

Supplement 2-18 to Agenda Item 6

Audits of Less Complex Entities – ED-ISA for LCE – Q17(b) – In your view, would ED-ISA for LCE meet the needs of users and other stakeholders for an engagement that enables the auditor to obtain reasonable assurance to express an audit opinion and for which the proposed standard has been developed? If not, why not. Please structure your comments to this question as follows: Whether the proposed standard meets the needs of auditors, audited entities, users of audited financial statements and other stakeholders

Section 4F – Other Matters\Question 17 - Would ED-ISA for LCE meet the needs of users and other stakeholders for an engagement that enables the auditor to obtain reasonable assurance to express an audit opinion\Question 17(b) Whether the proposed standard meets the needs of Stakeholders\1) Yes

3. Regulators and Audit Oversight Authorities

Botswana Accountancy Oversight Authority

The proposed standard meets the needs of auditors, audited entities, users of audited financial statements and other stakeholders.

4. National Auditing Standard Setters

Austrian Chamber of Tax Advisors and Public Accountants (KSW)

Yes, the proposed standard is easy to understand for auditors and appropriate in an LCE environment.

Federación Argentina de Consejos Profesionales de Cs. Económicas

We believe that ED-ISA for LCE does meet the needs of different users so that an auditor can obtain reasonable assurance to express an audit opinion.

Public Accountants and Auditors Board Zimbabwe

Yes agreed

5. Accounting Firms

ETY sas

Yes, the standard meets the needs of auditors, audited entities, users of audited financial statements and other stakeholders.

7. Professional Accountancy and Other Professional Organizations

Botswana Institute of Chartered Accountants

The standard meets the needs of SMPs who have been the significant campaigners of this development.

Chartered Governance and Accountancy Institute in Zimbabwe

We believe that the proposed standard will meet the needs of auditors, audited entities, users of audited financial statements and other stakeholders.

Confederation of Swedish Enterprise

We answer the question from an entity (audit client perspective). We believe that the standard will be beneficial for entities that will be within the scope of application. We think the application might avoid irrelevant documentation requirements from auditors and avoid future complexity coming from applying full ISA.

From a user perspective, we believe it will be sufficient for banks and the tax authority (the two main stakeholders of LCEs), if they understand the scope of the standard and how it is applied compared to full ISA.

CPA Ireland

We believe that the standard meets the needs of these stakeholders.

Eurasian Group of Accountants and Auditors

verall, we believe that ISA for LCE will meet the needs of the select group of users and other stakeholders. This separate group of users includes owners of small and non-complex entities that are not required to conduct a statutory audit of financial statements. We believe this standard will be useful for small audit firms that find it overly complex to apply the requirements of the full-scope ISAs to audits of less complex entities.

European Federation of Accountants and Auditors for SMEs

We believe the proposed standard effectively meets the needs of auditors, audited entities, users of audited financial statements and other stakeholders.

Federation of Accounting Professions of Thailand

Yes, as the standard is based on the principles of the existing auditing standards in which we currently apply.

Indonesian Committee on Public Accountant Profession (KPAP)

KPAP believes that the proposed standard will meet the needs of auditors, audited entities, users of audited financial statements, and other stakeholders. KPAP expects that this standard will be helpful to smaller audit practitioners who find the current set of ISAs too complex

Institute of Certified Public Accountants in Israel

ICPAI believes that the proposed standard may improve the quality of audit conducted in LCEs, since its provides auditors with a targeted and exhaustive tool for conducting the entire audit process from beginning to end.

Institute of Certified Public Accountants of Cyprus

The audited entities needs seem to be addressed in the context of a reasonable assurance envisaged in the standard.

Institute of Certified Public Accountants of Kenya

Yes, the Standard meets the needs of the different groups.

Institute of Certified Public Accountants of Rwanda

The proposed standard meets the needs of auditors, audited entities, users of audited financial statements and other stakeholders.

Institute of Certified Public Accountants of Uganda

We believe that the proposed standard meets the needs of auditors, audited entities, users of audited financial statements and other stakeholders.

Institute of Chartered Accountants of Ghana

We believe it does. The guidance is sufficient to provide support for all stakeholders. It will go a long way to enhance the efficiency of auditor and reduce the cost auditing entities.

Institute of Chartered Accountants of Jamaica

Yes, the proposed standards meets the needs of all stakeholders.

Instituto Salvadoreño de Contadores Públicos (ISCP)

Yes, it meets the needs of users of financial statements. The BFC- ISA for LCE, presents an understandable structure, which follows a chronological order for the development of the audit, which facilitates its understanding, and also consideres the fundamental principles and concepts of the ISAs, which gives reasonable security to the information. audited in the financial statements.

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

Yes, the standard meets the needs of auditors, audited entities, users of audited financial statements and other stakeholders.

Pan-African Federation of Accountants (PAFA)

Yes, the standard meets the needs of auditors, audited entities, users of audited financial statements and other stakeholders.

Polish Chamber of Statutory Auditors Warsaw (Regional Branch)

Yes.

REA Auditores

We believe the proposed standard effectively meets the needs of auditors, audited entities, users of audited financial statements and other stakeholders.

Society of Certified Accountants and Auditors of Kosovo (SCAAK)

We believe the proposed standard effectively meets the needs of auditors, audited entities, users of audited financial statements and other stakeholders.

South African Institute of Chartered Accountants (2)

Yes. The LCE standard is based primarily on the ISAs which have already been proven to meet the needs of auditors, auditees, users of financial statements and other stakeholders. The use of the ISA for LCEs will continue to achieve this purpose.

Other Stakeholders: Companies and Intellectual Property Commission (CIPC)

118. The South African Companies Act, 2008 (as amended) provides for the entities (depending on their public interest score) to independently review their annual financial statements instead of an audit. It was observed that even though the Companies Act introduced the independent review (in accordance with ISRE 2400) with the intention to reduce the regulatory burden and ease of doing business in South Africa, independently reviewed annual financial statements are not widely accepted by the banking institutions and other business investors. Audited annual financial statements still remain as the preferred choice that provides the required level of assurance for these stakeholders. Therefore, the view from the local companies regulator, CIPC, is that there is a need for this kind of new proposed standard of ISA for LCE provided that it is not seen to be an inferior type of audit and a method of reducing fees.

South African Institute of Professional Accountants

We believe the proposed standard effectively meets the needs of auditors, audited entities, users of audited financial statements and other stakeholders.

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

Overall, the proposed standard meets the needs stakeholders; particularly auditors and users of financial statements.

Wirtschaftsprüferkammer (WPK)

We are convinced that the proposed standard meets the needs. Please see also question 1(c).

8. Academics

Argentine institute of Auditing Professors

We understand that it meets all the needs of all parties involved and interested in the issuance of the auditor's report.

9. Individuals and Others

Rodoula Roussou

In Greece, in my view, a Standard for LCE would be very welcomed and would meet the needs of users and other stakeholders and could be used, given the following:

- a. The standard is flexible as discussed in question 1(a) and permits the “top-up”
- b. The audit report should have the same form and wording as the existing types of audit reports as stated in ISA 700

The accounting law classifies entities into 4 categories (large, medium, small, and very small) based on quantitative characteristics (total assets, turnover, and the number of employees). All entities other than PIEs can choose for their Financial Reporting the Greece Accounting Standard (GAS) or IFRS. The vast majority of the entities that use GAS could be classified as LCE especially if the “top-up” was permitted. The above could be used in our jurisdiction as indicators to allow using the standard in small and very small entities, that use GAS (which are similar to IFRS but less complex), by default, but should not exclude audit of other entities too, considering that the standard is appropriate to use, based on their complexity.

Section 4F – Other Matters\Question 17 - Would ED-ISA for LCE meet the needs of users and other stakeholders for an engagement that enables the auditor to obtain reasonable assurance to express an audit opinion\Question 17(b) Whether the proposed standard meets the needs of Stakeholders\2) Yes with Concerns\2a) With Consideration Of Comments

3. Regulators and Audit Oversight Authorities

Finance Professions Supervisory Centre Indonesia

This standard is likely to be used in our jurisdiction and meets all aspects of stakeholders, as in Indonesia, it is estimated that 90% of businesses are small and medium-sized entities. However, before this standard is established, it is necessary to consider a number of points contained in our response to 1.c (any other matters).

4. National Auditing Standard Setters

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

Subject to the comments made above, we consider that the proposed standard meets the needs of the auditors, audited entities, users of audited financial statements and other stakeholders.

5. Accounting Firms

Azets Audit Services

- (b) Subject to comments elsewhere in this response, yes.

Crowe Global

The proposed standard meets the needs of users and other stakeholders. In making this statement, we believe that the IAASB would enhance the standard by allowing some of the additional flexibility that we have commented upon in this response whereby on relevant occasions ISA requirements can be applied.

Duncan & Toplis Limited

Overall, yes, but we have highlighted some areas where we feel (such as group audits) where we feel more consideration is needed.

7. Professional Accountancy and Other Professional Organizations

Institute of Chartered Accountants of Scotland

We believe that the proposed standard, subject to the necessary revisions that we have highlighted, in particular, extending its scope to include groups, would meet the needs of all stakeholders of LCEs.

International Federation of Accountants' Small and Medium Practices Advisory Groups

We believe that – with some modification as suggested in this letter – the proposed standard could meet the needs of auditors and other stakeholders by providing a less complex framework to use when performing audits of LCEs.

Section 4F – Other Matters\Question 17 - Would ED-ISA for LCE meet the needs of users and other stakeholders for an engagement that enables the auditor to obtain reasonable assurance to express an audit opinion\Question 17(b) Whether the proposed standard meets the needs of Stakeholders\2) Yes with Concerns\2b) Too Similar to the ISAs

3. Regulators and Audit Oversight Authorities

Independent Regulatory Board for Auditors (IRBA)

Nevertheless, per some of the auditors represented on the LCE task group, the view is that, by incorporating a majority of ISA requirements without any substantive simplification, the proposed standard would not lead to any significant benefit in terms of time, cost, efficiencies, etc. As such, the current draft of the proposed standard is unlikely to meet the needs of auditors.

Section 4F – Other Matters\Question 17 - Would ED-ISA for LCE meet the needs of users and other stakeholders for an engagement that enables the auditor to obtain reasonable assurance to express an audit opinion\Question 17(b) Whether the proposed standard meets the needs of Stakeholders\2) Yes with Concerns\2c) Other Concerns

3. Regulators and Audit Oversight Authorities

Independent Regulatory Board for Auditors (IRBA)

Subject to our concerns that are expressed in response to other questions, it appears that the proposed standard could meet the needs of audited entities, users of audited financial statements and other stakeholders. There are exceptions though described above and below.

A large percentage of entities (currently subject to audit) in South Africa would be eligible for applying the proposed standard.

In terms of Section 30(2)(b) of the Companies Act of South Africa (Act 71 of 2008), other profit (other than a public company) or non-profit companies may be:

audited; or

(ii) either:

(aa) voluntarily audited; or

(bb) independently reviewed.

This section of the Companies Act, together with supporting regulations, provides for certain entities to independently review their annual financial statements, to reduce the burden of requiring an audit of the financial statement or opting for a voluntary audit. Such entities are those that are not in the public interest, are not economically or socially significant and do not hold points that are calculated as a Public Interest Score.

In accordance with Regulation 29(3) of the Companies Act, an independent review is performed in accordance with ISRE 2400 (Revised).

The Companies and Intellectual Property Commission (CIPC) representative on the LCE Task Group noted that even though the Companies Act (as amended) caters for reducing the regulatory burden on small and medium-sized companies and improving the ease of doing business in South Africa, there has been limited uptake by companies who qualify for their financial statements to be subjected to an independent review to do so. Independently reviewed annual financial statements are not widely accepted by the financial institutions and other business investors/funders. Audited annual financial statements still remain the preferred choice. It is understood that the main reason for this is that the engagement is not an audit and the assurance on a review engagement is not reasonable assurance. As such, companies have opted for voluntary audits.

The users of these financial statements might be satisfied with the reasonable assurance opinion provided when using the proposed standard. There certainly would be a need for educational events to help users of

financial statements to understand that an audit performed using the proposed standard is not considered a lesser audit when compared to an audit performed using the ISAs.

As such, the category of companies that have been subjected to an independent review in terms of the Companies Act may meet the definition of a less complex entity, meaning the proposed standard could be appropriate for use in an audit of these companies.

However, auditors will need to manage the expectations of audit clients as to the reduction in audit fees as opposed to making use of the scalability provided for in the ISAs, where additional considerations and documentation for the use of the proposed standard will not be required.

5. Accounting Firms

Mazars

Yes, however, the proposed prohibition to use the standard for group audits will heavily limit the potential use.

MHA Monahans

b) Subject to the inclusion of group audits, the proposed standard meets the needs of auditors and will be welcomed.

MNP LLP

Overall, we believe that ED-ISA for LCE would meet the needs of users and other stakeholders. We believe that this standard will be particularly useful to smaller audit practitioners that find the current set of ISAs too cumbersome. We do, however, believe that some changes should be made (as described throughout this response) in order to facilitate its broad usage for audit practitioners and to reduce the chance of misinforming audit report users.

We believe including a statement that the audit was performed in accordance with ISAs for LCE may confuse users, especially when transactions arise that prohibit the engagement team from using the standard from one year to another (i.e., having the prior year reported under ISA for LCE, the current year under ISAs, then the subsequent year under ISA for LCE). Having the standalone standard within the suite of existing ISAs and keeping a consistent audit report would eliminate this confusion.

7. Professional Accountancy and Other Professional Organizations

Accountancy Europe

The proposed standard is fairly easy to understand for auditors and overall meet their needs. Other stakeholders may perceive the ISA for LCE engagements as a lower-quality audit with less procedures and cost. Therefore, clear messaging by the IAASB will be essential to convince stakeholders that the audit quality is not compromised, and that reasonable assurance is obtained.

Chamber of Auditors of the Republic of Azerbaijan

In our view, ED-ISA for LCE will generally meet the needs of users and other stakeholders for an engagement that enables the auditor to obtain reasonable assurance to express an audit opinion and for which the proposed standard has been developed. Further improvement of the standard will allow to achieve this goal to the full extent.

Institute for the Accountancy Profession in Sweden (FAR)

Yes, however, the proposed prohibition to use the standard for group audits will heavily limit the potential use.

Institute of Chartered Accountants of Pakistan

We believe that the proposed standard meets the needs of auditors and other stakeholders by providing a less complex framework to use when performing audits of less complex entities. However, as discussed in our earlier comments, additional guidance material on certain matters would be useful for all stakeholders.

Instituto Mexicano de Contadores Públicos (IMCP)

Given its structure and content, we consider that the proposed standard will satisfy the needs of the different users, perhaps the most relevant issue that could be modified in the proposed standard is the incorporation, if necessary, of the possibility of applying the ISA for LCE in group audits, provided that qualitative criteria are established that allow a group to be classified as non-complex.

Section 4F – Other Matters\Question 17 - Would ED-ISA for LCE meet the needs of users and other stakeholders for an engagement that enables the auditor to obtain reasonable assurance to express an audit opinion\Question 17(b) Whether the proposed standard meets the needs of Stakeholders\3) No\3a) With Consideration of Comments Elsewhere

4. National Auditing Standard Setters

Canadian Auditing and Assurance Standards Board

What stakeholders told us

We heard divided views from our stakeholders.

Practitioners - Views of practitioners were split:

Some practitioners expressed the view that ED-ISA for LCE would meet their needs if revisions were made to respond to their concerns.

Other practitioners expressed significant concerns about the risk of confusion in the marketplace and increasing the expectation gap. They were concerned that stakeholders who receive and use auditor's reports may be confused by the reference in the auditor's report to the ISA for LCE. These stakeholders may incorrectly view an audit performed using the ISA for LCE as lower quality or lower assurance than an audit performed using the ISAs. The possible confusion may erode confidence and trust in audited financial statements.

Some practitioners also noted the unintended consequence of increasing the need for education, training and maintenance of multiple methodologies for practitioners and firms using both the ISAs and ISA for LCE. They also noted that stakeholders who receive and use auditor's reports will need to be educated.

Developers of audit tools and methodologies – Supported ED-ISA for LCE. They noted that: ED-ISA for LCE is easier to understand, as it follows the flow of an audit engagement. They felt that such design and structure provide for easier reading and understandability. They also noted that it may contribute to more effective and efficient development of methodologies and training for audits of LCEs.

Users – In our consultations with a limited number of users, they noted the following:

ED-ISA for LCE would be beneficial if it creates significant efficiencies in time and cost for their clients.

Since an audit under ED-ISA for LCE would achieve reasonable assurance and provide an audit opinion, it would meet their needs for an audit.

If it was clear in the ED-ISA for LCE auditor's report that the level of assurance is the same as under the ISAs, they would take the same comfort from an auditor's report referring to ED-ISA for LCE as one referring to ISAs.

Regulators and practice inspectors – These stakeholders expressed significant concerns about the risk of confusion in the marketplace and increasing the expectation gap. They were concerned that stakeholders may be confused by the reference in the auditor's report to ED-ISA for LCE. They may view an audit performed using ED-ISA for LCE as lower quality or lower assurance than an audit performed using the ISAs. The confusion may erode confidence and trust in audited financial statements. These stakeholders believe that if ISAs are properly applied and scoped, they can be effectively used for audits of LCEs.

AASB views and recommendations

We do not believe ED-ISA for LCE as drafted will meet the needs of auditors, audited entities, users of audited financial statements and other stakeholders. In our view, significant changes are needed. We have included suggestions in responses to other questions.

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

In our view, unless the issues addressed in our response to a) above are adequately dealt with, we do not believe that the proposed standard meets the needs of auditors, audited entities, users of audited financial statements, and other stakeholders, in our jurisdiction. If the final LCE standard adequately deals with these issues, then we believe that that standard would meet those needs.

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4. National Auditing Standard Setters

Royal Netherlands Institute of Chartered Accountants (NBA)

We are in doubt whether this proposed standard meets the needs of auditors and stakeholders. If the standard does not diminish the amount of work, then it will be difficult to explain especially to auditors why the ISAs are not used. We fear users do not understand the difference between this standard and the ISAs and that audits with this standard might be seen as lower-quality audits.

5. Accounting Firms

BDO International

Response: As described above, we do not believe the proposed LCE standard as currently drafted will meet the needs of the various stakeholders. Auditors do not perceive any reduction in audit effort or documentation, so there is likely to be little change from how they audit LCEs currently under the full suite of ISAs. Audited entities will not be happy that the auditors are required to do essentially the same work but then refer to ISA for LCE in the auditor's report, which implies a lesser (or different) level of assurance. Education of users of audited financial statements will also be needed so they understand what they are getting in order to determine whether performance of an LCE audit meets their needs.

KPMG IFRG Limited

In addition to our concerns described elsewhere in this letter, 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.

PKF International Limited

In our view there will be an expectation gap, particularly for those entities that are very small and with a very limited degree of complexity. We set out further comments on our concerns about the expectation gap in our 'General response' above.

While we are supportive of the need for a standard that is dedicated to LCE audits, and are generally supportive of the ED, we have a concern about the risks of an expectation gap which could arise following the publication of the proposed standard.

The ISAs have continued to develop over several years. During this period many constituents of the LCE audit community (including LCEs, their owners and investors, their employees, and their auditors) have developed a perception that, in context of an LCE audit, the ISAs can be overly complex and are disproportionately onerous compared to the level of audit work which should be sufficient and appropriate to be able to form an audit opinion on certain LCE engagements. Such a perception may be particularly evident where LCE audits are toward the simplest end of the scale of complexity.

In our view, there is a possibility that the approach taken to design the ED-ISA for LCE may not have produced a standard which is sufficiently different to the ISAs to satisfy the needs and expectations of such

stakeholders – in other words, the proposed standard does not go far enough to help reduce the burden of the effort required to complete the simplest, most straightforward, and lowest risk audits.

Price Bailey LLP

Response: At the moment it doesn't fully meet the needs of the stakeholders. It has not been tailored sufficiently for LCE's. There are a number of requirements which have been included from the ISA's which are not relevant to the audit of an LCE.

At the moment it is difficult to justify the additional costs of implementation. However this may change over time. Careful consideration needs to be applied to possible future changes to the standard. When amendments are made to the full ISA's these should not automatically be added to the LCE standard. Additional requirements should only be included within the LCE standard if there is a clear need to address an issue with LCE audits. This should mean over time there will be a clearer differential between the LCE standard and the main ISA's which will also mean there will be more benefit to adopt it.

PriceWaterhouseCoopers

As described in our cover letter and other responses above, while the exposure draft demonstrates a number of practical enhancements that are responsive to individual specific concerns identified by stakeholders, we have two overarching and interrelated concerns with the basis of development of the proposed ISA for LCE that lead us to conclude that it will not meet the overall expectations of users without further significant revisions.

For auditors, in particular small and medium sized practitioners, we 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 thinking, 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. Consequently, the expectations of these stakeholders of a proposal that resulted in greater efficiency, and a reduction in required work effort and documentation burden, are unlikely to be met.

For audited entities and users of the auditor's report, the debates within the Board in relation to reasonable assurance are unlikely to be perceived or understood. For many stakeholders in these groups, the audit opinion is the primary focus, alongside an expectation that a high-quality audit is being performed. The basis for the auditor's opinion may be seen as more a technical process matter for the Board and firms. It is therefore more difficult to assess the specific expectations of these user groups and whether, and if so to what extent, such expectations will be met. However, based on the ED proposals, there may be little or no perceived difference to an ISA audit. Consequently, it is unlikely that audited entities will discern any significant difference in the work effort or assurance, and related cost, and may therefore question the benefits of adopting this alternative. For other users who rely solely on reading the auditor's report, the report content alone does not provide any basis for such users to judge whether an audit in accordance with the LCE standard meets their expectations compared to an ISA audit. As noted, for these users, the opinion and statement that reasonable assurance has been obtained will be the primary focus.

6. Public Sector Organizations

Audit Scotland

If the standard does not materially change the work of an auditor using the ISA for LCE compared to if the auditor were using ISAs, it does not meet the needs of auditors. If the work is not materially changed, the fees will not materially change so it would not meet the needs of audited entities.

It does ensure that the auditor is able to provide reasonable assurance, so it would meet the needs of users of the financial statements.

Swedish National Audit Office

In general, there are no main differences between a full scope ISA audit and using LCE, if you are auditing as small less complex entity. Therefore, the answer to this question would be yes. Though we think that there is a point of going back to the original idea of the need of this standard and compare it to the draft. A couple of the initiatives were driven by cost-effectiveness, scalability etcetera. We do not think that this standard has fully fulfilled the objective of being a good solution for auditing less complex entities.

7. Professional Accountancy and Other Professional Organizations

Association of Practising Accountants

At the moment it does not fully meet our needs. It has not been tailored sufficiently for LCE's as there are still too many requirements which are not relevant to the audit of an LCE. Therefore it is difficult to justify the costs of implementation. However this may change over time, in that if care is taken when amendments are made to the full ISA's these are not automatically introduced within the LCE standard increasing benefit from adoption could accrue over time.

Institute of Chartered Accountants of Namibia

In the current form, we believe the draft standard would not result in a significant difference in the documentation requirements and the time required to complete the audit.

See response above.

Korean Institute of Certified Public Accountants

Auditors who perform audits on financial statements of Less Complex Entities express concerns that the ISA for LCE contains largely same requirements as the ISAs. They ask why they would need to adopt or use the ISA for LCE, considering that the use of ISA for LCE does not sufficiently reduce burden on auditors (See the answer to Question 9).

9. Individuals and Others

ASK KSA Consulting Inc.

Our comments relate to the needs of auditors only and as previously stated, we do not believe the proposed standard meets the needs of auditors who audit less complex entities. There are minimal differences between the ED-ISA for LCE and the ISAs and therefore challenges faced by auditors under the ISAs will still exist under ED-ISA for LCE.

It has been stated many times that the new standard was not meant to "save time". But this is an objective that should be considered. An audit can still obtain reasonable assurance and save time if designed properly. It is the excessive amount of unnecessary procedures in the existing ISAs that cause frustrations for auditors. These have not been revised as indicated throughout our response.

One issue that we believe has not been addressed the size of the LCE and SMP in the various jurisdictions around the world. What is an less complex entity for one region might be a "micro" entity in another.

This is also true for auditors and the firms they operate. We believe the Canadian market in and of itself is smaller than many other regions, and therefore the clients and the SMPs who service them are also much smaller. For example, when you read articles in the Journal of Accountancy or from IFAC, the size of an SMP is typically 8-12 partners. This is definitely not the case in Canada. A firm that size would most likely be considered a "larger firm", not a small- to mid-sized firm. We work with many firms that are sole practitioners or have only 1-2 partners. These firms are no less focused on quality than the large firms but struggle due to the complexities and extensiveness of the ISAs.

We need to ensure that we support these SMPs. Often the audit of an LCE is performed by a small firm who does not have the power of a national office to help them keep up through training and updated templates. These small practitioners must rely on other sources to help them keep up and it is a challenge to do so. Without the smaller practitioners, there are many organizations that quite frankly, could not afford an audit conducted by a larger firm. For example, day cares in Manitoba which are required to have an audit. Another example would be not-for-profit organizations in rural communities. If these organization do not obtain their audit, they may be offside on funding requirements which in turn could cause them to lose their funding and cease operations, creating a strain on our society as the key functions they were supporting would no longer exist. We need to make it easier for the smaller practitioners to keep up and conduct quality audits.

While the standards do not take into consideration the commercial aspect of an audit, we cannot lose sight of this fact. While quality and protecting the public is of utmost importance, the ability to be efficient is also important. A firm can document in an efficient manner but it still takes time and in many cases, the documentation truly does not add value to the audit. As noted above, many small organizations require an audit and the current standards puts significant fee pressures on the auditor.

Cristian Munarriz

I think some reduced requirements are needed (refer to my general comments at the beginning of this comment letter).

Vera Massarygina

Part 6. This is the most important part of the standard which should be analyzed more thoroughly. LCEs include wide range of entities from very small to relatively large. To be useful for auditors of such different entities the standard must not only reproduce requirements of ISAs but create possibilities not to use excessive ones. According to para.7.3.16 auditor shall perform substantive procedures irrespective of the assessed risks for each material

class of transactions, account balance, and disclosure.

This standard as ISAs utilizes a risk-based approach to an audit. This approach is vital when auditor uses samplings. Risk and sampling are interdependent definitions. When financial statements include 3-4-5 balances and few operations and auditor perform substantive procedures to all of them or nearly all auditor may decide not to rely on internal control or use nearly 100% examination. Under such circumstances what is the necessity to identify controls that address risks of material misstatement at the assertion level as it is specified in para.6.3.14 or to assess Inherent risks at the assertion level by means of the

likelihood and magnitude of misstatement (para. 6.5.1)?

Until such problems are not settled by the standard it could not be useful for auditors of LCEs.

The proposed standard does not meet the needs of auditors who audit financial statements of small and middle entities. See General Comments and para.9 above.

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5. Accounting Firms

Baker Tilly International

In summary we do not believe that a standalone ISA for LCE that sits outside the body of ISAs and requires a separate audit report can meet the needs of audited entities, auditors and users.

The scoping issues that derive from having a separate standalone ISA for LCE mean that the needs of LCE auditors are not met.

Ernst & Young Global Limited

As previously stated, we do not believe that the proposed standard meets the needs of auditors because it does not contain sufficient EEM from the application material in the ISAs to obtain reasonable assurance and the authority may be incapable of consistent application in jurisdictions where it has not been customized by jurisdictional or regulatory authorities.

HLB International

We do not believe ED-ISA for LCE would meet the needs of users and other stakeholders as even if a jurisdiction permits usage of the proposed standard, many auditors will be unlikely to utilize the proposed standard due to the standalone nature of the standard and the punitive transitional provisions to the full ISAs. These challenges could be addressed by instead including ED-ISA for LCE within the ISAs and removing any transitional provisions if an auditor determines the entity is no longer less complex.

6. Public Sector Organizations

Audit Scotland

here would be no commercial benefit to a firm adopting the proposed standard if they are already auditing under ISAs.

7. Professional Accountancy and Other Professional Organizations

Self-Regulatory Organization of Auditors Association (SRO AAS)

It is generally considered that for auditors focus on the scope of the requirements of this standard instead of following all relevant ISAs may be less time consuming. However, we anticipate observing the expectation and understanding gap of the stakeholders of audit services, more judgment and time to be required from the auditor to conclude and document compliance with LCE criteria and assessing their validity throughout the audit notwithstanding redoing the audit under ISA once such criteria are not met during the audit period. Auditor's judgment on applicability of LCE may differ from auditor to auditor, which may cause issue in case of changing the auditor or in case on quality control procedures (external or internal) e.g. in arguing sufficiency of documentation and even challenging compliance with the criteria.

Section 4F – Other Matters\Question 17 - Would ED-ISA for LCE meet the needs of users and other stakeholders for an engagement that enables the auditor to obtain reasonable assurance to express an audit opinion\Question 17(b) Whether the proposed standard meets the needs of Stakeholders\3) No\3x) Other Comments

5. Accounting Firms

Ernst & Young Global Limited

We cannot comment on whether the proposed standard meets the needs of audited entities, users of audited financial statements or other stakeholders. We encourage the IAASB to seek input on this matter through its outreach, particularly on the perception of the auditor's report and what stakeholders would want to know about the audit of an LCE to be able to understand whether there is difference in an audit opinion resulting from an ISA for LCE audit versus an ISA audit.

KPMG IFRG Limited

Other Solutions to Address Scalability Challenges

CUSP Project and Proposal for Electronic Solution

We also encourage the IAASB to give significant focus to addressing the challenges of scalability through the separate IAASB CUSP project, and we consider that appropriate solutions developed following that project would likely be very useful to the audit profession, including auditors of LCEs.

In connection with this, we note that there are challenges in applying certain ISAs, in particular, in terms of their understandability/ application in practice across different entity types and engagement circumstances. Accordingly, whilst auditors of LCEs may face such challenges to a disproportionate extent, these challenges exist across the spectrum of size and complexity of the entity subject to audit and therefore we believe that optimal solution(s) will assist all auditors in addressing these important issues.

We highlighted in our response to the previous DP that we believe the development of an electronic solution would be the most helpful solution in terms of scaling the ISAs, especially for small auditors. We would like to re-iterate this point, especially given that the development of the LCE ISA appears to result in a very similar outcome to scaling of the full-scope ISAs for an LCE audit, at an objectives/requirements level, and in general the approach taken in developing this standard appears to have primarily involved removal of requirements that clearly would not apply to an LCE audit (e.g. listed entity requirements). We consider that an electronic scaling tool would also be able to achieve this form of scaling without the need for sophisticated functionality or significant professional judgement, as scaling would be based on factual gating questions, with binary yes/no answers. An electronic tool may also be capable of a significantly greater degree/specificity of scaling, as it could also exclude requirements that are conditional and are less likely to arise when performing an audit of an LCE, and only scale these in when the conditions which they are intended to address arise (e.g., audit procedures when non-compliance with laws and regulations is identified). It would also be able to scale the entire suite of ISAs, without the need for the removal of selected requirements that may be "proxies for complexity", and, as a result, remove the need for a complex, and potentially subjective, set of considerations in terms of the authority/entry-point to the LCE ISA.

Other IAASB Standards - Education of Stakeholders

We also highlighted in our response to the previous IAASB DP that a consistent theme throughout the IAASB's research at that time was that many regulators require an audit, and many users request an audit in the absence of such requirements, whilst finding this solution not to be cost-effective, and therefore creating fee pressure.

As we highlighted in that response, we continue to believe that the IAASB's suite of auditing, assurance and related services standards currently supports a wide range of deliverables, which meet different user needs, ranging from a full-scope audit in accordance with the ISAs, through to non-assurance engagements such as compilations and agreed-upon procedures engagements.

As a result, we suggested in our response to the DP to explore in more depth as to why regulators require/user groups request an audit, and whether an alternative service performed in accordance with other IAASB standards may better meet their needs, in a cost-effective and efficient manner and we would like to re-iterate that recommendation here. We note that such standards are based on similar principles to those underlying the ISAs, as relevant, including ethical requirements, and pervasive principles such as the exercise of professional scepticism and professional judgement, and may therefore form a more appropriate

basis to deliver services to LCEs as an alternative to an ISA audit. For example, they may provide a lower level of assurance than an audit, which may be appropriate to the users' needs, e.g. a review engagement; provide a means to focus on a specific subject matter with either reasonable or limited assurance provided; or may involve the performance of particular procedures which are agreed upon by the user and the auditor, in order to meet the user's needs. Such services could also be performed together, e.g. a review engagement with additional agreed-upon procedures to address particular matters.

Accordingly, we suggest that the IAASB work with others, e.g. regulators, National Standard Setters (NSSs) and others to explore user needs more fully and to educate user groups as to the availability of such other services and the value of these.

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.

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.

PKF International Limited

There is a potential for prospective users of the ED-ISA for LCE and other stakeholders in an LCE audit, to assume incorrectly that the application of the ED-ISA for LCE will result in greater efficiency gains in the audit process than may be achievable once the final version of the standard is issued and applied in practice.

It is our view that if this potential expectation gap is not anticipated and properly addressed it will ultimately contribute to an erosion in the quality of audit engagements performed under the scope of the proposed standard.

6. Public Sector Organizations

Auditor-General of New Zealand

We are concerned that the proposed standard will not meet the needs of audited entities, users of the financial statements, and other stakeholders.

As explained in our response to Question 2, we are concerned that governors of entities might not want the audit to be carried out under the proposed standard because users and other stakeholders might perceive that this is a lesser form of audit. This is because the proposed standard requires the audit report to state the audit has been carried out in accordance with the ISA for LCE.

In our view, compliance with the proposed standard amounts to compliance with the ISA. Therefore, we do not understand why the audit report cannot assert compliance with the ISA.

7. Professional Accountancy and Other Professional Organizations

Finnish Association of Authorised Public Accountants

There are high hopes for the standard among auditors and other stakeholders. The current draft standard does not meet all of them. Without further development of ISA for LCE there is a risk that not all auditors or firms would want to implement it. The national developments and discussions about raising the audit thresholds etc. might also continue.

The IAASB plays an important role in informing stakeholders that audit quality is not compromised when applying ISA for LCE instead of ISAs!

Malta Institute of Accountants

We do not believe that this Standard will meet the needs of users and other stakeholders due to the concerns mentioned above.

Section 4F – Other Matters\Question 17 - Would ED-ISA for LCE meet the needs of users and other stakeholders for an engagement that enables the auditor to obtain reasonable assurance to express an audit opinion\Question 17(b) Whether the proposed standard meets the needs of Stakeholders\4) Mixed or Unclear\4b) Too Similar to ISAs

4. National Auditing Standard Setters

Hong Kong Institute of Certified Public Accountants

We believe the proposed standard facilitates LCE auditors to understand and focus on requirements required in LCE audits, but does not necessarily result in savings in time and effort.

ED-ISA for LCE is a standalone, self-contained standard focusing on LCE audits. Audit procedures in the ISAs not relevant to an LCE are not included. This saves auditors' time and effort from justifying and documenting why certain procedures are not applicable or performed. The appropriate length of the ED also means that auditors of LCE do not need to go through the application and explanatory materials in the ISAs and scale down the requirements with reference to each circumstance. Instead, auditors could simply focus on the requirements in the ED which are LCE-audit driven.

However, some of our stakeholders do not consider the proposed standard would lead to reduced time and effort (see our responses to Question 23(a)).

5. Accounting Firms

Grant Thornton International Limited

It is unclear whether the Proposed Standard will meet the needs of the various stakeholders for a number of reasons.

Stakeholders in a number of jurisdictions expected ED-ISA for LCE to result in the need to perform fewer audit procedures than in an audit conducted under the ISAs. It is not clear that this expectation will, in fact, be met.

It is unclear from the Explanatory Memorandum how an audit under ED-ISA for LCE would differ from an audit under the ISAs and what 'reasonable assurance' really means under an ED-ISA for LCE audit, i.e., whether it is the same as reasonable assurance under the ISAs or a level of assurance that is somewhere between the current levels of limited assurance and reasonable assurance.

RSM International

The need for an LCE standard has been evident for some time. In drafting ED-ISA for LCE, the IAASB has chosen to maintain reasonable assurance as its benchmark in order to avoid diluting audit quality. Whilst we support this approach and would not want to see a two-tier audit profession, we set out the following potential issues:

The desire from some stakeholders for a different risk assessment and response model with a lower level of assurance than in the ISAs may lead to a lack of adoption in some jurisdictions because it may not have as significant an impact on the audit work required to be performed as some practitioners desire.

Clients may be expecting reductions in fees if an audit is conducted under the proposed standard.

However, our view is that significant savings are unlikely because the requirement to obtain sufficient appropriate audit evidence to support a reasonable assurance opinion is the same as in the ISAs. Whilst the ED-ISA for LCE is more concise than the ISAs, the audit work and documentation are likely to be the same whether an audit is carried out under ISAs or the proposed standard.

7. Professional Accountancy and Other Professional Organizations

Instituto dos Auditores Independentes do Brasil

Partially. As mentioned above, practitioners do not perceive reduction in audit effort, and so there is likely to be little appetite to use the standard and refer to ISA for LCE in the report.

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, be given explicit “permission” to 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 ISA for LCE, and instead, by removal of the majority of the application guidance, it has been left to auditors of LCEs to develop their own interpretations in terms of how to comply with the requirements.

Section 4F – Other Matters\Question 17 - Would ED-ISA for LCE meet the needs of users and other stakeholders for an engagement that enables the auditor to obtain reasonable assurance to express an audit opinion\Question 17(b) Whether the proposed standard meets the needs of Stakeholders\4) Mixed or Unclear\4c) Other Concerns

4. National Auditing Standard Setters

Hong Kong Institute of Certified Public Accountants

We also think that the EEM in the ED is not necessarily sufficient to ensure sufficient understanding in ED-ISA for LCE which might result in diversity in practice (see our responses to Question 13).

Malaysian Institute of Accountants

Response: There may be concerns that the introduction of a separate standalone auditing standard for LCE may lead to two tiers of auditors as there may be audit firms which focus largely on these audits and vice versa. There may be a market perception that the audits of LCE are of lower cost and therefore, from a compliance cost and quality angle may be lower than that of the existing ISAs.

New Zealand Auditing and Assurance Standards Board

The NZAuASB considers the proposed standard may meet the needs of a limited pool of New Zealand stakeholders, however not in its current form. Further refinement and enhancement of the proposed standard is required to enhance its usability and applicability in New Zealand for these stakeholders.

As discussed in Question 17(a) above, given our high statutory audit thresholds, an ISA-capable audit profession, and audit firms with established audit methodology that already caters for audits of entities of all sizes and complexity, we expect that the use of the proposed standard in New Zealand will be limited.

Further, given that both the ISA for LCE and the ISAs provide the same level of assurance, and ISA for LCE is based on relevant requirements from the current suite of ISAs, it may cause reluctance in practice to use the ISA for LCE. Given it is a ‘simpler’ version of the current suite of ISAs, with the same level of assurance, some questioned if this would meet the need of New Zealand stakeholders.

This is further exacerbated by the judgements involved in determining whether use of the LCE standard is appropriate and the transition provisions requiring auditors to transition to full the ISAs if there are matters that arise that render use of ISA for LCE as inappropriate. Auditors may deem it safer to apply the full ISAs than risk having to transition to the full ISAs mid-way through the audit. Auditors may naturally default to over auditing in order to minimise their liability risk. This reduces the attractiveness of the standard.

We are also strongly of the view that group audits should not be specifically prohibited from applying the proposed standard but rather be scoped in based on the QCs of the group (see Question 22).

5. Accounting Firms

Famme & Co. Professional Corporation

We believe the proposed standard would allow us to reach an appropriate reasonable assurance opinion. We do have concerns however, that confusion may result among users when they see reference to another auditing standard. We are uncertain at this time if governments, corporate legislation and lenders would accept this standard as adequate for their purposes.

Grant Thornton International Limited

Irrespective of the lack of clarity of whether an audit would indeed be different under ED-ISA for LCE, there is the perception that such an audit would involve fewer audit procedures, would provide a lesser level of assurance than one performed under the ISAs and may be of a lesser quality.

6. Public Sector Organizations

Government Accountability Office (USA)

While we do not plan to implement this standard in our jurisdiction, we believe that the proposed standard should meet user and stakeholder needs where implemented. There may be issues with convincing audited entities that engaging for an LCE audit is going to provide the same level of assurance as a regular financial statement audit.

7. Professional Accountancy and Other Professional Organizations

ASSIREVI

With respect to users of financial statements, if the purpose is to “enhance the degree of confidence of intended users in the financial statements of an entity” (as stated on page 15 of the Explanatory Memorandum), we are not sure that this objective is achievable with the proposed standard. As indicated in our response to question 1, a possible risk could be a decrease in the confidence in the financial statements on which the auditor’s report is issued in accordance with the new standard, especially by users that have less familiarity with the role of auditors.

The reference to this proposed standard risks decreasing the value of the auditor’s report and supporting the perception that an audit of an LCE is a more superficial audit (a B series audit).

Chamber of Auditors of the Czech Republic

The proposed standard is fairly easy to understand for auditors and overall meet their needs. Other stakeholders may perceive the ISA for LCE engagements as a lower-quality audit with less procedures and cost. Therefore, clear messaging by the IAASB will be essential to convince stakeholders that the audit quality is not compromised.

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

The proposed standard will be useful for small practitioners who choose to utilise it. We don’t believe it should have a significant impact on the experience of users and other stakeholders, other than by a more consistent audit process. There is potential, however, for those users to inadvertently expect things from the standard that it is not intended to deliver (i.e., a different level of assurance or reduced audit fees). We strongly encourage the board to include the need to educate users, preparers and regulators, and for local standard setters to do the same and to undertake activities to do this and to produce materials to support NSS in doing so too.

Chartered Accountants Ireland

As noted in our response to question 7, we have significant concerns around the sufficiency of EEM included in the standard that would impact how the standard meets the needs of auditors and would create implementation issues.

Subject to our concerns around the extent of EEM included as set out in response to question No 7 above, we agree that ED-ISA for LSE would enable the auditor to obtain reasonable assurance to express an audit opinion.

CPA Australia

Feedback from stakeholders indicates mixed reactions regarding whether the LCE standard would meet their needs. Some auditors of LCEs are keen for this single standard to help them navigate the relevant auditing requirements, whilst other mid-tier to large firms would prefer the LCE standard not to be mandated as they prefer to have one methodology based on the ISAs and to use staff across all types of entities in order to manage resources and workflow. Audited entities need to be confident that an LCE audit would remain of equivalent quality and reliability as an audit under the ISAs. There is an indication that if there are

no cost savings, entities are more likely to request an audit under the ISAs, due to perceptions that the LCE audit may be a compromise or that its suitability may be challenged by the regulators subsequently. Users of financial statements who rely on the effectiveness of the audit to provide confidence and trust in financial statements, may perceive the LCE audit report as “lower-level audit” given that it appears to be shorter, follows prescribed wording etc. (see answers to questions 1(a) and 3(b)).

Institute of Singapore Chartered Accountants

However, some users expressed concerns over whether there will be sufficient safeguards in place to ensure that ISA for LCE is rightfully applied to only in-scope entities, so that the rigour and quality of audit is not compromised as a result of applying ISA for LCE incorrectly (i.e. on non-LCEs). A suggestion is for the justification that the audited entity qualifies as an LCE to be made clear and agreed between the audited entity and the auditors. This could include, among others, representation by those charged with governance (TCWG).

Users of financial statements who are not supportive of ISA for LCE also perceive the standard to be of lower quality, leading to a less robust audit. This would create the misconception that there are two different tiers of audit opinion and that there would be issues with comparability. This could widen the expectation gap, which will not be in the public interest.

Nordic Federation of Public Accountants

The proposed standard is a step in the right direction. The structure and language used in the draft standard will increase the understandability of the audit process itself and might therefore in itself contribute to higher audit quality. However, as mentioned, more needs to be done with regard to both content and scope. Moving forward, we also believe that the IAASB will play an important role in informing stakeholders that the audit quality is not compromised when applying this standard.

8. Academics

Accounting and Finance Association of Australia and New Zealand

We do not believe that ED-ISA for LCE in its current form will meet the needs of stakeholders. We do not, however, discount the possibility of a revised standalone standard achieving the goal of meeting current challenges associated with audits of less complex entities.

Our comments in response to other questions highlight risks that ED-ISA for LCE will not meet the needs of stakeholders. We believe that the unique characteristics of an audit of less complex entities have not been effectively captured in the proposed standard (see our response to Questions 7a, 7c, and 9), the authority does not allow for the idiosyncratic need of stakeholders in the financial reporting ecosystem to be incorporated into a decision as to whether to employ the standard or not, and the specific prohibitions stymie governments and regulators’ attempts to improve financial reporting quality in their specific jurisdiction (see our response to Question 4a), and may contribute to misunderstanding as to the appropriate use of the standard (see our response to Question 1b).

We do not, however, discount the possibility of a stand-alone standard helping to address the challenges of audits of less complex entities and encourage the IAASB to continue pursuing this project.

One of the current challenges facing audits of less complex entities is that many auditors of less complex entities do not believe that the full suite of standards are relevant given their portfolio of clients (van Buuren et al. 2018). A standalone standard may help meet the needs of auditors, but the IAASB will need to consider the level of knowledge necessary / expected to apply the standard and the actual (perceived) level of assurance that can be expected from a standalone standard.

Section 4F – Other Matters\Question 17 - Would ED-ISA for LCE meet the needs of users and other stakeholders for an engagement that enables the auditor to obtain reasonable assurance to express an audit opinion\Question 17(b) Whether the proposed standard meets the needs of Stakeholders\4) Mixed or Unclear\4x) Other Comments

4. National Auditing Standard Setters

Indonesian Institute of Certified Public Accountants (IAPI)

Based on the survey we have conducted in our territory, the auditors provide positive response on this exposure draft, and have expectations that this draft can address the challenge of the ISAs' complexities. However, for the other users, including auditees, banks and other stakeholders, we still need to gather more feedback from them..

Institute of Chartered Accountants of India

In our view, the proposed standard meets the needs of auditors. However, in case of audited entities, users of audited financial statements and other stakeholders, their feedback may be sought as to whether the proposed standard meets their needs.

New Zealand Auditing and Assurance Standards Board

Nonetheless, the NZAuASB recognises that the ED-ISA for LCE might be useful to small firms or sole practitioners given the nature of their clients, which are largely less complex in nature. Those small firm practitioners or sole practitioners who participated in our outreach events thought that using the proposed standard would achieve audit efficiency as auditors only need to focus on matters and audit requirements that are relevant to an LCE audit. The proposed standard could be used for small or micro charities, school audits, companies that can opt out of audit or are not required to have an audit. Several participants also thought it could apply to larger charities and other public sectors audits. Most participants agreed that the LCE standard will be useful for their practice as they mainly deal with small not-for-profit audits.

We also note that banks are increasingly requiring more and more assurance (including audits) from their micro client lenders. Although the level and scope of such assurance would depend on the amount of lending, the risk profile of the client, the cost of the assurance engagement (vs the benefits it would convey) and other factors, there is an increasing demand in this market. ISA-800 audits (as discussed in Question 16 above), if included in the scope of LCE standard might increase its uptake of the standard in New Zealand.

The NZAuASB highlights that the ED-ISA for LCE is an indictment on the scalability of the ISAs. The design of the proposed standard, which is based on the relevant audit requirements from the ISAs, highlights that the core audit requirements can be condensed into a much more readable and compact document, which is easier to navigate and understand. While we recognise the IAASB's effort in issuing electronic international standards to ease the navigation of the ISAs, we continue to urge the IAASB to rethink its approach to the ISAs, to start simple and build up progressively, rather than the other way around.

5. Accounting Firms

Deloitte Touche Tohmatsu Limited

It is also important to understand the "marketplace" reaction to the proposed separate standard, to gauge the understanding/interest/demand of users and entity management for this different engagement – because without proper education, users may have the incorrect perception that audits of LCEs provide less assurance than an audit performed under the ISAs and entity management may only focus on the assumption that audits of LCEs should "cost less" because "less work is being performed." In addition, entity management and those charged with governance need to understand the proposed standard as they will be involved in assessing whether it is appropriate to use. Specifically, as the audit report will clearly state that the audit is conducted under the proposed standard instead of the ISAs, the engagement letter will also include this fact, which means that the auditor and management/those charged with governance will both need to reach the conclusion that usage of the ED-ISA for LCE is appropriate instead of the ISAs (i.e., the

provisions of the Authority have been met, and users/management/those charged with governance have either requested or agreed to usage of the proposed standard).

Grant Thornton International Limited

It is unclear whether the Proposed Standard will meet the needs of the various stakeholders for a number of reasons.

The response to the IAASB's Discussion Paper, Audits of Less Complex Entities: Exploring Possible Options to Address the Challenges in Applying the ISAs, did not indicate overwhelming support for a separate standard for the audits of LCEs.

RSM International

Some practitioners may adopt a very risk averse approach to deciding whether their client fits the criteria and not conduct the audit under the standard through fear of using it inappropriately. This fear could be increased by the need to transition to ISAs, at potentially significant cost, as discussed in our response to question 13

Some networks may have member firms that only perform audits for entities that meet the criteria for the ED-ISA for LCE for a local statutory audit. This may then result in issues when a group auditor requires a component auditor to use ISAs for group reporting. The component auditor would need to train a certain number of staff in ISAs just to meet the requirements of group reporting. This could result in extra training and methodology maintenance costs. We suggest a specific amendment to ISA 600 to clarify that component auditors may perform their audits under ED-ISA for LCE, if permitted by the group auditor, and that this will provide the same level of assurance as a component audit performed under ISAs.

Firms which perform audits for larger and LCE entities will need to train staff in both ISAs and the proposed standard. This will result in additional cost and could lead to a two-tier staffing model where some personnel only work either under ISAs or the proposed LCE standard. This in turn could have an effect on recruitment and retention of personnel if those who work on LCEs are seen as "second class", even though the actual audit work is largely identical.

Despite the maintaining of reasonable assurance as the benchmark for the audit opinion, users of financial statements may, incorrectly, perceive that an audit under the LCE standard is of a lower quality. As noted in our response to Q10, we are concerned that the reference in the auditor's report to the ED-ISA for LCE instead of the ISAs, despite there being no difference in the assurance obtained, may reinforce this perception.

In order to justify the investment in using the ED-ISA for LCE, both in terms of personnel costs and the need to maintain separate methodologies and software, firms will need a critical mass of such clients. This may result in some firms withdrawing from the ISA market or not adopting the proposed standard.

7. Professional Accountancy and Other Professional Organizations

Chamber of Financial Auditors of Romania

Thus far, we are uncertain regarding the fact that the proposed standard meets the needs of auditors, audited entities, users of audited financial statements and other stakeholders, but we are aware that there is a need for a consistent approach regarding the audits of LCEs and we appreciate IAASB's efforts in this area.

Institute of Singapore Chartered Accountants

In principle, ISA for LCE would meet the needs of stakeholders since it allows auditors to provide a reasonable assurance opinion, consistent with an audit performed under ISAs.

Based on users of financial statements who responded to our outreach, they are comfortable relying on a set of financial statements audited under ISA for LCE, given that the underlying concepts of the audit performed and level of assurance achieved is the same as a set of financial statements audited under ISAs. From the perspective of management/preparers of financial statements, they welcome a more efficient audit process and expect that this will translate to less time spent dealing with auditors.

Section 4F – Other Matters\Question 17 - Would ED-ISA for LCE meet the needs of users and other stakeholders for an engagement that enables the auditor to obtain reasonable assurance to express an audit opinion\Question 17(b) Whether the proposed standard meets the needs of Stakeholders\6) Ref to Prev Comments Only

4. National Auditing Standard Setters

Australian Auditing and Assurance Standards Board

Refer to paragraphs 3 - 7 of the attached covering letter.

7. Professional Accountancy and Other Professional Organizations

Belgian Institute of Registered Auditors (IBR-IRE)

We refer to the answer above under 17 (a).

Malaysian Institute of Certified Public Accountants

Please see our comments on the cover letter.