirements have been incorporated in the proposed standard.

Duncan & Toplis Limited

We believe that the key principles used will assist in the use of the standard, will create consistency and do help to provide a less complex solution to the audit process, compared to the use of the full ISAs.

Famme & Co. Professional Corporation

Subject to further comment below, starting with existing ISA requirements is an appropriate approach.

PKF International Limited

We generally support the approach taken to incorporate the ISA requirements in the proposed standard.

SRA

We support the key principles used in developing ED ISA for LCE. We specifically note, that in ISA for LCE 1.4.1. it is stated, that only relevant requirements have to be complied with. This implies, that if the circumstances, addressed by a certain requirement do not exist, this requirement is void.

6. Public Sector Organizations

Auditor-General of New Zealand

The approach adopted by the IAASB in incorporating the ISA requirements into the proposed standard is reasonable and appropriate.

Government Accountability Office (USA)

We believe that adopting and adapting the requirements from the ISAs is a reasonable approach to developing the requirements for the ED-ISA for LCE.

Office of the Auditor General of Alberta

We agree with the approach as outlined in the Exposure Draft paragraphs 74-77 to develop ED-ISA for LCE.

7. Professional Accountancy and Other Professional Organizations

ASEAN Federation of Accountants

Formulation of the standard that draw upon existing principles in ISAs provides familiarity and incentive for stakeholders' acceptance. We believe this would contribute to the successful and consistent application of the standard.

ASSIREVI

We have believed it appropriate to respond to points (a) and (b) together. The methods applied to incorporate the ISA requirements and objectives in the proposed ISA for LCE adequately present the requirements and the objectives as well as describing their scope for the purposes of an audit of an LCE. The presentation by audit process (rather than by individual topic like for the other ISAs) is consistent with the nature of the LCE to which the standard is applicable (the presentation by flow provides a single guide to be adopted in the audit of an LCE).

Belgian Institute of Registered Auditors (IBR-IRE)

The IAASB's approach on incorporating the ISA requirements is valid and highly welcomed by IBR-IRE.

Botswana Institute of Chartered Accountants

We agree that it is appropriate to apply the same ISA requirements while scaling them down for relevance to LCEs in drafting this proposed standard. This ensures consistency in engagements.

Chamber of Auditors of the Republic of Azerbaijan

Key principles used in developing ED-ISA for LCE are quite accurately specified in the following paragraphs: (a) approach to incorporation of the ISA requirements into the proposed standard (see paragraphs 74–77);

Chamber of Financial Auditors of Romania

We consider the approach to how the ISA requirements have been incorporated to be appropriate as the main concepts in conducting an audit have also been included in the new proposed standard (concepts like materiality, risk-based audit approach, use of professional skepticism and professional judgement).

Chartered Governance and Accountancy Institute in Zimbabwe

We support the approach taken by the IAASB as to how the ISA requirements have been incorporated in the proposed standard – using the ISAs as a departure point and replicating and adapting these requirements considered core to an audit of an LCE.

Confederation of Swedish Enterprise

We believe the chosen approach is appropriate.

CPA Ireland

CPA Ireland supports the approach to how the ISA requirements have been incorporated.

Federation of Accounting Professions of Thailand

None. We believe the context of the proposed standard is sufficient and appropriate.

Indonesian Committee on Public Accountant Profession (KPAP)

KPAP agrees on the requirements in ED-ISA for LCE. The ED states that LCE has referred to the ISAs in fulfilling the overall objective of the auditor, which is to express an opinion based on the audit evidence obtained. This point is particularly relevant to the auditors' task to collect sufficient appropriate audit evidence as a basis for the auditor's reasonable assurance opinion.

This ED has accommodated clear restrictions on what is included in the ISA LCE and the ISAs.

Institute of Certified Public Accountants of Rwanda

We agree with the approach used (principles based).

Institute of Certified Public Accountants of Uganda

We support the approach taken by the IAASB in the incorporation of the ISA requirements in the proposed standard. This will help promote public confidence in audits performed using the proposed standard since the new standard adopts and replicates all the core requirements of audit in the audits of LCEs.

Institute of Chartered Accountants of Ghana

We agree with the principle and approach used in developing ED ISA for LCE. This will achieve uniformity of the two standards. This mapping approach is similar to what we use when implementing a new reporting framework. We agree with this approach. This was accomplished by replicating or adapting requirements from the ISAs that are considered core to an audit, for the nature and circumstances of less complex entities as contemplated by the proposed standard. Audit procedures that are not relevant to an LCE, as contemplated by the proposed standard (e.g., procedures specific to listed entities), are not included within ED-ISA for LCE. Paragraph 104 further explains how the ISAs have been included within ED-ISA for LCE.

Institute of Chartered Accountants of Jamaica

The approach is reasonable.

Institute of Chartered Accountants of Pakistan

We note that the proposed ISA is based on the core concepts and requirements of the ISAs, requiring the auditor to form a reasonable assurance opinion.

Institute of Indonesian Chartered Accountants (IAI)

In general, we agree with the overarching principles applied in developing the standard – which draw upon existing principles in ISAs, to support consistent performance of quality audits. Th

Instituto Mexicano de Contadores Públicos (IMCP)

We consider the approach of the proposed standard is adequate, as it is similar to the ISAs approach, and the compliance with the prescribe requirements allows obtaining sufficient appropriate audit evidence to support the auditor's opinion.

Polish Chamber of Statutory Auditors Warsaw (Regional Branch)

Appropriate.

REA Auditores

We are agreeable with the approach to how the ISA requirements have been incorporated in the proposed standard.

Society of Certified Accountants and Auditors of Kosovo (SCAAK)

We agree with the approach to how the ISA requirements have been incorporated in the proposed standard.

South African Institute of Professional Accountants

Response: Consistent with an audit conducted in accordance with the ISAs, the intended outcome from using ED-ISA for LCE is an audit opinion resulting for a quality audit engagement that would enhance the credibility of the financial statements for the users thereof.

Many of the basic concepts used in the ISAs to support a risk-based approach have also been incorporated in ED-ISA for LCE.

We support the approach taken by the IAASB as to how the ISA requirements have been incorporated in the proposed standard. The ISAs was used as a departure point and adapted to be suited for Less Complicated Entities.

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

The general approach, principles and structure are aligned with ISAs in developing ISA for LCE which is positive, since both set of standards aim high quality, risk-based audits providing reasonable assurance. Given the familiarity of users with ISAs, it is useful that the same terminology and main concepts.

Wirtschaftsprüferkammer (WPK)

We agree with the approach how the ISA requirements have been incorporated.

8. Academics

Argentine institute of Auditing Professors

We consider the proposed approach to these requirements to be appropriate.

9. Individuals and Others

Rodoula Roussou

Key principles used in developing ED-ISA for LCE make sense.

The standard will help the auditor to achieve reasonable assurance by making the standard easier to understand and apply, as auditors of LCEs will not need to spend time identifying what is applicable and what is not (e.g., as they would need to do if they were using the ISAs), as it should be clearer what the core requirements are when the nature and circumstances of the entity and the audit are less complex.

Section 4C – Key Principles Used in Developing ED-ISA for LCE\Question 7 - Views on the key principles used in developing ED-ISA for LCE\Question 7(a) - The approach to how the ISA requirements have been incorporated in the proposed standard\2) Agree with Comments\2a) Overall Agree with Approach (except as commented)

4. National Auditing Standard Setters

Austrian Chamber of Tax Advisors and Public Accountants (KSW)

In general, we agree with taking the ISAs as starting point and having a risk-based audit approach with principles-based requirements and referring to the same overall objectives.

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

We agree with using the ISAs as a basis and retaining a risk-based audit approach to obtain sufficient appropriate audit evidence and therefore reasonable assurance.

Public Accountants and Auditors Board Zimbabwe

We are happy with the approach in developing the ISA for LCEs as to how the ISA requirements have been incorporated in the proposed standard – using the ISAs as a departure point and replicating and adapting these requirements considered core to an audit of an LCE.

5. Accounting Firms

ETY sas

We support the approach taken by the IAASB as to how the ISA requirements have been incorporated in the proposed standard – using the ISAs as a departure point and replicating and adapting these requirements considered core to an audit of an LCE.

KPMG IFRG Limited

We are supportive of the key principles used in developing the LCE ISA, given the IAASB's stated intention that this is a separate, standalone standard, that is designed to set out requirements that will result in a reasonable assurance conclusion, in the form of an audit opinion. Accordingly, we welcome the inclusion of objectives; the core ISA requirements and concepts; the need to obtain sufficient appropriate audit evidence to support the audit opinion; the use of materiality, and the use of the audit risk model.

We are supportive of the approach taken to the inclusion of requirements, which have been replicated from the full-scope ISAs, where appropriate, and in other cases included with adaptations commensurate with an LCE audit, such as simplification of language and/or presentation.

RSM International

Yes, we agree with the approach to incorporating the ISA requirements into ED-ISA for LCE.

6. Public Sector Organizations

Swedish National Audit Office

We agree with your approach using the objective from each ISA. A general reflection is that the requirements in the LCE are basically the same as in the ISA:s. We do not see the real difference between the LCE and how we apply the existing ISAs when auditing a small entity with few employees and a limited budget. The only difference we can note is that we can do mandatory substantive procedures for material accounts (no risk) by either doing test of detail or substantive analytical procedures.

7. Professional Accountancy and Other Professional Organizations

Accountancy Europe

In general, we agree with taking the ISAs as a starting point and having a risk-based audit approach with principles-based requirements for LCE. Therefore, we welcome the fact that ED ISA for LCE refers to the same overall objective and uses basic concepts from the ISAs.

Chamber of Auditors of the Czech Republic

In general, we agree with taking the ISAs as a starting point and having a risk-based audit approach with principles-based requirements for LCE.

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

We are supportive of the standard being based on the requirements of the ISAs.

European Federation of Accountants and Auditors for SMEs

We are agreeable with the approach to how the ISA requirements have been incorporated in the proposed standard.

Institute of Certified Public Accountants of Kenya

We support the approach taken by the IAASB as to how the ISA requirements have been incorporated in the proposed standard – using the ISAs as a departure point and replicating and adapting these requirements considered core to an audit of an LCE.

Korean Institute of Certified Public Accountants

We agree with the IAASB's approach to how the ISA requirements have been used as the basis for the proposed ISA for LCE requirements.

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

We support the approach taken by the IAASB as to how the ISA requirements have been incorporated in the proposed standard – using the ISAs as a departure point and replicating and adapting these requirements considered core to an audit of an LCE.

Pan-African Federation of Accountants (PAFA)

We support the approach taken by the IAASB as to how the ISA requirements have been incorporated in the proposed standard – using the ISAs as a departure point and replicating and adapting these requirements considered core to an audit of an LCE.

Self-Regulatory Organization of Auditors Association (SRO AAS)

The approach to how the ISA requirements had been incorporated in the proposed standard looks reasonable.

South African Institute of Chartered Accountants (2)

SAICA agrees with the approach of using the risk based principles contained in the ISAs to obtain sufficient and appropriate audit evidence in order to provide reasonable assurance.

9. Individuals and Others

ASK KSA Consulting Inc.

We agree with the approach to start with the ISA requirements in the proposed standard.

Section 4C – Key Principles Used in Developing ED-ISA for LCE\Question 7 - Views on the key principles used in developing ED-ISA for LCE\Question 7(a) - The approach to how the ISA requirements have been incorporated in the proposed standard\2) Agree with Comments\2b) Further Differentiate from ISAs\Further Differentiate from ISAs - General

4. National Auditing Standard Setters

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

However, based on our understanding of this ED-ISA for LCE, it is difficult to argue that an audit conducted in accordance with ED-ISA for LCE is simpler than an audit conducted in full ISAs (smart application of the ISAs). Indeed, we do not consider that there is less work to be done.

Regarding audit procedures on internal controls and accounting estimates, we understand that the IAASB has based the content of the requirements in the ED-ISA for LCE on recently approved ISA 315 (revised) and ISA 540 (revised) respectively. Although we support the robustness of these revised standards, we are of the view that further simplification is possible to meet the needs of audits of LCEs. It seems to us that the granularity of the requirements that have been included will drive a detailed granularity of documentation that is not necessary considering the scope of the LCE (simpler internal control environment, less formalized internal control procedures, less complex estimates...). We strongly encourage IAASB to further simplify these parts of the ISA for LCE.

Malaysian Institute of Accountants

More focus also needs to be placed on ensuring the reduced work effort is only that which is essential for an LCE audit. Specifically, more attention is needed to highlight where an auditor should do different procedures and where an auditor could avoid unnecessary procedures while still being able to opine under a reasonable assurance framework. Currently, these are not obvious in the proposed standard.

5. Accounting Firms

Azets Audit Services

There is opportunity for further distillation

We consider that there are some areas where the standard could benefit from further dis-application, or simplification of extant ISA requirements. Whilst the approach taken to structuring ED-ISA for LCE is not as radical as it could be, we are, on the whole, supportive of its structure as drafted as a mechanism facilitating transition and being used as part of a wider group approach or across jurisdictions or engagements with differing requirements.

BDO International

While we appreciate the IAASB's effort to provide a simpler standard for audits of less complex entities (LCEs), we generally believe that the proposed standard may not meet all stakeholders' requirements for such a standard, and fear that it will not stop the fragmentation of jurisdictional standards for LCEs. In many jurisdictions, there is a need for an audit and resultant report at an appropriate level of assurance that requires less work to execute and document. As most ISA requirements are still included in the proposed LCE standard, it provides little of the desired relief in the work effort or documentation that auditors of LCEs are seeking

While this standalone LCE standard is more user-friendly for practitioners, it is not in fact a new standard, and while it summarizes the requirements of the ISAs, it does not change them. Rather, it draws out the minimum requirements within the ISAs which would usually apply to a less complex entity. This may be helpful as non-authoritative implementation guidance but it does not actually change anything in terms of performing an LCE audit. As it does not change the work effort, nor the work which is, in practice, required under current ISAs, nor the level of assurance provided, it is not clear what the benefit of this is as a standalone standard.

In addition, there is a risk that the proposed LCE standard will increase the expectation gap. Users may not understand how ISA for LCE differs from the full suite of ISAs and may perceive that ISA for LCE provides them with a 'lesser' level of assurance than ISAs, even though under its current format, it does not. There is another expectation gap that may increase. In the absence of clarity about how an audit performed under ISA for LCE would be different than an audit performed under the full suite of ISAs, practitioners may perceive that the significantly shorter ISA for LCE is a 'lesser' standard than ISAs, even though it is not. This may lead to less work effort and less documentation, resulting in deficient audits under the proposed LCE standard because the ISA for LCE requirements are the same as the ISA requirements.

In conclusion, we believe that a single global LCE standard with reduced performance and documentation requirements (and potentially a lesser level of assurance if reductions in work effort are significant) would be preferable to moving forward with the currently proposed LCE standard. We fear that a number of BDO firms perceive no benefit in pursuing this LCE standard in its current form, and that they will support initiatives by local standard setters to develop local standards for LCE audits, notwithstanding that at a network level, we advocate a global solution.

Grant Thornton International Limited

What is Different About an Audit Performed Under ED-ISA for LCE

Many of the requirements in the Proposed Standard are exact replicas of the underlying requirements in the ISAs; some requirements in the underlying ISAs have been combined to form one requirement in the Proposed Standard; and others have only been slightly modified from the original requirement to become a new requirement in the Proposed Standard. Outside of ISAs that do not apply in their entirety, there are very few requirements in the ISAs that have not become or formed part of a requirement in ED-ISA for LCE.

Whilst this leaves little doubt that if the requirements in ED-ISA for LCE are appropriately complied with, it is capable of providing a reasonable assurance opinion similar to an audit performed under the ISAs, it does beg the question as to whether the auditor will do anything different under ED-ISA for LCE versus full ISAs and therefore whether a separate standard is required.

KPMG IFRG Limited

Lack of Clarity as to Difference to Full-Scope ISAs at a Requirements Level

The content of the LCE ISA is closely aligned with the requirements of the full-scope ISAs and a detailed review of the mapping analysis appears to indicate that an audit performed in accordance with the LCE ISA should achieve a very similar outcome to that of using the full-scope ISAs scaled as relevant to an entity that is an LCE as described in the ED, from the perspective of relevant requirements.

This makes it challenging to understand, at a conceptual level, the overall purpose/nature of the standard and how an audit performed in accordance with this standard actually differs to an audit performed in accordance with the full-scope ISAs. As a result, it is difficult to respond meaningfully to certain questions of the IAASB, in particular, with respect to the authority of the standard; its positioning on a standalone basis; the requirement to specifically identify, in the auditor's report, that the audit has been performed in accordance with the LCE ISA, as well as the approach taken to prohibit "topping up" and to require a transition to the full-scope ISAs in certain circumstances.

Lack of Clarity as to Nature of an Engagement Performed in Accordance with the Standard

We are concerned that there is potential for confusion for users of auditor's reports/ other stakeholders, as to the nature of an audit engagement conducted in accordance with this standard and how this compares to/differs from an audit performed in accordance with the full-scope ISAs. We note the current "expectation gap" regarding public perception as to what an audit is and is not, and we are concerned that issuance of this LCE ISA could add to confusion and misunderstanding in the marketplace and potentially widen this gap.

This is a concern because, as we highlight above, we believe that the key difference between the LCE ISA and the full-scope ISAs resides in the lack of application material and the "flexibility" to exercise a greater degree of professional judgement in determining how to execute requirements that may result from this for auditors. However, the IAASB does not articulate this and since, at an objectives and requirements level, the relevant requirements are expected to be nearly the same as applying the full-scope ISAs, appropriately scaled, we believe that, without clarification from the IAASB as to where the difference lies, this could cause confusion in both the marketplace and for the profession. We understand that there has been discussion

among various stakeholders who may have an initial perception that this is a different level of assurance to an “ISA audit”, being somewhere between such an audit and a review.

We are also concerned that, in being described as an audit, but with a perceived lesser work-effort than an audit performed in accordance with the full-scope ISAs, this may serve to undermine other services performed in accordance with the IAASB’s standards, in particular, full-scope ISA audits. Therefore, issuance of this standard, without clearer articulation by the IAASB of the differences between this standard and the full-scope ISAs, could have significant implications for the audit profession as a whole, including for networks/firms which may be reluctant to use this standard without this clarification.

Mazars

Within Mazars, we have organized a walkthrough with a sample of experienced Mazars practitioners of some countries around the world (based in Brazil, Canada, South Africa, the Netherlands, the UK, and France).

This “blind test” has been done without giving them too many details and directions.

Their feedback as follows are quite consistent with one another:

they find the standard too long for a very simple entity. It is also long compared to some existing shorter national standards. For them, it is also long when compared to the “smart” application of the current standards that already enables them to use the “full” current ISA according to their knowledge, experience and professional judgment in a proportionate manner, especially when taking into account the CUSP project that will impact the “full” current ISA.

they do not believe that the extent of audit procedures is reduced. The LCE standard is not significantly different from the ISA, therefore, it was not clear to them how the LCE standard will impact audits of less complex entities, or why they would not be able to apply the ISA to those audits.

PriceWaterhouseCoopers

We also believe the decision taken by the IAASB that it was necessary to base the proposed standard on the objectives and requirements of the ISAs has constrained the Board’s ability to think more radically, resulting in a product that many stakeholders may feel is too similar, in terms of work effort, to an audit performed in accordance with ISAs. The acknowledgement in the Explanatory Memorandum that “it is not envisioned that ED-ISA for LCE will necessarily reduce the core procedures the auditor is required to perform” is likely to disappoint many. Consequently, the expectations of stakeholders at the smaller and less complex end of the market who were seeking a proposal that resulted in greater efficiency, and a reduction in required work effort and documentation, are unlikely to be met.

As described in our response to question 1, we believe there are several potential unintended consequences arising from the interaction between the proposed Authority and decision of the Board to develop the standard based on the ISA requirements. As the Authority has been defined broadly and in subjective terms, there is significant uncertainty as to the potential population of entities to which the standard may be applied. This has led to an outcome where the vast majority of ISA requirements have been maintained, reflecting differences of view as to the range of possible circumstances that may need to be addressed in an audit conducted in accordance with the standard, as a safeguard to audit quality. By incorporating the majority of ISA requirements without any substantive simplification, the standard will not lead to any significant efficiencies in LCE audits. Consequently, expectations from stakeholders are unlikely to be met.

We support the intent behind the proposed simplification of requirements to enhance understandability and focus on the “right” work effort. However, we think the Board needs to go further to create a standard that is targeted and appropriate for a clearly defined and narrower population, truly stands alone, and is not subject to direct reconciliation with the related ISA requirements. As we describe in our response to question 1, the ambiguity introduced by replicating the ISA requirements but combining some requirements and modifying the wording of others to simplify them will lead to auditors, and potentially regulators, second guessing the expected work effort.

We agree that the overall objectives of the ISAs provide a useful starting point as to the desired outcomes to be achieved and some principles-based requirements will undoubtedly remain similar. However, by instead using the ISAs as helpful “reference material” to guide its thinking, we believe the Board can make informed decisions about what to require in the standard without being constrained from re-writing requirements more broadly.

Similar to the IAASB, in our outreach we often hear that the biggest concerns for auditors of smaller and less complex entities relate to the work effort associated with risk assessment procedures and audit of accounting estimates. In line with our vision to achieve greater distinction between the ISAs and proposed LCE standard, and also further simplification, we have suggested possible revisions in these two areas to illustrate how such an approach could be applied, which could be replicated across the remaining Parts of the proposed standard. We have also explored an alternative structuring of the proposed documentation requirements to further enhance clarity and understanding of what needs to be documented. Appendix 2 presents the outcome of this exercise. In appendix 3, we provide some additional narrative comments with respect to the other Parts of the proposed standard.

The Board and its stakeholders may ultimately conclude that a further refined work effort continues to constitute reasonable assurance for an entity of that size and complexity. Or, consensus may be reached that the appropriate level of work effort is not considered sufficient to obtain reasonable assurance, but is nevertheless a desirable assurance product for that segment of the market. In our view, both outcomes are acceptable if the needs of users and the market are addressed. In that regard, ensuring a clear understanding and articulation of the specific segment of the audit market that this standard is seeking to address and a clear expectation that the end product satisfies the needs of that segment will be a critical success factor.

RSM International

Yes, we agree with the approach to incorporating the ISA requirements into ED-ISA for LCE. However, the current draft contains requirements that, in our view, are not necessary for performing a quality audit on an LCE. Examples of this include the requirements in ISA 315 to document the Control Environment, the Entity's Risk Assessment Process and Monitoring of Controls, all of which are very often informal in LCEs. We therefore suggest that the IAASB reviews whether all of the requirements in ED-ISA for LCE are truly necessary and considers whether some of them could be removed without compromising audit quality.

6. Public Sector Organizations

Swedish National Audit Office

We agree with your approach using the objective from each ISA. A general reflection is that the requirements in the LCE are basically the same as in the ISAs. We do not see the real difference between the LCE and how we apply the existing ISAs when auditing a small entity with few employees and a limited budget. The only difference we can note is that we can do mandatory substantive procedures for material accounts (no risk) by either doing test of detail or substantive analytical procedures.

7. Professional Accountancy and Other Professional Organizations

Chamber of Auditors of the Czech Republic

In general, we agree with taking the ISAs as a starting point and having a risk-based audit approach with principles-based requirements for LCE.

We acknowledge also that the ED is simpler, shorter hence more accessible than the full set of ISAs. We believe that the way how the requirements are presented (reflecting on the flow of the audit from engagement acceptance and planning through risks identification to concluding and reporting) is more practical for auditors and could lead to higher quality of audits as it could be easily incorporated to the practitioners' audit methodology guides. We believe that the standard has not explored all possibilities to simplify the audit requirements especially regarding the documentation and audit procedures related to the entity's internal control system.

Institute of Chartered Accountants in England and Wales

Other than the lack of conditionality or a modular approach, we are broadly content with the key principles used in developing the ISA. However, we do not think that they have been applied properly. The proposals as they stand look to be modified ISA minus approach, rather than a genuinely risk or principles-based approach. More can and must be done in terms of modifications, as well as deletions, to address the specific risks of LCE audits. We make suggestions for modifications and deletions in Appendix 1, below.

Institute of Chartered Accountants of Namibia

At this point, we do not see a significant difference between the requirements of the draft standard vs full ISAs. Most of the reduction in the size of the draft standard appears to be relating purely to more concise wording, limitation of duplications, etc. rather than an actual reduction in audit complexity and requirements.

The standard is simplified by removing paragraphs or requirements that are not expected to be present in less complex entities. We do not believe that this changes anything significantly because where a paragraph or requirement in full ISA's is not applicable, the auditor would not apply them. The fact that they are excluded from the draft standard is therefore irrelevant.

In fact, the exclusion of these requirements or paragraphs may cause a challenge in instances where the need to top up does not indicate that the use of the draft standard is inappropriate.

LCEs in Namibia are significantly smaller than LCEs that this standard appears to be aimed at. The following are examples of LCEs in Namibia which make up a significant portion of audits that require a simplified audit standard:

Dormant companies.

Property companies with only one tenant and 12 rental payments, and some expenses.

Holding companies with only management/ administrative fees and some expenses.

Professional services that are required to be audited in Namibia (engineers, architects, doctors).

Investment companies (One investment portfolio managed by an unrelated company) The statement from the underlying investment portfolio would confirm everything.

Owner-managed businesses where one spouse operates the business and the other spouse performs the accounting function. This happens often in Namibia for farmers.

Owner-managed businesses with little to no segregation of duties, internal controls, or external users.

Instances where reasonable assurance could be obtained through substantive tests of detail alone.

Situations where audit risk may be limited to completeness only.

At the moment, we believe that the draft standard does not provide significant relief.

Korean Institute of Certified Public Accountants

We agree with the IAASB's approach to how the ISA requirements have been used as the basis for the proposed ISA for LCE requirements. However, we do see a need to further refine some requirements to make them more suitable for 'the nature and circumstances of Less Complex Entities' (see the answer to Question 9)

8. Academics

Brunel University London

We largely agree with ED-ISA for LCE as a whole. It has been put together from full ISAs and appears a reengineered version; not necessarily following proportionality and 'Think Small First' approach. Hence, there is room for further work, revisions and improvements to achieve the desirable approach.

However, this said, we believe this standard is a very good first step and the benefits of it being issued sooner rather than later, outweighs any need for improvement at this stage.

9. Individuals and Others

ASK KSA Consulting Inc.

We agree with the approach to start with the ISA requirements in the proposed standard. However, we believe that in the end, nothing has really changed within the proposed standard. The objective of addressing the challenges faced by auditors in auditing less complex entities have not been addressed.

We fully support with the objective of obtaining reasonable assurance to support the auditor's opinion on the evidence obtained. However, reasonable assurance can be obtained without performing certain procedures that remain in the ED-ISA for LCE.

Section 4C – Key Principles Used in Developing ED-ISA for LCE\Question 7 - Views on the key principles used in developing ED-ISA for LCE\Question 7(a) - The approach to how the ISA requirements have been incorporated in the proposed standard\2) Agree with Comments\2b) Further Differentiate from ISAs\Other Target Areas

5. Accounting Firms

BDO International

We acknowledge that our suggestion above to reduce the work effort and documentation for LCE audits has a different objective than that set by the IAASB for this project, which was to still provide a reasonable assurance opinion. If the IAASB does not plan to revise the objective of this project to consider less work effort, less documentation and perhaps a lower level of assurance for LCE audits, then we suggest that changes would need to be made to the following areas of the proposed LCE standard to make the standard capable of broad usage:

Scoping out the portions of the Estimates ISA addressing high estimation uncertainty – as explained in detail below, it is not practical to exclude entities from the entire LCE standard simply because they have an estimate with high estimation uncertainty. Particularly if such an estimate arises during the audit, thereby requiring the need to transition to the full suite of ISAs partway through the audit, we fear that such a situation would lead to inappropriate justifications to stay within the LCE standard. Hence we believe that it is necessary to include the audit response to high estimation uncertainty in the proposed LCE standard;

PriceWaterhouseCoopers

Appendix 3 - Detailed Comments
Draft Standard

The section below sets out our other observations and editorial comments by paragraph within the ED. These comments are intended to be read in addition to our overarching comments in our cover letter and appendices 1 & 2 regarding the need for more extensive revisions to the requirements of the standard to better distinguish the ISA for LCE from the ISAs.

Preface

Paragraphs P.1 and P.6 - These paragraphs do not reference the current proposed limitation of applying the standard only to general purpose financial statements. If the 800 series is not incorporated, this limitation should explicitly be addressed.

Authority

Paragraph A.11(a) - There is a theoretical risk that by allowing the specific prohibitions to be modified through the introduction of quantitative thresholds under which entities in that category may be audited using the standard the end result is a de facto "removal" of that category. As described in our response to questions 3(e), we recommend the prohibitions in paragraph A7(c) all be outright prohibitions and an overarching set of quantitative thresholds adopted for all other entities (see response to question 3(a)). In addition to our comments in response to question 4(b), the following additional characteristics are suggested:

Management does not engage experts nor does the auditor anticipate the need to engage an auditor's specialist or expert.

The entity meets the criteria set out in law or regulation for applying a small entity financial reporting framework.

Part 1 - Fundamental Concepts, General Principles and Overarching Requirements

Paragraph 1.2.1 - Given the importance of ethical and independence requirements in an audit, we recommended that EEM be included that addresses the fundamental concepts and principles addressed in paragraphs A17 & A18 of ISA 200. We suggest the EEM also addresses that "relevant" in this context encompasses the fact that there are differential ethical requirements for different classes of entities subject to financial statement audit.

Section 1.5 - Introductory EEM - We recommend elevating paragraph 3 to become paragraph 1 to enhance the flow of this material.

Paragraph 1.6.2 - We suggest this would be better positioned as EEM.

Paragraphs 1.8.1-1.8.7 - To further enhance the perceived scalability of the standard, we recommend carving out all references to those charged with governance in section 1.8 and creating a new conditional section 1.9 that includes separate requirements under an overarching requirement (1.9.1) that indicates the section applies when those charged with governance are separate from management. This would provide separate streamlined requirements addressing required communications with management and those charged with governance.

Paragraph 1.8.4 - We suggest this would be better positioned as EEM to the proposed conditional requirement 1.9.1 described above.

Paragraph 1.8.5 - We recommend incorporating this requirement into requirement 2.3.4(a) as the purpose and importance of the requirement is to appropriately respond to inconsistencies in audit evidence rather than being a communication requirement.

Part 3 - Engagement Quality Management

Paragraph 3.2.2 - We recommend bifurcating the requirement. The engagement partner's responsibility for clear, consistent and effective actions being taken that reflect the firm's commitment to quality should reflect an overarching principle requirement. The remainder of the requirement could be addressed in a conditional requirement that resides under a sub-heading of "Responsibilities when there are members of the engagement team other than the engagement partner". This concept, consistent with the requirements in ISA 600 (Revised) when component auditors are involved, can also be applied to other requirements that only apply when there are other members of the engagement team (for example, paragraphs 3.2.5 and 3.2.11). This would further help segregate and highlight requirements that are not applicable in specific circumstances.

Paragraph 3.2.7 - we suggest the sub-heading be amended to "Engagement Resources". The sub-heading "Other Engagement Partner Responsibilities" can be relocated to above paragraph 3.2.10.

Part 4 - Acceptance or Continuance of an Audit Engagement and Initial Audit Engagements

Section 4.3 - We consider that there are certain fundamental principles addressed in the application material of ISA 210 that should be reflected in EEM. These include the matters addressed in paragraphs: A11 (parts not addressed under P.6) and A14.

Section 4.5 - We recommend the first paragraph of the EEM be relocated to sit under section 4.4 as it pertains to acceptance and continuance rather than the terms of engagement.

Paragraph 4.8.2 - It is unclear whether the expectation is that the auditor is to document the rationale and significant judgements made in making the determination that use of the ISA for LCE was appropriate as opposed to simply documenting the decision itself. We recommend the intent be clarified and supported by EEM.

Part 5 - Planning

Paragraphs 5.2.6 and 5.2.7 - These requirements relate to the identification and assessment of risks of material misstatement. They would therefore be better placed in Part 6.2/6.3.

Paragraph 5.2.8 - We believe EEM is necessary to support this requirement. There is extensive application material in ISA 500 and it seems inconsistent to conclude that no EEM is necessary. We suggest that, as a minimum, the matters

addressed in the following ISA 500 paragraphs should be addressed in EEM: A47-A50, A52, A54 and A59.

Paragraph 5.2.12 - This requirement relates to understanding the entity as part of risk assessment procedures and would therefore be better located in Part 6.2/6.3.

Section 5.3 - We question the sufficiency of EEM in this section to both describe the concept of materiality and to support the relevant requirements. For example, we believe paragraphs 2, 4, and the remainder of paragraph 6 of ISA 320 not included in the draft standard, provide necessary context for understanding and determining materiality. We also suggest that elements of ISA 320.A11 and further content from ISA 320.A13 would be useful additions. Further examples of typical benchmarks would also be useful, as is the guidance in ISA 320.A8.

Paragraph 5.5.3 - Related to paragraph 5.2.6 & 7 above, we believe this requirement relates to risk assessment and should be located in section 6.8.

Part 6 - Risk Identification and Assessment

Please see appendix 2. In addition we note the following comments:

Paragraph 6.2.1 - The second paragraph of the EEM hanging off paragraph 6.2.1 refers to "... compliance with the procedures in this Part". The standard sets out requirements not procedures. The auditor designs and performs audit procedures to meet the requirements.

Paragraph 6.2.3 - The accompanying EEM does not provide additional guidance on the potential heightened risks of material misstatement relating to related parties that may arise due to the ownership structure of a LCE. Additional EEM describing specific types of related parties that are more prevalent in the LCE sector - for example, close family members or trading entities under common control would be useful. This could also be incorporated as EEM to paragraph 1.7.1.

Paragraph 6.3.1 - We believe there is insufficient EEM to support elements of this requirement. Specifically, we suggest EEM is required to address the matters in ISA 315 (Revised 2019) paragraphs A68-A70 and A73, to support an understanding of what is meant by "industry and other external factors".

Paragraph 6.3.5 - Inherent Risk Factors is a new concept introduced by ISA 315 (Revised 2019). We believe there is a lack of EEM to explain this concept and how it is applied. The IAASB determined that extensive application material and an accompanying appendix were necessary to explain this concept, together with the interrelationship with the defined terms of Relevant Assertion, and Significant Classes of Transactions, Account Balances and Disclosures, in ISA 315 (Revised 2019). Absent further EEM, we do not believe this can be effectively and consistently implemented by auditors using the ISA for LCE and have recommended a simplification, as illustrated in appendix 2.

Paragraph 6.3.6(d) - We suggest some brief EEM is needed to explain what is meant by "how owner-managers influence the risks arising from management override of controls...". It is unclear what "influence" in this regard means.

Paragraph 6.3.9 - Related to paragraph 6.3.5, we believe EEM is necessary to support the concept of Significant Classes of Transactions, Account Balances and Disclosures. In particular, recognising the importance of revisions arising from the IAASB's previous Disclosures project, we suggest that the emphasis given in ISA 315 (Revised 2019) paragraph A204 on significant disclosures is important.

Paragraph 6.3.12(d) - We believe the nature of this paragraph is different from ISA 540.14, which requires the auditor to review the outcome of previous accounting estimates. While we acknowledge that the nature of accounting estimates that will fall within the scope of the standard should be simpler, it is also true that the likely less formal processes of management and lower materiality levels mean that the risk of material misstatement arising from such informal processes still exists. We recommend ISA 540.14 be retained. At a minimum, the final sentence of ISA 540.14 is important EEM.

Paragraph 6.5.9 - This requirement and related evaluation determines whether the auditor has obtained sufficient evidence to provide a basis for identifying and assessing risks. It therefore logically should follow the risk assessment procedures and precede the identification and assessment requirements. We recommend relocation to precede 6.4.1.

Part 7 - Responding to Assessed Risks of Material Misstatement

Paragraph 7.1.1(d) - While we recognise this represents part of the objective of ISA 250 (Revised) we question the omission of the more important element of the ISA 250 (Revised) objective, being to obtain sufficient appropriate audit evidence regarding compliance with laws and regulations that have a direct effect on the financial statements.

Paragraph 7.3.3 - We suggest paragraphs A63 and A66 of ISA 500 represent important contextual guidance that should be incorporated as EEM.

Paragraphs 7.3.4 and 7.3.5 - Given they have entire ISAs dedicated to them, we question whether the omission of almost all application material from these ISAs can support consistent interpretation and application of the requirements.

Paragraph 7.3.16 - In revising ISA 315 in 2019, there was clear evidence that paragraph 18 of ISA 330 is not well understood. We believe some supporting EEM is needed to address this confusion. At a minimum, we suggest paragraphs A42 and A42a of ISA 300, as amended by the conforming and consequential amendment arising from ISA 315 (Revised 2019), be included.

Paragraph 7.4.7 - The requirement to identify and treat management override as a significant risk is already captured in paragraph 6.5.7. Paragraph 7.4.7 is not drafted as a requirement but presented as a statement, which is effectively equivalent to EEM. Due to the inclusion of paragraph 6.5.7 we suggest this statement can be deleted. If not deleted, it should be converted to EEM.

Paragraphs 7.4.8 - As acknowledged in paragraph 6.3.6(d), the risk of management override of controls is perhaps greater in a LCE due to the less formal control environment. It would be useful to acknowledge this in EEM and how the auditor's response may need to be tailored.

Paragraph 7.4.17 - We suggest EEM is necessary to support an understanding of relevant considerations for the auditor in relation to the concepts of estimation uncertainty and selection of a point estimate.

Consideration should be given to including elements of paragraphs A110-A113 of ISA 540 (Revised).

Paragraph 7.4.18(a) - If our changes described in appendix 2 are not supported, we believe this requirement is missing a core part of the obligation for the auditor - to evaluate whether the audit evidence is sufficient and appropriate. We recommend amending the requirement to state: "Obtaining audit evidence from events occurring up to the date of the auditor's report. In doing so, the auditor shall evaluate whether the audit evidence is sufficient and appropriate, taking into account any changes....".

Paragraph 7.4.18(b) - We suggest that a minimum level of EEM necessary to support consistent and effective application of this requirement would include paragraphs A102, A106 and then A95 and A96 of ISA 540 (Revised). These paragraphs address concepts most likely to be relevant to accounting estimates of an LCE.

Paragraph 7.4.26(b) - We believe there is a risk of confusion about whether or not the standard addresses reliance on controls at a service organisation. The explanatory memorandum describes that Type 1 and Type 2 reports are not addressed as it is expected that evidence can be obtained directly by the auditor of the entity. However, the standard makes several references to controls at a service organisation, and it may be relatively common for an LCE to use a larger payroll provider who provides such service auditor reports to its customers. We believe additional requirements and EEM are likely necessary to guide auditors on the expected work effort in such circumstances.

Paragraph 7.5.3 - Given the heightened focus on fraud, we believe it would be appropriate to include ISA 240 paragraph A52 as EEM.

Paragraph 7.6.2 - The "context of the communication" referred to in the requirement can only be understood if EEM is provided that addresses the matters described in the remainder of ISA 265 paragraph 11(b) not incorporated in the draft i.e., parts (i) - (iii) of the requirement.

Part 8 - Concluding

Paragraph 8.4.5 - We question the omission of paragraphs 12 and 13 of ISA 560. These paragraphs direct the appropriate response of the auditor in different circumstances.

Paragraph 8.4.6 - Similar to the preceding point, we believe the omission of paragraphs 15-17 if ISA 560 is problematic for the same reason.

Paragraph 8.6.6(c) - If the "required written representations" referred to in this paragraph are those described in paragraph 8.6.1, we question whether this requirement is too onerous. ISA 560 only requires the auditor to disclaim when management refuses to provide three critical representations.

Paragraph 8.8.1 - This should be located in Part 7 as it corresponds to the requirements described in section 7.5.

Paragraph 8.8.3 - This could be incorporated into the list in paragraph 8.8.2.

Part 9 - Reporting

Paragraph 9.4.1 - When the audit report's layout or wording is prescribed by law or regulation, paragraph 9.4.1(a) permits the auditor to refer to the draft LCE standard only when "all significant elements of the specified format and content are included". We recommend including some brief EEM to explain that the meaning of the term "all significant elements" is described in the reporting supplement.

Paragraph 9.4.1 - The auditor's report set out in Part 9.4 includes the section "Responsibilities of management for the financial statements". This paragraph, and the related footnotes, make no reference to those charged with governance. However, the first line after the bulleted list of Auditor's Responsibilities makes reference to communicating with those charged with governance. We suggest the pro-forma audit report include optional text for when those charged with governance are separate from management, to explain their respective responsibilities.

Table C - We recommend that some brief EEM be added to acknowledge that when multiple options may be applicable in the circumstances, the appropriate opinion to be expressed is a matter of professional judgement based on the nature and circumstances of the matter. It would be useful to cross-reference the supplemental guidance on reporting, which provides necessary supporting guidance. Otherwise, we believe the content of the supplement needs to be incorporated as necessary EEM to enable the auditor to comply with the requirements.

Paragraph 9.5.2 - This paragraph logically follows on from paragraph 9.4.3 and we recommend it be relocated so that these paragraphs are read consecutively.

Section 9.8 and Table E - There is no reference within this section or Table E that states where the Other Information section should be included within the auditor's report. We recommend the illustrative pro forma audit report in part 9.4 include an Other Information section.

Other - We believe paragraphs 24 and 27 of ISA 705 (Revised) addressing the need to include reasons in the basis for modification paragraph when the auditor expresses a modified opinion based on a limitation of scope or otherwise expresses an adverse or disclaimer of opinion need to be included as explicit requirements. The reporting supplement (see comment below) indicates this is optional which would be a fundamental change that we do not support.

In appendix 2 to this letter, we have set out illustrative recommendations for how we believe the proposals could be further refined to achieve this goal for what we understand to be the most common critical "pain points" cited by auditors of smaller and less complex entities: risk assessment and accounting estimates. We have also explored an alternative structuring of the proposed documentation requirements to further enhance clarity and understanding of what needs to be documented.

Similar to the IAASB, in our outreach we often hear that the biggest concerns for auditors of smaller and less complex entities relate to the work effort associated with risk assessment procedures and audit of accounting estimates.

7. Professional Accountancy and Other Professional Organizations

Institute of Chartered Accountants in England and Wales

PART 3: ENGAGEMENT QUALITY MANAGEMENT

The slight difference between the objective in 3.1.1 and the objective in ISA 220.11 is a good example of a situation in which more might be read into the change than is intended, and a change which might ultimately be retrofitted to ISA 220. It would be helpful if a record could be made available specifically highlighting changes that are not intended to make any difference to the work performed.

3.2.1 to 3.2.13 still seem repetitive and labour the point in places. The EEM to 3.2.1 is good but seems to be repeated in requirements that follow. Is the explanatory material in 3.2.1 also covered in 3.2.3 and 3.2.4?

3.2.2 is particularly verbose and some attempt might be made to slim it down while retaining the key points about collective responsibility, culture, behaviours, good communication and scepticism. For example, in 3.2.2, subsections (a) and (c), and subsections (b) and (d), could be merged. 3.2.1 could be strengthened to enable 3.2.3 to be further pruned. The key point of 3.2.3 is that even if tasks are assigned, the engagement partner still has overall responsibility.

3.2.6 is wordier and less helpful than ISA 220.18

3.2.11 is well worded.

Condensed requirement for EQR in 3.2.14 is nicely drafted – a model for other sections.

Flow:

The responsibility to determine sufficient and appropriate resources assigned does not appear until 3.2.7 under 'Other Engagement Partner Responsibilities', when the resources are the foundation for a high-quality audit.

The timing of the review of documentation, responsibility for resolving differences of opinion and consultations (3.2.11-13) are also rather lost at the end of the section and might be better follow on from 3.2.3 - 3.2.4.

Overall, the structure of this section does not have to be so closely tied to the structure of ISA 220. Suggest starting with content explaining the principles, then actions to meet those principles.

9. Individuals and Others

Cristian Munarriz

I generally agree with the approach.

I think that the proposed ISA for LCE falls short in simplification and reduced requirements compared to ISAs. I support the concept that the ISA for LCE should allow to obtain reasonable assurance (otherwise, if less than reasonable assurance is to be provided, then performing engagements under ISRE 2400 or ISRS 4410 may be useful). In other words, if reasonable assurance is not obtained, it would not be an audit.

Calling “audit” something that provides less than reasonable assurance may wide the expectation gap even more. That being said, I think the IAASB should consider reducing or simplifying requirements related to things that, in my opinion, do not affect the level of assurance provided, like:

Independence requirements: I understand independence requirements do not affect the level of assurance provided (in fact, public interest entities have substantially different independence requirements) but are related to providing stakeholders with a stronger appearance of objectivity of auditors. In other words, it does not affect the work being done but gives a stronger sense of objectivity of the work being done. Some independence requirements are really difficult to address for smaller audits, especially for very small firms and sole proprietorships where application of safeguards to address self-review threats for some non-assurance services is difficult because of the lack of sufficient personnel in the audit firm. Therefore, I think that simplified independence requirements for audits performed under ISA for LCE would not be contrary to public interest (as by definition “LCE” have little public interest) and would provide significant relief for these engagements. Also, I understand that it worked well in the UK (where such provisions exist).

I am aware that independence is out of the scope of IAASB work, but it is under IESBA authority. Nonetheless, I think it should be useful to refer to the IESBA consideration the feasibility of introducing some specific independence provisions for audits performed under the ISA for LCE similar to the provisions available for audits of small entities in the UK. Application of the provisions may be informed in the audit report (like in the UK) or may require approval of TCWG, or even be prohibited if there is any stakeholder objecting to them in a specific engagement.

Quality management requirements: I understand quality management is not related to the level of assurance provided on the financial statements but providing a greater assurance that the audit work has been performed under the applicable standards (in other words, it is assurance on the audit work, not assurance on the financial statements), so amending the QM requirements will not mean that less than reasonable assurance is provided. I am not proposing amending ISQM standards, but maybe some requirements in the quality management provisions in the ISA for LCE may be simplified. In particular, ISA for LCE may determine that appointment of engagement quality reviewer (EQR) is not required for audits performed under the standard, unless required by law and regulations.

I think such relief would avoid having to assess if an EQR is necessary for audits performed under ISA for LCE. I think it is unlikely that EQR will be relevant for most, if not all, audits qualifying for application of ISA for LCE (I think is unlikely many accounting firms concluding that an engagement needs appointing an EQR will also conclude that the same engagement can be performed under the ISA for LCE). Maybe in order to form a conclusion about the proposal, the IAASB may consider useful to consult accounting firms how many of the audits that would qualify for application of ISA for LCE are currently appointing EQR, if not required by laws and regulations. In my experience, it is highly unlikely.

Of course, nothing would preclude audit firms to appoint an EQR for an audit of ISA for LCE, if they want to.

Documentation requirements: I understand documentation requirements are not related to the level of assurance provided but to document work performed for quality management purposes (so another auditor is able to review the work performed) and to form a basis for subsequent engagements. Therefore I understand that reducing/simplifying documentation requirements should not affect level of assurance as long as the audit work remains the same. Some of the documentation requirements in ISA for LCE that I think the IAASB should consider removing or changing are as follows (either because I think they are not relevant for LCE or because there is some redundancy in requirements):

2.5.1.(a) (iii): I think it would be useful to change the requirement to document who reviewed the audit work performed and the date of such review, but excluding extent of review. In practice, in most less complex audits the review includes most aspects of the work performed, therefore clarifying the extent of review seems excessive.

5.5.2. (a): I think describing nature, timing and extent of planned risk identification and assessment procedures should not be required because in most LCE audits, due to the short time frame of most less complex audits, some of the risk assessment procedures are performed simultaneously with some substantive procedures that are always performed (like reading minutes of meetings and correspondence with authorities) in a single visit (sometimes some of these risk assessment procedures may be performed jointly with the acceptance and continuance procedures). Therefore, this requirement would mean that the auditor would be required to document planning of procedures that were already performed. In some cases, this requirement may be complied with a checklist/template of enquiries and documentation to be reviewed as part of the firm methodology, but for many small audits it may be more efficient to have an “open” meeting without previously determined list of questions.

6.8.1. (b): I think auditor should be permitted to disclose only the list of related parties for which the entities have balances and transactions with, and the changes from prior period (not related parties that do not have transactions with the entity). For this purpose, the auditor may be permitted to refer to the disclosures in financial statements, if applicable, with supplemental comment if there is a related party omitted in the financial statements.

6.8.1. (f): I think this requirement should be amended. First, controls should be excluded unless falling under 6.8.1.(e), because most estimates in LCE should be expected to be relatively simple low risk estimates. Second, the linkage of RMM to further procedures is already required by 7.7.1 (b), so there is a risk of duplication.

6.8.2: I think this requirement should be removed as it is redundant and contradictory with the requirement in paragraph

4.8.3. Under 4.8.3 the auditor is only required to document changes in the determination of the use of the standard (a conditional statement) but 6.8.2 requires a explicit evaluation about whether the standard remains to be appropriate. I think that, for the sake of simplicity, the requirement in 4.8.3 should remain while the 6.8.2 is removed.

7.7.1.(e): I think it would be better to move the requirement to paragraph 5.5.4 (where materiality is mentioned).

8.9.1 (a): I think this requirement should be amended. The first part (clearly trivial) is already included in 7.7.1 (e) and I proposed moving to 5.5.4. The second part (accumulated misstatements) is already partially included in 7.7.1. (e) but adding conclusion about if the uncorrected misstatements are material and the basis for that conclusion. I think the second part (including conclusion and basis for conclusion) should be included in either 7.7.1.(e) or 8.9.1. (a), but not both (especially if a different text is used). I prefer location in 8.9.1. (a), as it is more related to conclusion. The reasons for not correcting misstatements should also be documented (refer to paragraph 8.2.1.)

Communication requirements: I understand that not all communication requirements are relevant for risk assessment and therefore for level of assurance. I think some communications are only relevant to this objective of ISA 260 which is unrelated to level of assurance provided: providing TCWG with timely observations arising from the audit that are significant and relevant to their responsibility to oversee the financial reporting process. I am aware that my point of view may be controversial in some cases, but I think that some of these communication requirements makes little sense in some cases of weak TCWG oversight.

Some of the communications requirements that I think should be removed or changed are:

1.8.8.: this requirement should not be applicable if all TCWG members are also part of management (very common in LCE), even if only some members of TCWG or management are not suspected to be involved in the fraud, or if TCWG is considered to be not independent of management. For example, even if TCWG is not part of management they may be family members or legal advisors of the entity. In those cases, informing TCWG of nature, timing and extent of audit procedures to address the suspected fraud may alert management, reducing effectiveness of audit procedures.

5.4.1.: I think this requirement should be removed. It is different to ISA 260 requirement because ISA 260 only requires communicating to TCWG (not management). Communicating to management may reduce the effectiveness of the audit procedures especially in smaller audits because audit procedures will be more predictable, especially in very small audits. On the other hand, communicating to TCWG will not be relevant for obtaining reasonable assurance, may add costs in smaller audits (designing communication of audit planning for very small audits may add an excessive number of hours in audits expected to be completed in 100 hours or less) and may be ineffective if TCWG is not actively involved in the audit (very common in some jurisdictions for smaller private companies). For example, in many entities TCWG is formed by family members of management with little business knowledge or legal advisors who are not interested in the audit process or sometimes even in the financial reporting process. Removing this requirement may allow to accommodate to many circumstances where this requirement is not effective, while still allowing auditors to communicate if relevant to the specific case (for example, where there is an actively involved TCWG or jurisdictions where this communication is expected). It may be incorporated as a requirement in specific jurisdiction, if relevant.

6.7.1: I think this requirement should be removed for similar reasons as 5.4.1.

7.6.1.a): I think communication of significant deficiencies in internal control to TCWG should be permitted to be oral. In LCE some members of TCWG may have little background of accounting and internal control and may be challenging to design an appropriate communication in writing without supplementing with oral

explanations. I think it would be better to provide oral explanations in a meeting showing the audit documentation about significant deficiencies in internal control and having a candid discussion. Nonetheless, as mentioned before, many members of TCWG are family members or legal advisors with little interest in the audit process or with little interest in these matters (in practice, in many cases they forward the written communication to management without even reading it). Therefore, it should be permitted to omit communications of significant deficiencies in internal control to TCWG if agreed in writing by TCWG (e.g. in the engagement letter, if signed by TCWG), unless prohibited by laws and regulations (only communicated to management, unless it is inappropriate to communicate them directly to management in the circumstances, just like matters calling into question the integrity or competence of management). Nonetheless, reluctance of TCWG to be informed about significant deficiencies in internal control may be considered by the auditor as a red flag indicating lack of oversight over internal control.

7.6.1.b): as mentioned above, communication should be permitted to be oral instead of in writing (in practice, the communication may be made oral in a same meeting including both management and TCWG which may be more practical and effective). The term “matters that have been communicated” is not clear: I do not understand if it refers to significant deficiencies in internal control or also to other matters (I think it should be related to significant deficiencies in internal control only).

7.6.2: if communication in writing is either required or permitted (I recommend permitted instead of required), the considerations in ISA 265, paragraph A29 should be considered.

7.6.3: I think this requirement should be removed as it may be highly technical and difficult to understand and explain in most cases.

8.8.1: for reasons similar to the explained in d), the auditor may be permitted to agree in writing with TCWG, unless prohibited by laws and regulations, that these communications are only made to management.

8.8.2.a): it is highly technical in nature and complex to explain and understand, and it should be excluded as a general requirement (the auditor may consider relevant to communicate it in some circumstances).

8.8.2.b), c), d), and h): for reasons similar to the explained in d), the auditor may be permitted to agree in writing with TCWG, unless prohibited by laws and regulations, that these communications are only made to management.

8.8.2.f) and i): should be combined in a single requirement of communicating the expected form and content of the audit report, including any EM or OM paragraphs.

8.8.3: for reasons similar to the explained in d), the auditor may be permitted to agree in writing with TCWG, unless prohibited by laws and regulations, that these communications are only made to management. All others required communications in the ISA for LCE may be required in all cases, even if TCWG is not interested in the communication because they are critical for TCWG to take responsibility for the financial statements and also for the auditor’s evaluation of risk (also, only 3, 4 and 5 may be applicable for all audits, while the rest may apply only in specific circumstances). For example:

Fraud communications (1.8.6, 1.8.7 and 8.8.2.e).

Non-compliance with laws and regulations should be added (it is mentioned in 2.5.2 and 2.5.5. as documentation requirement, and in 7.4.25, but not as a explicit communication requirement).

Communication of respective responsibilities of management, TCWG and auditor (4.3.1.b) and 4.7.1): this requirement may be met by providing engagement letter.

Written communications the auditor is requesting (8.8.2.g): this requirement may be met by providing representation letter

Communicating the expected form and content of the audit report, including any EM or OM paragraphs (8.8.2.f and i)

Effect of uncorrected misstatements (8.8.4)

Going concern considerations (8.8.5)

Generally, it would be more efficient to make these relevant communications to both management and TCWG at the same time (unless it is inappropriate to communicate them directly to management in the circumstances, just like matters calling into question the integrity or competence of management). If some communications requirements are excluded as mentioned above, the paragraph of “Auditor’s Responsibilities for the Audit of the Financial Statements” in the audit report should be amended accordingly.

Vera Massarygina

The second problem is more serious. Furthermore, as it is mentioned in para.4 recent revision of ISAs such as ISA 540 (Revised) and ISA 315 (Revised 2019), as well as revisions to the IAASB's quality control standards, ISQM 1 and ISA 220 (Revised), and the development of new ISQM 2 grew concern about the length, complexity, and understandability of these standard and their application to audits of LCEs. This problem is not settled in the ED.

Section 4C – Key Principles Used in Developing ED-ISA for LCE\Question 7 - Views on the key principles used in developing ED-ISA for LCE\Question 7(a) - The approach to how the ISA requirements have been incorporated in the proposed standard\2) Agree with Comments\2b) Further Differentiate from ISAs\Risk Assessment, Internal Control & Documentation

4. National Auditing Standard Setters

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

Regarding audit procedures on internal controls and accounting estimates, we understand that the IAASB has based the content of the requirements in the ED-ISA for LCE on recently approved ISA 315 (revised) and ISA 540 (revised) respectively. Although we support the robustness of these revised standards, we are of the view that further simplification is possible to meet the needs of audits of LCEs. It seems to us that the granularity of the requirements that have been included will drive a detailed granularity of documentation that is not necessary considering the scope of the LCE (simpler internal control environment, less formalized internal control procedures, less complex estimates...). We strongly encourage IAASB to further simplify these parts of the ISA for LCE.

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

We also agree that those requirements not relevant to LCEs should not be included, but as we note in our response to Question 9 below, we believe that the IAASB could have considerably simplified risk identification and assessment for audits of LCEs and strengthened the ability of auditors to reduce unnecessary documentation.

5. Accounting Firms

BDO International

However, feedback from practitioners who regularly audit LCEs is that they expected an LCE standard which provided for lower work effort and fewer documentation requirements. This would require a different approach of building the proposed LCE standard from the ground up, based on requirements that make sense for LCEs. Therefore, as stated in our overall comments previously, we question whether the proposed standard meets the needs of practitioners. We also challenge whether it meets the needs of users of LCE financial statements (i.e., is there a public interest need to consider the nature of audit products (and levels of assurance) available to users within the market?).

The feedback we received from our various firms indicated that if auditors need to refer to the ISA for LCE in the auditor's report, there should be substantive differences between the LCE requirements and the full suite of ISA requirements, while acknowledging that such LCE audits may provide something less than reasonable assurance depending on the significance of the reduced requirements for LCEs. For example, reduced work effort or documentation around risk assessment procedures, in particular related to obtaining an understanding of internal controls, may be an area where differentiation from the ISAs could be justified as it applies to LCEs.

Grant Thornton International Limited

This lack of modification is particularly apparent in Part 6 of the Proposed Standard in relation to understanding the entity and its environment, and in particular the auditor's responsibilities in relation to understanding internal control and control activities. This was one of the areas of the ISAs highlighted as being more challenging to apply to a less complex entity, yet there has been no discernible change to the

procedures that are expected to be performed by the auditor. We recommend that consideration is given to ways in which this Part in particular can be modified further when performing risk assessment procedures for a less complex entity audit and the EEM necessary to support such modified requirements.

KPMG IFRG Limited

Scaling Solutions

Our overall view is that, in terms of developing a more scalable solution for auditing an LCE, the approach taken to developing the LCE ISA, which essentially retains nearly all applicable ISA requirements other than for the ISAs scoped out by the authority criteria but eliminates much of the application material (including material relevant to LCE audits), is an opportunity missed. We believe that LCE auditors would greatly benefit from clear guidance as to how to achieve compliance with ISA requirements in an appropriately scaled way for an LCE, e.g., how to approach risk identification and assessment, and through such guidance, have greater confidence that they can perform certain procedures differently/ to a lesser extent than for a more complex entity and/or to reduce related audit documentation. We believe that these key challenges have not been addressed in developing the LCE ISA, and instead, by removal of the majority of the application guidance, the auditors of LCEs will be required to develop their own interpretations in terms of how to comply with the requirements, which could lead to inconsistency in application and may have a detrimental effect on audit quality.

We note that a particular challenge that may disproportionately affect LCE auditors is a lack of clarity regarding the extent of documentation that is necessary to meet the requirement for this to be “sufficient” for an experienced auditor to understand. We believe that many auditors would welcome application material to address what are perceived to be overly burdensome/onerous documentation requirements for LCE audits, such as the extent to which auditors need to document judgements made and factors considered when obtaining an understanding sufficient to identify and assess the risks of material misstatement on an LCE audit.

PriceWaterhouseCoopers

In making these changes, we believe the Board would have greater latitude to more directly articulate an appropriate work effort for the audit of such entities, without seeking to directly mirror an ISA audit. In appendix 2 to this letter, we have set out illustrative recommendations for how we believe the proposals could be further refined to achieve this goal for what we understand to be the most common critical “pain points” cited by auditors of smaller and less complex entities: risk assessment and accounting estimates. We have also explored an alternative structuring of the proposed documentation requirements to further enhance clarity and understanding of what needs to be documented.

Similar to the IAASB, in our outreach we often hear that the biggest concerns for auditors of smaller and less complex entities relate to the work effort associated with risk assessment procedures and audit of accounting estimates. In line with our vision to achieve greater distinction between the ISAs and proposed LCE standard, and also further simplification, we have suggested possible revisions in these two areas to illustrate how such an approach could be applied, which could be replicated across the remaining Parts of the proposed standard.

RSM International

Yes, we agree with the approach to incorporating the ISA requirements into ED-ISA for LCE. However, the current draft contains requirements that, in our view, are not necessary for performing a quality audit on an LCE. Examples of this include the requirements in ISA 315 to document the Control Environment, the Entity’s Risk Assessment Process and Monitoring of Controls, all of which are very often informal in LCEs. We therefore suggest that the IAASB reviews whether all of the requirements in ED-ISA for LCE are truly necessary and considers whether some of them could be removed without compromising audit quality.

We believe that auditing standards should seek to ensure audit quality above all else. In our view, certain of the ISA requirements that are included in ED-ISA for LCE do not appear to be required in order to perform a quality audit on an LCE. Examples of this include the requirements in ISA 315 to document the Control Environment, the Entity’s Risk Assessment Process and Monitoring of Controls, all of which are very often informal in LCEs. The procedures that the ISAs require in these areas are seen as a distraction from focussing on the risks and unnecessary “box ticking” on an LCE audit. All audit work needs to add to quality

and we suggest that the IAASB revisits the content of ED-ISA for LCE and considers whether some of the requirements of ISAs could be reduced or eliminated for LCEs, without compromising on audit quality.

7. Professional Accountancy and Other Professional Organizations

Accountancy Europe

We acknowledge also that the ED is simpler, shorter hence more accessible than the full set of ISAs but we believe that the standard has not explored all possibilities to simplify the audit requirements especially regarding the documentation and audit procedures related to the entity's internal control system. On documentation, we suggest that the standard states explicitly that only what is done should be documented and when a requirement has been considered not applicable, the auditor is not implicitly required to explain and document why (s)he has not complied with it.

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

The other area commonly identified in our outreach was in the risk assessment and assessment of internal controls. While stakeholders understand that the standard is not intended to necessarily reduce the work effort in performing an audit of an LCE, practitioners are keen for the standard to deliver efficiencies where possible. Practitioners suggested that the board consider if there can be a further reduction of requirements to provide the most efficient solution for LCEs where the practitioner knows they will be using a substantive approach. While practitioners accept that it is necessary to understand the entity and assess risks, they feel the requirements and documentation can still be onerous when a substantive approach will be taken. We therefore suggest making some of the requirements conditional depending on the circumstances in order to overcome the concerns raised above by our stakeholders. See also our response to Question 9.

We are supportive of the standard being based on the requirements of the ISAs. We encourage the board to make sure that the documentation requirements are as efficient as possible. Unnecessary documentation is one of the areas often raised by auditors of LCEs as contributing to inefficiency in small audits.

Institute of Chartered Accountants in England and Wales

PART 6: RISK IDENTIFICATION AND ASSESSMENT

In practice, risk identification and assessment for LCEs are performed at the same time and there is no meaningful distinction between them. The explanatory material to 6.1.1 should reflect this.

LCEs have straightforward control environments, risk assessment processes and monitoring controls. There is no need for these controls to be 'evaluated', but they should be "considered" by means of enquiry. This is reflected in suggested amendments to 6.3.2, 6.3.7, 6.3.7, and 6.3.8 below.

For very simple entities, it is sufficient to understand control activities relating to significant risks where controls are not to be tested, by 'considering' them. It is not necessary to specify work on design and implementation as part of obtaining the understanding. See suggested amendments to 6.3.14.

The specific points suggested below may add to the length of the standard but will eliminate redundancies in the performance of very simple audits and help create the all-important clear blue water between this standard and the detailed ISAs.

6.2.2: there is no need to distinguish between management and other appropriate individuals within the entity and there is no meaningful distinction between observation and inspection. This paragraph should refer to 'Inquiry' along and 'Observation or inspection'.

6.2.4 and 6.2.5 should be reversed.

6.2.4 should be reworded as follows:

When identifying risks of material misstatement, the auditor shall determine whether fraud risk factors are present by considering information relating to, amongst other things: (a) the acceptance or continuance procedures; and (b) any other engagements performed by the engagement partner for the entity.

6.3.1: item (f) is usually performed as part of the fieldwork rather than the risk assessment process. This is the only item to specify process and the material relating to the inspection of minutes, etc, should appear in the EEM. It is arguable that points (e) and (f) both point towards more complex entities and could be removed.

6.3.2: we suggest the deletion of 6.3.7 below. Management of LCEs rarely if ever have a process for risk assessment. The risk assessment component should be dealt with here but should be limited to an enquiry

of management about the risks of fraud and error. The wording should require auditors to ‘enquire of management about risks and controls, if any, to address the risk of fraud and error’.

6.3.5: the use of the defined term ‘inherent risk factors’ adds a wholly unnecessary layer of complexity and could be deleted such that the requirement is to identify (rather than ‘understand’) ‘events or conditions that affect susceptibility...’.

6.3.6: this could be restructured and the meandering lead-in carved out or cut down. The requirement should be to understand rather than ‘evaluate’. (b) should be deleted (assignment of authority) and the other elements, with the possible exception of ‘culture’, could be included within the EEM.

6.3.7: delete – see 6.3.2 above.

6.3.8 suggest delete.

6.3.9: Auditors should be required to understand the process relating to the preparation of the financial statements, not the information system. There is no need for the reference to SCOTABD. Item (i) the information system and (b) the IT environment can be deleted or included with item (iii) resources.

6.3.10: suggest delete.

6.3.12: properly belongs after 6.3.9. © is already dealt with under other requirements relating to control and (d) rarely happens. Both could be eliminated. (d) is in any case covered by the requirements relating to estimates.

6.3.13: delete – dealt with by 6.3.18.

6.3.14: (b) should be restricted to non-recurring and unusual items, the word ‘including’ deleted. Auditors should only be required to understand controls responsive to risk at the assertion level. Items (d) and (e) (‘other’ controls and service organisations (covered by 6.3.17) could be deleted. The requirement to deal with design and implementation is not necessary where auditors are not intending to test controls, they should instead be required to ‘consider’ such controls in such cases.

6.3.15 and .16 can be merged and should be limited to situations in which auditors were planning to test controls.

6.3.17: some reference might be made to the use of auditors’ reports on service organisations which might be appropriate where investment managers are used as custodians.

6.3.18: this should be amended to refer to the determination being based on what the auditor has understood.

6.4.1: merge with 6.4.3 and amend to require auditors to identify risk, including the risk of fraud, at the financial statements and assertion levels, determining which of those are significant.

6.4.2: this presumption does not work for less complex entities in the way that does for larger entities. One solution may be to require auditors to determine whether there is a risk of fraud in revenue recognition and whether that risk is a significant risk.

6.4.3: moved into 6.4.1, suggest delete.

6.5.1 and 6.5.2: much of this is effectively covered by the previous paragraphs. Most of the points are covered elsewhere in this section. 6.5.1: unnecessarily complex for LCEs. Part (a) can be deleted, as can the reference to inherent risk factors in part (b). 6.5.2: the reference to ‘other’ inherent risk factors should be deleted and the reference should be the susceptibility of the estimate to fraud, error or bias, deleting (a) and (b).

6.5.3: this is already covered by 7.5.2 and elsewhere. Suggest delete. We think it unlikely that situations in which substantive procedures alone are inadequate will be common.

6.5.5 and .6: Suggest merge.

6.5.7: amend to reflect changes made to 6.4.2 (a) (ii).

6.5.9: unnecessarily verbose.

6.8.1: (a) and (f) should be relegated to the EEM and other points belong elsewhere.

6.8.2: suggest delete.

Institute of Chartered Accountants of Namibia

Areas where simplification would be most valuable

We believe that the draft standard will have a very limited impact on the extent of audit procedures/ work required. This is obvious as an audit is an audit and the main areas of an audit and the auditor’s considerations must remain in order to provide the same level of assurance as with full ISAs.

The biggest issue facing auditors of LCEs is not the extent of audit procedures or consideration requirements, but rather the extent of documentation required. This is most evident in the planning and concluding phases of the audit.

In planning for LCEs, much of the required documentation does not add any value to the audit conclusion. This results in unnecessary time spent on the audit.

When reviewing the mapping documents, the difference in requirements between the full ISAs and the draft standard appear to relate mainly to improved readability and layout rather than a simplification of the audit itself.

The Essential Explanatory Material (EEM) in the draft standard and its supplementary guides is not sufficient to clarify what level of simplification is acceptable. This would cause challenges when auditors face quality reviews. We believe the impact would be that, in order to avoid audit failures in quality reviews, auditors will choose to use full ISAs to avoid time-consuming discussion and documentation to explain why the draft standard is appropriate and why the reduced documentation is appropriate. An example of this is where the rebuttable presumption of revenue as a significant risk is maintained rather than rebutted. It is not appropriate, but it is the practical result of restrictive standards and quality reviews.

The draft standard does not provide relief due to the documentation requirements that remain and the lack of guidance as to how to simplify and reduce the extent of the documentation. We believe the impact on the audit file would be a template list of the requirements per the draft standard with a “not applicable” response to most. This is the type of documentation that wastes time and adds no value.

The assumption for the standard is that the entity is less complex, requirements (“The auditor shall”) are therefore less appropriate. Professional judgement is key in order to ensure that where documentation is critical to support an appropriate audit opinion, it is included in the audit file and meets the requirements of appropriate documentation.

We recommend to either:

include significant additional EEM regarding documentation requirements to guide auditors on how to reduce the extent of documentation for LCEs.

remove documentation requirements (“the auditor shall”) and replace these with required auditor considerations. The auditor would need to include evidence on file that the matters were considered (Minutes etc.) but would not need to document the considerations themselves unless the consideration leads to an impact on the audit plan/ strategy. This would limit the need to document considerations that are intuitive thereby reducing audit documentation that adds no value, or

An example of these cases is:

A property company with one property leased to a related group company where the shareholders of the group company and the property company are the same. (This is very prevalent in Namibia. The terms of the contract are a fixed rental with market-related annual escalation with the use of IFRS for SMEs.

Inspection of the contract and comparison of the contract to recorded rentals and actual receipts and confirmations from the group entity would cover all assertions for all account balances and transactions.

Per the current standard, the following documentation would be required even though the impact, therefore, is intuitively irrelevant:

Internal control risk
Fraud risk

Understanding internal controls, organisational structure, etc.

In addition, ISAE 3000 could be a starting point for the guidance mentioned above. The ISAE 3000 still results in Reasonable Assurance but requires significantly less planning and concluding documentation.

Institute of Chartered Accountants of Scotland

We believe that there is potentially more scope to further differentiate the ISA for LCEs from the full ISAs to better meet the audit environment of LCEs, particularly in areas such as risk assessment and internal controls. However, we appreciate that this may not be seen as a viable option from the regulatory community. Therefore, on balance we are supportive of the approach adopted.

South African Institute of Chartered Accountants (2)

The main area in which auditors want to see a difference when applying the LCE standard is in the level of documentation required. The standard could still contain more explicit requirements in terms of what documentation is not necessary when applying the LCE standard. It is not sufficiently clear where efficiencies may come from as the requirements seem to be very similar to the full ISAs, just with less guidance than what the ISAs give to applicants. This becomes important when taking into account regulatory inspections where findings are often raised for insufficient documentation i.e. where auditors have to document reasons why they have not performed certain procedures that they deemed as unnecessary in the context of the audit. Therefore, clear guidance on what needs not be documented when applying the LCE standard is required. This can be incorporated in the EEM section of the standard through specific examples and references instead of using generic terms..

Section 4C – Key Principles Used in Developing ED-ISA for LCE\Question 7 - Views on the key principles used in developing ED-ISA for LCE\Question 7(a) - The approach to how the ISA requirements have been incorporated in the proposed standard\2) Agree with Comments\2b) Further Differentiate from ISAs\Use of Conditionality

7. Professional Accountancy and Other Professional Organizations

Accountancy Europe

As further explained in our response to question 9, there is still room for simplifying the ED ISA for LCE in certain areas. In addition, some areas could benefit from further requirements (i.e., conditional requirements to address specific issues in a modular approach) and guidance to ensure that the ISA for LCE is a standalone standard.

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

While practitioners accept that it is necessary to understand the entity and assess risks, they feel the requirements and documentation can still be onerous when a substantive approach will be taken. We therefore suggest making some of the requirements conditional depending on the circumstances in order to overcome the concerns raised above by our stakeholders. See also our response to Question 9.

Institute of Chartered Accountants in England and Wales

A CONDITIONAL OR MODULAR APPROACH

There is a wide range of views regarding the type of entity to which this standard should be applied and it is important to recognise that LCEs are not a homogenous group. Greater use of conditionality within the standard, or a modular approach, would be helpful to distinguish between very simple LCEs and other LCEs. For example: most LCEs have no internal audit department, but the standard should be able to accommodate an entity that employs a single internal auditor on a part time basis. We provide examples of how this might be achieved in Appendix 1.

Other than the lack of conditionality or a modular approach, we are broadly content with the key principles used in developing the ISA. However, we do not think that they have been applied properly.

We note in our key points above the wide range of views regarding the type of entity to which this standard should be applied and that it is important to recognise that LCEs are not a homogenous group. IAASB

should consider amending the drafting principles to facilitate and encourage the greater use of conditionality within the standard, or a modular approach, to distinguish between very simple and other LCEs. For example: most less complex entities have no internal audit department, but the standard should be able to accommodate an entity that employs a single internal auditor on a part time basis. Very simple accounting systems consisting of an off-the-shelf package to which few if any modifications are possible, used by an entity that does not have the technical expertise to make modifications, should be treated differently to systems which may have been modified, but not extensively, by employees with the relevant technical skills but who are not IT specialists.

Section 4C – Key Principles Used in Developing ED-ISA for LCE\Question 7 - Views on the key principles used in developing ED-ISA for LCE\Question 7(a) - The approach to how the ISA requirements have been incorporated in the proposed standard\2) Agree with Comments\2c) Mixed - Suggest Additions & Deletions

4. National Auditing Standard Setters

Austrian Chamber of Tax Advisors and Public Accountants (KSW)

As explained in our comments to Part 4 to 9 there is still room for simplifications in certain areas on the one hand and adding further requirements and EEMs to some areas on the other hand.

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

We agree with using the ISAs as a basis and retaining a risk-based audit approach to obtain sufficient appropriate audit evidence and therefore reasonable assurance. We also agree that those requirements not relevant to LCEs should not be included, but as we note in our response to Question 9 below, we believe that the IAASB could have considerably simplified risk identification and assessment for audits of LCEs and strengthened the ability of auditors to reduce unnecessary documentation. As we note in our response to Question 10, we have concerns that the objective of the IAASB to reduce the length of the standard led to a severe truncation of the requirements in relation to the auditor's report together with the prescription of the specified wording and format of the auditor's report, which upsets the careful balance between specificity and flexibility that the IAASB achieved in ISAs 700, 705, and 706.

5. Accounting Firms

BDO International

Assuming the proposed LCE standard continues to contain all relevant ISA requirements and provide reasonable assurance (see our overall comments above), then we agree with how the ISA requirements have been incorporated into the proposed LCE standard. We agree with the basic structure, with replicating the ISA requirements, with the use of materiality and the audit risk model, etc. We think that the IAASB has done a good job of providing an overview of an LCE audit by listing the relevant requirements, only supplemented as necessary with EEM paragraphs. It is easy to read and should help LCE auditors with seeing 'the big picture'.

However, feedback from practitioners who regularly audit LCEs is that they expected an LCE standard which provided for lower work effort and fewer documentation requirements. This would require a different approach of building the proposed LCE standard from the ground up, based on requirements that make sense for LCEs. Therefore, as stated in our overall comments previously, we question whether the proposed standard meets the needs of practitioners. We also challenge whether it meets the needs of users of LCE financial statements (i.e., is there a public interest need to consider the nature of audit products (and levels of assurance) available to users within the market?).

7. Professional Accountancy and Other Professional Organizations

Accountancy Europe

As further explained in our response to question 9, there is still room for simplifying the ED ISA for LCE in certain areas. In addition, some areas could benefit from further requirements (i.e., conditional requirements to address specific issues in a modular approach) and guidance to ensure that the ISA for LCE is a standalone standard.

Chamber of Auditors of the Czech Republic

As further explained in our response to question 9, there is still room for simplifying the ED ISA for LCE in certain areas. In addition, we believe that it will be helpful to provide further requirements and guidance in some areas to ensure that the ISA for LCE is a standalone standard.

Section 4C – Key Principles Used in Developing ED-ISA for LCE\Question 7 - Views on the key principles used in developing ED-ISA for LCE\Question 7(a) - The approach to how the ISA requirements have been incorporated in the proposed standard\2) Agree with Comments\2d) Instead Bottom Up or Modular Approach

5. Accounting Firms

Grant Thornton International Limited

We agree that it is appropriate to use the requirements in the ISAs as a basis for developing the proposed standard for LCE audits. However, we question whether the starting point for determining the requirements necessary for an audit of an LCE is appropriate. The proposed standard has been developed by starting with requirements that exist in the ISAs and making a determination of whether that requirement should or should not be included in a standard for an audit of an LCE. The starting point should rather be to identify requirements necessary for an audit of an LCE, then look to the ISAs to determine whether that requirement exists in the ISAs, then determine whether it is appropriate to incorporate such requirement in ED-ISA for LCE. As a consequence of the approach taken, it is not clear how an audit performed under ED-ISA for LCE would differ from an audit under the ISAs or why a different Basis for Opinion section in the auditor's report for an audit performed under ED-ISA for LCE is necessary.

7. Professional Accountancy and Other Professional Organizations

Accountancy Europe

As further explained in our response to question 9, there is still room for simplifying the ED ISA for LCE in certain areas. In addition, some areas could benefit from further requirements (i.e., conditional requirements to address specific issues in a modular approach) and guidance to ensure that the ISA for LCE is a standalone standard.

Association of Practising Accountants

In our opinion, a bottom up approach which examined what audit work needs to be completed for a good quality audit of a less complex entity rather than which requirements from the existing standard could be dropped, may have yielded a better outcome – not least because it is harder to justify removing requirements than adding them. That said we are supportive of anything that makes progress here and see the proposal as a step in the right direction.

Over the years the main auditing standards have become significantly more complex with many additional requirements. A lot of these changes were made to address issues that had been identified on audit failures of public interest entities without adequate consideration given to the impact on the audits of non-PIEs and in particular less complex entities.

Current International Auditing Standards are not scalable or proportionate for the audits of less complex entities as there are a significant number of requirements that relate to a regulatory environment which is focused more on more complex or listed entities. As a result audit firms spend time on LCE audits documenting why certain requirements are not applicable and considering points which do not impact or add value to the audit. This leads to a checklist mentality that is neither proportionate to the entity or a good driver of audit quality.

Institute of Chartered Accountants in England and Wales

A CONDITIONAL OR MODULAR APPROACH

There is a wide range of views regarding the type of entity to which this standard should be applied and it is important to recognise that LCEs are not a homogenous group. Greater use of conditionality within the standard, or a modular approach, would be helpful to distinguish between very simple LCEs and other

LCEs. For example: most LCEs have no internal audit department, but the standard should be able to accommodate an entity that employs a single internal auditor on a part time basis. We provide examples of how this might be achieved in Appendix 1.

We note in our key points above the wide range of views regarding the type of entity to which this standard should be applied and that it is important to recognise that LCEs are not a homogenous group. IAASB should consider amending the drafting principles to facilitate and encourage the greater use of conditionality within the standard, or a modular approach, to distinguish between very simple and other LCEs. For example: most less complex entities have no internal audit department, but the standard should be able to accommodate an entity that employs a single internal auditor on a part time basis. Very simple accounting systems consisting of an off-the-shelf package to which few if any modifications are possible, used by an entity that does not have the technical expertise to make modifications, should be treated differently to systems which may have been modified, but not extensively, by employees with the relevant technical skills but who are not IT specialists.

Section 4C – Key Principles Used in Developing ED-ISA for LCE\Question 7 - Views on the key principles used in developing ED-ISA for LCE\Question 7(a) - The approach to how the ISA requirements have been incorporated in the proposed standard\2) Agree with Comments\2e) Avoid Wording Differences from ISA Where Comparable

5. Accounting Firms

PriceWaterhouseCoopers

The decision to replicate the ISA requirements but amend them, in the interests of simplification and clarification, has also introduced ambiguity as to whether the changes are intended to drive a different (lesser) work effort. In many cases we do not believe this was the intent. The ambiguity presents a risk to audit quality, as auditors could interpret the required work effort differently in audits of LCEs that share similar characteristics, as well as potentially undermining the interpretation and application of the equivalent requirements in the ISAs. This risk is further heightened by the omission of the vast majority of application material from the ISAs. These concerns have added significance due to the breadth of application in the Authority, creating risks to audit quality because the ISA for LCE could be applied on audits of entities for whom we believe the ISAs remain the appropriate and widely accepted benchmark, as noted above.

7. Professional Accountancy and Other Professional Organizations

CPA Australia

Whilst we broadly agree with the way in which ISA requirements have been incorporated into the LCE standard, we notice that many requirements in the ISAs have been adopted word by word, whereas others have been incorporated in amended form. Of course other requirements have been deliberately excluded as not being relevant to LCE audits. However, this somewhat inconsistent approach to incorporating the ISA requirements may have unintended consequences in the future. For example, this approach is likely to complicate the determination of conforming amendments when ISAs are revised.

Section 4C – Key Principles Used in Developing ED-ISA for LCE\Question 7 - Views on the key principles used in developing ED-ISA for LCE\Question 7(a) - The approach to how the ISA requirements have been incorporated in the proposed standard\2) Agree with Comments\2f) Avoid Future Scope Creep

7. Professional Accountancy and Other Professional Organizations

European Federation of Accountants and Auditors for SMEs

We must be wary of having too many requirements that undermine the simplicity and scalability of the standard. Over the years we have seen one requirement after another, typically in isolation perceived as being relatively innocuous, being added to the ISAs such that eventually 'the straw broke the camel's back'. This must be avoided at the initial development stage (now) and during ongoing maintenance.

Institute of Chartered Accountants in England and Wales

We note in our key points above our belief that IAASB should finalise the standard in accordance with the current timetable. However, going forward, IAASB should be circumspect about how much it adds to it, so that more clear blue water between the two regimes is created over time, without losing the link to the extant ISAs, and without compromising reasonable assurance and audit quality.

Section 4C – Key Principles Used in Developing ED-ISA for LCE\Question 7 - Views on the key principles used in developing ED-ISA for LCE\Question 7(a) - The approach to how the ISA requirements have been incorporated in the proposed standard\2) Agree with Comments\2g) Further Guidance Needed\More Clear Mapping of Differences

4. National Auditing Standard Setters

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

We agree that ED-ISA for LCE provides reasonable assurance. We also welcome the effort made to reduce the number of requirements as well as the number of Application and other Explanatory Material paragraphs to keep only the “Essential Explanatory Material”.

However, we believe that the IAASB needs to do more education and clearly explain the differences between (1) the full set of ISAs and (2) the ED-ISA for LCE. A mapping document between the full set of ISAs and ED-ISA for LCEs already exists but it is difficult to see the key differences in principles. To obtain the buy-in of the LCE project, we believe that the IAASB should provide an overview of the main differences between an audit conducted in accordance with (1) the full set of ISAs and (2) with the ED-ISA for LCE.

In our opinion, this analysis should be built around the following two objectives: (1) presentation of the key differences between an audit “LCE” versus an audit in full ISAs and (2) explanation of what additional work needs to be done to transition from an audit “LCE” to an audit “full ISA”.

However, based on our understanding of this ED-ISA for LCE, it is difficult to argue that an audit conducted in accordance with ED-ISA for LCE is simpler than an audit conducted in full ISAs (smart application of the ISAs). Indeed, we do not consider that there is less work to be done.

5. Accounting Firms

KPMG IFRG Limited

Lack of Clarity as to Nature of an Engagement Performed in Accordance with the Standard

We are concerned that there is potential for confusion for users of auditor’s reports/ other stakeholders, as to the nature of an audit engagement conducted in accordance with this standard and how this compares to/differs from an audit performed in accordance with the full-scope ISAs. We note the current “expectation gap” regarding public perception as to what an audit is and is not, and we are concerned that issuance of this LCE ISA could add to confusion and misunderstanding in the marketplace and potentially widen this gap.

This is a concern because, as we highlight above, we believe that the key difference between the LCE ISA and the full-scope ISAs resides in the lack of application material and the “flexibility” to exercise a greater degree of professional judgement in determining how to execute requirements that may result from this for auditors. However, the IAASB does not articulate this and since, at an objectives and requirements level, the relevant requirements are expected to be nearly the same as applying the full-scope ISAs, appropriately scaled, we believe that, without clarification from the IAASB as to where the difference lies, this could cause confusion in both the marketplace and for the profession. We understand that there has been discussion among various stakeholders who may have an initial perception that this is a different level of assurance to an “ISA audit”, being somewhere between such an audit and a review.

We are also concerned that, in being described as an audit, but with a perceived lesser work-effort than an audit performed in accordance with the full-scope ISAs, this may serve to undermine other services performed in accordance with the IAASB’s standards, in particular, full-scope ISA audits. Therefore, issuance of this standard, without clearer articulation by the IAASB of the differences between this standard and the full-scope ISAs, could have significant implications for the audit profession as a whole, including for networks/firms which may be reluctant to use this standard without this clarification.

Risk of Commercial Pressure to Apply Standard

We are concerned that the standard may be understood by stakeholders to be simpler and with a perceived lesser and more efficient work-effort than an audit performed in accordance with the full-scope ISAs, which may give rise to commercial pressure from certain stakeholders for auditors to reduce fees/cost when using this standard. This could have a negative impact on audit quality for such LCE auditors as we believe the standard would drive the same work-effort since it has the same objectives and requirements (although with less consistency in execution due to significant reduction in application material) as the full-scope ISAs when appropriately scaled for a less complex entity.

Similarly, we are concerned that there may also be commercial pressure from stakeholders for auditors to perform an audit in accordance with the LCE ISA rather than the full-scope ISAs, as they may view this as a less costly way to obtain an ISA audit opinion. Decisions regarding use of this standard involve a degree of subjectivity/judgement on the part of the auditor when assessing the qualitative characteristics of an LCE, and there may therefore be pressures to reach an inappropriate decision.

Accordingly, we highlight that it is critical for the IAASB to clarify and clearly articulate the differences between the two frameworks so that auditors can address any misunderstandings/inappropriate perceptions from other stakeholders, as well as to include sufficient and appropriate application guidance to drive consistency of application and audit quality, as we describe at Option 1 in the section entitled Recommended Courses of Action to Address Concerns with the LCE ISA.

Mazars

For that, it is key to mention that the standard has been simplified to

- include éléments which were non applicable (e.g. ISA 610)
- avoid justifying why certain requirements are not applicable, especially in the current ISA as soon as a requirement is « the auditor shall consider » it is perceived as a requirement to document why it is not applied even if it is not applicable or not relevant.

However, as mentioned in our overall comments :

It is key to explain the differences between an audit under ISA for LCE and the current ISA so that there is no increased expectation gap regarding the quality of the audit.

RSM International

One area that we believe needs improvement is the mapping from ISAs to the proposed standard. Currently the mapping documents are too large and difficult to follow. We suggest a more succinct document with the following structure:

ISA paragraphs included in ED-ISA for LCE

ISA paragraphs omitted from ED-ISA for LCE

ISA paragraphs amended in ED-ISA LCE

7. Professional Accountancy and Other Professional Organizations

Institute of Chartered Accountants in England and Wales

The mapping documents are an excellent record of the work performed and an essential link between the LCE standard and the ISAs. But they are heavy on detail and light on analysis. In our messaging, we will emphasise the importance of audit quality in this context, and the need for more efficient and effective LCE audits. However, stakeholders have a legitimate interest in the overall nature and extent of change, and what might be done differently under the standard. At present, there is little change and more needs to be done prior to finalisation.

Section 4C – Key Principles Used in Developing ED-ISA for LCE\Question 7 - Views on the key principles used in developing ED-ISA for LCE\Question 7(a) - The approach to how the ISA requirements have been incorporated in the proposed standard\2) Agree with Comments\2g) Further Guidance Needed\More Implementation Guidance

4. National Auditing Standard Setters

Public Accountants and Auditors Board Zimbabwe

We also recommend that Implementation Guidance is issued as soon as possible after the issue of the final standard to support auditors by providing further explanation of the requirements and guidance for carrying them out.

5. Accounting Firms

ETY sas

However, it is recommended that Implementation Guidance is issued as soon as possible after the issue of the final standard to support auditors by providing further explanation of the requirements and guidance for carrying them out.

KPMG IFRG Limited

Accordingly, we recommend that additional guidance be developed to provide further detail as to how requirements could be operationalised when auditing an LCE as opposed to a more complex entity, with worked examples including comparing and contrasting examples for audits conducted in accordance with the full-scope ISAs versus the LCE ISA. We also suggest that content from the IFAC Guide to Using ISAs in the Audits of SMEs, which is intended to explain fundamental principles and provide practical support, could be repurposed to help achieve this objective. We recommend that the IAASB consider this as part of their CUSP documentation workstream more fully.

Mazars

As the ISA for LCE standard is principled-based, it is key to have implementation guides, IFAC SME guide updates and examples.

7. Professional Accountancy and Other Professional Organizations

Institute of Certified Public Accountants of Kenya

However, it is recommended that Implementation Guidance is issued as soon as possible after the issue of the final standard to support auditors by providing further explanation of the requirements and guidance for carrying them out.

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

However, it is recommended that Implementation Guidance is issued as soon as possible after the issue of the final standard to support auditors by providing further explanation of the requirements and guidance for carrying them out.

Pan-African Federation of Accountants (PAFA)

However, it is recommended that Implementation Guidance is issued as soon as possible after the issue of the final standard to support auditors by providing further explanation of the requirements and guidance for carrying them out.

Section 4C – Key Principles Used in Developing ED-ISA for LCE\Question 7 - Views on the key principles used in developing ED-ISA for LCE\Question 7(a) - The approach to how the ISA requirements have been incorporated in the proposed standard\2) Agree with Comments\2z. Other Comments

4. National Auditing Standard Setters

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

In addition, as the ISA for LCE is a principle-based standard, there would be a need for the IAASB to provide operational tools (e.g., guidance to compute materiality under ED-ISA for LCE), further guidance and appropriate practical examples.

Malaysian Institute of Accountants

While the ISA requirements have on the most part been incorporated into the proposed standard, they should be reworded in a manner that is suitable for the proposed standard such that they all fit together as a whole for a less complex audit instead of being copied and pasted from existing ISAs. Further, the Mapping of ISAs to LCE (in a separate document), while helpful to highlight the key differences, does appear tedious to the auditor because of the length.

Royal Netherlands Institute of Chartered Accountants (NBA)

As mentioned earlier, most ISA requirements are also applicable in this proposed standard. Therefore we repeat our recommendation to simplify all ISAs.

5. Accounting Firms

Azets Audit Services

We believe that the distillation of extant ISAs into a standard that eliminates areas considered non-relevant is the right approach as it facilitates transition and gap analysis. Linked to our response in the context of groups below, there is capacity to build on the foundation of the core standard with additional areas that may be relevant, but less common in the context of a less complex entity

KPMG IFRG Limited

We also recommend in that response that consideration be given to whether matters that give rise to significant risks or significant unusual transactions would likely ever not involve a reasonable degree of complexity. If the conclusion is that this would be rare, then consideration should be given to excluding requirements that address responding to these risks altogether, and instead make it clear that when risks of this nature are identified, it is no longer appropriate to apply the LCE ISA.

7. Professional Accountancy and Other Professional Organizations

Chartered Accountants Ireland

We agree with the key principles used in the development of ED-ISA for LCE set out in section 4 C with the exception of the approach to EEM.

CPA Australia

A digital tool could be used to navigate the ISAs along with a mapping of the standards or specific requirements to the flow of the audit, which may more seamlessly achieve the objective of the LCE standard. We have not identified any specific gaps in the requirements included in the LCE standard.

Institute of Certified Public Accountants of Cyprus

While we believe the approach adopted is reasonable there are likely to be some unwarranted repercussions, most notably due to the considerable ambiguity over the potential population of entities that will fall within the scope of the standard. Similarly, incorporating the majority of ISA requirements without any substantive simplification, will itself undermine the intent of achieving the desirable efficiencies in LCE audits, likely falling short of stakeholders' expectations.

Self-Regulatory Organization of Auditors Association (SRO AAS)

There is the concern that the requirements of this standard are stricter than the corresponding requirements of the full set of ISAs. For example, para 6.7.1. 'The auditor shall communicate to management, and where appropriate, those charged with governance, the significant risks identified by the auditor.' – there are no such requirements in ISAs. This requirement may cause problems in practice, in particular in case of following the anti-money laundering legislation by an auditor. This requirement is also unlikely to be acceptable if management fraud is detected or the auditor is deceived. We suggest elimination such kind of inconsistencies.

9. Individuals and Others

Vera Massarygina

It seems better to use subheadings for requirements and EEM.

Section 4C – Key Principles Used in Developing ED-ISA for LCE\Question 7 - Views on the key principles used in developing ED-ISA for LCE\Question 7(a) - The approach to how the ISA requirements have been incorporated in the proposed standard\2) Agree with Comments\zz. Refer to points already made elsewhere (E.g., content, authority)

5. Accounting Firms

KPMG IFRG Limited

Please refer to our response to Question 12, regarding additional requirements from the full-scope ISAs that we consider would be appropriate to include within the LCE ISA, and certain requirements that we suggest the IAASB consider excluding. Please also refer to our response to Question 3c) regarding our suggestion that the IAASB scale the LCE ISA requirements such that requirements specifically intended to address complexity relating to the matters described in that Question as additional, potential sources of complexity are removed.

Section 4C – Key Principles Used in Developing ED-ISA for LCE\Question 7 - Views on the key principles used in developing ED-ISA for LCE\Question 7(a) - The approach to how the ISA requirements have been incorporated in the proposed standard\3) Disagree or Unclear with Comments\3b) Further Differentiate from ISAs\Further Differentiate from ISAs - General

5. Accounting Firms

Deloitte Touche Tohmatsu Limited

We are concerned that the current drafting of the ED-ISA for LCE may not bring the wanted scalability into the proposed standard because usage of the same wording from the requirements in the ISAs as in the ED-ISA for LCE does not introduce any scalability or “how to apply” the requirements, and in fact implies that the same procedures continue to be performed for both types of audits. We recommend that the IAASB consider a more tailored approach to drafting the words of the requirements in a way that makes the “ability to scale” more actionable, as opposed to focusing on which requirements can be removed from the ISAs when performing an audit of an LCE.

Ernst & Young Global Limited

The Authority of the ED-ISA for LCE is very broad such that very few ISAs or audit circumstances are excluded from the scope of the standard, which results in an unclear distinction between an audit performed under the ED-ISA for LCE versus an audit performed under the full suite of ISAs. While the aim of the ED-ISA for LCE is to make the audit of LCEs more effective and efficient, it is our view that in substance, the standard does not change the nature or extent of audit procedures or documentation from what would be required under the full suite of ISAs (i.e., it does not assist in actually adapting or scaling audit procedures or documentation). Refer to Option #1 in Q1(a) for more details.

The ED-ISA for LCE is not directly responsive to the challenges of auditing very small or small entities, which we understand are the audits driving the initiatives in many jurisdictions to create separate auditing standards.

Kudos International

As we see it at Kudos, the LCE standard has a number of problems when it comes to implementation: There is no reduction in work- it is just a clarification- Our audit programmes would not change at all if this standard was implemented (indeed as stated below, the only change would be to increase documentation). The three examples the IAASB notes in its request for comments, don't really reduce work. For example, with ISA 402 the standard suggests that Type 1 or 2 reports are not necessary, but this just codifies what we have been telling member firms. As Andrew Brathwaite says in one of the LCE briefing videos, the LCE standard does not mean less work, but the right work. (We note that Andrew references our audit programmes in this session)

Good audit programmes already scope out vast checklists for a practical approach (there is nothing which suggests that every matter raised in an ISA has to be addressed)

The LCE actually increases work and documentation as opposed to the full standards as there is a requirement to document and justify the LCE decision.

6. Public Sector Organizations

Audit Scotland

It is evident from the mapping of ISAs to the proposed ISA for LCE that the work of an auditor using the ISA for LCE would not be materially different than if the auditor were using ISAs properly on an audit that met the criteria for using it. This calls into question the value that the ISA for LCE provides.

This demonstrates the ISA for LCE will enable the auditor to issue a reasonable assurance opinion. But it means that it is not “proportionate to the nature and circumstances that would be typical of an audit of a less complex entity” and is too onerous to be “used effectively and efficiently in those typical circumstances to obtain sufficient appropriate audit evidence to support a reasonable assurance audit opinion.” This is because there is insufficient scope to achieve the objectives and principles of the audit in less prescriptive ways.

The ED-ISA for LCE does not deliver the benefits that earlier publications led us to expect. The principal problem is that the work of an auditor using the ISA for LCE would not be materially different than if the auditor were scaling ISAs as already possible on an audit that met the criteria for using it. If the ISA for LCE does not materially change the work of an auditor, then it serves little useful purpose.

The approach appears to have been to reorganise the ISAs that were applicable to an audit of less complex entities with minimal consideration of appropriateness. A more ambitious approach would have started with the objectives of the applicable ISAs and considered how those objectives could be met in the context of a less complex entity. This approach would have provided an opportunity to focus on the principles and could have delivered substantial assurance while also providing more appropriate scaling.

7. Professional Accountancy and Other Professional Organizations

Association of Practising Accountants

Response: In our opinion, a bottom up approach which examined what audit work needs to be completed for a good quality audit of a less complex entity rather than which requirements from the existing standard could be dropped may have yielded a better outcome – not least because it is harder to justify removing requirements than adding them. This has meant that some requirements which are not relevant to a quality audit for an LCE are still included. As a result there is often insufficient difference between the requirements of the main standards and the LCE standard which will deter a number of firms from adopting it.

EXPERTsuisse

Scalability

Scalability of the standards is crucial and – although always been stressed by the IAASB – has not been (fully) achieved in the current ISAs. Therefore, it is important that an appropriate level of auditor's judgement is included in the LCE audit standard to enable a scalable application and to make the audit really more efficient.

The requirements set out in the ED-ISA for LCE are much less granular and summarized compared to the full ISAs. However, in our view there is no true reduction of requirements or modification of basic concepts in the ED-ISA for LCE. We are of the opinion, that the IAASB should be even more radical in omitting (unnecessary) requirements to make the LCE audit standard fit for purpose. In areas such as "Audit Evidence and Documentation" (ISA 230), "The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements" (ISA 240), "Risk Identification and Assessment" (ISA 315 (Revised)), "Auditing Accounting Estimates and Related Disclosures" (ISA 540 (Revised)) or "The Auditor's Responsibilities Relating to Other Information" (ISA 720 (Revised)) further reductions of the requirements would in our view be possible and desirable.

Finnish Association of Authorised Public Accountants

Even though the standard is a giant leap forward regarding guidance on audits of LCEs, it does not change the audit performed in accordance with ISAs in practice. Our comments include several proposals for improvements which, in our understanding, would help the auditors of LCEs (incl. audits of SMEs) without endangering the provision of reasonable assurance and high-quality audits. Our comments are written from the point of view of a Finnish audit. Therefore, we include a summary of Finnish audit environment after these general comments.

We would like to emphasize the following facts: The standard has been expressly written for less complex audit engagements. These are not assumed to include any circumstances or matters requiring thorough and highly tailored planning or any specific preliminary communication within the audit team or with the client. Neither would there be any high risks or a big number of risks that would be difficult to tackle with basic audit procedures or would require complex audit procedures. Accordingly, the audit of an LCE is rather straightforward, and the risks associated to it are easily identifiable and mostly low. The audit of financial statements can largely be performed according to a 'basic process' without significant client-specific or period-specific tailoring. This should be kept in mind when finalizing ISA for LCE.

ISA for LCE is based on ISAs, and the requirements in ISA for LCE are replicated and adapted from the ISAs with only slight linguistic simplifications. Compared to ISAs, only those requirements that were most

obviously not relevant for LCEs have been left out. Those are the requirements that relate to more complicated conditions and situations. As these requirements are or have not been relevant anyway, the transitioning from ISAs to ISA for LCE would not change the audit of an LCE much in practice. The spectrum of LCE audits is wide (mainly due to the size), and therefore the standard should be even more scalable – in which professional judgement is needed. We hope that the IAASB would reduce the requirements more daringly, or at least make them alternative or conditional on situations or circumstances. The auditor should be permitted to use more professional judgement as to which requirements are necessary to be met in the engagement in order to obtain reasonable assurance – without compromising a high-quality audit.

More room for professional judgment could be given e.g. in paragraphs 1.4.1-1.4.3. Paragraph 1.4.2 states that “The auditor shall comply with all relevant requirements unless 1.4.3 applies.” The relevance is tied to the circumstances of an audit (1.4.1.) and the ineffectiveness of the procedure (1.4.3.). It is not always clear, when and to what extent professional judgement can be used to determine that a procedure is irrelevant. For example, in an audit of a small and owner-managed LCE it is not efficient or even necessary to inquire, communicate and document the planned procedures (5.4-5.5. and 6.6-6.8), especially when the entire audit is conducted in a few days.

The draft standard clarifies some unclarity there were previously relating to scalability in the ISAs. However, it includes several requirements that are not scalable at all or are not scalable enough for the purpose of the smallest engagements. Mentioning self-evident matters, such as not needing to have a team discussion if there is no team, does not facilitate scaling.

In some jurisdictions the audit thresholds are low, and even very small entities would be audited – in the future these audits would be conducted in accordance with ISA for LCE. The standard should be scalable enough in these situations and also when the audit is performed in its entirety after the year-end. Some requirements in the standard would clearly assume that management has made estimates or prepared documentation on certain matters. This is not the way management operates in most small and less complex entities, and the auditor is left with uncertainty regarding how to act without requiring management to do something that it is not required to do according to local legislation.

If there is not enough scalability, there is a risk that national discussions and developments will continue regarding national SME standards, adoption of services providing a lower level of assurance, or rising the audit thresholds. There have been this kind of discussions in Finland too.

We do hope that the IAASB would reduce the requirements as compared to ISAs even more daringly, or make the requirements alternative or conditional on situations or circumstances. The auditor should be, more than currently, permitted to use professional judgment as to which requirements are necessary to be met in an engagement in order to obtain reasonable assurance – without compromising a high-quality audit. We have identified such requirements especially relating to planning, risk assessment, communication, and documentation.

We will give detailed examples of what requirements could be optional or conditional (or be left out) below in Section 4E.

Institute of Chartered Accountants of the Maldives

link to ISA: The overall intended outcome is a standard better tailored to the typical nature and circumstances of a LCE. By using the objectives and requirements of the ISAs, however, the IAASB has restricted its ability to be innovative in its design of the standard. When practitioners are to apply ISA for LCE in the areas where there is less detail such as execution of professional skepticism, ethical requirements, pervasive principles, they may have to refer to the full ISAs even though the ISA for LCE has been issued as a standalone standard. If this is the case, the purpose of the proposed standard could not be fulfilled. Therefore, it is our view that proposed guidelines should have sufficient detail but with scalability options for LCE and CE.

Institute of Singapore Chartered Accountants

Notwithstanding the above, proponents of the standard expect a more efficient audit, especially with documentation being more focused and relevant to the nature of a less complex entity. For example, ISA for LCE recognises that some less complex entities, particularly owner-managed entities, may have less structured processes and systems. Hence, the risk assessment procedures in the ISAs have been tailored

in ISA for LCE to suit a less complex environment. This reduces the need for auditors to consider and document why certain requirements in ISAs are not applicable to the entity due to its less complex nature. Hence, a more efficient audit process is welcomed by stakeholders, as shared in our response for Question 17.

No clear distinction between ISAs and ISA for LCE

Auditors who are not supportive of ISA for LCE do not see the need for a separate standard as they do not see a clear difference between ISAs and ISA for LCE since both frameworks are based on the same principles and are designed to ultimately achieve the same level of reasonable assurance. Consequently, they are not sure if there would be any reduction in audit efforts under the ISA for LCE framework, considering that the amount and quality of audit procedures and audit evidence required are expected to be similar as those under the ISAs since the same audit opinion should be reached under either framework. Furthermore, if auditors adopt ISA for LCE, clients may have the wrong impression that there was a reduction in audit efforts and question the adequacy of audit work performed. As such, there does not appear to be a strong impetus or incentive for auditors to adopt ISA for LCE.

Instituto dos Auditores Independentes do Brasil

We acknowledge the work of the IAASB to pursue the development of a standalone standard that gives you the same level of assurance (i.e. reasonable assurance) of the full ISAs. However, considering the requirements are the same, we challenge whether the proposed standard meets the needs of practitioners and users.

International Federation of Accountants' Small and Medium Practices Advisory Groups

However, we do have some concerns, which have been summarized below, and explained in greater detail later in this letter, as follows:

In our opinion, there are further enhancements that could be made to the scalability and proportionality of the standard. In particular, with some of the overly procedural requirements (e.g., in Risk Identification and Assessment), documentation, and the need for practitioners to be able to use more professional judgment. In our view, more focus needs to be placed on ensuring the (reduced) work effort is only that which is essential for an LCE audit. Specifically, more attention is needed to tease out where an auditor should do different procedures and where an auditor could avoid unnecessary procedures.

The focus seems to have been on keeping the standard as short and succinct as possible and on changing some wording (which may be confusing if it is intended to have the same meaning as an "equivalent in the full ISAs"). This could also be challenging with translations which we will discuss later.

In our view, more focus needs to be placed on ensuring the (reduced) work effort is only that which is essential for an LCE audit. Specifically, more attention is needed to tease out where an auditor should do different procedures and where an auditor could avoid unnecessary procedures.

Nordic Federation of Public Accountants

The main concerns with the ISAs raised by the respondents to the DP relate to a) volume, complexity and used language, b) onerous documentation requirements, and c) requirements resulting in certain procedures being performed solely to comply with ISA requirements with no additional assurance or measurable increase in audit quality.

In our view, the draft standard is user friendly. We support the structure of the draft standard and how the concerns in terms of volume, complexity and used language have been addressed.

However, in order for this standard to be an attractive and acceptable alternative to applying the full ISAs, we believe more needs to be done in relation to documentation requirements and overly procedural requirements that does not add audit value.

In the explanatory memorandum, the proposed standard is described as a risk-based standard where the exercise of professional judgment has been given a prominent role. We agree with this approach. At the same time, we do not think it is sufficiently reflected in the standard itself. Although a standard for audits of LCEs has a more limited scope than the full ISAs, the LCE audit segment itself also includes a spectrum of entities, where the size criteria continue to be of significance. This is especially apparent in terms of many

overly procedural requirements and documentation requirements that have been transitioned into the draft standard from the ISAs. We would encourage the IAASB to further reconsider this, especially how to broaden the application of scalability and proportionality in a way that is better aligned with the risk-based approach to LCE audits. Further room to deal with these matters are particularly apparent in those parts that address the entity's internal control system.

Additional work on these matters would in our view make such a difference in terms of usability while at the same time not impairing the robustness of the standard and the likelihood of reaching the audit objectives.

We believe the EM includes mixed messages about the relationship between the draft standalone LCE standard and the ISAs. On one hand there are references to the draft LCE standard being “based upon the ISAs”, then again reasonable assurance has been explained as being achieved by “replicating and adapting requirements from the ISAs that are considered core to an audit”. Why all draft requirements are concluded to be core is not further explained.

We believe that the success and actual use of the standard in the Nordic region will depend on how the principles of scalability and proportionality can be used on the draft requirements. In the EM references to these principles are being made primarily in relation to the ISAs and is only briefly mentioned in relation to the use of EEM in the draft standard. Although this standard has a more limited scope than the ISAs, there are still differences between audits within the LCE segment as well. These differences are mainly due to the impact the actual size of the entity has on the audit procedures. In our region statutory audits are mandatory also on micro entities and most of our audit assignments are within this size segment. In our view, the possibilities to use scalability and proportionality need to be further enhanced and also be drafted differently than in the ISAs.

See also our response to question 9 that refers to Part 1 of the draft standard.

9. Individuals and Others

Dmitrii Romanov

. It would be more appropriate in ISA for the LCO to provide for significant relaxation of communication between the auditor and management (those responsible for corporate governance) if, in such a less complex organization, management and those responsible for corporate governance are ones and the same persons. In particular, release the auditor from the obligation to inform management of significant deficiencies in controls, the timing of the audit, request from management to assess the likelihood of misstatements in the financial statements as a result of fraud or errors, and some others.

Section 4C – Key Principles Used in Developing ED-ISA for LCE\Question 7 - Views on the key principles used in developing ED-ISA for LCE\Question 7(a) - The approach to how the ISA requirements have been incorporated in the proposed standard\3) Disagree or Unclear with Comments\3b) Further Differentiate from ISAs\Other Target Areas

7. Professional Accountancy and Other Professional Organizations

EXPERTsuisse

n areas such as “Audit Evidence and Documentation”(ISA 230), “The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements” (ISA 240), “Risk Identification and Assessment” (ISA 315 (Revised)), “Auditing Accounting Estimates and Related Disclosures” (ISA 540 (Revised)) or “The Auditor’s Responsibilities Relating to Other Information” (ISA 720 (Revised)) further reductions of the requirements would in our view be possible and desirable.

Finnish Association of Authorised Public Accountants

In some jurisdictions the audit thresholds are low, and even very small entities would be audited – in the future these audits would be conducted in accordance with ISA for LCE. The standard should be scalable enough in these situations and also when the audit is performed in its entirety after the year-end. Some requirements in the standard would clearly assume that management has made estimates or prepared documentation on certain matters. This is not the way management operates in most small and less

complex entities, and the auditor is left with uncertainty regarding how to act without requiring management to do something that it is not required to do according to local legislation.

Our comments below include several proposals for improvements which, in our understanding, would benefit the auditors of LCEs without endangering the provision of reasonable assurance and high-quality audits. We have identified such requirements especially relating to planning, risk assessment, communication, and documentation.

The draft standard clarifies some unclarity there were previously relating to scalability in the ISAs. However, it includes several requirements that are not scalable at all or are not scalable enough for the purpose of the smallest engagements. Mentioning self-evident matters, such as not needing to have a team discussion if there is no team, does not facilitate scaling.

Malta Institute of Accountants

Keeping fully aligned with the ISAs means that the proposed standard does not deal effectively with the "pain points" around, for example, the required understanding of controls, estimates, documentation.

Section 4C – Key Principles Used in Developing ED-ISA for LCE\Question 7 - Views on the key principles used in developing ED-ISA for LCE\Question 7(a) - The approach to how the ISA requirements have been incorporated in the proposed standard\3) Disagree or Unclear with Comments\3b) Further Differentiate from ISAs\Risk Assessment, Internal Control & Documentation

5. Accounting Firms

Ernst & Young Global Limited

We continue to believe the fundamentals of the ISAs are sound, but it is the practical application of the requirements, and understanding when certain requirements may not be applicable or how the nature or extent of procedures may be adapted, that is the source of the majority of challenges for auditors of LCEs. We believe the ISAs are scalable and the requirements should be capable of consistent application to any size entity, and it is only that the extent of procedures and documentation necessary in an LCE audit may be simpler and less extensive due to less complexity. Our experience tells us that determining the appropriate nature and extent of documentation for audits of LCEs is the most challenging aspect of the execution of a LCE audit.

When considering the ED-ISA for LCE in context of the current challenges faced, we believe the most beneficial aspect of the ED-ISA for LCE is its structure presented in the flow of an audit, with explanatory material provided in direct context of the related requirement. Having the requirements in the order of the natural flow of the audit will be very helpful to auditors. We do believe the standard includes the appropriate requirements to achieve reasonable assurance with a few exceptions that we have included in our detailed response (refer to our responses to Q9 and Q10). However, we do not believe that the ED-ISA for LCE is responsive to the challenges mentioned regarding adapting audit procedures and scaling documentation.

7. Professional Accountancy and Other Professional Organizations

EXPERTsuisse

n areas such as "Audit Evidence and Documentation" (ISA 230), "The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements" (ISA 240), "Risk Identification and Assessment" (ISA 315 (Revised)), "Auditing Accounting Estimates and Related Disclosures" (ISA 540 (Revised)) or "The Auditor's Responsibilities Relating to Other Information" (ISA 720 (Revised)) further reductions of the requirements would in our view be possible and desirable.

Malta Institute of Accountants

Keeping fully aligned with the ISAs means that the proposed standard does not deal effectively with the "pain points" around, for example, the required understanding of controls, estimates, documentation. We do not believe it will achieve the efficiency that many are seeking, and could be possible if the Standard was less wedded to mirroring the ISA requirements. If complying with this Standard results in the same audit, what is actually to be achieved by this Standard is questionable. The Standard does not seek to come up

with new solutions but the requirements seem to be a mirror image of the other ISAs. We believe that alternative solutions have not been sufficiently explored.

9. Individuals and Others

Dmitrii Romanov

As indicated in paragraph 1, the draft ISA for LCO has few features from the already adopted ISA. In my opinion, such differences in the new ISA for LCO could be significant relaxation for the auditor when considering the effectiveness of controls and the associated risks of misstatement of the financial statements. In particular, when carrying out the risk assessment procedure, it would be possible to provide for the exclusion from this procedure of issues that relate to familiarization, testing and the formation of a conclusion about the effectiveness of controls. My proposal is based on my practical work, which shows that less complex organizations such as small businesses, family firms, etc., as a rule, do not have formalized and actually applied controls. As a result, there is no practical value in learning about controls, testing their effectiveness and communicating information to management for audit purposes. Conducting an audit risk assessment requires the auditor to evaluate the effectiveness of controls and the associated risks. In the absence of a procedure for assessing the effectiveness of controls, it was permissible to oblige the auditor not to rely on the organization's controls, if such controls are not formalized in the organization, do not apply, that is, they are actually absent or formalized, but do not work. It would also be appropriate to relieve the auditor of the obligation to obtain an understanding of how management oversight of the financial reporting process functions. In addition, it would be acceptable to provide in the standard to increase the risk of material misstatement of the financial statements, which would require the auditor to collect bigger audit evidences, which would be more appropriate when auditing less complex organizations. Where a less complex organization has all of these controls in place, it might be more appropriate to evaluate their effectiveness only if the auditor plans to rely on the organization's controls to conduct his audit. In other cases, an assessment of the effectiveness of controls, testing and obtaining an understanding of the functioning of this system for the audit of small organizations is not carried out.

Section 4C – Key Principles Used in Developing ED-ISA for LCE\Question 7 - Views on the key principles used in developing ED-ISA for LCE\Question 7(a) - The approach to how the ISA requirements have been incorporated in the proposed standard\3) Disagree or Unclear with Comments\3b) Further Differentiate from ISAs\Use of Conditionality

7. Professional Accountancy and Other Professional Organizations

Finnish Association of Authorised Public Accountants

If the definition of a relevant requirement cannot be widened or made more clear, another option would be to use a “building-block approach” in all the parts of the standard. The IAASB would need to consider, what are the absolutely necessary requirements that must be met in all – even the tiniest – engagements (“core requirements”) and what requirements are optional or conditional depending on what is relevant in the circumstances (“add-on requirements”).

We will give detailed examples of what requirements could be optional or conditional (or be left out) below in Section 4E.

ISA for LCE should be written so that only those requirements that are absolutely necessary in all engagements – even the smallest engagements – in order to obtain reasonable assurance, are mandatory. Requirements relevant to circumstances and situations could be added to these mandatory requirements where necessary in order to obtain reasonable assurance. One option to obtain this is through a “building block approach”, another is to make some requirements alternative to each other and/or conditional. Whatever the approach, more room should be left for auditor’s professional judgement.

We hope that the IAASB would reduce the requirements more daringly, or at least make them alternative or conditional on situations or circumstances. The auditor should be permitted to use more professional judgement as to which requirements are necessary to be met in the engagement in order to obtain reasonable assurance – without compromising a high-quality audit.

More room for professional judgment could be given e.g. in paragraphs 1.4.1-1.4.3. Paragraph 1.4.2 states that “The auditor shall comply with all relevant requirements unless 1.4.3 applies.” The relevance is tied to

the circumstances of an audit (1.4.1.) and the ineffectiveness of the procedure (1.4.3.). It is not always clear, when and to what extent professional judgement can be used to determine that a procedure is irrelevant. For example, in an audit of a small and owner-managed LCE it is not efficient or even necessary to inquire, communicate and document the planned procedures (5.4-5.5. and 6.6-6.8), especially when the entire audit is conducted in a few days.

Section 4C – Key Principles Used in Developing ED-ISA for LCE\Question 7 - Views on the key principles used in developing ED-ISA for LCE\Question 7(a) - The approach to how the ISA requirements have been incorporated in the proposed standard\3) Disagree or Unclear with Comments\3c) Mixed - Suggest Additions and Deletions

5. Accounting Firms

Price Bailey LLP

We do not believe that the principle you wanted to achieve in having a standard proportionate to LCE's has been achieved in the current draft. We do believe it can be achieved and would not require significant work to improve. We have provided some specific examples later in our response. These are not exhaustive but give an indication as to where some improvement can be made to achieve a more proportionate standard. Although there was a focus on reducing the length of the standard and this has been achieved, this has mainly been as a result of reducing some of the explanation and guidance. Some of which was useful. There is still some duplication within the standard and although there is improvement in the language it could still be more succinct in places, and some additional guidance may be required in some areas.

Section 4C – Key Principles Used in Developing ED-ISA for LCE\Question 7 - Views on the key principles used in developing ED-ISA for LCE\Question 7(a) - The approach to how the ISA requirements have been incorporated in the proposed standard\3) Disagree or Unclear with Comments\3d) Instead Bottom Up or Modular Approach

5. Accounting Firms

Deloitte Touche Tohmatsu Limited

Scalability in drafting

We would have preferred a standard which was more clearly distinguished from the full suite of ISAs, created using a “building block approach” with truly scaled and easy-to-understand wording, instead of focusing on reducing length by removing application material and some of the requirements of the ISAs to create this standalone standard.

Price Bailey LLP

The approach to this standard should have been thinking about the types of entities this will apply to and what audit requirements are needed to achieve reasonable assurance for those types of audits. Instead the approach has been to review the ISA's and see if removing any of the requirements can be justified and then some restructure and removing a lot of the explanation within the standard. This has meant requirements which are not relevant to a quality audit for an LCE are still included. It is more difficult to try and justify removing a requirement than considering which ones to add. In effect it should be a “bottom up” approach. This could have then built on additional modules to deal with specific areas – such as groups.

6. Public Sector Organizations

Audit Scotland

The approach appears to have been to reorganise the ISAs that were applicable to an audit of less complex entities with minimal consideration of appropriateness. A more ambitious approach would have started with

the objectives of the applicable ISAs and considered how those objectives could be met in the context of a less complex entity. This approach would have provided an opportunity to focus on the principles and could have delivered substantial assurance while also providing more appropriate scaling.

7. Professional Accountancy and Other Professional Organizations

Association of Practising Accountants

Response: In our opinion, a bottom up approach which examined what audit work needs to be completed for a good quality audit of a less complex entity rather than which requirements from the existing standard could be dropped may have yielded a better outcome – not least because it is harder to justify removing requirements than adding them. This has meant that some requirements which are not relevant to a quality audit for an LCE are still included. As a result there is often insufficient difference between the requirements of the main standards and the LCE standard which will deter a number of firms from adopting it.

Finnish Association of Authorised Public Accountants

ISA for LCE should be written so that only those requirements that are absolutely necessary in all engagements – even the smallest engagements – in order to obtain reasonable assurance, are mandatory. Requirements relevant to circumstances and situations could be added to these mandatory requirements where necessary in order to obtain reasonable assurance. One option to obtain this is through a “building block approach”, another is to make some requirements alternative to each other and/or conditional. Whatever the approach, more room should be left for auditor’s professional judgement.

If the definition of a relevant requirement cannot be widened or made more clear, another option would be to use a “building-block approach” in all the parts of the standard. The IAASB would need to consider, what are the absolutely necessary requirements that must be met in all – even the tiniest – engagements (“core requirements”) and what requirements are optional or conditional depending on what is relevant in the circumstances (“add-on requirements”).

We will give detailed examples of what requirements could be optional or conditional (or be left out) below in Section 4E.

Section 4C – Key Principles Used in Developing ED-ISA for LCE\Question 7 - Views on the key principles used in developing ED-ISA for LCE\Question 7(a) - The approach to how the ISA requirements have been incorporated in the proposed standard\3) Disagree or Unclear with Comments\3e) Avoid Wording Differences from ISA where Comparable

4. National Auditing Standard Setters

American Institute of Certified Public Accountants

4. Wording differences between the Exposure Draft and the ISAs

Throughout the Exposure Draft, requirements and guidance from the ISAs have been incorporated but revised with the intent to be clearer and more concise. We understand that the Task Force applied the drafting principles designed to address CUSP in the ISAs. While we share the goal of simplifying language, we are concerned that the differential language will have unintended consequences as auditors who perform audits in accordance with the proposed standard and in accordance with the ISAs develop their audit methodologies. If the IAASB believes that the wording in the Exposure Draft is more appropriate, then the corresponding ISA requirement should be revised and issued at the same time as any ISA for LCEs standard. We strongly believe that wording must be the same if the action is intended to be the same.

For example, with respect to going concern, the Exposure Draft seems to run to the more appropriate “going concern assumption” as opposed to the “going concern basis of accounting.” The auditor’s consideration of going concern should be the same whether the auditor is performing the audit in accordance with the Exposure Draft or performing the audit in accordance with the ISAs. If the IAASB believes that the proposed wording is clearer and therefore more appropriate, then ISA 570 (Revised), Going Concern should be amended to be issued at the same time as the Exposure Draft.

5. Accounting Firms

Nexia International

In addition, the use of different terminology may result in different responses and interpretation of the standard. We understand that terminology is critical to ensure users understand the context of the requirements. However, if the new standard is meant to not a lesser standard, we suggest that terminology remain consistent between the full set of ISAs and the ISAs for lesser complex entities. Changing wording for simplicity may result in different meanings when translated to other languages

7. Professional Accountancy and Other Professional Organizations

International Federation of Accountants' Small and Medium Practices Advisory Groups

The focus seems to have been on keeping the standard as short and succinct as possible and on changing some wording (which may be confusing if it is intended to have the same meaning as an "equivalent in the full ISAs"). This could also be challenging with translations which we will discuss later.

Malta Institute of Accountants

There is concern that if trying to keep aligned with the ISAs, changing the wording of the requirements introduces ambiguity about whether the intent is the same or not, In the current environment, opening the door to different interpretations is not in the public interest and increases the expectation gap.

Section 4C – Key Principles Used in Developing ED-ISA for LCE\Question 7 - Views on the key principles used in developing ED-ISA for LCE\Question 7(a) - The approach to how the ISA requirements have been incorporated in the proposed standard\3) Disagree or Unclear with Comments\3g) More Guidance Needed\More Clear Mapping of Differences

5. Accounting Firms

Deloitte Touche Tohmatsu Limited

In addition, to highlight the differences between the ISAs and the ED-ISA for LCE and to help auditors with transition between the two sets of standards when necessary, it would be helpful to have a summary of what procedures would not need to be performed during an audit that complies with the proposed standard, as compared to an ISA audit

Ernst & Young Global Limited

The standard indicates that an audit in accordance with this ED-ISA for LCE will facilitate the auditor obtaining reasonable assurance about whether the financial statements of a LCE are free from material misstatements. However, if the ED-ISA for LCE is intended to provide the same level of assurance that the ISAs provide (i.e., reasonable assurance) then users of the ED-ISA for LCE, including auditors, may find it difficult to discern why certain ISA requirements have been omitted from or modified in the ED-ISA for LCE. Under the current proposal, for the users of the ED-ISA for LCE to understand what is different than the ISAs they must refer to the mapping documents. We believe that differences may be better understood through clarifying EEM in the ED-ISA for LCE. We also believe to help eliminate this concern, that the auditor's report needs to have more transparency about the difference between ISA audit and ISA for LCE audit. Refer to Q10(b) for additional details.

7. Professional Accountancy and Other Professional Organizations

International Federation of Accountants' Small and Medium Practices Advisory Groups

There is also concern about whether the level of work effort that would be undertaken in an audit using the full ISAs versus using the proposal for LCEs would result in any significant time or cost savings. The SMPAG believes that even with the extensive mapping exercise undertaken, there remain questions on how different the standard is from the ISAs and therefore a need for much clearer communication to both practitioners and other financial statement users and key stakeholders. Additional context and background

should not only be provided in the Basis for Conclusions and supporting materials, but also in any additional resources provided by IAASB.

Section 4C – Key Principles Used in Developing ED-ISA for LCE\Question 7 - Views on the key principles used in developing ED-ISA for LCE\Question 7(a) - The approach to how the ISA requirements have been incorporated in the proposed standard\3) Disagree or Unclear with Comments\3z) Other Comments

7. Professional Accountancy and Other Professional Organizations

Institute of Singapore Chartered Accountants

If it is determined that ISA for LCE is no longer appropriate for use in an audit engagement, paragraph 139(d) of the ED requires the auditor to consider whether there are any additional procedures required on opening balances. More clarity and explanations should be provided by the IAASB on the timing and rationale for additional procedures on opening balances to be considered. In essence, the prior year audit performed under ISA for LCE should have been sufficient for the purpose of the entity in ascertaining its opening balances as it had qualified as an LCE then.

The requirement to consider additional procedures on opening balances somewhat contradicts the principle that both ISA for LCE and ISAs will arrive at the same level of reasonable assurance. It also alludes to the fact that the ISA for LCE may not have been adequate and so additional procedures would have to be carried out if ISAs were applied instead. This should not be the case since ISA for LCE was designed to leave out those requirements which are not relevant for LCE.

We agree with the approach to include the EEM in the body of the proposed standard as it would be easier to read and more reader-friendly. We also agree with the approach to limit the EEM to where it is essential to understanding or applying a requirement(s) to keep it succinct for the purpose of LCE audits. The manner in which the EEM has been presented is also clear (i.e. presented in italics in separate blue boxes).

Malaysian Institute of Certified Public Accountants

Whilst the main principles and requirements of the extant ISAs have been retained, the approach is essentially a compilation of the relevant portions of the existing ISAs with simplification of terminology and presentation.

However, it is not obvious in the proposed standard, the areas an auditor would be allowed to do different procedures (for example reduced sample sizes) while still be able to opine under a reasonable assurance framework. More focus and clarity in this matter would drive greater efficiencies and reduced efforts to perform such audits

Polish Chamber of Statutory Auditors (PIBR)

In the MSB's assumptions, the quality requirements are no longer relevant with regard to IT technology. Currently, the main issue is not the examination of books, records or individual documents, but the examination of the system. The goals are then different. An entirely separate and new thing is to define it.