

**Audits of Less Complex Entities – ED-ISA for LCE – Q9 Please provide your views on the content of each of Parts 1 through 8 of ED-ISA for LCE, including the completeness of each part. In responding to this question, please distinguish your comments by using a subheading for each of the Parts of the proposed standard. (This supplement contains responses to Part 6)**

**Specific Questions\Section 4E – Content of ED-ISA for LCE\Question 9- Views on the content of Parts 1 through 8 of ED-ISA for LCE\2) Responses on Parts 1 through 8\Part 6\ a. General - Could be more Streamlined or Scalable**

**5. Accounting Firms**

**SRA**

Part 6/7

We note that these parts entail some 30 pages of proposed requirements in the text of proposed ISA for LCE. This description of requirements is too extensive and detailed. Considering the aim and authority of the standard, the requirements should be condensed and be limited to requirements, which are essential to an LCE-audit.

Reference is made to our proposal under 1 (a) to include key or basic requirements in integrated ISA's.

As an example of a too detailed description of requirements we can mention the related parties paragraph. There are seven requirements in this regard, some of which break down into various sub-requirements.

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

**CPA Ireland**

CPA Ireland appreciates the difficulty in maintaining the robustness of the requirements of the ISAs with the task to simplify the process for the audit of LCEs, whilst also delivering a “reasonable assurance” opinion.

That said, we believe that there are opportunities to further reduce and scale back the requirements of the ISAs for this proposed standard. We do not believe that as yet adequate efficiencies have been identified that will appeal sufficiently to firms, their clients and stakeholders.

In particular, we refer to the “Planning” and “Risk Identification” sections of the proposed standard and consider that there is scope to simplify the requirements further.

**Finnish Association of Authorised Public Accountants**

We present below some detailed comments about the different Parts of the draft standard that could, in our opinion, be streamlined further without compromising reasonable assurance and quality audit. We suggest that the IAASB increases alternativeness and the use of professional judgement in deciding whether a requirement is relevant or efficient in the circumstances. One should always consider the value of the procedure/requirement to the ultimate goal of the audit – a reasonable assurance on that the financial statement does not include material misstatements – not to the audit process.

Our comments are given mainly from the Finnish point of view (low audit thresholds, big number of SMEs, big number of audits conducted entirely at once, big number of remote audits etc.) and they aim to the appropriateness of the standard in regard to an SME audit.

**Institute of Chartered Accountants of Pakistan**

Part 6: Risk Identification and Assessment

Risk assessment is a key area where we believe that the proposed standard could be made more scalable.

**Malaysian Institute of Certified Public Accountants**

We are of the view that risk assessment in an audit of an LCE is a key area where the standard can be more scalable than the extant ISAs. Further consideration on how the requirements can be modified as the current requirements are too aligned with the extant ISAs.

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

PART 6: RISK IDENTIFICATION AND ASSESSMENT

In this part, we believe simplification is needed for clarification and better guidance for implementation.

## **Specific Questions\Section 4E – Content of ED-ISA for LCE\Question 9- Views on the content of Parts 1 through 8 of ED-ISA for LCE\2) Responses on Parts 1 through 8\Part 6\b. General - Should better reflect nature of LCE**

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

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

##### **Part 6**

Based upon our experience in drafting the German LCE standards, we believe that risk assessment is the area in the IAASB LCE standard that requires the greatest improvement in terms of performing the audit – that is, where requirements can be condensed, simplified, or removed without affecting the assurance obtained for the vast majority of LCE audits. In particular, we note the following issues:

As we had predicted in our comment letter dated 13 November 2018 to the exposure draft of ISA 315 (Revised 2019), our experience with practitioners indicates that very few practitioners – and particularly no practitioners of which we are aware from SMPs that audit the financial statements of LCEs – are in a position to understand the intricacies and interplay among the definitions and requirements of ISA 315 (Revised 2019). While this is not a serious issue for those firms that are members of larger international networks with highly qualified methodology departments that can faithfully convert the definitions and requirements of ISA 315 (Revised 2019) into an operationalizable methodology, most SMPs do not have the technical resources to obtain an adequate understanding of that standard or perform this conversion into a workable methodology. For these reasons, when drafting our German LCE standards: we changed the definitions of inherent and control risk to eliminate double-counting of thresholds; changed and augmented definitions of assertions to distinguish more clearly between assertions actually made by management, those required, and those used by the auditor; added definitions of “relevant risks of material misstatement” (for both financial statement and assertion levels) and “relevant inherent risks” to signify those risks that have been assessed as not being acceptably low to align with ISA 200 and ISA 330 paragraph A4 second last sentence; and deleted the definition of “relevant assertion” and adjusted the definition of significant classes of transactions, account balances and disclosures to reflect those that contain at least one relevant inherent risk. These changes in the definitions permit a simplification of the requirements and facilitate an understanding of these, as well as permitting further simplifications (see third bullet point below). We believe that the IAASB should consider similar simplifications and restructuring.

The significant classes of transactions, account balances and disclosures should be redefined as those that contain an inherent risk that exceeds an acceptably low level of material misstatement (a relevant inherent risk), rather than one with a reasonable possibility of a material misstatement, which is a much lower threshold. This change would often lead to the required understanding of the information processing activities to a somewhat smaller set of such processing activities that are now defined as significant (i.e., only those with an assertion that has a greater than acceptably low level of risk of material misstatement). Given the simpler nature of processing activities at LCEs, this change would not result in a discernable reduction in the assurance obtained for the vast majority of LCE audits.

#### **Malaysian Institute of Accountants**

We have also noted that when it comes to both considering and evaluating risks, this section may be too closely aligned to the ISA as many times with LCEs, there is not always the need to evaluate every risk, but rather consider how they impact your overall risk assessment. Risk assessment is a key area where we believe this standard can be much more scalable than the present ISA when it comes to an LCE audit; hence, further consideration should be given to tweak the requirements in this section. For example, in an LCE/ SMP environment, risk identification and assessment could be a single step process and the ISA 315 (Revised) threshold of “reasonably possible” should be revised to “appropriately low level”.

### **5. Accounting Firms**

#### **Crowe Macro Brazil**

Proposed standard – Section 6

More emphasis should be given to the risk of management to override controls, as it is extremely likely in less complex entities.

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

Overall, we are of the view that this Part needs to be further tailored to the specific needs of an audit of the financial statements of a less complex entity. As currently drafted, there would appear to be insufficient modification of the requirements to reflect that less complex entities typically have less sophisticated IT environments and that audits of the financial statements of less

complex entities are generally more substantive in nature, with significantly less emphasis being placed on controls that the entity may have put in place. For example:

## **Mazars**

General comments related to Part 6: IAASB has incorporated the changes made in ISA 315 revised 2019. Changes to ISA:s is largely driven by issues and events in the PIE-segment. Controls and the control environment in a LCE are far less developed and documented than in other entities. It may therefore be useful for the proposed standard to reduce the level of audit procedures in relation to these elements for an audit of a LCE.

## **6. Public Sector Organizations**

### **Swedish National Audit Office**

Part 6 Risk identification and assessment

The requirements are basically the same as in ISA 315 (revised). Doing the planning and risk assessment part is crucial. Though the question is whether we would need to gather all the listed mandatory information and assess all the specifics in the understanding the internal control systems, for a less complex entity. The challenge is to tighten the standard to ensure reasonable assurance but not to overwhelm the auditor and causing an inefficient audit.

Gathering all information and understanding every part of the internal control system for the smaller and less complex entities is extremely time consuming. In general, there are minimal changes over the years, but the suggested requirement is to annually update every part. Comparing our approach of today with the new standard would not lead to any efficiency in our work.

What we would suggest is to

- Ensure that the requirements are less detailed and more generic, followed by examples of types of information in an EEM where you list a number of information that may be relevant to gather. For example, paragraph 6.3.1 which says that the auditor shall understand specific information about the entity listed in a–f). Our suggestion would be to state that the auditor needs to understand the business and environment of the entity followed by an EEM with the information listed in a–f. The same approach would apply for paragraph 6.3.6 on control environment but highlighting that you need to do more if you aim to rely on controls (test of controls).
- Highlight the importance of professional judgement.
- Enhance that the auditor is encouraged to use information from previous years and ask for confirmation that it has not changed.
- Highlight that the auditor may need to do more if there have been significant changes at the auditee in terms of business direction, organization, change of top management etcetera. We think it is important to drive the audit work towards parts where there have been significant changes compared to the previous year and not to automatically repeat the same procedures as the previous year.
- Highlight that the auditor may use the information from the previous year written representations in the risk assessment instead of asking the same questions shortly after. Under the condition that the risk assessment/planning is done shortly after the auditor's report is presented.
- Consider combining paragraph 6.8.2 and 6.5.11.

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

### **Association of Practising Accountants**

Risk Assessment – there are still a number of requirements which are left within this standard which are not relevant to less complex entities. For example less complex entities will not carry out or consider the same level of risk assessments. The requirements on systems and controls could also be simplified and reduced for those not seeking to rely on them which will be the case for most less complex entities. We agree you need a level of understanding of the system to determine the best audit approach, however you do not need detailed understanding of the controls when not seeking to rely on them.

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

PART 6: RISK IDENTIFICATION AND ASSESSMENT

The risk identification process is one of the elements that could be carried out on a more “lean & mean” basis in a LCE audit. The requirements described in Part 6 are mainly based on the ISA 315 revised 2019 version. One should consider simplifying this. It is a fact that controls and the control environment in an less complex entity are far less developed and formalised than in other entities. It may therefore be useful for the proposed standard to foresee a reduced level of audit procedures in relation to these elements for an audit of a less complex entity.

In general, it is also expected that the audit approach of a LCE will less be based on control reliance. We therefore believe that the requirements of the risk analysis in relation to the internal controls should be less thorough and expanded in an audit of a

LCE. As such, we are of the opinion that more difference should be made between Part 6 of the ISA for LCE as compared to the full requirements under ISA 315 .

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

### Part 6 - Risk identification and assessment

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. The board should consider if the requirements and documentation are as streamlined as possible. The areas commonly mentioned during our outreach were risk assessment and internal controls. 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. This is an area commonly raised in discussions about scalability of the full suite of ISAs. 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 understand the challenge that the IAASB is facing here, since LCEs consists of a very large pool of entities ranging from very simple LCEs who may lack the resources to have robust controls where practitioners therefore need to take a substantive approach to larger entities that may have appropriate controls in place. The standard needs to be scalable for all situations. We therefore suggest making some of the requirements conditional depending on the circumstances in order to overcome the concerns raised above by our stakeholders. For example, paragraph 6.3.14 (building on ISA 315 (Revised)) requires the auditor to evaluate the design and the implementation of specific controls irrespective of whether the auditor plans to test the operating effectiveness of the identified controls. We understand that this assists the auditor's understanding of management's approach to addressing certain risks, and therefore provides a basis for the design and performance of further audit procedures responsive to these risks even when the auditor does not plan to test the operating effectiveness of identified controls i.e., when a full substantive approach is taken. The requirement currently suggests that inquiry alone is not sufficient and that more procedures should be performed to order to evaluate the design and implementation. We suggest that the requirement is made conditional, with inquiry alone being sufficient in cases where for example, a full substantive approach is taken.

## Korean Institute of Certified Public Accountants

Auditors auditing Less Complex Entities express concerns that there would be little difference between audits performed under the ISA for LCE and audits performed under the ISAs as the ISA for LCE largely contains same key requirements as ISAs with some adjustments made only to enhance readability. More bold adjustments appear to be needed considering the 'nature and circumstance of Less Complex Entities' to ensure that adoption of the ISA for LCE can lead to meaningful changes in practical audit activities. Many auditors want the ISA requirements to be adjusted more fundamentally to make them more suitable for the nature of LCE as long as there is no issue in obtaining reasonable assurance.

For example, changes described as follows can be considered. The list of examples below is not exhaustive. There is a need to revisit the entire standard, rather than making adjustments of specific matters only.

## South African Institute of Chartered Accountants (2)

### Part 6: Risk identification and assessment

80. The risk assessment process is one of the most fundamental aspects of an audit engagement, therefore, significant benefits may be derived in making this section proportionate to the circumstances often encountered in LCE audits. ISA 315 (Revised 2019), Identifying and Assessing the Risks of Material Misstatement, only came into effect in December 2021. The challenges with regards to the implementation of this standard in the LCE environment will be unravelled in the near future. Therefore, as part of its post-implementation activities, the IAASB should identify the challenges faced by auditors of LCE when applying ISA 315(Revised 2019) and make the necessary amendments in the LCE standard as a response.

81. Certain aspects within the LCE standard need to be tailored to the LCE environment. One of these is the area of evaluation of the control environment. The specific focus of the profession and of auditors of moving away from a fully substantive audit approach to a combined audit approach will, in all probability, be inappropriate in the audit of LCEs and this message should be emphasised more throughout this standard and more specifically so, as part of the planning, the risk identification and assessment and the responding to assessed risks of material misstatement parts of the LCE standard.

## 9. Individuals and Others

### 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.

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

## **Specific Questions\Section 4E – Content of ED-ISA for LCE\Question 9- Views on the content of Parts 1 through 8 of ED-ISA for LCE\2) Responses on Parts 1 through 8\Part 6\c. General - Better Use of Conditional Requirements**

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

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

Since inherent risks are so much simpler to identify and assess in LCEs, there is no need to identify controls in the control activities component and perform tests of design and implementation of those controls to assist the auditor in identifying and assessing inherent risks for risks that have been assessed as significant risks (which represents a circularity within ISA 315 (Revised 2019), since the auditor needs to assess the risks as significant risks prior to identifying controls). For these reasons, unless auditors plan to test the operating effectiveness of particular controls (whether due to efficiency or because substantive procedures alone do not provide sufficient appropriate audit evidence), we do not believe auditors need to test the design and implementation of controls addressing significant risks. We therefore believe that (a) and (d) in paragraph 6.3.14 can be deleted without reducing the assurance obtained in LCE audits.

### **6. Public Sector Organizations**

#### **Swedish National Audit Office**

What we would suggest is to

Ensure that the requirements are less detailed and more generic, followed by examples of types of information in an EEM where you list a number of information that may be relevant to gather. For example, paragraph 6.3.1 which says that the auditor shall understand specific information about the entity listed in a–f). Our suggestion would be to state that the auditor needs to understand the business and environment of the entity followed by an EEM with the information listed in a–f. The same approach would apply for paragraph 6.3.6 on control environment but highlighting that you need to do more if you aim to rely on controls (test of controls).

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

#### **Accountancy Europe**

We note that the paragraph 6.3.14 requires the auditor to evaluate the design and the implementation of specific controls even when the auditor does not plan to test the operating effectiveness of identified controls. This should be modified as a conditional requirement that will be applicable only when the auditor plans to rely on the specific controls that address the risks of material misstatement at the assertion level.

#### **Association of Practising Accountants**

We agree you need a level of understanding of the system to determine the best audit approach, however you do not need detailed understanding of the controls when not seeking to rely on them.

#### **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 understand the challenge that the IAASB is facing here, since LCEs consists of a very large pool of entities ranging from very simple LCEs who may lack the resources to have robust controls where practitioners therefore need to take a substantive approach to larger entities that may have appropriate controls in place. The standard needs to be scalable for all situations. We therefore suggest making some of the requirements conditional depending on the circumstances in order to overcome the concerns raised above by our stakeholders. For example, paragraph 6.3.14 (building on ISA 315 (Revised)) requires the auditor to evaluate the design and the implementation of specific controls irrespective of whether the auditor plans to test the operating effectiveness of the identified controls. We understand that this assists the auditor's understanding of management's approach

to addressing certain risks, and therefore provides a basis for the design and performance of further audit procedures responsive to these risks even when the auditor does not plan to test the operating effectiveness of identified controls i.e., when a full substantive approach is taken. The requirement currently suggests that inquiry alone is not sufficient and that more procedures should be performed to order to evaluate the design and implementation. We suggest that the requirement is made conditional, with inquiry alone being sufficient in cases where for example, a full substantive approach is taken.

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

In particular, paragraph 6.3.14 requires the auditor to evaluate the design of specific controls irrespective of whether the auditor plans to test the operating effectiveness of the identified controls. While we appreciate that this can assist with the auditor's understanding of management's approach to addressing certain risks, we do not believe it would be necessary in situations where the auditor does not plan to test the operating effectiveness of identified controls.

## 9. Individuals and Others

### ASK KSA Consulting Inc.

6.3.14 (b) Controls over journal entries. In many LCE audits, a substantive approach is taken which more often than not includes journal entries. We recommend that the requirement evaluate whether the control is designed effectively and determine whether the control has been implemented (by using procedures other than inquiry) be eliminated. This does not make sense in the audit of an LCE.

6.3.16 EEM performance of walkthroughs. One of the biggest challenges faced by auditors relates to understanding of the information system versus design and implementation of controls. This is an opportunity to clarify the requirements. It is not clear what controls are relevant to the audit. In addition, in many cases a fully substantive approach is taken either due to efficient and/or the nature of the entity. In these cases why is it necessary that both design and implementation are required. There is a lack of clarity as to what controls are necessary.

### Vera Massarygina

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)?

## Specific Questions\Section 4E – Content of ED-ISA for LCE\Question 9- Views on the content of Parts 1 through 8 of ED-ISA for LCE\2) Responses on Parts 1 through 8\Part 6\ d. General - Need more EEM

## 5. Accounting Firms

### Mazars

In Part 6 there are more EEM included giving the auditors more guidance in how to interpret the requirements related to the risk assessment for LCE. We concur the need for more extensive EEM in the important risk assessment phase of the audit as included in the proposed standard.

## 6. Public Sector Organizations

### Swedish National Audit Office

Ensure that the requirements are less detailed and more generic, followed by examples of types of information in an EEM where you list a number of information that may be relevant to gather.

## 7. Professional Accountancy and Other Professional Organizations

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

In Part 6 there are more EEM included giving the auditors more guidance in how to interpret the requirements related to the risk assessment for LCE. We concur the need for more extensive EEM in the important risk assessment phase of the audit as included in the proposed standard.

### Institute of Chartered Accountants of Pakistan

Identifying and assessing the risks of material misstatements needs more guidance/application material for situations where a less complex entity lacks internal control system and resultant impact on the nature, timing and extent of substantive procedures (detailed and analytical both) and other general audit procedures is not attributable.

## **Nordic Federation of Public Accountants**

Compared to other Parts of the standard, more EEM is included in Part 6. We concur the need for more extensive EEM in the important risk assessment phase of the audit as included in the proposed standard. ISA 315 (revised) has many good examples of scalability. For example, the first bullet in ISA 315 A170 is relevant for many LCEs and we suggest including that in relation to 6.3.11.

## **Specific Questions\Section 4E – Content of ED-ISA for LCE\Question 9- Views on the content of Parts 1 through 8 of ED-ISA for LCE\2) Responses on Parts 1 through 8\Part 6\ e. General - Other Comments**

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

#### **Committee of European Auditing Oversight Bodies**

Comment on the location of a specific provision

Paragraph 7.4.22 regarding litigation and claims deals with the identification and assessment of risks rather than to responding to those risks, therefore this could be moved to section 6 of the separate standard.

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

#### **American Institute of Certified Public Accountants**

##### Omitted requirements from the ISAs

In our review of the Mapping Documents, we agreed with many of the decisions made and the principles applied by the Task Force to determine the ISA requirements that are applicable to an audit of the financial statements of an LCE. However, there are ISA requirements that have been omitted from the Exposure Draft that will make it difficult for the auditor to obtain reasonable assurance. The omission of such requirements is inconsistent with the IAASB's stated intent to exclude from the Exposure Draft only the ISA requirements that are not applicable to the audit of the financial statements of an LCE.

The omission of these requirements from the Exposure Draft results in the proposed standard not adequately addressing the audit areas that we identified in our September 12, 2019 comment letter as the most challenging in auditing the financial statements of an LCE, including:

- Group audits,
- The requirement to perform risk assessment procedures and obtain an understanding of internal control,
- Accounting estimates,
- Required communications with those charged with governance, and
- Onerous audit documentation requirements.

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

Based on our proposals in the bullet points above, with the exception of the second sentence of the EEM to paragraph 6.1.1. and the EEM to paragraphs 6.2.1., 6.2.2., 6.3.5., the second paragraph within 6.3.5., 6.8. and 6.8.1. (c), the EEM in Part 6 is not needed and can therefore be deleted.

### **5. Accounting Firms**

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

Whilst we appreciate there is a fine balance to achieve between the length of the proposed standard and the necessary guidance to enable consistent and appropriate application of the standard, we are of the view that the EEM is insufficient to enable consistent and appropriate application of the requirements in Parts of ED-ISA for LCE. This is particularly apparent in Part 6 of the Proposed Standard in relation to the application of the requirements derived from ISA 315 (Revised) 2019.

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

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

Part 6: Risk Identification and Assessment

The content is complete and broadly covers the requirements within ISA 315 (Revised 2019).

KPAP supports that the ED-ISA for LCE includes examples or aspects of requirements that have not been retained because they are less likely to apply in circumstances where an entity is less complex. For example, some of the specific matters within the understanding of the control components and the 'stand-back' requirement to evaluate the completeness of significant

classes of transactions, account balances, and disclosures where they are material. KPAP suggests that the IAASB provides more application examples in these two situations.

KPAP is satisfied that this ED has collected various specific "inquiries" of management from various standards to enable an easier understanding of the specific matters that need to be addressed

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

General comments related to Part 6: IAASB has incorporated the changes made in ISA 315 revised 2019. Changes to ISA:s are largely driven by issues and events in the PIE-segment. The previous (current) ISA 315 has been used for audits resulting in a reasonable assurance opinion. As such the previous (current) ISA 315 should be relevant for the requirements from ISA 315 in Part 6 to the proposed ISA for LCE adjusted in accordance with the general objectives in preparing ISA for LCE.

In Part 6 there are more EEM included giving the auditors more guidance in how to interpret the requirements related to the risk assessment for LCE. We concur the need for more extensive EEM in the important risk assessment phase of the audit as included in the proposed standard.

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

We understand that ISA 315 (Revised 2019) includes a stand-back requirement. We understand that the stand-back requirement (as mentioned in paragraph 116 of the Explanatory Memorandum of proposed ISA for LCE) may be retained in the proposed standard since it involves exercise of professional skepticism.

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

We also believe the circularity regarding the assertions could also be dropped.

There was also a question on the requirements related to assessing risk as section 7.3.16 states that "irrespective of assessed risk required, substantive procedures shall be performed on material class of transactions, account balance and disclosure". Perhaps there could be additional guidance on how to group items for purposes of materiality as defined in this paragraph. We were curious why the stand back provision in the ISAs was not retained for purposes of this proposal, as we believe this provision could be just as effective in an audit of an LCE as it would a more complex entity as it involves exercising professional skepticism.

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

Overall, in our view the EEM serves the intended purpose. Although including limited amount of EEM will allow the auditor to exercise professional judgment to a larger extent, there is one area where we think additional guidance could be useful. The application material to ISA 315 (revised) includes many helpful scalability examples. Some of them, but not all, have been incorporated in the draft standard. Depending on the final version of part 6, we would encourage the IAASB to consider adding further examples.

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

PART 6: RISK IDENTIFICATION AND ASSESSMENT

In this part, we believe simplification is needed for clarification and better guidance for implementation.

### **Specific Questions\Section 4E – Content of ED-ISA for LCE\Question 9- Views on the content of Parts 1 through 8 of ED-ISA for LCE\2) Responses on Parts 1 through 8\Part 6\6.f. Specific Drafting Comments\0 Content of this Part**

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

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

Paragraph: Content of Part 6

Text of the standard statement: Understand the entity and its environment, the applicable financial reporting framework, and the entity's system of internal control (the entity's internal control system);

Comments: The words 'the entity's internal control system' are put twice.

## **8. Academics**

### **Hunter College Graduate Program**

Section 6 (ED Pg 98)

Included in Part 6 contains the **are various** requirements relevant to the auditor's responsibility to perform **is responsible for following in alignment with** procedures and related activities **that will allow them to**:

**Specific Questions\Section 4E – Content of ED-ISA for LCE\Question 9- Views on the content of Parts 1 through 8 of ED-ISA for LCE\2) Responses on Parts 1 through 8\Part 6\6.f. Specific Drafting Comments\6.1 Objectives**

## 5. Accounting Firms

### PriceWaterhouseCoopers

*No change proposed in the illustrative proposal (Appendix 1)*

## 7. Professional Accountancy and Other Professional Organizations

### Institute of Chartered Accountants in England and Wales

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.

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

Paragraph: 6.1

Text of the standard statement: Title 'Objectives'

Comments: The use of the plural for 'objectives' is incorrect, because there is only one objective of this part.

Paragraph: EMM para 6.1.1

Text of the standard statement: Understanding the entity and its environment, the applicable financial reporting framework and the entity's internal control system enables the auditor to identify and assess the risks of material misstatement. The auditor's understanding of the entity and its environment, the applicable financial reporting framework, and the entity's internal control system are interdependent with concepts within the requirements to identify and assess the risks of material misstatement.

Comments: Two sentences, the meaning of which is very similar. This leads to an excessive unnecessary text of the standard.

## 8. Academics

### Accounting and Finance Association of Australia and New Zealand

Part 6 – Risk identification and assessment

On the basis of research highlighting that small and medium sized practices may not effectively apply risk assessment procedures as required in ISA315, we are concerned that the material included on risk identification and assessment is inadequate for the purposes of conducting this critical component of the audit process.

Van Buuren et al. (2014) find that auditors in small and medium sized audit practices often do not apply business risk perspectives (as required in ISA315), choosing instead to follow a more historic systems or substantive approach. Subsequent work by the same authors (i.e., van Buuren et al. 2018) finds that many auditors in small and medium practices have not embraced business risk auditing, believing it to be too complex and that previous approaches remain effective.

We recommend, therefore, that the IAASB reinforce the importance of contemporary risk assessment, based on business risk, in achieving a reasonable level of assurance by expanding on the essential explanatory material associated with Section 6.1.1, and reminding auditors of less complex entities that the contemporary approach to risk assessment is required, even in less complex entities. We also note our comments above with regard to restrictions on the provision of non-assurance services and the potential impediments that this may pose to fully understanding the client and its environment and, therefore, the effective conduct of risk assessment.

**Specific Questions\Section 4E – Content of ED-ISA for LCE\Question 9- Views on the content of Parts 1 through 8 of ED-ISA for LCE\2) Responses on Parts 1 through 8\Part 6\6.f. Specific Drafting Comments\6.2 Procedures for Identifying and Assessing Risks and Related Activities\6.2.1**

### 3. Regulators and Audit Oversight Authorities

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

Editorial changes to EEM below paragraph 6.2.1 – A “full-stop” is missing at the end of the first sentence:

“... When such systems and processes lack formality, compliance with the procedures in this Part is still required. For example, the auditor may still be able to perform the required procedures through observation and inquiry ...”

### 4. National Auditing Standard Setters

#### American Institute of Certified Public Accountants

The following represents those ISA paragraphs and corresponding ISA for LCE paragraphs that we assigned a “B” rating – meaning that omission or revision of the ISA requirement might create an issue for auditors when any one item is aggregated with another or others. We are pleased to provide additional information if requested.

From Mapping Document #1

ISA 315, paragraph 13/ISA for LCEs paragraph 6.2.1

### 5. Accounting Firms

#### BDO International

Paragraphs 6.2.1 and 6.2.2 - In paragraph 6.2.2, the proposed LCE standard states “The procedures to identify and assess risks of material misstatement shall include: ... (c) Observation and inspection”. (Emphasis added). Contrast that to the immediately preceding EEM for paragraph 6.2.1 which states “Some less complex entities, and particularly owner-managed entities, may not have established structured processes and systems (e.g., a risk assessment process or a process to monitor the entity’s internal control system) or may have established processes or systems with limited documentation or a lack of consistency in how they are undertaken. When such systems and processes lack formality, compliance with the procedures in this Part is still required. For example the auditor may still be able to perform the required procedures through observation and inquiry”.

These two statements seem contradictory – one refers to inquiry and the other to inspection. Given that the requirement in the standard refers to inspection, will there be an expectation that at least something needs to be inspected in the instances where entities do not have established processes or systems in place? We believe that with respect to risk identification and assessment for LCEs, observation and inquiry should suffice.

#### PriceWaterhouseCoopers

*Respondent provided illustrative proposed revisions – see Appendix 1.*

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.

### 7. Professional Accountancy and Other Professional Organizations

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

Editorial to EEM paragraph below Paragraph 6.2.1 – “Full-Stop” is missing at the end of the first sentence:

“...When such systems and processes lack formality, compliance with the procedures in this Part is still required. For example the auditor may still be able to perform the required procedures through observation and inquiry...”

### 8. Academics

#### Hunter College Graduate Program

Section 6.2.1 (ED Pg 99) [Below sentence is missing ‘.’ after ‘required’.]

When such systems and processes lack formality, compliance with the procedures in this part is still required. For example, the auditor may still be able to perform the required procedures through observation and inquiry

**Specific Questions\Section 4E – Content of ED-ISA for LCE\Question 9- Views on the content of Parts 1 through 8 of ED-ISA for LCE\2) Responses on Parts 1 through 8\Part 6\6.f. Specific Drafting Comments\6.2 Procedures for Identifying and Assessing Risks and Related Activities\6.2.2\1) Challenge if Preliminary Analytical Procedures Should be Required**

## 4. National Auditing Standard Setters

### Canadian Auditing and Assurance Standards Board

In its 2019 Discussion Paper, the IAASB asked stakeholders to identify aspects of the ISAs that are difficult to apply in audits of LCEs (referred to as “pain points”). Our response letter to that Discussion Paper identified the pain points, based on feedback from our stakeholders.

The IAASB has replicated many of these pain points in ED-ISA for LCE with no additional guidance. As a result, ED-ISA for LCE may not effectively respond to the needs of stakeholders as a solution for audits of LCEs.

Stakeholders have told us that pain points in ISA 315 (Revised 2019) and ISA 240 are creating the greatest difficulty in practice. We recently completed a root cause analysis of each significant pain point in ISA 315 to determine whether it has been addressed in ISA 315 (Revised 2019). For those pain points that continue to exist, we determined whether it is caused by a flawed requirement, or misinterpretation and misapplication of the standard that can be addressed with non-authoritative guidance.

We determined that some of the pain points were addressed in ISA 315 (Revised 2019) either through reworded requirements or the addition of application material. For the pain points that were not addressed in ISA 315 (Revised 2019), we provided input into the development of non-authoritative guidance in Canada, Implementation tool for auditors: Revised CAS 315, that emphasizes the scalability of the standard with a focus on LCEs.

We are encouraged by the recently approved project proposal to revise ISA 240; the pain points stakeholders identified will be considered in the project. We believe that this is an area where revisions to ISA for LCE resulting from revisions to ISA 240 is a priority.

We list below the specific pain points in ED-ISA for LCE that have been replicated from the ISAs. There may be others. We suggest that the IAASB revisit the feedback received on its Discussion Paper and consider addressing the pain points in ED-ISA for LCE by modifying relevant requirements or adding EEM.

We believe that if the pain points are addressed, it will enhance audit quality. Practitioners may also achieve significant efficiencies in performing audits of LCEs, resulting in a better uptake of the standard.

Preliminary analytical review (ISA 315 (Revised 2019), paragraph 14 / ISA for LCE paragraph 6.2.2). This paragraph requires the auditor to perform analytical procedures as a risk assessment procedure. Stakeholders indicated such a procedure is often ineffective for an audit where the entity’s financial information requires year-end adjustments (e.g., cut-off adjustments, amortization, etc.) to comply with the applicable financial reporting framework. Although stakeholders acknowledged that the application and explanatory material provides scalability considerations, they thought it does not allow enough flexibility for the auditor to decide not to perform the procedure or combine the procedure with final analytical procedures.

## 8. Academics

### Hunter College Graduate Program

Section 6.2.2 (ED Pg 99)

The procedures to identify and assess risks of material misstatement shall include:

(b) Analytical procedures; and

## 9. Individuals and Others

### ASK KSA Consulting Inc.

6.2.2 Analytical procedures. The requirement is that analytical procedures are to be performed as a risk assessment procedure. It is often challenging to perform preliminary analytics on an LCE; many times the balances are very preliminary as many adjusting journal entries are required and therefore this is not an effective risk assessment procedure. As the proposed standard is currently drafted, there is no option and this procedure must be performed.

We recommend that either the requirement to perform preliminary analytics be removed altogether from the standard or at least allow the preliminary analytics and final analytics to be “combined”.

We agree that “final” analytics as required by paragraph 8.3.1 are critical when forming an overall conclusion in the audit.

**Specific Questions\Section 4E – Content of ED-ISA for LCE\Question 9- Views on the content of Parts 1 through 8 of ED-ISA for LCE\2) Responses on Parts 1 through 8\Part 6\6.f. Specific Drafting Comments\6.2 Procedures for Identifying and Assessing Risks and Related Activities\6.2.2\2) Challenge Procedures From (a) Through (c)**

## 4. National Auditing Standard Setters

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

In Paragraph 6.2.2. we suggest deleting the word “and” after (b) Analytical procedures. The use of the word “and” leads to the conclusion that always all 3 types of procedures stated in paragraph 6.2.2.(a) to (c) must be performed together and that there is no option to choose or combine some of those procedures.

## 7. Professional Accountancy and Other Professional Organizations

### Finnish Association of Authorised Public Accountants

#### 6.2.2 Risk assessment procedures

The majority of LCE audits are continuous audits of clients that the auditor already knows. In LCE engagements, the most important issues for the auditor to have an understanding of the applicable financial reporting framework as well as the entity, its environment and its accounting policies. This knowledge is usually accumulated. Many of the issues which the auditor needs to understand in LCE audits are easily visible or analyzable from the financial statements and supporting documents. Therefore, the risk assessment procedures in 6.2.2 could be alternative to each other (“...shall include one or more of the following...”) – using professional judgement.

### **Specific Questions\Section 4E – Content of ED-ISA for LCE\Question 9- Views on the content of Parts 1 through 8 of ED-ISA for LCE\2) Responses on Parts 1 through 8\Part 6\6.f. Specific Drafting Comments\6.2 Procedures for Identifying and Assessing Risks and Related Activities\6.2.2\3) Challenge if Inquiry and Observation Required**

## 5. Accounting Firms

### BDO International

Paragraphs 6.2.1 and 6.2.2 - In paragraph 6.2.2, the proposed LCE standard states “The procedures to identify and assess risks of material misstatement shall include: ... (c) Observation and inspection”. (Emphasis added). Contrast that to the immediately preceding EEM for paragraph 6.2.1 which states “Some less complex entities, and particularly owner-managed entities, may not have established structured processes and systems (e.g., a risk assessment process or a process to monitor the entity’s internal control system) or may have established processes or systems with limited documentation or a lack of consistency in how they are undertaken. When such systems and processes lack formality, compliance with the procedures in this Part is still required. For example the auditor may still be able to perform the required procedures through observation and inquiry”.

These two statements seem contradictory – one refers to inquiry and the other to inspection. Given that the requirement in the standard refers to inspection, will there be an expectation that at least something needs to be inspected in the instances where entities do not have established processes or systems in place? We believe that with respect to risk identification and assessment for LCEs, observation and inquiry should suffice.

## 7. Professional Accountancy and Other Professional Organizations

### Institute of Chartered Accountants in England and Wales

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’.

### **Specific Questions\Section 4E – Content of ED-ISA for LCE\Question 9- Views on the content of Parts 1 through 8 of ED-ISA for LCE\2) Responses on Parts 1 through 8\Part 6\6.f. Specific Drafting Comments\6.2 Procedures for Identifying and Assessing Risks and Related Activities\6.2.2\4) Editorial Comments**

## 3. Regulators and Audit Oversight Authorities

### Independent Regulatory Board for Auditors (IRBA)

Editorial changes to paragraph 6.2.2. – Remove the “full-stop” at the end of sub-bullet (b):

- “(a) Inquiries of management, and other appropriate individuals within the entity;
- (b) Analytical procedures-; and
- (c) Observation and inspection.”

## 4. National Auditing Standard Setters

### Hong Kong Institute of Certified Public Accountants

In paragraph 6.2.2, suggest to delete full stop after (b) and “and” at the end of (b) if the auditor is not required to perform all of these procedures stated in 6.2.2.

## 5. Accounting Firms

### Mazars

6.2.2 (b) – should it be “preliminary analytical procedures?”

## 7. Professional Accountancy and Other Professional Organizations

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

Editorial to paragraph 6.2.2. – Remove “Full-Stop” at the end of sub-bullet (b):

“(a) Inquiries of management, and other appropriate individuals within the entity;

(b) Analytical procedures; and

(c) Observation and inspection.”

## Specific Questions\Section 4E – Content of ED-ISA for LCE\Question 9- Views on the content of Parts 1 through 8 of ED-ISA for LCE\2) Responses on Parts 1 through 8\Part 6\6.f. Specific Drafting Comments\6.2 Procedures for Identifying and Assessing Risks and Related Activities\6.2.2\5) Other Comments

## 4. National Auditing Standard Setters

### American Institute of Certified Public Accountants

The following represents those ISA paragraphs and corresponding ISA for LCE paragraphs that we assigned a “B” rating – meaning that omission or revision of the ISA requirement might create an issue for auditors when any one item is aggregated with another or others. We are pleased to provide additional information if requested.

From Mapping Document #1

ISA 315, paragraph 14/ISA for LCEs paragraph 6.2.2

## 5. Accounting Firms

### Ernst & Young Global Limited

Procedures for Identifying and Assessing Risks and Related Activities 6.2.2 – The EEM for this paragraph refers to “each aspect of the auditor’s understanding required” but the ED-ISA for LCE never defines the different aspects the auditor is to obtain an understanding of.

### PriceWaterhouseCoopers

*No change proposed in the illustrative proposal (Appendix 1)*

## 6. Public Sector Organizations

### Office of the Auditor General of Alberta

The wording of Section 6.2.2 Considerations Specific to Public Sector Entities should be updated. Specifically that the auditors “may obtain information from additional sources such as from the auditors that are involved in performance or other audits related to the entity...” Public sector auditors are often bound to a high confidentiality and specific legislation that goes beyond rules of professional conduct. This unique obligation should be included within the considerations.

## 7. Professional Accountancy and Other Professional Organizations

### Finnish Association of Authorised Public Accountants

There is useful application material in the ISAs regarding scalability and all of it is not yet incorporated in ISA for LCE. For example, we identified some good scalability points that are missing compared to newly revised ISA 315:

ISA 315.A18: “The nature and extent of risk assessment procedures to be performed the first time an engagement is undertaken may be more extensive than procedures for a recurring engagement. In subsequent periods, the auditor may focus on changes that have occurred since the preceding period.” Adding these sentences into EEM in 6.2.1. or 6.2.2. should be considered.

## **Specific Questions\Section 4E – Content of ED-ISA for LCE\Question 9- Views on the content of Parts 1 through 8 of ED-ISA for LCE\2) Responses on Parts 1 through 8\Part 6\6.f. Specific Drafting Comments\6.2 Procedures for Identifying and Assessing Risks and Related Activities\6.2.3**

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

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

Paragraph 6.2.3. relates to risks arising from fraud, related parties and going concern. The EEM to paragraph 6.2.3. explains LCE related risks to fraud and going concern. We suggest to also include considerations to typical LCE related risks into the EEM, e.g., inadequate segregation between the sphere of the LCE and the owner. We also suggest adding 'lack of a succession plan' as an example for a typical owner-related going concern risk.

### **5. Accounting Firms**

#### **Mazars**

6.2.3 – other factors to consider: There are other factors to consider when assessing the risk of error:

- 1) economic, accounting and other recent developments
- 2) estimates
- 3) transactions outside the normal course business

#### **PriceWaterhouseCoopers**

*No change proposed in the illustrative proposal (Appendix 1)*

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.

### **6. Public Sector Organizations**

#### **Office of the Auditor General of Alberta**

Section 6.2.3 includes guidance regarding going concern. We suggest further guidance is added to deal with the dissolution or disestablishment of a public sector entity. The going concern assumption in this way is unique in the public sector and specific guidance should be included for when a public sector entity is dissolved or disestablished and the assets, liabilities and operations are transferred to another public sector entity and therefore a cash or liquidation basis of accounting is not necessary or appropriate.

### **8. Academics**

#### **Hunter College Graduate Program**

Section 6.2.3 (ED Pg 100)

Misappropriation of assets is often accompanied by false or misleading records or documents in order to conceal ~~the fact that the assets are missing or have been pledged~~ **missing assets or assets that were pledged** without proper authorization.

## **Specific Questions\Section 4E – Content of ED-ISA for LCE\Question 9- Views on the content of Parts 1 through 8 of ED-ISA for LCE\2) Responses on Parts 1 through 8\Part 6\6.f. Specific Drafting Comments\6.2 Procedures for Identifying and Assessing Risks and Related Activities\6.2.4**

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

#### **American Institute of Certified Public Accountants**

The following represents those ISA paragraphs and corresponding ISA for LCE paragraphs that we assigned a “B” rating – meaning that omission or revision of the ISA requirement might create an issue for auditors when any one item is aggregated with another or others. We are pleased to provide additional information if requested.

From Mapping Document #1

ISA 315, paragraph 15/ISA for LCEs paragraph 6.2.4

## 5. Accounting Firms

### PriceWaterhouseCoopers

*Respondent provided illustrative proposed revisions – see Appendix 1.*

## 7. Professional Accountancy and Other Professional Organizations

### Institute of Chartered Accountants in England and Wales

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.

6.2.4 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.

### **Specific Questions\Section 4E – Content of ED-ISA for LCE\Question 9- Views on the content of Parts 1 through 8 of ED-ISA for LCE\2) Responses on Parts 1 through 8\Part 6\f. Specific Drafting Comments\6.2 Procedures for Identifying and Assessing Risks and Related Activities\6.2.5**

## 5. Accounting Firms

### PriceWaterhouseCoopers

*No change proposed in the illustrative proposal (Appendix 1)*

## 7. Professional Accountancy and Other Professional Organizations

### Institute of Chartered Accountants in England and Wales

6.2.4 and 6.2.5 should be reversed.

### **Specific Questions\Section 4E – Content of ED-ISA for LCE\Question 9- Views on the content of Parts 1 through 8 of ED-ISA for LCE\2) Responses on Parts 1 through 8\Part 6\f. Specific Drafting Comments\6.2 Procedures for Identifying and Assessing Risks and Related Activities\6.2.6**

## 5. Accounting Firms

### PriceWaterhouseCoopers

*No change proposed in the illustrative proposal (Appendix 1)*

## 8. Academics

### Hunter College Graduate Program

Section 6.2.6 (ED Pg 100) [Below sentence is missing ‘,’ after ‘modified’.]

If the audit opinion on the prior period’s financial statements was modified, the auditor shall evaluate the effect on the current year’s financial statements when identifying and assessing risks of material misstatement.

### **Specific Questions\Section 4E – Content of ED-ISA for LCE\Question 9- Views on the content of Parts 1 through 8 of ED-ISA for LCE\2) Responses on Parts 1 through 8\Part 6\f. Specific Drafting Comments\6.3 Understanding Relevant Aspects of the Entity\A. Challenge Work Effort Verbs**

## 4. National Auditing Standard Setters

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

The main reason for the requirements for the “evaluation” of the control environment, risk assessment, monitoring, and information and communication, components of internal control in paragraphs 21 (b), 22 (b), 24 (c), and 25 (c) in ISA 315 (Revised 2019) is that such a detailed evaluation (which, pursuant to the Glossary of Terms encompasses an analysis and additional audit procedures as needed) is needed for more complex systems of internal control. By definition, LCEs do not have such complex systems of internal control. This implies that auditors need not perform such an evaluation in an LCE environment – rather, based upon fulfillment of the requirements in paragraphs 21 (a), 22 (a), 24 (a) and (b), and 25 (a) and (b), a consideration by the auditor of whether these components of internal control are adequate for the purposes of the entity suffices.

For these reasons, in line with our German LCE standards, we believe that the IAASB LCE standard should no longer require the noted evaluations of these components of internal control, but rather only a consideration thereof.

## 5. Accounting Firms

### Grant Thornton International Limited

Paragraphs 6.3.6 – 6.3.8 require the auditor to evaluate certain aspects of the entity's internal control system by understanding a number of specified activities. Firstly, we would expect a different level of work effort between a requirement to 'evaluate' and a requirement to 'understand' so the extent of the procedures to be performed by the auditor is unclear; secondly, if the intent was to have a work effort of evaluate, in many audits of less complex entities, a fully substantive audit approach is taken, so there is little to be gained from performing an evaluation of these aspects of the entity's internal control system. We would therefore recommend that these requirements are clarified to clearly differentiate between the elements of the internal control system that the auditor is required to understand and those that the auditor is required to evaluate and the circumstances in which such an evaluation is required.

## 7. Professional Accountancy and Other Professional Organizations

### Institute of Chartered Accountants in England and Wales

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.

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'.

6.3.6: 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.

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

83. The auditors should be required to understand and consider the implications of some of these control activities instead of the requirement to evaluate the controls. It is our view that 'understanding', in these cases may be obtained through inquiry alone.

### **Specific Questions\Section 4E – Content of ED-ISA for LCE\Question 9- Views on the content of Parts 1 through 8 of ED-ISA for LCE\2) Responses on Parts 1 through 8\Part 6\6. Specific Drafting Comments\6.3 Understanding Relevant Aspects of the Entity\b. 6.3.1**

## 3. Regulators and Audit Oversight Authorities

### Independent Regulatory Board for Auditors (IRBA)

Paragraph 6.3.1.(f) seems to extend beyond the ISA principles. It is unclear whether this was intentional.

## 5. Accounting Firms

### Price Bailey LLP

Part 6 - We have looked at this section in more detail as an illustration where there are a number of obvious requirements which have been retained from the ISA's which are not relevant to an LCE audit.

The specific examples are noted below, but this is not an exhaustive list.

6.3.1e) - Reference to entity's transactions implies a high level of detail yet this requirement is about understanding the high level of risk. Suggest to amend to "changes in the nature" of the entities transactions.

6.3.1f) - This would normally be carried out in the fieldwork stage.

## PriceWaterhouseCoopers

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”.

## 6. Public Sector Organizations

### Office of the Auditor General of Alberta

Section 6.3.1 is prescriptive as it includes a “shall,” however the wording is vague. Specifically, what does the Board mean by “other external factors” shall be understood? Which “external financial performance measures” shall be understood? Which “relationships that may result in unrecognized liabilities, future commitments” are required to be documented? The expectation to meet these requirements should be added.

### Swedish National Audit Office

Ensure that the requirements are less detailed and more generic, followed by examples of types of information in an EEM where you list a number of information that may be relevant to gather. For example, paragraph 6.3.1 which says that the auditor shall understand specific information about the entity listed in a–f). Our suggestion would be to state that the auditor needs to understand the business and environment of the entity followed by an EEM with the information listed in a–f. The same approach would apply for paragraph 6.3.6 on control environment but highlighting that you need to do more if you aim to rely on controls (test of controls).

## 7. Professional Accountancy and Other Professional Organizations

### Finnish Association of Authorised Public Accountants

#### 6.3 Understanding Relevant Aspects of the Entity

There are several issues in paragraph 6.3 that are not relevant for a sufficient understanding of a small and especially owner-managed entity. There is some useful scalability guidance given in EEMs, but there could be more. Furthermore, as we commented to question 7.d), it is not always clear what the scaling effect of EEM is in practice.

The IAASB could consider adding more alternativeness or conditionality in part 6.3.

One option could be to add to 6.3.1 the following: “The auditor shall understand, to the extent relevant in the events and circumstances...”. Something like this could be also added separately in every component of the internal control system, or you could start the requirements with “if relevant...” or “if the auditor determines it necessary...”.

### Institute of Chartered Accountants in England and Wales

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.

6.3.1: 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.

## Specific Questions\Section 4E – Content of ED-ISA for LCE\Question 9- Views on the content of Parts 1 through 8 of ED-ISA for LCE\2) Responses on Parts 1 through 8\Part 6\6.f. Specific Drafting Comments\6.3 Understanding Relevant Aspects of the Entity\c. 6.3.2

## 3. Regulators and Audit Oversight Authorities

### Independent Regulatory Board for Auditors (IRBA)

Editorial changes to paragraphs 6.3.2. and 6.3.3. – In terms of paragraph 5.1.2 of the CUSP Drafting Principles and Guidelines, the term “obtain an understanding” should be used, rather than using the word “understand”:

6.3.2.: “The auditor shall obtain an understanding of how those charged with governance exercise oversight ...”

## 5. Accounting Firms

### Azets Audit Services

The IAASB should continue efforts to work on the clarity and simplification of language throughout the ED-ISA for LCE. Specifically, there are also several areas that act to complicate the standard and their omission or simplification could be of benefit.

For example, Part 6 of the ED-ISA for LCE would benefit from some further work to ensure the underlying requirements (not just the, generally very good, EEM) highlight the additional simplicity that stems from the qualitative features of a LCE. The standard also uses presumptive language in connection with processes that EEM acknowledge can be very informal, or unnecessary, in a less complex entity in areas including:

6.3.2 talks of governance oversight of management's processes for identifying and responding to the risks of fraud and error and the controls that management has established

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

Understanding the Entity and Its Environment 6.3.2 – This paragraph is part of understanding the system of internal control and we believe it would be better placed in the “Understanding the Entity’s Internal Control System” section rather than the “Understanding the Entity and Its Environment” section.

### **ETY sas**

Editorial to paragraph 6.3.2. and 6.3.3. – In terms of Paragraph 5.1.2 of the CUSP Drafting Principles and Guidelines, the term “obtain an understanding” should be used, rather than using the word, “understand”:

6.3.2.: “The auditor shall obtain an understanding how those charged with governance exercise oversight...”

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

6.3.2 We believe that any entity that falls under the scope of an LCE would rarely, if ever, perform any formal processes to identify and respond to risks of fraud or error. In many instances, any entity that falls under the scope of an LCE would not have a separation between those charged with governance and management.

### **Price Bailey LLP**

6.3.2 - Should be simplified to “enquire of management about the risks and controls for the management of fraud or error”

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

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

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’.

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.

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

Editorial to paragraph 6.3.2. and 6.3.3. – In terms of Paragraph 5.1.2 of the CUSP Drafting Principles and Guidelines, the term “obtain an understanding” should be used, rather than using the word, “understand”:

6.3.2.: “The auditor shall obtain an understanding how those charged with governance exercise oversight...”

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

Editorial to paragraph 6.3.2. and 6.3.3. – In terms of Paragraph 5.1 2 of the CUSP Drafting Principles and Guidelines, the term “obtain an understanding” should be used, rather than using the word, “understand”:

6.3.2.: “The auditor shall obtain an understanding how those charged with governance exercise oversight...”

## **Specific Questions\Section 4E – Content of ED-ISA for LCE\Question 9- Views on the content of Parts 1 through 8 of ED-ISA for LCE\2) Responses on Parts 1 through 8\Part 6\ f. Specific Drafting Comments\6.3 Understanding Relevant Aspects of the Entity\d. 6.3.3**

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

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

Editorial changes to paragraphs 6.3.2. and 6.3.3. – In terms of paragraph 5.1.2 of the CUSP Drafting Principles and Guidelines, the term “obtain an understanding” should be used, rather than using the word “understand”:

6.3.3.: “The auditor shall obtain an understanding: ...”

It is suggested that this principle be consistently applied throughout the proposed standard.

## 5. Accounting Firms

### ETY sas

Editorial to paragraph 6.3.2. and 6.3.3. – In terms of Paragraph 5.1.2 of the CUSP Drafting Principles and Guidelines, the term “obtain an understanding” should be used, rather than using the word, “understand”:

6.3.3.: “The auditor shall obtain an understanding :...”

It is suggested that this principle be consistently applied throughout the proposed standard.

## 7. Professional Accountancy and Other Professional Organizations

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

Editorial to paragraph 6.3.2. and 6.3.3. – In terms of Paragraph 5.1.2 of the CUSP Drafting Principles and Guidelines, the term “obtain an understanding” should be used, rather than using the word, “understand”:

6.3.3.: “The auditor shall obtain an understanding :...”

It is suggested that this principle be consistently applied throughout the proposed standard.

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

Editorial to paragraph 6.3.2. and 6.3.3. – In terms of Paragraph 5.1 2 of the CUSP Drafting Principles and Guidelines, the term “obtain an understanding” should be used, rather than using the word, “understand”:

6.3.3.: “The auditor shall obtain an understanding :...”

It is suggested that this principle be consistently applied throughout the proposed standard.

## Specific Questions\Section 4E – Content of ED-ISA for LCE\Question 9- Views on the content of Parts 1 through 8 of ED-ISA for LCE\2) Responses on Parts 1 through 8\Part 6\6.f. Specific Drafting Comments\6.3 Understanding Relevant Aspects of the Entity\6.3.5

## 4. National Auditing Standard Setters

### American Institute of Certified Public Accountants

The following represents those ISA paragraphs and corresponding ISA for LCE paragraphs that we assigned a “B” rating – meaning that omission or revision of the ISA requirement might create an issue for auditors when any one item is aggregated with another or others. We are pleased to provide additional information if requested.

From Mapping Document #1

ISA 315, paragraphs A92, A93 and A95; paragraph 315.12(m)/with ISA for LCEs paragraph 6.3.5

## 5. Accounting Firms

### Mazars

6.3.5 - inherent risk factors - this assessment should be part of the acceptance procedure. We have to conclude that these risk factors have low impact, otherwise we cannot use the LCE standards to begin with.

6.3.5 – understanding the entity’s internal control system – no reduction from ISA. We believe further simplification should be investigated with examples of reduction in documentation and work effort provided in the implementation guidance.

### PriceWaterhouseCoopers

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.

## 7. Professional Accountancy and Other Professional Organizations

### Institute of Chartered Accountants in England and Wales

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...’.

## South African Institute of Professional Accountants

Part 6: Paragraph 6.3.5 makes reference to “control activities” in the remainder of the standard its referred to as controls in line with the decision made to use the reference controls. We recommend to remove the word activities form 6.3.5 EMM.

### **Specific Questions\Section 4E – Content of ED-ISA for LCE\Question 9- Views on the content of Parts 1 through 8 of ED-ISA for LCE\2) Responses on Parts 1 through 8\Part 6\6. Specific Drafting Comments\6.3 Understanding Relevant Aspects of the Entity\6. 6.3.6-6.3.8 Direct Controls - Simplify or Combine**

#### 4. National Auditing Standard Setters

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

Paragraphs 6.3.6., 6.3.7. and 6.3.8. should be merged and auditors should be required to understand the entity’s internal control system as a whole instead of having specific requirements for 3 elements from the COSO framework. The control environment is likely to be simpler and there is unlikely to be separate risk assessment and monitoring processes established in a less complex entity. As a consequence, documentation requirements related to auditor’s understanding of the entity’s internal control system should be proportionate.

##### Canadian Auditing and Assurance Standards Board

Understanding internal controls (ISA 315 (Revised 2019), paragraphs 21-26 / ISA for LCE, paragraphs 6.3.6-6.3.11 and 6.3.14). These paragraphs require the auditor to understand the components of internal control. Stakeholders thought the understanding required is too granular and does not reflect a less complex environment. Such an environment is typically less formal and focuses more on monitoring and oversight controls than on process controls. Further, stakeholders thought this section seems onerous in circumstances where a fully substantive approach is taken. While ISA 315 (Revised 2019) includes scalability guidance in this area, more focused guidance is needed.

#### 5. Accounting Firms

##### Azets Audit Services

The IAASB should continue efforts to work on the clarity and simplification of language throughout the ED-ISA for LCE. Specifically, there are also several areas that act to complicate the standard and their omission or simplification could be of benefit.

For example, Part 6 of the ED-ISA for LCE would benefit from some further work to ensure the underlying requirements (not just the, generally very good, EEM) highlight the additional simplicity that stems from the qualitative features of a LCE. The standard also uses presumptive language in connection with processes that EEM acknowledge can be very informal, or unnecessary, in a less complex entity in areas including:

6.3.6 to 6.3.17 in connection with understanding the entity’s internal control system would benefit from additional distillation to reflect the qualitative characteristics acknowledged in the EEM

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

##### Accountancy Europe

In our view, there is considerable scope to revise this section for the circumstances of an LCE audit. the work effort and documentation needed could be reduced without compromising audit quality.

We believe that this Part should be improved by removing or simplifying the following requirements:

6.3.6, 6.3.7 and 6.3.8 should be merged and auditors should be required (not to evaluate but) to consider the entity’s internal control system as a whole instead of having specific requirements for three elements from the COSO framework. The control environment is likely to be simpler and there is unlikely to be separate risk assessment and monitoring processes established in a less complex entity. As a consequence, documentation requirements related to the auditor’s understanding of the entity’s internal control system should be proportionate.

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

We believe that this part is too excessive and should be simplified.

We proposed to remove or simplified following requirements:

6.3.6, 6.3.7 and 6.3.8 should be merged and auditors should be required to understand the entity’s internal control system as a whole instead of having specific requirements for 3 elements from the COSO framework. There is unlikely to be separate risk assessment and monitoring processes established in a less complex entity. As a consequence, documentation requirements

related to auditor's understanding of the entity's internal control system should be proportionate and focusing on the description of the key process including IT and controls identified (mainly authorisation).

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

6.3.6, 6.3.7 and 6.3.8 could be merged.

### **Specific Questions\Section 4E – Content of ED-ISA for LCE\Question 9- Views on the content of Parts 1 through 8 of ED-ISA for LCE\2) Responses on Parts 1 through 8\Part 6\6. Specific Drafting Comments\6.3 Understanding Relevant Aspects of the Entity\g. 6.3.6**

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

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

The EEM paragraph above paragraph 6.3.6. of the proposed standard lists the five components of internal control, and that includes "control activities", per ISA 315 (Revised). A decision was made when drafting the proposed standard not to introduce the term "control activities", but to rather use the word "controls". Paragraph 6.3.14. of the proposed standard lists the "controls" (which are the controls within the "control activities" component paragraph in ISA 315 (Revised)), and only uses the word "controls". As such, the use of the term "control activities" in the EEM paragraph may be considered confusing. It is therefore suggested that the IAASB either decides to introduce the term "control activities" into the proposed standard or amends the list of the five components in the EEM paragraph above paragraph 6.3.6 to align it to the terms used in the proposed standard.

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

#### **American Institute of Certified Public Accountants**

Detailed Findings: The following table is intended to highlight those items which we assigned an "A" rating – meaning that omission or revision of the ISA requirement will, in our view, create an impediment to the auditor obtaining reasonable assurance in an audit performed in accordance with the Exposure Draft.

ISA Section: ISA 315(Revised 2019)

Paragraph 21

Obtaining an Understanding of the Entity and Its Environment, the Applicable Financial Reporting Framework and the Entity's System of Internal Control

Understanding the Components of the Entity's System of internal Control

Control Environment

ISA for LCE: Paragraph 6.3.6.

Risk Identification and Assessment

Understanding Relevant Aspects of the Entity

Understanding the Entity's Internal Control System

ISA Text:

The auditor shall obtain an understanding of the control environment relevant to the preparation of the financial statements, through performing risk assessment procedures, by:

(a) Understanding the set of controls, processes and structures that address:

(i) How management's oversight responsibilities are carried out, such as the entity's culture and management's commitment to integrity and ethical values;

(ii) When those charged with governance are separate from management, the independence of, and oversight over the entity's system of internal control by, those charged with governance;

(iii) The entity's assignment of authority and responsibility;

(iv) How the entity attracts, develops, and retains competent individuals; and

(v) How the entity holds individuals accountable for their responsibilities in the pursuit of the objectives of the system of internal control;

and

(b) Evaluating whether:

(i) Management, with the oversight of those charged with governance, has created and maintained a culture of honesty and ethical behavior;

(ii) The control environment provides an appropriate foundation for the other components of the entity's system of internal control considering the nature and complexity of the entity; and

(iii) Control deficiencies identified in the control environment undermine the other components of the entity's system of internal control.

#### ISA for LCE Text:

The auditor shall evaluate whether management (with the oversight of those charged with governance, if applicable) has created and maintained a control environment that provides an appropriate foundation for the other components of the entity's internal control system, including determining whether there are any deficiencies in the control environment that undermine the other components of the entity's internal control system. For this purpose, the auditor shall understand:

- (a) How management, and where appropriate, those charged with governance, oversee the entity, and demonstrate integrity and ethical values;
- (b) The entity's assignment of authority and responsibility;
- (c) The culture of the entity, including whether the culture supports honesty and ethical behavior; and
- (d) When applicable, how owner-managers have an active involvement and influence the risks arising from management override of controls due to lack of segregation of duties.

#### Key Findings:

1. We disagree that we would fundamentally understand the control environment (CE) differently in an audit of an LCE. It is scalable and documentation may be less for an LCE audit but eliminating certain requirements from the ISA makes this requirement less robust than ISA 315 which could result in less assurance than an ISA audit.
2. The ISA for LCE has eliminated the requirement to evaluate whether management has created and maintained a culture of honesty and ethical behavior. This is just as relevant in an audit of an LCE as in an audit of a more complex entity. The ISA for LCE requires the auditor to understand this - but not evaluate it.
3. Other aspects of the CE (independence of TCWG, competent individuals, accountability) highlighted in bold italics are not included in the ISA for LCE. These are relevant for LCE and their understanding could affect the identification of risks of material misstatement. They seemed to have been left out because they refer to internal control, but we believe these aspects of the CE are relevant for an LCE.

## 5. Accounting Firms

### Ernst & Young Global Limited

Understanding the Entity's Internal Control System 6.3.6 – The requirement from ISA 315.21 (Revised) for the auditor to evaluate whether management or those charged with governance have created and maintained a culture of honest and ethical behavior has been removed. Currently, the ED-ISA for LCE only includes the requirement to understand the culture of the entity, including whether the culture supports honesty and ethical behavior. Just because an entity is LCE does not mean that the auditor should not evaluate whether management or those charged with governance have created and maintained a culture of honest and ethical behavior. We suggest the requirement from 315.21 be added to the ED-ISA for LCE.

Understanding the Entity's Internal Control System 6.3.6 – This paragraph uses the term deficiencies in the control environment, and we suggest that the ED-ISA for LCE consistently use the term control deficiencies and not just deficiencies.

### ETY sas

The EEM paragraph 6.3.6. of the proposed standard lists the five components of internal control, including "control activities". A decision were made when drafting the proposed standard not to introduce the term "control activities", but instead to rather use the word "controls". Paragraph 6.3.14. of the proposed standard list the "controls" (which are the controls within the "control activities" component paragraph in ISA 315 (Revised)), and only uses the word "controls". As such, the use of the term "control activities" in the EEM paragraph may be considered confusing. It is our view that the IAASB should consider maintaining the term "control activities" into the proposed standard" already well known and accepted (since the COSO report) to avoid misunderstanding and inappropriate use when implementing the standard. Accordingly amend the term "controls" throughout the proposed standard, guides and other materials.

### Grant Thornton International Limited

#### Part 6, Risk Identification and Assessment

Overall, we are of the view that this Part needs to be further tailored to the specific needs of an audit of the financial statements of a less complex entity. As currently drafted, there would appear to be insufficient modification of the requirements to reflect that less complex entities typically have less sophisticated IT environments and that audits of the financial statements of less complex entities are generally more substantive in nature, with significantly less emphasis being placed on controls that the entity may have put in place. For example:

Paragraphs 6.3.6 – 6.3.8 require the auditor to evaluate certain aspects of the entity's internal control system by understanding a number of specified activities. Firstly, we would expect a different level of work effort between a requirement to 'evaluate' and a

requirement to ‘understand’ so the extent of the procedures to be performed by the auditor is unclear; secondly, if the intent was to have a work effort of evaluate, in many audits of less complex entities, a fully substantive audit approach is taken, so there is little to be gained from performing an evaluation of these aspects of the entity’s internal control system. We would therefore recommend that these requirements are clarified to clearly differentiate between the elements of the internal control system that the auditor is required to understand and those that the auditor is required to evaluate and the circumstances in which such an evaluation is required.

## **Mazars**

6.3.6 – blue box – last paragraph - The standard keeps all significant requirements for internal controls assessment in previous paragraphs and then recognizes that "some or all aspects of the control environment may not be applicable or less relevant" in LCE, which seems to be contradictory. See our proposal in 6.3.5.

## **PriceWaterhouseCoopers**

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.

## **6. Public Sector Organizations**

### **Swedish National Audit Office**

Ensure that the requirements are less detailed and more generic, followed by examples of types of information in an EEM where you list a number of information that may be relevant to gather. For example, paragraph 6.3.1 which says that the auditor shall understand specific information about the entity listed in a–f). Our suggestion would be to state that the auditor needs to understand the business and environment of the entity followed by an EEM with the information listed in a–f. The same approach would apply for paragraph 6.3.6 on control environment but highlighting that you need to do more if you aim to rely on controls (test of controls).

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

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

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.

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

Chapter 6. Risk identification and Assessment

LCEs, by nature, can achieve their goals of identifying and assessing risks with simpler procedures than complex entities. Therefore, the auditors of LCEs need to have greater discretion in performing risk assessment procedures or limited or specific risk assessment procedures need to be prescribed.

For example, if an entity is less complex, its control activities are not sufficiently designed and operated. So, auditors often choose audit strategies aimed to strengthen substantive procedures, rather than relying on controls, as they believe the control risk is high. Therefore, the ISA for LCE needs to skip or minimize the procedures of understanding and testing controls as the high control risk is a ‘default condition’ in the LCE. There is a need to consider some relevant options including allowing auditors to decide whether or not to perform the procedure of understanding and assessing the entity-level controls described in 6.3.6–6.3.8.

In LCEs, management monitoring often substitutes for formal control procedures and such management procedures partially mitigate the control risk. Thus, it can be useful to test such management procedures, instead of control activities, and incorporate test results into determination of the nature, timing and scope of substantive procedures.

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

One main concern with the ISAs that was also highlighted in the responses to the DP was “requirements that result in certain procedures being performed solely to comply with ISA requirements with no additional assurance or measurable increase in audit quality”. We believe Part 6 of the draft standard is an area where more could be done in this respect, taking into account the specific characteristics of audits of LCEs, and also by applying scalability and proportionality.

We encourage the IAASB to reconsider the drafting of the requirements in this Part, and especially with regard to section 6.3, for example by considering the following:

6.3.6 Control environment: LCE audits are often performed by using only substantive procedures. While the auditor needs to understand the business processes to perform an effective and efficient audit, in many audits of less complex entities the auditor

does not necessarily need to fully understand all aspects of internal control. This is an area where simplifications would be welcome. In our view this requirement should allow for proportionate application taking into account smaller LCEs.

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

The EEM paragraph 6.3.6. of the proposed standard lists the five components of internal control, including “control activities”. A decision were made when drafting the proposed standard not to introduce the term “control activities”, but instead to rather use the word “controls”. Paragraph 6.3.14. of the proposed standard list the “controls” (which are the controls within the “control activities” component paragraph in ISA 315 (Revised)), and only uses the word “controls”. As such, the use of the term “control activities” in the EEM paragraph may be considered confusing. It is our view that the IAASB should consider maintaining the term “control activities” into the proposed standard” already well known and accepted (since the COSO report) to avoid misunderstanding and inappropriate use when implementing the standard. Accordingly amend the term “controls” throughout the proposed standard, guides and other materials.

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

The EEM paragraph above paragraph 6.3.6. of the proposed standard lists the five components of internal control, that includes “control activities”, per ISA 315 (Revised). A decision was made when drafting the proposed standard not to introduce the term “control activities”, but instead to rather use the word “controls”. Paragraph 6.3.14. of the proposed standard list the “controls” (which are the controls within the “control activities” component paragraph in ISA 315 (Revised)), and only uses the word “controls”. As such, the use of the term “control activities” in the EEM paragraph may be considered confusing. It is therefore suggested that the IAASB either decide to introduce the term “control activities” into the proposed standard” or amend the list off the five components in the EEM paragraph above paragraph 6.3.6 to align it to the terms used in the proposed standard.

### **Specific Questions\Section 4E – Content of ED-ISA for LCE\Question 9- Views on the content of Parts 1 through 8 of ED-ISA for LCE\2) Responses on Parts 1 through 8\Part 6\6.f. Specific Drafting Comments\6.3 Understanding Relevant Aspects of the Entity\h. 6.3.7\Suggest to be More LCE Specific**

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

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

###### **Part 6, Risk Identification and Assessment**

Overall, we are of the view that this Part needs to be further tailored to the specific needs of an audit of the financial statements of a less complex entity. As currently drafted, there would appear to be insufficient modification of the requirements to reflect that less complex entities typically have less sophisticated IT environments and that audits of the financial statements of less complex entities are generally more substantive in nature, with significantly less emphasis being placed on controls that the entity may have put in place. For example:

Paragraphs 6.3.6 – 6.3.8 require the auditor to evaluate certain aspects of the entity’s internal control system by understanding a number of specified activities. Firstly, we would expect a different level of work effort between a requirement to ‘evaluate’ and a requirement to ‘understand’ so the extent of the procedures to be performed by the auditor is unclear; secondly, if the intent was to have a work effort of evaluate, in many audits of less complex entities, a fully substantive audit approach is taken, so there is little to be gained from performing an evaluation of these aspects of the entity’s internal control system. We would therefore recommend that these requirements are clarified to clearly differentiate between the elements of the internal control system that the auditor is required to understand and those that the auditor is required to evaluate and the circumstances in which such an evaluation is required.

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

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

###### **Chapter 6. Risk identification and Assessment**

LCEs, by nature, can achieve their goas of identifying and assessing risks with simpler procedures than complex entities. Therefore, the auditors of LCEs need to have greater discretion in performing risk assessment procedures or limited or specific risk assessment procedures need to be prescribed.

For example, if an entity is less complex, its control activities are not sufficiently designed and operated. So, auditors often choose audit strategies aimed to strengthen substantive procedures, rather than relying on controls, as they believe the control risk is high. Therefore, the ISA for LCE needs to skip or minimize the procedures of understanding and testing controls as the high control risk is a ‘default condition’ in the LCE. There is a need to consider some relevant options including allowing auditors to decide whether or not to perform the procedure of understanding and assessing the entity-level controls described in 6.3.6–6.3.8.

In LCEs, management monitoring often substitutes for formal control procedures and such management procedures partially mitigate the control risk. Thus, it can be useful to test such management procedures, instead of control activities, and incorporate test results into determination of the nature, timing and scope of substantive procedures.

## **Specific Questions\Section 4E – Content of ED-ISA for LCE\Question 9- Views on the content of Parts 1 through 8 of ED-ISA for LCE\2) Responses on Parts 1 through 8\Part 6\6.f. Specific Drafting Comments\6.3 Understanding Relevant Aspects of the Entity\h. 6.3.7\Suggest to Remove Entirely**

### **5. Accounting Firms**

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

6.3.7 We believe that any entity that falls under the scope of an LCE would rarely, if ever, perform any formal processes to identify risks.

#### **Price Bailey LLP**

6.3.7 - Should be deleted. LCE clients are not going to have a risk assessment process for this area.

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

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

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'.

6.3.7: delete – see 6.3.2 above.

## **Specific Questions\Section 4E – Content of ED-ISA for LCE\Question 9- Views on the content of Parts 1 through 8 of ED-ISA for LCE\2) Responses on Parts 1 through 8\Part 6\6.f. Specific Drafting Comments\6.3 Understanding Relevant Aspects of the Entity\i. 6.3.8\Suggest to be More LCE Specific**

### **5. Accounting Firms**

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

Part 6, Risk Identification and Assessment

Overall, we are of the view that this Part needs to be further tailored to the specific needs of an audit of the financial statements of a less complex entity. As currently drafted, there would appear to be insufficient modification of the requirements to reflect that less complex entities typically have less sophisticated IT environments and that audits of the financial statements of less complex entities are generally more substantive in nature, with significantly less emphasis being placed on controls that the entity may have put in place. For example:

Paragraphs 6.3.6 – 6.3.8 require the auditor to evaluate certain aspects of the entity's internal control system by understanding a number of specified activities. Firstly, we would expect a different level of work effort between a requirement to 'evaluate' and a requirement to 'understand' so the extent of the procedures to be performed by the auditor is unclear; secondly, if the intent was to have a work effort of evaluate, in many audits of less complex entities, a fully substantive audit approach is taken, so there is little to be gained from performing an evaluation of these aspects of the entity's internal control system. We would therefore recommend that these requirements are clarified to clearly differentiate between the elements of the internal control system that the auditor is required to understand and those that the auditor is required to evaluate and the circumstances in which such an evaluation is required.

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

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

Chapter 6. Risk identification and Assessment

LCEs, by nature, can achieve their goals of identifying and assessing risks with simpler procedures than complex entities.

Therefore, the auditors of LCEs need to have greater discretion in performing risk assessment procedures or limited or specific risk assessment procedures need to be prescribed.

For example, if an entity is less complex, its control activities are not sufficiently designed and operated. So, auditors often choose audit strategies aimed to strengthen substantive procedures, rather than relying on controls, as they believe the control risk is high. Therefore, the ISA for LCE needs to skip or minimize the procedures of understanding and testing controls as the

high control risk is a ‘default condition’ in the LCE. There is a need to consider some relevant options including allowing auditors to decide whether or not to perform the procedure of understanding and assessing the entity-level controls described in 6.3.6–6.3.8.

In LCEs, management monitoring often substitutes for formal control procedures and such management procedures partially mitigate the control risk. Thus, it can be useful to test such management procedures, instead of control activities, and incorporate test results into determination of the nature, timing and scope of substantive procedures.

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### **5. Accounting Firms**

#### **Price Bailey LLP**

6.3.8 - Should be deleted.

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

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

6.3.8 suggest delete.

## **Specific Questions\Section 4E – Content of ED-ISA for LCE\Question 9- Views on the content of Parts 1 through 8 of ED-ISA for LCE\2) Responses on Parts 1 through 8\Part 6\j. Specific Drafting Comments\6.3 Understanding Relevant Aspects of the Entity\j. 6.3.9**

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

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

Understanding internal controls (ISA 315 (Revised 2019), paragraphs 21-26 / ISA for LCE, paragraphs 6.3.6-6.3.11 and 6.3.14). These paragraphs require the auditor to understand the components of internal control. Stakeholders thought the understanding required is too granular and does not reflect a less complex environment. Such an environment is typically less formal and focuses more on monitoring and oversight controls than on process controls. Further, stakeholders thought this section seems onerous in circumstances where a fully substantive approach is taken. While ISA 315 (Revised 2019) includes scalability guidance in this area, more focused guidance is needed.

Responding to risks arising from information technology (IT) (ISA 315 (Revised 2019), paragraphs 25 and 26(b)-(c) / ISA for LCE, paragraphs 6.3.9-6.3.11 and 6.3.14). These paragraphs require the auditor to understand the information system and related controls relevant to financial reporting. Stakeholders thought the standard is unclear as to the extent of work required when the auditor decides specific controls over IT applications will be irrelevant to the audit. For example, IT risks for an entity using “off-the-shelf” commercial accounting packages that the entity cannot change should present a low risk to financial reporting. Still, practitioners struggle to understand what evidence is needed to support this judgment.

### **5. Accounting Firms**

#### **Azets Audit Services**

The IAASB should continue efforts to work on the clarity and simplification of language throughout the ED-ISA for LCE. Specifically, there are also several areas that act to complicate the standard and their omission or simplification could be of benefit.

For example, Part 6 of the ED-ISA for LCE would benefit from some further work to ensure the underlying requirements (not just the, generally very good, EEM) highlight the additional simplicity that stems from the qualitative features of a LCE. The standard also uses presumptive language in connection with processes that EEM acknowledge can be very informal, or unnecessary, in a less complex entity in areas including:

6.3.6 to 6.3.17 in connection with understanding the entity’s internal control system would benefit from additional distillation to reflect the qualitative characteristics acknowledged in the EEM

#### **Price Bailey LLP**

6.3.9 - Need’s to be simplified. Auditors need to understand the process for the preparation of the financial statements. They do not require a detailed understanding of the information system or the IT environment.

## PriceWaterhouseCoopers

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.

## 7. Professional Accountancy and Other Professional Organizations

### Institute of Chartered Accountants in England and Wales

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.

### Specific Questions\Section 4E – Content of ED-ISA for LCE\Question 9- Views on the content of Parts 1 through 8 of ED-ISA for LCE\2) Responses on Parts 1 through 8\Part 6\k. 6.3.10

## 4. National Auditing Standard Setters

### Canadian Auditing and Assurance Standards Board

Understanding internal controls (ISA 315 (Revised 2019), paragraphs 21-26 / ISA for LCE, paragraphs 6.3.6-6.3.11 and 6.3.14). These paragraphs require the auditor to understand the components of internal control. Stakeholders thought the understanding required is too granular and does not reflect a less complex environment. Such an environment is typically less formal and focuses more on monitoring and oversight controls than on process controls. Further, stakeholders thought this section seems onerous in circumstances where a fully substantive approach is taken. While ISA 315 (Revised 2019) includes scalability guidance in this area, more focused guidance is needed.

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## 5. Accounting Firms

### Azets Audit Services

The IAASB should continue efforts to work on the clarity and simplification of language throughout the ED-ISA for LCE. Specifically, there are also several areas that act to complicate the standard and their omission or simplification could be of benefit.

For example, Part 6 of the ED-ISA for LCE would benefit from some further work to ensure the underlying requirements (not just the, generally very good, EEM) highlight the additional simplicity that stems from the qualitative features of a LCE. The standard also uses presumptive language in connection with processes that EEM acknowledge can be very informal, or unnecessary, in a less complex entity in areas including:

6.3.6 to 6.3.17 in connection with understanding the entity's internal control system would benefit from additional distillation to reflect the qualitative characteristics acknowledged in the EEM

## Famme & Co. Professional Corporation

6.3.10 and 6.3.11 In practice, none of our LCEs prepare their own financial statements. The statements and all disclosures required under the applicable accounting framework are prepared by our office. We believe this is the case for most LCEs and their auditors. We feel these sections are moot under an LCE scenario.

## Price Bailey LLP

6.3.10 - Should be deleted.

## 7. Professional Accountancy and Other Professional Organizations

### Institute of Chartered Accountants in England and Wales

6.3.10: suggest delete.

### Specific Questions\Section 4E – Content of ED-ISA for LCE\Question 9- Views on the content of Parts 1 through 8 of ED-ISA for LCE\2) Responses on Parts 1 through 8\Part 6\6. Specific Drafting Comments\6.3 Understanding Relevant Aspects of the Entity\I. 6.3.11

## 4. National Auditing Standard Setters

### Canadian Auditing and Assurance Standards Board

Understanding internal controls (ISA 315 (Revised 2019), paragraphs 21-26 / ISA for LCE, paragraphs 6.3.6-6.3.11 and 6.3.14). These paragraphs require the auditor to understand the components of internal control. Stakeholders thought the understanding required is too granular and does not reflect a less complex environment. Such an environment is typically less formal and focuses more on monitoring and oversight controls than on process controls. Further, stakeholders thought this section seems onerous in circumstances where a fully substantive approach is taken. While ISA 315 (Revised 2019) includes scalability guidance in this area, more focused guidance is needed.

Responding to risks arising from information technology (IT) (ISA 315 (Revised 2019), paragraphs 25 and 26(b)-(c) / ISA for LCE, paragraphs 6.3.9-6.3.11 and 6.3.14). These paragraphs require the auditor to understand the information system and related controls relevant to financial reporting. Stakeholders thought the standard is unclear as to the extent of work required when the auditor decides specific controls over IT applications will be irrelevant to the audit. For example, IT risks for an entity using “off-the-shelf” commercial accounting packages that the entity cannot change should present a low risk to financial reporting. Still, practitioners struggle to understand what evidence is needed to support this judgment.

## 5. Accounting Firms

### Azets Audit Services

The IAASB should continue efforts to work on the clarity and simplification of language throughout the ED-ISA for LCE. Specifically, there are also several areas that act to complicate the standard and their omission or simplification could be of benefit.

For example, Part 6 of the ED-ISA for LCE would benefit from some further work to ensure the underlying requirements (not just the, generally very good, EEM) highlight the additional simplicity that stems from the qualitative features of a LCE. The standard also uses presumptive language in connection with processes that EEM acknowledge can be very informal, or unnecessary, in a less complex entity in areas including:

6.3.6 to 6.3.17 in connection with understanding the entity’s internal control system would benefit from additional distillation to reflect the qualitative characteristics acknowledged in the EEM

### Ernst & Young Global Limited

Understanding the Entity’s Internal Control System 6.3.11 – We suggest this paragraph refer to the understanding obtained in paragraphs 6.3.9 and 6.3.10 (i.e., Based on the understanding obtained in 6.3.9 and 6.3.10, the auditor shall evaluate whether the entity’s information system and communication appropriately supports the preparation of the entity’s financial statements in accordance with the applicable financial reporting framework.) in order to more clearly link the requirements and avoid misinterpretation by users of the scope of the evaluation required.

### Famme & Co. Professional Corporation

6.3.10 and 6.3.11 In practice, none of our LCEs prepare their own financial statements. The statements and all disclosures required under the applicable accounting framework are prepared by our office. We believe this is the case for most LCEs and their auditors. We feel these sections are moot under an LCE scenario.

### Mazars

6.3.11: In ISA 315 A170 a good example is included related to scalability. The first bullet in that example is relevant for many LCE. We suggest that this example (first bullet) is included as EEM to the proposed standard.

### Price Bailey LLP

6.3.11 -Should be amended to “the auditors shall evaluate whether the clients system appropriately supports the preparation of the entity’s financial statements in accordance with applicable financial framework”

## 7. Professional Accountancy and Other Professional Organizations

### Finnish Association of Authorised Public Accountants

Most SMEs use commercial off-the-shelf software or at least their IT environment is simple (complex IT environment and systems being qualitative characteristics!). It would help with the scaling of the requirements if this kind of cases was considered in an EEM, e.g. in 6.3.11 or 6.3.14. and the understanding of IT environment then could be fairly narrow taking also into account that most entities use a service organization for accounting and have no other than reading rights to it.

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

6.3.11: In ISA 315 A170 a good example is included related to scalability. The first bullet in that example is relevant for many LCE:s. We suggest that this example (first bullet) is included as EEM to the proposed standard.

### Nordic Federation of Public Accountants

One main concern with the ISAs that was also highlighted in the responses to the DP was “requirements that result in certain procedures being performed solely to comply with ISA requirements with no additional assurance or measurable increase in audit quality”. We believe Part 6 of the draft standard is an area where more could be done in this respect, taking into account the specific characteristics of audits of LCEs, and also by applying scalability and proportionality.

We encourage the IAASB to reconsider the drafting of the requirements in this Part, and especially with regard to section 6.3, for example by considering the following:

6.3.11. Most LCE entities in the Nordic region are smaller in size and have very informal routines, for example, they do not have formal/written routines for the “information system and communication”. We suggest that this circumstance should be taken into consideration when drafting this requirement.

Compared to other Parts of the standard, more EEM is included in Part 6. We concur the need for more extensive EEM in the important risk assessment phase of the audit as included in the proposed standard. ISA 315 (revised) has many good examples of scalability. For example, the first bullet in ISA 315 A170 is relevant for many LCEs and we suggest including that in relation to 6.3.11.

## Specific Questions\Section 4E – Content of ED-ISA for LCE\Question 9- Views on the content of Parts 1 through 8 of ED-ISA for LCE\2) Responses on Parts 1 through 8\Part 6\6.3.12 Specific Drafting Comments\6.3 Understanding Relevant Aspects of the Entity\m. 6.3.12

### 5. Accounting Firms

#### Azets Audit Services

The IAASB should continue efforts to work on the clarity and simplification of language throughout the ED-ISA for LCE. Specifically, there are also several areas that act to complicate the standard and their omission or simplification could be of benefit.

For example, Part 6 of the ED-ISA for LCE would benefit from some further work to ensure the underlying requirements (not just the, generally very good, EEM) highlight the additional simplicity that stems from the qualitative features of a LCE. The standard also uses presumptive language in connection with processes that EEM acknowledge can be very informal, or unnecessary, in a less complex entity in areas including:

6.3.6 to 6.3.17 in connection with understanding the entity's internal control system would benefit from additional distillation to reflect the qualitative characteristics acknowledged in the EEM

### Famme & Co. Professional Corporation

6.3.12 In practice, none of our LCEs have processes for accounting estimates. No formal models are used. Estimates are usually triggered by enquiries from us during the audit.

### PriceWaterhouseCoopers

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.

## 7. Professional Accountancy and Other Professional Organizations

### Institute of Chartered Accountants in England and Wales

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.

### Specific Questions\Section 4E – Content of ED-ISA for LCE\Question 9- Views on the content of Parts 1 through 8 of ED-ISA for LCE\2) Responses on Parts 1 through 8\Part 6\6. Specific Drafting Comments\6.3 Understanding Relevant Aspects of the Entity\n. 6.3.13

## 4. National Auditing Standard Setters

### American Institute of Certified Public Accountants

The following represents those ISA paragraphs and corresponding ISA for LCE paragraphs that we assigned a “B” rating – meaning that omission or revision of the ISA requirement might create an issue for auditors when any one item is aggregated with another or others. We are pleased to provide additional information if requested.

From Mapping Document #1  
ISA 315, paragraph 27/ISA for LCEs paragraph 6.3.13

## 5. Accounting Firms

### Azets Audit Services

The IAASB should continue efforts to work on the clarity and simplification of language throughout the ED-ISA for LCE. Specifically, there are also several areas that act to complicate the standard and their omission or simplification could be of benefit.

For example, Part 6 of the ED-ISA for LCE would benefit from some further work to ensure the underlying requirements (not just the, generally very good, EEM) highlight the additional simplicity that stems from the qualitative features of a LCE. The standard also uses presumptive language in connection with processes that EEM acknowledge can be very informal, or unnecessary, in a less complex entity in areas including:

6.3.6 to 6.3.17 in connection with understanding the entity’s internal control system would benefit from additional distillation to reflect the qualitative characteristics acknowledged in the EEM

### Ernst & Young Global Limited

Understanding the Entity’s Internal Control System 6.3.13 – Although this paragraph is consistent with ISA 315 (Revised 2019), the ED-ISA for LCE does not have sufficient requirements that would achieve alignment with ISA 265.7, which requires determining whether control deficiencies exist based on all audit work performed and not just risk assessment procedures. We suggest the IAASB broaden the requirements in ED-ISA for LCE to cover the intent of ISA 265.7. See also comment below on paragraph 6.3.18.

### Price Bailey LLP

6.3.13 - Should be deleted as covered better in 6.3.18.

## 6. Public Sector Organizations

### Office of the Auditor General of Alberta

The wording for Section 6.3.13 should be updated for when an auditor uses a fully substantive approach. Using a fully substantive approach, the auditor is only required to assess the design and implementation of controls. The wording “determine if one or more control deficiencies have been identified,” implies that the auditor has tested controls.

## 7. Professional Accountancy and Other Professional Organizations

### Institute of Chartered Accountants in England and Wales

6.3.13: delete – dealt with by 6.3.18.

### Specific Questions\Section 4E – Content of ED-ISA for LCE\Question 9- Views on the content of Parts 1 through 8 of ED-ISA for LCE\2) Responses on Parts 1 through 8\Part 6\6. Specific Drafting Comments\6.3 Understanding Relevant Aspects of the Entity\o. 6.3.14

### 3. Regulators and Audit Oversight Authorities

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

Paragraph 6.3.14(d): We propose that auditors would require additional guidance to apply this requirement. As such, we suggest that the content of paragraph A165 of ISA 315 (Revised) be included to assist with application of the requirement.

### 4. National Auditing Standard Setters

#### American Institute of Certified Public Accountants

The following represents those ISA paragraphs and corresponding ISA for LCE paragraphs that we assigned a “B” rating – meaning that omission or revision of the ISA requirement might create an issue for auditors when any one item is aggregated with another or others. We are pleased to provide additional information if requested.

ISA 550, paragraph 14/ISA for LCEs paragraph 6.3.14(f)

#### Canadian Auditing and Assurance Standards Board

- Risk assessment procedures (ISA 315 (Revised 2019), paragraph 26(d) / ISA for LCE, paragraph 6.3.14. This paragraph requires the auditor to perform procedures in addition to inquiry to understand controls relevant to the audit. Stakeholders thought inquiry alone should be sufficient to obtain this understanding when taking a fully substantive audit approach.
- Understanding internal controls (ISA 315 (Revised 2019), paragraphs 21-26 / ISA for LCE, paragraphs 6.3.6-6.3.11 and 6.3.14). These paragraphs require the auditor to understand the components of internal control. Stakeholders thought the understanding required is too granular and does not reflect a less complex environment. Such an environment is typically less formal and focuses more on monitoring and oversight controls than on process controls. Further, stakeholders thought this section seems onerous in circumstances where a fully substantive approach is taken. While ISA 315 (Revised 2019) includes scalability guidance in this area, more focused guidance is needed.
- Responding to risks arising from information technology (IT) (ISA 315 (Revised 2019), paragraphs 25 and 26(b)-(c) / ISA for LCE, paragraphs 6.3.9-6.3.11 and 6.3.14). These paragraphs require the auditor to understand the information system and related controls relevant to financial reporting. Stakeholders thought the standard is unclear as to the extent of work required when the auditor decides specific controls over IT applications will be irrelevant to the audit. For example, IT risks for an entity using “off-the-shelf” commercial accounting packages that the entity cannot change should present a low risk to financial reporting. Still, practitioners struggle to understand what evidence is needed to support this judgment.

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

Response: Section 6.3.14 could be improved to make this standard gain a wider acceptance among the practitioners. Many audits of LCE were done primarily based on substantive approach and it is common for the LCE to have situations such as: a lack of segregation of duties, ineffective IT general controls, etc. It would be helpful to provide more guidance to the practitioners in terms of how the ED-ISA for LCE would assist them in reducing the cost in doing the audit whilst still providing the same level of assurance in such commonly found situation.

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

Since inherent risks are so much simpler to identify and assess in LCEs, there is no need to identify controls in the control activities component and perform tests of design and implementation of those controls to assist the auditor in identifying and assessing inherent risks for risks that have been assessed as significant risks (which represents a circularity within ISA 315 (Revised 2019), since the auditor needs to assess the risks as significant risks prior to identifying controls). For these reasons, unless auditors plan to test the operating effectiveness of particular controls (whether due to efficiency or because substantive procedures alone do not provide sufficient appropriate audit evidence), we do not believe auditors need to test the design and implementation of controls addressing significant risks. We therefore believe that (a) and (d) in paragraph 6.3.14 can be deleted without reducing the assurance obtained in LCE audits.

## 5. Accounting Firms

### Azets Audit Services

The IAASB should continue efforts to work on the clarity and simplification of language throughout the ED-ISA for LCE. Specifically, there are also several areas that act to complicate the standard and their omission or simplification could be of benefit.

For example, Part 6 of the ED-ISA for LCE would benefit from some further work to ensure the underlying requirements (not just the, generally very good, EEM) highlight the additional simplicity that stems from the qualitative features of a LCE. The standard also uses presumptive language in connection with processes that EEM acknowledge can be very informal, or unnecessary, in a less complex entity in areas including:

6.3.6 to 6.3.17 in connection with understanding the entity's internal control system would benefit from additional distillation to reflect the qualitative characteristics acknowledged in the EEM

### Ernst & Young Global Limited

Understanding the Entity's Internal Control System 6.3.14 (e) and 6.3.17 – More guidance is needed relating to the use of controls over information processed by a service organization. The use of service organizations is a common situation that occurs in practice (e.g., payroll) and we believe that more guidance on using service organizations should be included in the ED-ISA for LCE. Specifically:

6.3.17 (d)-(e) appears to duplicate what is in 6.3.14 (e) and it is not clear what is meant by "if applicable" in 6.3.14 (e)

### Famme & Co. Professional Corporation

6.3.14 (b) In practice, an entity defined as an LCE would have a simplified book-keeping function and no formal controls over journal entries. LCEs most typically record on a cash transaction basis and journal entries are rarely used.

### Grant Thornton International Limited

Part 6, Risk Identification and Assessment

Overall, we are of the view that this Part needs to be further tailored to the specific needs of an audit of the financial statements of a less complex entity. As currently drafted, there would appear to be insufficient modification of the requirements to reflect that less complex entities typically have less sophisticated IT environments and that audits of the financial statements of less complex entities are generally more substantive in nature, with significantly less emphasis being placed on controls that the entity may have put in place. For example:

Paragraph 6.3.14 part (c) requires the auditor to identify controls that address risks for which substantive procedures alone are not enough. Paragraph 6.5.3 then requires the auditor to determine whether substantive procedures alone cannot provide sufficient appropriate audit evidence for any risks of material misstatement at the assertion level. There appears to be a degree of overlap between these two requirements, and we question whether it would be possible to streamline. As noted above, audits of less complex entities are often fully substantive audits, therefore it would be helpful to indicate that this situation would not be expected to be common and may be an indicator that it is not appropriate to perform the audit under ED-ISA for LCE. Further, the EEM associated with this requirement provides an example of 'highly automated processing with little or no manual intervention.' This characteristic would appear to be one that would preclude the use of ED-ISA for LCE based on the guidance in the Authority. As such, we would recommend that an alternate example be provided of when substantive audit procedures alone cannot provide sufficient appropriate audit evidence.

### Mazars

6.3.14 (c) - This is quite unusual to be considered in a LCE audit. The existence of risks for which substantive procedures alone are not enough should be a trigger to not consider an entity a less complex entity.

6.3.14 – blue box – last sentence - This paragraph indicates that there would be no presumption of significant risks related to (1) revenue recognition and (2) management override of controls, which seems to not be appropriate and not consistent with paragraph 6.4.2 and 6.5.7.

### Price Bailey LLP

6.3.14-16 - Needs to be simplified and remove repetition and also made clear that for where the auditors are not intending to test controls, they do not need to deal with the design and implementation of the controls in any detail, they just have to consider the controls.

## 6. Public Sector Organizations

### Office of the Auditor General of Alberta

In the bottom example of Section 6.3.14, the ED states, “the auditor may determine that there are no identified controls other than the entity’s controls of journal entries.” We do not agree with this. Fundamentally, we believe that an understanding of design and implementation of each significant financial statement process should always be required. Removal of this requirement significantly decreases the auditor’s ability to make an appropriate risk assessment and should clearly be required by the standard.

## 7. Professional Accountancy and Other Professional Organizations

### Accountancy Europe

We note that the paragraph 6.3.14 requires the auditor to evaluate the design and the implementation of specific controls even when the auditor does not plan to test the operating effectiveness of identified controls. This should be modified as a conditional requirement that will be applicable only when the auditor plans to rely on the specific controls that address the risks of material misstatement at the assertion level.

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

We understand the challenge that the IAASB is facing here, since LCEs consists of a very large pool of entities ranging from very simple LCEs who may lack the resources to have robust controls where practitioners therefore need to take a substantive approach to larger entities that may have appropriate controls in place. The standard needs to be scalable for all situations. We therefore suggest making some of the requirements conditional depending on the circumstances in order to overcome the concerns raised above by our stakeholders. For example, paragraph 6.3.14 (building on ISA 315 (Revised)) requires the auditor to evaluate the design and the implementation of specific controls irrespective of whether the auditor plans to test the operating effectiveness of the identified controls. We understand that this assists the auditor’s understanding of management’s approach to addressing certain risks, and therefore provides a basis for the design and performance of further audit procedures responsive to these risks even when the auditor does not plan to test the operating effectiveness of identified controls i.e., when a full substantive approach is taken. The requirement currently suggests that inquiry alone is not sufficient and that more procedures should be performed to order to evaluate the design and implementation. We suggest that the requirement is made conditional, with inquiry alone being sufficient in cases where for example, a full substantive approach is taken.

### Finnish Association of Authorised Public Accountants

Most SMEs use commercial off-the-shelf software or at least their IT environment is simple (complex IT environment and systems being qualitative characteristics!). It would help with the scaling of the requirements if this kind of cases was considered in an EEM, e.g. in 6.3.11 or 6.3.14. and the understanding of IT environment then could be fairly narrow taking also into account that most entities use a service organization for accounting and have no other than reading rights to it.

### Institute of Certified Public Accountants of Cyprus

Request for fewer requirements

ISA for LCE has been aligned with ISA 315 (Revised). We consider that certain areas could have been simplified in the ISA for LCE such as the identification and assessment of the risks of material misstatement and the need to perform tests of design of controls. For example, we would have expected fewer requirements than those mentioned in paragraph 6.3.14 – we consider point c to be of relevance to LCEs but not the rest of the points. In practice, the auditor of a small entity is usually not able to rely on controls and thus performs full substantive audit procedures.

### Institute of Chartered Accountants in England and Wales

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.

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.

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

Some of the SMPAG members were of the view that when it comes to both identifying and assessing risks, this section may be unnecessarily close to the ISA as many times with LCEs, there is not always the need to separately identify and assess every risk, but rather consider how the individual LCE's system of internal control impacts the overall risk assessment. Risk assessment is a key area where we believe this standard can be made much more scalable than the ISA so special consideration should be given to the requirements in this section, which we believe should be revisited by the IAASB.

The argument that comprehensive design testing is needed for risk assessment is counter to the supposition that the control environment of an LCE is less complex than for an entity that has to be audited under the full ISAs. Specifically, in an LCE/ SMP environment, risk identification and assessment could be a single step process.

In particular, paragraph 6.3.14 requires the auditor to evaluate the design of specific controls irrespective of whether the auditor plans to test the operating effectiveness of the identified controls. While we appreciate that this can assist with the auditor's understanding of management's approach to addressing certain risks, we do not believe it would be necessary in situations where the auditor does not plan to test the operating effectiveness of identified controls.

The requirement currently states that inquiry alone is not sufficient and that more procedures should be performed in order to evaluate the design and implementation. We would suggest that the requirement to go beyond inquiry is made conditional, with inquiry alone being sufficient in cases where, for example, a full substantive audit approach is taken. We believe this is a key issue that auditors who work with LCEs have struggled with for years.

## South African Institute of Chartered Accountants (2)

82. Given that the control environment in LCE environments is usually simple, some of the requirements with regard to the evaluation of the control environment can be removed from the LCE standard. Therefore, the requirement contained in paragraph 6.3.14 to perform design and implementation testing for each of the controls listed may be too onerous in an LCE environment as the auditors may either not be able to conclude that there are controls that are appropriately designed [i.e. addressing one or more of the control objectives / assertions] or due to the "inherent" lack of segregation of duties and the informal nature of the systems, business process and controls in place, the auditor's assessment of the control risk will, in all probability be concluded to be high with the resulting impact being that no reliance can be placed on controls and thus that a fully substantive audit approach being followed.

83. The auditors should be required to understand and consider the implications of some of these control activities instead of the requirement to evaluate the controls. It is our view that 'understanding', in these cases may be obtained through inquiry alone.

## 9. Individuals and Others

### ASK KSA Consulting Inc.

6.3.14 (b) Controls over journal entries. In many LCE audits, a substantive approach is taken which more often than not includes journal entries. We recommend that the requirement evaluate whether the control is designed effectively and determine whether the control has been implemented (by using procedures other than inquiry) be eliminated. This does not make sense in the audit of an LCE.

### Specific Questions\Section 4E – Content of ED-ISA for LCE\Question 9- Views on the content of Parts 1 through 8 of ED-ISA for LCE\2) Responses on Parts 1 through 8\Part 6\6. Specific Drafting Comments\6.3 Understanding Relevant Aspects of the Entity\p. 6.3.15

## 5. Accounting Firms

### Azets Audit Services

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For example, Part 6 of the ED-ISA for LCE would benefit from some further work to ensure the underlying requirements (not just the, generally very good, EEM) highlight the additional simplicity that stems from the qualitative features of a LCE. The standard also uses presumptive language in connection with processes that EEM acknowledge can be very informal, or unnecessary, in a less complex entity in areas including:

6.3.6 to 6.3.17 in connection with understanding the entity's internal control system would benefit from additional distillation to reflect the qualitative characteristics acknowledged in the EEM

## Grant Thornton International Limited

### Part 6, Risk Identification and Assessment

Overall, we are of the view that this Part needs to be further tailored to the specific needs of an audit of the financial statements of a less complex entity. As currently drafted, there would appear to be insufficient modification of the requirements to reflect that less complex entities typically have less sophisticated IT environments and that audits of the financial statements of less complex entities are generally more substantive in nature, with significantly less emphasis being placed on controls that the entity may have put in place. For example:

Paragraph 6.3.15 requires clarification. It is not clear what ‘other aspects’ of the IT environment might be, nor is it clear whether the risks referred to in this requirement pertain to the IT applications that support the identified controls or these ‘other aspects’ of the IT environment. In order to fully understand and apply this requirement, reference to the ISAs would be required.

## Price Bailey LLP

6.3.14-16 - Needs to be simplified and remove repetition and also made clear that for where the auditors are not intending to test controls, they do not need to deal with the design and implementation of the controls in any detail, they just have to consider the controls.

## 7. Professional Accountancy and Other Professional Organizations

### Institute of Chartered Accountants in England and Wales

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

**Specific Questions\Section 4E – Content of ED-ISA for LCE\Question 9- Views on the content of Parts 1 through 8 of ED-ISA for LCE\2) Responses on Parts 1 through 8\Part 6\6. Specific Drafting Comments\6.3 Understanding Relevant Aspects of the Entity\q. 6.3.16**

## 3. Regulators and Audit Oversight Authorities

### Independent Regulatory Board for Auditors (IRBA)

Editorial changes to paragraph 6.3.16. – Add a “full-stop” after the reference to paragraph 6.3.15.:

“For the IT applications and other aspects of the IT environment identified in paragraph 6.3.15., the auditor shall identify the related risks ...”

## 5. Accounting Firms

### Azets Audit Services

The IAASB should continue efforts to work on the clarity and simplification of language throughout the ED-ISA for LCE. Specifically, there are also several areas that act to complicate the standard and their omission or simplification could be of benefit.

For example, Part 6 of the ED-ISA for LCE would benefit from some further work to ensure the underlying requirements (not just the, generally very good, EEM) highlight the additional simplicity that stems from the qualitative features of a LCE. The standard also uses presumptive language in connection with processes that EEM acknowledge can be very informal, or unnecessary, in a less complex entity in areas including:

6.3.6 to 6.3.17 in connection with understanding the entity’s internal control system would benefit from additional distillation to reflect the qualitative characteristics acknowledged in the EEM

## Ernst & Young Global Limited

Understanding the Entity’s Internal Control System 6.3.14 (e) and 6.3.17 – More guidance is needed relating to the use of controls over information processed by a service organization. The use of service organizations is a common situation that occurs in practice (e.g., payroll) and we believe that more guidance on using service organizations should be included in the ED-ISA for LCE. Specifically:

Guidance should be included relating to how auditors should handle situations where relevant SOC-1 reports may need to be included if ITGCs are relevant under paragraph 6.3.16 and outsourced to the service organization.

Understanding the Entity’s Internal Control System 6.3.16 – To improve readability, we suggest that the second part of this paragraph be made into a separate sentence (“The auditor shall evaluate whether the identified general IT controls are...”).

## ETY sas

Editorial to paragraph 6.3.16. –Sentence to long to be restructure as below:

“For the IT applications and other aspects of the IT environment identified in paragraph 6.3.15., the auditor shall identify the related risks...”

“For the IT applications and other aspects of the IT environment identified in paragraph 6.3.15, the auditor shall identify the related risks arising from the use of IT and the entity’s general IT controls that respond to those risks. The auditor shall evaluate whether the general IT controls are effectively designed to address the risk of material misstatement at the assertion level, or effectively designed to support the operation of other controls, and determine whether the control has been implemented by performing procedures more than inquiry.”

## Grant Thornton International Limited

Further, we note that the EEM supporting this section is insufficient for the Proposed Standard to be applied without reference to the guidance or application material in the ISAs. Much of the EEM in this section focuses on why the requirement serves a purpose in the audit of an LCE, but does little to inform the auditor on how the requirement should be interpreted. For example, the EEM associated with paragraph 6.3.16 explains why an understanding of the IT environment is obtained and that the extent of the auditor’s understanding will vary based on the nature and circumstances of the firm, but it doesn’t provide any helpful guidance on the extent of the work the auditor is required to perform to comply with the associated requirement and in particular, the extent of work required in relation to IT general controls.

## Price Bailey LLP

6.3.14-16 - Needs to be simplified and remove repetition and also made clear that for where the auditors are not intending to test controls, they do not need to deal with the design and implementation of the controls in any detail, they just have to consider the controls.

## 7. Professional Accountancy and Other Professional Organizations

### Institute of Chartered Accountants in England and Wales

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

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

Editorial to paragraph 6.3.16. –Sentence to long to be restructure as below:

“For the IT applications and other aspects of the IT environment identified in paragraph 6.3.15., the auditor shall identify the related risks...”

“For the IT applications and other aspects of the IT environment identified in paragraph 6.3.15, the auditor shall identify the related risks arising from the use of IT and the entity’s general IT controls that respond to those risks. The auditor shall evaluate whether the general IT controls are effectively designed to address the risk of material misstatement at the assertion level, or effectively designed to support the operation of other controls, and determine whether the control has been implemented by performing procedures more than inquiry.”

## Pan-African Federation of Accountants (PAFA)

Editorial to paragraph 6.3.16. – Add a “Full-Stop” after the reference to paragraph 6.3.15.:

“For the IT applications and other aspects of the IT environment identified in paragraph 6.3.15., the auditor shall identify the related risks...”

## 9. Individuals and Others

### ASK KSA Consulting Inc.

6.3.16 EEM performance of walkthroughs. One of the biggest challenges faced by auditors relates to understanding of the information system versus design and implementation of controls. This is an opportunity to clarify the requirements. It is not clear what controls are relevant to the audit. In addition, in many cases a fully substantive approach is taken either due to efficient and/or the nature of the entity. In these cases why is it necessary that both design and implementation are required. There is a lack of clarity as to what controls are necessary.

## Specific Questions\Section 4E – Content of ED-ISA for LCE\Question 9- Views on the content of Parts 1 through 8 of ED-ISA for LCE\2) Responses on Parts 1 through 8\Part 6\6.f. Specific Drafting Comments\6.3 Understanding Relevant Aspects of the Entity\r. 6.3.17

### 3. Regulators and Audit Oversight Authorities

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

Paragraph 6.3.17: We propose that the clients' use of a service organisation is an important area on which auditors would require more guidance. We suggest that the EEM be enhanced in this regard.

### 4. National Auditing Standard Setters

#### American Institute of Certified Public Accountants

The following represents those ISA paragraphs and corresponding ISA for LCE paragraphs that we assigned a "B" rating – meaning that omission or revision of the ISA requirement might create an issue for auditors when any one item is aggregated with another or others. We are pleased to provide additional information if requested.

ISA 402, paragraph A7/with ISA for LCEs paragraph 6.3.17

### 5. Accounting Firms

#### Azets Audit Services

The IAASB should continue efforts to work on the clarity and simplification of language throughout the ED-ISA for LCE. Specifically, there are also several areas that act to complicate the standard and their omission or simplification could be of benefit.

For example, Part 6 of the ED-ISA for LCE would benefit from some further work to ensure the underlying requirements (not just the, generally very good, EEM) highlight the additional simplicity that stems from the qualitative features of a LCE. The standard also uses presumptive language in connection with processes that EEM acknowledge can be very informal, or unnecessary, in a less complex entity in areas including:

6.3.6 to 6.3.17 in connection with understanding the entity's internal control system would benefit from additional distillation to reflect the qualitative characteristics acknowledged in the EEM

#### Ernst & Young Global Limited

Understanding the Entity's Internal Control System 6.3.14 (e) and 6.3.17 – More guidance is needed relating to the use of controls over information processed by a service organization. The use of service organizations is a common situation that occurs in practice (e.g., payroll) and we believe that more guidance on using service organizations should be included in the ED-ISA for LCE. Specifically:

6.3.17 (c)-(e) does not infer the same meaning as ISA 402.9 (c)-(d).

6.3.17 (d)-(e) appears to duplicate what is in 6.3.14 (e) and it is not clear what is meant by "if applicable" in 6.3.14 (e)

#### Price Bailey LLP

6.3.17 - Reference to the use of reports on service providers may be useful (type 1 & 2 reports) etc.

### 7. Professional Accountancy and Other Professional Organizations

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

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.

#### Nordic Federation of Public Accountants

One main concern with the ISAs that was also highlighted in the responses to the DP was "requirements that result in certain procedures being performed solely to comply with ISA requirements with no additional assurance or measurable increase in audit quality". We believe Part 6 of the draft standard is an area where more could be done in this respect, taking into account the specific characteristics of audits of LCEs, and also by applying scalability and proportionality.

We encourage the IAASB to reconsider the drafting of the requirements in this Part, and especially with regard to section 6.3, for example by considering the following:

6.3.17. Use of service organizations: Service organizations mostly used by LCEs are probably external accountants. These are service providers, from which the auditors rarely have problems obtaining audit evidence. Often, an evaluation of the accountant in accordance with ISA 402 does not add much to the audit, which is why we think simplifications would be appropriate. For example some examples of situations where a service organization is not acting as such after the standard.

## **Specific Questions\Section 4E – Content of ED-ISA for LCE\Question 9- Views on the content of Parts 1 through 8 of ED-ISA for LCE\2) Responses on Parts 1 through 8\Part 6\6.f. Specific Drafting Comments\6.3 Understanding Relevant Aspects of the Entity\6.3.18**

### **5. Accounting Firms**

#### **BDO International**

Under section 6.3.18, the proposed standard states “The auditor shall determine whether deficiencies identified in the entity’s internal control system, individually or in combination, constitute significant deficiencies.” – It may perhaps be useful to expand on how the assessment of significant deficiency relies on auditor judgment and that a collection of less significant deficiencies may result in a significant deficiency as under the ISAs (i.e., ISA 315, paragraph A183).

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

Understanding the Entity’s Internal Control System 6.3.18 – This paragraph in the ED-ISA for LCE limits the ISA 265.7 requirement to just deficiencies identified in understanding internal controls systems. ISA 265.7 requires consideration of deficiencies in internal control identified when performing all audit procedures and not just risk assessment procedures. There needs to be an overarching consideration to cover ISA 265.7 in the concluding section of the ED-ISA for LCE (The auditor shall determine, on the basis of the audit work performed, the auditor has identified one or more deficiencies in internal control).  
Understanding the Entity’s Internal Control System 6.3.18 - The significant deficiency language should be updated to require identification of control deficiencies in the entity’s system of internal control to align to ISA 315 (Revised 2019). The assessment of whether identified control deficiencies are significant deficiencies should be based on all control deficiencies identified. See also comment on 6.3.13 above.

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

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

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

## **Specific Questions\Section 4E – Content of ED-ISA for LCE\Question 9- Views on the content of Parts 1 through 8 of ED-ISA for LCE\2) Responses on Parts 1 through 8\Part 6\6.f. Specific Drafting Comments\6.3 Understanding Relevant Aspects of the Entity\6.3.18**

### **5. Accounting Firms**

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

Further, we note that the EEM supporting this section is insufficient for the Proposed Standard to be applied without reference to the guidance or application material in the ISAs. Much of the EEM in this section focuses on why the requirement serves a purpose in the audit of an LCE, but does little to inform the auditor on how the requirement should be interpreted. For example, the EEM associated with paragraph 6.3.16 explains why an understanding of the IT environment is obtained and that the extent of the auditor’s understanding will vary based on the nature and circumstances of the firm, but it doesn’t provide any helpful guidance on the extent of the work the auditor is required to perform to comply with the associated requirement and in particular, the extent of work required in relation to IT general controls.

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

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

There is useful application material in the ISAs regarding scalability and all of it is not yet incorporated in ISA for LCE. For example, we identified some good scalability points that are missing compared to newly revised ISA 315:

There are also good points in ISA 315.A52-53 that could be added – e.g. the impact of auditor’s previous experience with the entity and the nature and form of the entity’s documentation.

ISA 315.A113: “In some LCEs, and particularly owner-managed entities, an appropriate risk assessment may be performed through the direct involvement of management or the owner-manager... but it may be evident from the discussions the auditor has with the management that management are in fact performing risk assessment procedures.” This point could be added in the EEM in Paragraph 6.3.7.

ISA 315.A170 refers to commercial software. Most SMEs use only such off-the-shelf software, and it would help with the scaling of the requirements if these cases were considered in an EEM of the standard, e.g. in 6.3.11 or 6.3.14.

## **Specific Questions\Section 4E – Content of ED-ISA for LCE\Question 9- Views on the content of Parts 1 through 8 of ED-ISA for LCE\2) Responses on Parts 1 through 8\Part 6\6.f. Specific Drafting Comments\6.3 Understanding Relevant Aspects of the Entity\6.u. Omitted Paragraphs from ISA 315 (Revised 2019)**

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

#### **American Institute of Certified Public Accountants**

Detailed Findings: The following table is intended to highlight those items which we assigned an “A” rating – meaning that omission or revision of the ISA requirement will, in our view, create an impediment to the auditor obtaining reasonable assurance in an audit performed in accordance with the Exposure Draft.

ISA Section: ISA 315(Revised 2019)

Paragraph 23

Obtaining an Understanding of the Entity and Its Environment, the Applicable Financial Reporting Framework and the Entity's System of Internal Control

Understanding the Components of the Entity's System of internal Control

The Entity's Risk Assessment System

ISA for LCE: -

ISA Text:

If the auditor identifies risks of material misstatement that management failed to identify, the auditor shall:

- (a) Determine whether any such risks are of a kind that the auditor expects would have been identified by the entity's risk assessment process and, if so, obtain an understanding of why the entity's risk assessment process failed to identify such risks of material misstatement; and
- (b) Consider the implications for the auditor's evaluation in paragraph 22(b).

ISA for LCE Text: -

Key Findings:

This could be scalable for an LCE but shouldn't be eliminated altogether. The LCE should have a risk assessment process (even informal) and this requirement may help auditors identify risks of material misstatement. This is less robust than the requirement in ISA 315 and will result in less assurance than an ISA audit.

The requirement could be retained in the Exposure Draft and some of the ISA 315 application material included in the separate standard to show how it can be applied in a scalable manner (for example, by explaining it may be an informal risk assessment process).

## **Specific Questions\Section 4E – Content of ED-ISA for LCE\Question 9- Views on the content of Parts 1 through 8 of ED-ISA for LCE\2) Responses on Parts 1 through 8\Part 6\6.f. Specific Drafting Comments\6.3 Understanding Relevant Aspects of the Entity\6.v. PWC Part 6.3 Proposed Drafting**

### **5. Accounting Firms**

#### **PriceWaterhouseCoopers**

*Respondent provided illustrative proposed revisions – see Appendix 1.*

## **Specific Questions\Section 4E – Content of ED-ISA for LCE\Question 9- Views on the content of Parts 1 through 8 of ED-ISA for LCE\2) Responses on Parts 1 through 8\Part 6\6.f. Specific Drafting Comments\6.4 and 6.5 - Combine Risk Identification and Assessment**

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

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

Section 6.4. should include risk assessment as well. In an LCE environment risk identification and assessment could be done together as a single step. This will also require simplifying requirements for the risk assessment in section 6.5.

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

We believe that the requirement for a separate identification of risks of material misstatement at the assertion level (i.e., inherent risks, in which the likelihood and magnitude of a material misstatement is reasonably possible – we note that the LCE standard does not include the application material from the conforming amendments from ISA 315 (Revised, 2019) to paragraph A15a of ISA 200, which leaves the LCE standard without an appropriate threshold for its model of risk identification) and assessment of those risks, together with separate documentation of the identified and assessed risks, is overengineered for LCE audits, because by definition the inherent risks for an LCE are simple and therefore easy to identify and assess. Consequently, in line with our German LCE standards, we strongly recommend that the IAASB set forth a combined identification and assessment of inherent risks and define those inherent risks requiring a response (i.e., an inherent risk relevant to the audit, or “relevant inherent risk”) as those with a greater than acceptably low level of risk of material misstatement. This approach would greatly reduce the bureaucracy associated with the audits of financial statements of LCEs from the introduction of ISA 315 (Revised 2019) without discernably reducing the assurance obtained for the vast majority of LCE audits.

## Malaysian Institute of Accountants

We have also noted that when it comes to both considering and evaluating risks, this section may be too closely aligned to the ISA as many times with LCEs, there is not always the need to evaluate every risk, but rather consider how they impact your overall risk assessment. Risk assessment is a key area where we believe this standard can be much more scalable than the present ISA when it comes to an LCE audit; hence, further consideration should be given to tweak the requirements in this section. For example, in an LCE/ SMP environment, risk identification and assessment could be a single step process and the ISA 315 (Revised) threshold of “reasonably possible” should be revised to “appropriately low level”.

## 7. Professional Accountancy and Other Professional Organizations

### Accountancy Europe

6.4.1 should include risk assessment as well. In an LCE environment risk identification and assessment could be done together as a single step. This will also require simplifying requirements for the risk assessment in section 6.5.

### Finnish Association of Authorised Public Accountants

Risk identification and assessment could be merged because in LCE audits they often are done together.

### Institute of Chartered Accountants in England and Wales

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.

### International Federation of Accountants’ Small and Medium Practices Advisory Groups

The argument that comprehensive design testing is needed for risk assessment is counter to the supposition that the control environment of an LCE is less complex than for an entity that has to be audited under the full ISAs. Specifically, in an LCE/ SMP environment, risk identification and assessment could be a single step process.

### Specific Questions\Section 4E – Content of ED-ISA for LCE\Question 9- Views on the content of Parts 1 through 8 of ED-ISA for LCE\2) Responses on Parts 1 through 8\Part 6\6.f. Specific Drafting Comments\6.4 Identifying Risks of Material Misstatement\6.4.1

## 4. National Auditing Standard Setters

### American Institute of Certified Public Accountants

The following represents those ISA paragraphs and corresponding ISA for LCE paragraphs that we assigned a “B” rating – meaning that omission or revision of the ISA requirement might create an issue for auditors when any one item is aggregated with another or others. We are pleased to provide additional information if requested.

From Mapping Document #1  
ISA 315, paragraph 28/ISA for LCEs paragraph 6.4.1

## 5. Accounting Firms

### PriceWaterhouseCoopers

Respondent provided illustrative proposed revisions – see **Appendix 1**.

## 6. Public Sector Organizations

### Audit Scotland

Audit Assertions are described in Appendix 4, but their authority derives from EEM at paragraph 6.4.1. Regulatory oversight has resulted in audit assertions being effectively a required part of any audit. It therefore would seem more appropriate for audit assertions to be in the body of the ISA for LCEs rather than indirectly through EEM.

### **Specific Questions\Section 4E – Content of ED-ISA for LCE\Question 9- Views on the content of Parts 1 through 8 of ED-ISA for LCE\2) Responses on Parts 1 through 8\Part 6\6.f. Specific Drafting Comments\6.4 Identifying Risks of Material Misstatement\6.4.2\Challenging Presumption of Fraud Risk for Revenue Recognition**

## 4. National Auditing Standard Setters

### Canadian Auditing and Assurance Standards Board

Identification and response to fraud risk (ISA 240, paragraph 27 / ISA for LCE paragraph 6.4.2). This paragraph presumes there is always a risk of material misstatement due to fraud related to revenue recognition. Stakeholders indicated that this requirement is challenging to apply to audits of entities with a single revenue source (e.g., government grants) that is not susceptible to fraudulent financial reporting. Although rebuttal of the presumed risk of fraud is permitted, the work effort to support and document the rebuttal is not well understood and believed by some to be a high hurdle to overcome.

## 5. Accounting Firms

### PriceWaterhouseCoopers

*Respondent provided illustrative proposed revisions – see Appendix 1.*

## 6. Public Sector Organizations

### Office of the Auditor General of Alberta

Section 6.4.2 maintains the presumption that there is a risk of fraud in revenue recognition; however, for the public sector this presumption is frequently not applicable. Given the fact that the presumption is frequently not applicable, guidance should be added for the public sector.

## 7. Professional Accountancy and Other Professional Organizations

### Finnish Association of Authorised Public Accountants

In 6.4.2 the presumption that there are risks of fraud in revenue recognition and the possibility to rebut it are the same in ISA for LCE as it is in current ISAs. ISA for LCE is meant for less-complex entities, and there are no complex conditions present. Therefore, the presumption should be removed or changed to a matter of significant amount of professional judgement. If the presumption was removed, paragraph 6.8.1.(d) should be removed as well.

If removing the presumption is not possible, at least the following should be changed in 6.4.2:

- A clause has been added to EEM compared to ISA 240.A31 (words added into ISA for LCE underlined): “The presumption that there are risks of fraud in revenue recognition may be rebutted. For example, the auditor may conclude, based on the audit evidence obtained, that there is no risk of material misstatement due to fraud relating to revenue recognition in the case where there is a single type of simple revenue transaction, for example, leasehold revenue from a single unit rental property.” This clause makes the assessment more difficult. What kind of evidence is needed? Is the accumulated knowledge from previous years or understanding of the business model or applicable framework enough? We suggest removing the added clause and keeping the guidance similar to ISA 240.
- The standard gives only one example on rebutting (single unit rental property). More examples should be given of typical situations where rebutting the presumption is allowed. There must be many others in the LCE environment!

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

6.4.2: As in ISA 240 p27 the risk for fraud in revenue recognition is presumed to be significant. ISA 240 p48 gives the auditor the possibility to rebut the presumed significant risk in revenue recognition. There is a possibility to rebut this risk, as in ISA. In LCE there is often less incentive to manipulate revenue through fraudulent behaviour. In owner-managed entities the risk would rather be to exclude revenue transaction to avoid taxes. This is a risk related to taxes rather than revenue since this risk also covers recognition of costs not related to the business. We suggest that the presumption of fraud in revenue recognition is required to be assessed but not to be a presumed significant risk.

## Institute of Chartered Accountants in England and Wales

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.

## South African Institute of Chartered Accountants (2)

85. Given that the LCE environment may not contain complex transactions and processes, there may be a need to revisit the assumed significant risk due to the potential for fraud pertaining to revenue recognition for some of the assertions. Consideration must be given to the possibility of removing the requirement for a documented rebuttal for some of the assertions.

## Specific Questions\Section 4E – Content of ED-ISA for LCE\Question 9- Views on the content of Parts 1 through 8 of ED-ISA for LCE\2) Responses on Parts 1 through 8\Part 6\6.f. Specific Drafting Comments\6.4 Identifying Risks of Material Misstatement\6.4.2\Challenging Presumption of Significant Risk

## 7. Professional Accountancy and Other Professional Organizations

### Chamber of Auditors of the Czech Republic

6.4.2 should be removed since the risk of fraud in revenue recognition should not be by default presumed to be a significant risk in an LCE audit.

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

6.4.2: As in ISA 240 p27 the risk for fraud in revenue recognition is presumed to be significant. ISA 240 p48 gives the auditor the possibility to rebut the presumed significant risk in revenue recognition. There is a possibility to rebut this risk, as in ISA. In LCE there is often less incentive to manipulate revenue through fraudulent behaviour. In owner-managed entities the risk would rather be to exclude revenue transaction to avoid taxes. This is a risk related to taxes rather than revenue since this risk also covers recognition of costs not related to the business. We suggest that the presumption of fraud in revenue recognition is required to be assessed but not to be a presumed significant risk.

## Institute of Chartered Accountants in England and Wales

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.

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

## Nordic Federation of Public Accountants

6.4.2. The structure of 6.4.2 is similar to the ISAs in that the risk for fraud in revenue recognition is presumed to be significant (ISA 240 p. 27). The client's adherence to laws and regulation, including risk assessment related to fraud in financial reporting is an essential part of the audit. This risk needs to be assessed and adequately responded to. However, having the fraud risks specifically linked to revenue recognition can be misleading in the risk assessment. We suggest that the presumption on fraud in revenue as a significant risk is taken out of ISA for LCE, but that the risk of fraud still needs to be assessed given the circumstances in the audited entity.

## South African Institute of Chartered Accountants (2)

85. Given that the LCE environment may not contain complex transactions and processes, there may be a need to revisit the assumed significant risk due to the potential for fraud pertaining to revenue recognition for some of the assertions. Consideration must be given to the possibility of removing the requirement for a documented rebuttal for some of the assertions.

## Specific Questions\Section 4E – Content of ED-ISA for LCE\Question 9- Views on the content of Parts 1 through 8 of ED-ISA for LCE\2) Responses on Parts 1 through 8\Part 6\6.f. Specific Drafting Comments\6.4 Identifying Risks of Material Misstatement\6.4.2\Wording - If Not Rebutted

## 5. Accounting Firms

### Mazars

6.5.7: The proposed standard allows that the presumed significant risk in revenue recognition is a significant risk can be rebutted. In 6.5.7 (a) (ii) it should be stated "if not rebutted". Refer to our comment to 6.4.2 as well.

## 7. Professional Accountancy and Other Professional Organizations

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

6.5.7: The proposed standard allows that the presumed significant risk in revenue recognition is a significant risk can be rebutted. In 6.5.7 (a) (ii) it should be stated "if not rebutted". Refer to our comment to 6.4.2 as well.

## Nordic Federation of Public Accountants

6.5.7: According to the proposed standard the presumed significant risk in revenue recognition is a significant risk that can be rebutted. We suggest adding “if not rebutted” in 6.5.7 (a) (ii). We refer to our comment to 6.4.2 where we suggest that revenue recognition should not be a presumed significant risk.

### **Specific Questions\Section 4E – Content of ED-ISA for LCE\Question 9- Views on the content of Parts 1 through 8 of ED-ISA for LCE\2) Responses on Parts 1 through 8\Part 6\6. Specific Drafting Comments\6.4 Identifying Risks of Material Misstatement\6.4.3**

## 4. National Auditing Standard Setters

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

For clarity purposes we suggest beginning the requirement in paragraph 6.4.3. with the phrase ‘For identified risks of material misstatement, the auditor shall ...’.

### **Specific Questions\Section 4E – Content of ED-ISA for LCE\Question 9- Views on the content of Parts 1 through 8 of ED-ISA for LCE\2) Responses on Parts 1 through 8\Part 6\6. Specific Drafting Comments\6.4 Identifying Risks of Material Misstatement\Merge 6.4.1 and 6.4.3**

## 5. Accounting Firms

### Price Bailey LLP

6.4.1 and 6.4.3 - Can be simplified and merged.

### PriceWaterhouseCoopers

*Respondent provided illustrative proposed revisions – see Appendix 1.*

## 7. Professional Accountancy and Other Professional Organizations

### Institute of Chartered Accountants in England and Wales

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.

6.4.1: 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.

6.4.3: moved into 6.4.1, suggest delete.

### **Specific Questions\Section 4E – Content of ED-ISA for LCE\Question 9- Views on the content of Parts 1 through 8 of ED-ISA for LCE\2) Responses on Parts 1 through 8\Part 6\6. Specific Drafting Comments\6.4 Identifying Risks of Material Misstatement\Other**

## 5. Accounting Firms

### Ernst & Young Global Limited

Identifying Risks of Material Misstatement 6.4 - The ED-ISA for LCE extracted the requirements from the ISAs but does not demonstrate how it can be applied for an LCE. In this case, reading the ISAs provides more information on how the auditor can identify risks of material misstatement in an LCE.

## 7. Professional Accountancy and Other Professional Organizations

### Finnish Association of Authorised Public Accountants

6.4 Identifying Risks of Material Misstatement (RoMMs)

The RoMMs and therefore also relevant assertions in an LCE audit are often few, and easy to identify and get evidence on. The risks are also usually mainly low (or nonexistent) because there are no complex conditions (precondition for the application of ISA for LCE!). Having to focus too much on risk assessment at assertion level might cause ineffectiveness in smaller engagements. Most SME audits consist entirely of substantive procedures and some substantive procedures shall be performed for each material class of transactions, account balance, and disclosure in any case. Although relevant risks are a matter of professional judgement, it would be useful to add EEM guidance on the fact that in small and owner-managed companies the RoMMs are often few.

## Specific Questions\Section 4E – Content of ED-ISA for LCE\Question 9- Views on the content of Parts 1 through 8 of ED-ISA for LCE\2) Responses on Parts 1 through 8\Part 6\6.5 Risk Assessment\6.5.1 PWC Part 6.5 Proposed Drafting

### 5. Accounting Firms

#### PriceWaterhouseCoopers

Respondent provided illustrative proposed revisions – see **Appendix 1**.

## Specific Questions\Section 4E – Content of ED-ISA for LCE\Question 9- Views on the content of Parts 1 through 8 of ED-ISA for LCE\2) Responses on Parts 1 through 8\Part 6\6.5 Risk Assessment\6.5.1

### 3. Regulators and Audit Oversight Authorities

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

Paragraph 6.5, EEM paragraph (block), discusses aspects relating to magnitude and likelihood. It states that: “In considering the magnitude of a misstatement, the auditor considers the qualitative and quantitative aspects.”

The qualitative aspects might be better placed as part of the “likelihood” rather than the magnitude. For instance, judgment may increase the likelihood of an error. This would be due to the qualitative aspect of there being judgment involved.

### 4. National Auditing Standard Setters

#### American Institute of Certified Public Accountants

The following represents those ISA paragraphs and corresponding ISA for LCE paragraphs that we assigned a “B” rating – meaning that omission or revision of the ISA requirement might create an issue for auditors when any one item is aggregated with another or others. We are pleased to provide additional information if requested.

From Mapping Document #1

ISA 315, paragraph 31/ISA for LCEs paragraph 6.5.1(b)

### 5. Accounting Firms

#### Price Bailey LLP

6.5.1 and 6.5.2 - Is mainly repetitive and covered elsewhere and can be simplified, no need for a) or b) no need to refer to “other inherent risk factors”.

### 7. Professional Accountancy and Other Professional Organizations

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

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.

6.5.1 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).

### 8. Academics

#### Hunter College Graduate Program

Section 6.5.1(b) (ED Pg 108)

In doing so, the auditor shall take into account how, and ~~the to what~~ degree ~~to which~~ inherent risk factors affect the susceptibility of relevant assertions to misstatement.

Section 6.5.1 (ED Pg 108)

In assessing inherent risk, the auditor uses professional judgment in determining the significance of ~~the combination of~~ **both** the likelihood and magnitude of a misstatement on the spectrum of inherent risk.

## 9. Individuals and Others

### Vera Massarygina

ED as ISA 315 and others uses terminology which determine principle contradictions: they require to assess inherent risk for a particular risk of material misstatement at the assertion level determining the significance of the combination of the likelihood and magnitude of a misstatement (para 6.5.1). But according to para.8.2.3 auditor determines uncorrected misstatement not at the assertion level (as it is impossible) but in relation to particular classes of transactions, account balances or disclosures and the financial statements as a whole.

**Specific Questions\Section 4E – Content of ED-ISA for LCE\Question 9- Views on the content of Parts 1 through 8 of ED-ISA for LCE\2) Responses on Parts 1 through 8\Part 6\f. Specific Drafting Comments\6.5 Risk Assessment\c. 6.5.2**

## 5. Accounting Firms

### Price Bailey LLP

6.5.1 and 6.5.2 - Is mainly repetitive and covered elsewhere and can be simplified, no need for a) or b) no need to refer to “other inherent risk factors”.

## 7. Professional Accountancy and Other Professional Organizations

### Institute of Chartered Accountants in England and Wales

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.

6.5.1 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).

**Specific Questions\Section 4E – Content of ED-ISA for LCE\Question 9- Views on the content of Parts 1 through 8 of ED-ISA for LCE\2) Responses on Parts 1 through 8\Part 6\f. Specific Drafting Comments\6.5 Risk Assessment\d. 6.5.3**

## 5. Accounting Firms

### Price Bailey LLP

6.5.3 - Covered elsewhere so can be deleted.

## 7. Professional Accountancy and Other Professional Organizations

### Institute of Chartered Accountants in England and Wales

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.

6.5.3: 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.

**Specific Questions\Section 4E – Content of ED-ISA for LCE\Question 9- Views on the content of Parts 1 through 8 of ED-ISA for LCE\2) Responses on Parts 1 through 8\Part 6\f. Specific Drafting Comments\6.5 Risk Assessment\e. 6.5.4**

## 3. Regulators and Audit Oversight Authorities

### Independent Regulatory Board for Auditors (IRBA)

Editorial changes to the EEM paragraph below paragraph 6.5.4.:

“... unless the risk is of a type specified to be treated as a significant risk as set out in paragraphs 6.5.7.4–6.5.5 ...”

## 4. National Auditing Standard Setters

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

The reference in EEM 6.5.4. seems to be incorrect. Please check the accuracy of the reference, which should rather go to paragraph 6.5.7.

## 5. Accounting Firms

### ETY sas

Editorial to EEM paragraph below Paragraph 6.5.4.:

“...unless the risk is of a type specified to be treated as a significant risk as set out in paragraphs 6.5.7.4.–6.5.5...”

### MHA Monahans

6.5.4 Significant Risks

More guidance could be given as to what should be classified as a significant risk. Historically audit firms have been reluctant to identify more than the two mandatory risks as significant.

### RSM International

The references in paragraph 6.5.4 are incorrect and should refer to paragraph 6.5.7

## 6. Public Sector Organizations

### Auditor-General of New Zealand

Part 6 – Risk Identification and Assessment

Paragraph: The EEM after 6.5.4

Observation: The reference to paragraphs 6.5.4 – 6.5.5 seems incorrect.

Possible Correction: The correct reference is “paragraphs 6.5.5 – 6.5.7”.

## 7. Professional Accountancy and Other Professional Organizations

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

Editorial to EEM paragraph below Paragraph 6.5.4.:

“...unless the risk is of a type specified to be treated as a significant risk as set out in paragraphs 6.5.7.4.–6.5.5...”

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

Editorial to EEM paragraph below Paragraph 6.5.4.:

“...unless the risk is of a type specified to be treated as a significant risk as set out in paragraphs 6.5.7.4.–6.5.5...”

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

Paragraph: 6.5.4

Text of the standard statement: The determination of which of the assessed risks of material misstatement are close to the upper end of the spectrum of inherent risk, and are therefore significant risks, is a matter of professional judgment, unless the risk is of a type specified to be treated as a significant risk as set out in paragraphs 6.5.4.–6.5.5.

Comments: It looks like the link is not correct. Since paragraph 6.5.4 contains a reference to paragraph 6.5.4, that is, to the same paragraph.

## 8. Academics

### Hunter College Graduate Program

Section 6.5.4 (ED Pg 109)

Being close to the upper end of the spectrum of inherent risk will differ from entity to entity, and will not necessarily be the same for an entity period or a period.

**Specific Questions\Section 4E – Content of ED-ISA for LCE\Question 9- Views on the content of Parts 1 through 8 of ED-ISA for LCE\2) Responses on Parts 1 through 8\Part 6\6. Specific Drafting Comments\6.5 Risk Assessment\6.5.5**

### 3. Regulators and Audit Oversight Authorities

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

ISA Paragraph Reference: ISA 550, paragraph 18

ISA for LCE Paragraph Reference: Part 6, paragraph 6.5.5.(b)

Proposed Wording Change: In exercising professional judgment as to which assessed risks are significant risks, the auditor shall determine whether the assessed risks associated with related party relationships and transactions are significant risks. In making this determination, the auditor shall treat identified significant related party transactions outside the entity's normal course of business as giving rise to significant risks.

Comment: Paragraph 18 of ISA 550 requires the auditor to “treat identified significant related party transactions outside the entity's normal course of business as giving rise to significant risks”. This requirement has not been included in the mapped proposed standard paragraph(s) alongside paragraph 18 of ISA 550.

This is a significant requirement that should be included in the proposed standard and suggest that it be incorporated.

### 4. National Auditing Standard Setters

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

Paragraph 6.5.5., where the auditor shall determine whether the assessed risks associated with related party relationships and transactions are significant risks, should be removed as it is essentially covered by requirements 6.5.4, 6.5.7(b) and 1.7.1.

### 5. Accounting Firms

#### Grant Thornton International Limited

Part 6, Risk Identification and Assessment

Overall, we are of the view that this Part needs to be further tailored to the specific needs of an audit of the financial statements of a less complex entity. As currently drafted, there would appear to be insufficient modification of the requirements to reflect that less complex entities typically have less sophisticated IT environments and that audits of the financial statements of less complex entities are generally more substantive in nature, with significantly less emphasis being placed on controls that the entity may have put in place. For example:

Paragraph 6.5.5 allows the auditor to exercise professional judgment in determining whether the assessed risk associated with related party relationships and transactions are significant risks, and paragraph 6.5.7(b) requires the auditor to treat identified significant related party transactions outside the entity's normal business as significant risks. We recommend that paragraph 6.5.5 is placed after paragraph 6.5.7 and modified to indicate that professional judgment is only applied to those related party transactions that are not required to be treated as significant risks.

### 7. Professional Accountancy and Other Professional Organizations

#### Accountancy Europe

6.5.5, where the auditor is required to determine whether the assessed risks associated with related party relationships and transactions are significant risks, should be removed as it is essentially covered by requirements 6.5.4, 6.5.7(b) and 1.7.1.

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

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.

6.5.5 and .6: Suggest merge.

### Specific Questions\Section 4E – Content of ED-ISA for LCE\Question 9- Views on the content of Parts 1 through 8 of ED-ISA for LCE\2) Responses on Parts 1 through 8\Part 6\6.f. Specific Drafting Comments\6.5 Risk Assessment\g. 6.5.6

## 4. National Auditing Standard Setters

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

Considerations relating to “management bias” are included in the documentation requirement in paragraph 6.8.1.(f) for the first time. We suggest including them already in the requirements relating to risk assessment (significant risks), such as e.g., in requirement 6.5.6 or any other appropriate requirement.

## 5. Accounting Firms

### Grant Thornton International Limited

Part 6, Risk Identification and Assessment

Overall, we are of the view that this Part needs to be further tailored to the specific needs of an audit of the financial statements of a less complex entity. As currently drafted, there would appear to be insufficient modification of the requirements to reflect that less complex entities typically have less sophisticated IT environments and that audits of the financial statements of less complex entities are generally more substantive in nature, with significantly less emphasis being placed on controls that the entity may have put in place. For example:

Paragraph 6.5.6 requires the auditor to determine whether accounting estimates are significant risks. Accounting estimates have been identified as one of the factors that may prevent an audit being performed under ED-ISA for LCE. As such, if an accounting estimate is identified as a significant risk, we would recommend that EEM, or even a requirement, is included in the Proposed Standard that prompts the auditor to consider whether it is appropriate to continue to use ED-ISA for LCE.

## 7. Professional Accountancy and Other Professional Organizations

### Institute of Chartered Accountants in England and Wales

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.

6.5.5 and .6: Suggest merge.

## Specific Questions\Section 4E – Content of ED-ISA for LCE\Question 9- Views on the content of Parts 1 through 8 of ED-ISA for LCE\2) Responses on Parts 1 through 8\Part 6\6. Specific Drafting Comments\6.5 Risk Assessment\h. 6.5.7\1) Challenge Fraud in Revenue Recognition - Mapped to 6.4.2

## 5. Accounting Firms

### Mazars

6.5.7: The proposed standard allows that the presumed significant risk in revenue recognition is a significant risk can be rebutted. In 6.5.7 (a) (ii) it should be stated “if not rebutted”. Refer to our comment to 6.4.2 as well.

## 7. Professional Accountancy and Other Professional Organizations

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

6.5.7: The proposed standard allows that the presumed significant risk in revenue recognition is a significant risk can be rebutted. In 6.5.7 (a) (ii) it should be stated “if not rebutted”. Refer to our comment to 6.4.2 as well.

### Institute of Chartered Accountants in England and Wales

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

### Nordic Federation of Public Accountants

6.5.7: According to the proposed standard the presumed significant risk in revenue recognition is a significant risk that can be rebutted. We suggest adding “if not rebutted” in 6.5.7 (a) (ii). We refer to our comment to 6.4.2 where we suggest that revenue recognition should not be a presumed significant risk.

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

85. Given that the LCE environment may not contain complex transactions and processes, there may be a need to revisit the assumed significant risk due to the potential for fraud pertaining to revenue recognition for some of the assertions. Consideration must be given to the possibility of removing the requirement for a documented rebuttal for some of the assertions.

## **Specific Questions\Section 4E – Content of ED-ISA for LCE\Question 9- Views on the content of Parts 1 through 8 of ED-ISA for LCE\2) Responses on Parts 1 through 8\Part 6\6.5 Risk Assessment\h. 6.5.7\2) Simplification - All Fraud Risks Treat as Significant Risk**

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

#### **Accountancy Europe**

6.5.7 should be simplified by stating that all fraud risks identified should be treated as significant risks. There is no added value in specifying the risk of management override of controls which is already mentioned in paragraph 7.4.7.

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

6.5.7 should be simplified by stating that all fraud risks identified should be treated as significant risks.

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

Paragraph 6.5.7.(a)(ii) overlaps with 6.4.2. The requirement could be simplified stating that all fraud risks identified should be treated as significant risks.

## **Specific Questions\Section 4E – Content of ED-ISA for LCE\Question 9- Views on the content of Parts 1 through 8 of ED-ISA for LCE\2) Responses on Parts 1 through 8\Part 6\6.5 Risk Assessment\h. 6.5.7\3) Editorial Comments**

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

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

Editorial changes to paragraph 6.5.7.(a)(ii) – There appears to be a red line struck-through the word “fraud”, which should be deleted or the word “fraud” should be re-instated:

“... risk of fraud in revenue recognition. Based on a presumption that there are risks of ~~fraud~~ fraud in revenue recognition ...”

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

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

Editorial to paragraph 6.5.7.(a)(ii) – There appears to be a red line struck-through the word “fraud”, which should be deleted/the word “fraud” should be re-instated:

“...Risk of fraud in revenue recognition. Based on a presumption that there are risks of ~~fraud~~ fraud in revenue recognition...”

### **8. Academics**

#### **Hunter College Graduate Program**

Section 6.5.7(a)(i) (ED Pg 109) [Below sentence is missing ‘,’ after ‘occur’.]

Due to the unpredictable way in which such override could occur, it is a risk of material misstatement due to fraud and therefore a significant risk; and

Section 6.5.7(a)(ii) (ED Pg 109) [Below sentence is missing ‘,’ after ‘recognition’.]

Based on a presumption that there are risks of fraud in revenue recognition, the auditor shall evaluate which types of revenue, revenue transactions, or assertions give rise to such risks; and

## **Specific Questions\Section 4E – Content of ED-ISA for LCE\Question 9- Views on the content of Parts 1 through 8 of ED-ISA for LCE\2) Responses on Parts 1 through 8\Part 6\6.5 Risk Assessment\h. 6.5.7\4) Other Comments**

### **5. Accounting Firms**

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

6.5.7 (a) (i) In a closely-held LCE, management is directly responsible for most accounting functions, and controls will be few. Therefore, the ability to override controls is a given.

#### **Mazars**

6.5.7 (b) (i) - Existence of significant related party transactions is a risk factor, but why consider that a presumed significant risk and create a difference with ISA?

## 7. Professional Accountancy and Other Professional Organizations

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

86. Given the fewer transactions in an LCE environment, LCEs also have less complex accounting estimates and due consideration must be given to the necessity of the ISA 240 requirement of having to include accounting estimates (due to the complex nature of estimates) in the auditor's assessment of the risk around management's override of controls.

### **Specific Questions\Section 4E – Content of ED-ISA for LCE\Question 9- Views on the content of Parts 1 through 8 of ED-ISA for LCE\2) Responses on Parts 1 through 8\Part 6\i. Specific Drafting Comments\6.5 Risk Assessment\i. 6.5.8**

#### 5. Accounting Firms

##### Azets Audit Services

The IAASB should continue efforts to work on the clarity and simplification of language throughout the ED-ISA for LCE. Specifically, there are also several areas that act to complicate the standard and their omission or simplification could be of benefit.

For example, Part 6 of the ED-ISA for LCE would benefit from some further work to ensure the underlying requirements (not just the, generally very good, EEM) highlight the additional simplicity that stems from the qualitative features of a LCE. The standard also uses presumptive language in connection with processes that EEM acknowledge can be very informal, or unnecessary, in a less complex entity in areas including:

6.5.8 in connection with control risk assessment, and associated EEM, distills ISA 315, though does not translate it to apply to an LCE. This has the effect of potentially further entrenching substantive approached in areas where control testing can still be the right answer in certain circumstances.

### **Specific Questions\Section 4E – Content of ED-ISA for LCE\Question 9- Views on the content of Parts 1 through 8 of ED-ISA for LCE\2) Responses on Parts 1 through 8\Part 6\i. Specific Drafting Comments\6.5 Risk Assessment\j. 6.5.9**

#### 5. Accounting Firms

##### Ernst & Young Global Limited

Evaluation of the Procedures to Identify and Assess Risks of Material Misstatement and Revision of Risk Assessment 6.5.9-6.5.10 – LCE audits can have material classes of transactions or account balances or disclosures that have been determined not to be significant. As a result, we believe the requirement from ISA 315.36 (Revised) (For material classes of transactions, account balances or disclosures that have not been determined to be significant classes of transactions, account balances or disclosures, the auditor shall evaluate whether the auditor's determination remains appropriate) is still applicable to LCE audits and should be added to the ED-ISA for LCE.

##### Price Bailey LLP

6.5.9 - Can be simplified.

##### PriceWaterhouseCoopers

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.

## 7. Professional Accountancy and Other Professional Organizations

### Institute of Chartered Accountants in England and Wales

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.

6.5.9: unnecessarily verbose.

## **Specific Questions\Section 4E – Content of ED-ISA for LCE\Question 9- Views on the content of Parts 1 through 8 of ED-ISA for LCE\2) Responses on Parts 1 through 8\Part 6\6.5 Risk Assessment\k. 6.5.10**

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

#### **American Institute of Certified Public Accountants**

The following represents those ISA paragraphs and corresponding ISA for LCE paragraphs that we assigned a “B” rating – meaning that omission or revision of the ISA requirement might create an issue for auditors when any one item is aggregated with another or others. We are pleased to provide additional information if requested.

From Mapping Document #1  
ISA 315, paragraph 37/ISA for LCEs paragraph 6.5.10

### **5. Accounting Firms**

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

Evaluation of the Procedures to Identify and Assess Risks of Material Misstatement and Revision of Risk Assessment 6.5.9-6.5.10 – LCE audits can have material classes of transactions or account balances or disclosures that have been determined not to be significant. As a result, we believe the requirement from ISA 315.36 (Revised) (For material classes of transactions, account balances or disclosures that have not been determined to be significant classes of transactions, account balances or disclosures, the auditor shall evaluate whether the auditor’s determination remains appropriate) is still applicable to LCE audits and should be added to the ED-ISA for LCE.

## **Specific Questions\Section 4E – Content of ED-ISA for LCE\Question 9- Views on the content of Parts 1 through 8 of ED-ISA for LCE\2) Responses on Parts 1 through 8\Part 6\6.5 Risk Assessment\l. 6.5.11**

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

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

We support the inclusion of the “stand-back” requirement in paragraph 6.5.11. However, we suggest that support material explain how an auditor would transition out of the proposed standard to the ISAs, should the application of the proposed standard no longer be appropriate.

### **5. Accounting Firms**

#### **BDO International**

Paragraph 6.5.11 - The stand-back requirement at the end of risk identification and assessment in paragraph 6.5.11 highlights the issue with the subjectivity of the scope of the standard and the requirement to transition to a full ISA audit:

If after this stand-back, the auditor realises they cannot continue under ISA for LCEs, even though so far they have obtained enough documentation to support a reasonable assurance opinion, they would be required to go back to client acceptance, and start over under ‘full ISAs’.

However the procedures performed to that point already capture the principles of the ISAs, but not perhaps their detail. This highlights our concern over the practical application of the transition requirements in the proposed LCE standard, which may in practice make it unusable for most entities.

#### **ETY sas**

Paragraph 6.5.11.

In our view the last sentence below paragraph 6.5.11 should be amended as following:

“... ”

In circumstances where audit evidence, or new information, is obtained, which is inconsistent with the auditor’s original determination for using the [draft] ISA for LCE, the auditor may need to change the original determination to use the [draft] ISA for LCE and consider whether that change may necessitate a modification to the terms of engagement.”

A support material on how an auditor would transition out of the proposed standard to the ISAs should the application of the proposed standard no longer be appropriate, will be useful for an appropriate implementation.

#### **Mazars**

6.5.11 – blue box – will be disruptive for audit, if conclusion with regards to use of LCE standard is changed at or towards the end of the audit.

## 6. Public Sector Organizations

### Swedish National Audit Office

Consider combining paragraph 6.8.2 and 6.5.11.

## 7. Professional Accountancy and Other Professional Organizations

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

Paragraph 6.5.11.

In our view the last sentence below paragraph 6.5.11 should be amended as following:

“ ...

In circumstances where audit evidence, or new information, is obtained, which is inconsistent with the auditor's original determination for using the [draft] ISA for LCE, the auditor may need to change the original determination to use the [draft] ISA for LCE and consider whether that change may necessitate a modification to the terms of engagement.”

A support material on how an auditor would transition out of the proposed standard to the ISAs should the application of the proposed standard no longer be appropriate, will be useful for an appropriate implementation.

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

I support the inclusion of the “stand-back” requirement, paragraph 6.5.11.

This been said, it is strongly suggested that the IAASB issue support material on how an auditor would transition out of the proposed standard to the ISAs should the application of the proposed standard no longer be appropriate.

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

87. Par 6.5.11: The engagement partner shall evaluate whether the ISA for LCE continues to be appropriate for the nature and circumstances of the entity being audited.

The re-evaluation throughout the audit of the applicability of the use of ISA for LCE may result in a possible withdrawal of its use and will be onerous if this is the case, as the auditor will have to revert back to the ISAs, putting undue pressure on the efficiency and effectiveness of the audit process. Applying the main ISAs from the beginning of the engagement may end up being more efficient than the application of the LCE standard in these situations.

### South African Institute of Professional Accountants

Paragraph 6.5.11 states: “Based on the procedures performed to identify and assess the risks of material misstatement, the engagement partner shall evaluate whether the [draft] ISA for LCE continues to be appropriate for the nature and circumstances of the entity being audited. “

We support paragraph 6.5.11 but recommend guidance on how the auditor should apply the change in ISA from this standard to ISA.

## **Specific Questions\Section 4E – Content of ED-ISA for LCE\Question 9- Views on the content of Parts 1 through 8 of ED-ISA for LCE\2) Responses on Parts 1 through 8\Part 6\6f. Specific Drafting Comments\6.5 Risk Assessment\m. Missing Content and Omitted Paragraphs from ISA 315 (Revised 2019)**

## 4. National Auditing Standard Setters

### American Institute of Certified Public Accountants

The following represents those ISA paragraphs and corresponding ISA for LCE paragraphs that we assigned a “B” rating – meaning that omission or revision of the ISA requirement might create an issue for auditors when any one item is aggregated with another or others. We are pleased to provide additional information if requested.

From Mapping Document #1

ISA 315, paragraph 36/ - (omitted from Exposure Draft)

## 5. Accounting Firms

### Duncan & Toplis Limited

Response: Part 6 risk assessment. We believe that as part of the risk assessment exercise, there needs to be the requirement for the audit team to re-assess whether use of the LCE-ISA is still appropriate. If more complex risks are identified, then that would not be the case.

No other comments, that are not covered in other responses.

### **Specific Questions\Section 4E – Content of ED-ISA for LCE\Question 9- Views on the content of Parts 1 through 8 of ED-ISA for LCE\2) Responses on Parts 1 through 8\Part 6\6.f. Specific Drafting Comments\6.6 Specific Inquiries of Management and Those Charged with Governance**

## 5. Accounting Firms

### Azets Audit Services

Whilst principles-based in most respects, the ED-ISA for LCE in some areas reads as a list of rules and requirements. This is prevalent in areas related to communication, for example in 6.6 and 6.7. Whilst these requirements are a manifestation of extant ISA requirements, consideration should be given to whether they could be addressed in another way, or omitted from the main body of the standard in some cases to the benefit of keeping the standard as principles based as possible.

### Famme & Co. Professional Corporation

6.6.1 (a) through (c) In practice, management of an LCE is not likely to be making fraud assessments, responses and communications. We feel these sections are moot under an LCE scenario.

### MHA Monahans

6.6.1 Specific inquiries of management

This is still written as applicable to larger companies. Management's process for identifying and responding to the risks of fraud in the entity can be very simple for an owner managed business. The standard should be cognisant that the control environment in a small or medium sized entity is very different to that in a large/listed entity.

### PriceWaterhouseCoopers

*Respondent provided illustrative proposed revisions – see Appendix 1.*

## 7. Professional Accountancy and Other Professional Organizations

### Finnish Association of Authorised Public Accountants

Paragraph 6.6.1 requires many inquiries of management. Many of the issues are such that the management in a small entity

- cannot answer
- directs the questions to the service provider
- has no supporting evidence to corroborate them (e.g. 6.6.1 (a)(d)(e)(f)). Complying with these requirements can therefore be difficult for auditors.

Part of the requirements, such as 6.6.1(b) and (c), could be considered being moved under paragraph 'Understanding the Entity's Control System', or at least an EEM should be added to guide in the cases where there are no formal and regular internal procedures and/or communication.

In ISA 315 (revised 2019) A.53 there is a sentence that should be added to ISA for LCE: "The depth of the understanding that is required by the auditor is expected to be less than that possessed by management in managing the entity."

### **Specific Questions\Section 4E – Content of ED-ISA for LCE\Question 9- Views on the content of Parts 1 through 8 of ED-ISA for LCE\2) Responses on Parts 1 through 8\Part 6\6.f. Specific Drafting Comments\6.7 Specific Communication Requirements**

## 4. National Auditing Standard Setters

### Canadian Auditing and Assurance Standards Board

Frequency and substance of communications (ISA 260, paragraph 14-16 / ISA for LCE paragraphs 4.7.1, 5.4.1, 6.7.1 and 8.8.2). These paragraphs list matters the practitioner is required to communicate with those charged with governance. Stakeholders indicated they are sometimes challenged in complying with the requirements to communicate specific matters throughout the audit in less-formal oversight structures, where a board of directors does not exist or meets infrequently.

## 5. Accounting Firms

### Azets Audit Services

Whilst principles-based in most respects, the ED-ISA for LCE in some areas reads as a list of rules and requirements. This is prevalent in areas related to communication, for example in 6.6 and 6.7. Whilst these requirements are a manifestation of extant ISA requirements, consideration should be given to whether they could be addressed in another way, or omitted from the main body of the standard in some cases to the benefit of keeping the standard as principles based as possible.

### PriceWaterhouseCoopers

No change proposed in the illustrative proposal (**Appendix 1**)

## 7. Professional Accountancy and Other Professional Organizations

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

Paragraph: 6.7.1.

Text of the standard statement: The auditor shall communicate to management, and where appropriate, those charged with governance, the significant risks identified by the auditor.

Comments: The requirement is stricter than contained in the ISAs and cannot be easily used in case of anti-fraud audit procedures an auditor is performing and communicates to relevant bodies.

## 8. Academics

### Hunter College Graduate Program

Section 6.7.1(ED Pg 111)

The auditor shall communicate **the identified significant risks** to management, and where appropriate, **to** those charged with governance., ~~the significant risks identified by the auditor.~~

**Specific Questions\Section 4E – Content of ED-ISA for LCE\Question 9- Views on the content of Parts 1 through 8 of ED-ISA for LCE\2) Responses on Parts 1 through 8\Part 6\6.f. Specific Drafting Comments\6.8 Specific Documentation Requirements**

## 4. National Auditing Standard Setters

### American Institute of Certified Public Accountants

The following represents those ISA paragraphs and corresponding ISA for LCE paragraphs that we assigned a “B” rating – meaning that omission or revision of the ISA requirement might create an issue for auditors when any one item is aggregated with another or others. We are pleased to provide additional information if requested.

From Mapping Document #1

ISA 315, paragraph 38/ISA for LCEs paragraphs 6.8.1(a) and (c)-(e)

## 5. Accounting Firms

### Grant Thornton International Limited

Part 6, Risk Identification and Assessment

Overall, we are of the view that this Part needs to be further tailored to the specific needs of an audit of the financial statements of a less complex entity. As currently drafted, there would appear to be insufficient modification of the requirements to reflect that less complex entities typically have less sophisticated IT environments and that audits of the financial statements of less complex entities are generally more substantive in nature, with significantly less emphasis being placed on controls that the entity may have put in place. For example:

A further example of where additional EEM would be helpful is in relation to paragraph 6.8.1(e) to provide guidance on the extent of documentation expected in relation to the assessment of the design and implementation of controls.

### Mazars

6.8.1 (a) states “Key elements of the understanding obtained regarding each of the aspects of ...”. The proposed standard is intended to be used for a wide range of sizes of entities from very small to larger SME meeting the authority requirements for less complexity. In our view it should be included in the documentation requirements rather than in the EEM that the amount of documentation should reflect the bullets included in the EEM to 6.8.

### PriceWaterhouseCoopers

Respondent provided illustrative proposed revisions – see **Appendix 1**.

## 6. Public Sector Organizations

### Office of the Auditor General of Alberta

Section 6.8 is not consistent with Section 2.5.1. Specifically by stating, “It is not necessary to document the entirety of the auditor’s understanding of the entity...” The requirement that documentation “that is sufficient to enable an experienced auditor, having no previous connection with the audit, to understand” the understanding, assessments and conclusions of the auditor is critical and should be maintained. Therefore, this sentence should be removed.

### Swedish National Audit Office

Consider combining paragraph 6.8.2 and 6.5.11.

## 7. Professional Accountancy and Other Professional Organizations

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

6.8.1: in (a) it says “Key elements of the understanding obtained regarding each of the aspects of ...”. The proposed standard is intended to be used for a wide range of sizes of entities from very small to larger SME:s meeting the authority requirements for less complexity. In our view it should be included in the documentation requirements rather than in the EEM that the amount of documentation should reflect the bullets included in the EEM to 6.8.

### Institute of Chartered Accountants in England and Wales

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.

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

6.8.2: suggest delete.

## Nordic Federation of Public Accountants

One main concern with the ISAs that was also highlighted in the responses to the DP was “requirements that result in certain procedures being performed solely to comply with ISA requirements with no additional assurance or measurable increase in audit quality”. We believe Part 6 of the draft standard is an area where more could be done in this respect, taking into account the specific characteristics of audits of LCEs, and also by applying scalability and proportionality.

6.8 Specific Documentation Requirements: The general introductory EEM in the first blue box include important information that should not be limited to this part of the draft standard, but could rather be considered to be applied throughout the entire standard. The documentation requirements in this Part are very granular and detailed, for example, the ones in 6.8.1.(a). We would appreciate a reconsideration of these requirements that clearly allows the use of scalability and proportionality. Furthermore, any changes to Part 6 should be reflected in section 6.8.

## 8. Academics

### Hunter College Graduate Program

Section 6.8 (ED Pg 111) [Below sentence is missing ‘,’ after ‘size’.]

The nature, size, and complexity of the entity and its internal control system.

Section 6.8.1(a) (ED Pg 112) [Below sentence is missing ‘,’ after ‘framework’.]

Key elements of the understanding obtained regarding each of the aspects of the entity and its environment, the applicable financial reporting framework, and the entity’s internal control system.

## Specific Questions\Section 4E – Content of ED-ISA for LCE\Question 9- Views on the content of Parts 1 through 8 of ED-ISA for LCE\2) Responses on Parts 1 through 8\Part 6\g. Supportive Comments

## 3. Regulators and Audit Oversight Authorities

## **Botswana Accountancy Oversight Authority**

### Part 6: Risk Identification and Assessment

It has retained the core requirements of ISA 315 (Revised 2019), as such making it is complete and relevant.

**PricewaterhouseCoopers International Limited Illustrative Drafting - Part 6 (For Reference)**

**Extract from [PwC Response to Exposure Draft](#) - Appendix 2 - Illustrative Requirements Concept**

This appendix has been developed to seek to illustrate how further simplification can be incorporated into proposed requirements to better meet stakeholder expectations, based on an assumption of a narrower Authority, to: (i) better reflect the nature and circumstances of entities that would fall within the scope of the ISA for LCE and (ii) provide further distinction from ISA requirements where possible. This illustration addresses risk assessment, and response to risks of material misstatements related to accounting estimates. The principle of broader distinction and simplification could be adopted across other Parts of the standard. In addition, as described in our response to question 8, this appendix also includes suggested revisions to the documentation requirements designed to enhance understanding and clarity.

**Risk identification and assessment:**

Illustrative revisions	Comments
<b>6.1 Objectives</b>	
6.1.1 The objectives of the auditor are to identify and assess the risks of material misstatement, whether due to fraud or error, at the financial statement and assertion levels, thereby providing a basis for designing and implementing responses to the assessed risks of material misstatement.	No change
<b>6.2. Procedures for Identifying and Assessing Risks and Related Activities</b>	
6.2.1 The auditor shall design and perform procedures <b><u>in an unbiased manner</u></b> to obtain audit evidence that provides an appropriate basis for: (a) The identification and assessment of risks of material misstatement, whether due to fraud or error, at the financial statement and assertion levels; and (b) The design of further audit procedures.	While paragraph 1.4.6 sets the overarching requirement to design and perform procedures in a manner that is not biased, it is separated from the core requirement here and in Part 7. We suggest a small amendment could be added here that provides a hook for the related EEM to paragraph 6.2.1.
6.2.2 The procedures to identify and assess risks of material misstatement shall include: (a) Inquiries of management, and other appropriate individuals within the entity; (b) Analytical procedures; and (c) Observation and inspection.	No change

<p>6.2.3 In designing and performing procedures to identify and assess risks of material misstatement, the auditor shall consider possible risks of material misstatement arising from:</p> <ul style="list-style-type: none"> <li>(a) Fraud or error;</li> <li>(b) Related parties; and</li> <li>(c) Events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.</li> </ul>	<p>No change</p>
<p>6.2.4. <del>When identifying risks of material misstatement, including those arising from fraud, the auditor shall consider information from all procedures designed and performed for risk identification to determine whether fraud risk factors are present,</del> including:</p> <ul style="list-style-type: none"> <li>(a) The acceptance or continuance procedures; and</li> <li>(b) When applicable, other engagements performed by the engagement partner for the entity.</li> </ul>	<p>Introduction amended to make more of a statement of principle. Requirement is also broader than just to determine whether fraud risk factors are present.</p>
<p>6.2.5. The auditor shall evaluate whether unusual or unexpected relationships that have been identified in performing analytical procedures, including those related to revenue accounts, may indicate risks of material misstatement due to fraud.</p>	<p>No change</p>
<p>6.2.6. If the audit opinion on the prior period's financial statements was modified the auditor shall evaluate the effect on the current year's financial statements when identifying and assessing risks of material misstatement.</p>	<p>No change</p>
<p><b>6.3. Understanding Relevant Aspects of the Entity</b> <i>Understanding the Entity and Its Environment</i></p>	
<p>6.3.1 The auditor shall understand:</p> <ul style="list-style-type: none"> <li>(a) The entity's organizational structure, ownership and governance, business model (including how the entity uses IT in its business model).</li> <li>(b) The industry and other external factors.</li> <li>(c) How the entity's financial performance is measured internally and externally.</li> <li>(d) The legal and regulatory framework applicable to the entity, and how the entity is complying with that framework.</li> <li>(e) The entity's transactions and other events and conditions that may give rise to the need for, or changes in, accounting estimates to be recognized or disclosed.</li> <li>(f) Agreements or relationships that may result in unrecognized liabilities, future commitments or changes to current asset valuations through inspecting minutes of meetings and correspondence with legal counsel and inspecting legal expense accounts.</li> </ul>	<p>No change</p>

<p>6.3.2. The auditor shall <del>understand how</del> <b><u>inquire of management and, when applicable,</u></b> those charged with governance, <b><u>regarding:</u></b></p> <p>(a) <del>exercise oversight of management’s processes for identifying and responding to the risks of fraud or error in the entity they have identified and the controls that management has</del> <b><u>have been established to mitigate these risks;</u></b></p> <p>(b) <b><u>The identity of the entity’s related parties, including changes from the prior period; the nature of the relationships between the entity and these related parties; and whether the entity entered into any transactions with these related parties during the period and, if so, the type and purpose of the transactions;</u></b></p> <p>(c) <b><u>Non-compliance with law or regulation that may have a material effect on the financial statements, and inspecting correspondence, if any, with the relevant licensing or regulatory authorities; and</u></b></p> <p>(d) <b><u>Whether events or conditions have been identified that individually, or collectively, may affect the ability of the entity to continue as a going concern; and</u></b></p> <p>(e) <b><u>The basis, when applicable, for the intended use of the going concern basis of accounting.</u></b></p> <p>6.6.1 [See deletion below]</p> <p><del>5.2.12 [For reference]</del></p> <p><del>5.2.12 The auditor shall determine whether inquire of management has already performed a preliminary assessment of the entity’s ability to continue as a going concern and:</del></p> <p><del>a.— If such an assessment has been performed, discuss the assessment with management and determine whether management has identified events or conditions that, individually or collectively, may cast significant doubt on the entity’s ability to continue as a going concern and, if so, management’s plans to address them; or</del></p> <p><del>b.— If such an assessment has not yet been performed, discuss with management the basis for the intended use of the going concern basis of accounting, and inquire of management whether events or conditions exist that, individually or collectively, may cast significant doubt on the entity’s ability to continue as a going concern.</del></p>	<p>Expanded to incorporate inquiry of management regarding risks, in lieu of paragraph 6.3.7 on Understanding the Risk Assessment Process component of the system of Internal Control, reflecting that many LCEs will not have a risk assessment process.</p> <p>Inquiries required by paragraph 6.6.1 have been elevated to form part of the requirement rather than having a separate section at the end of Part 6 that is disconnected from other inquiry procedures. All of this understanding therefore provides the basis for an informed engagement team discussion.</p> <p>Paragraph 5.2.12 also incorporated into this overarching requirement. Whether or not management has conducted an assessment is not the critical focus - the important outcome is to understand management’s awareness of matters and justification for using the going concern basis.</p>
<p>6.6.2 The auditor shall make inquiries of management, and as appropriate, those charged with governance, and others within the entity as appropriate, to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity.</p>	<p>Moved but no change</p>
<p>6.3.3. The auditor shall understand:</p>	<p>No change</p>

<p>(a) The applicable financial reporting framework including, for accounting estimates, the recognition criteria, measurement bases, and the related presentation and disclosure requirements and how these apply in the context of the nature and circumstances of the entity and its environment.</p> <p>(b) The entity's accounting policies and reasons for any changes thereto.</p>	
<p>6.3.4. The auditor shall evaluate whether the entity's accounting policies are appropriate and consistent with the applicable financial reporting framework.</p>	No change
<p><b>6.X Engagement Team Discussion</b></p>	
<p>5.2.6 <b><u>Based on the understanding obtained of the entity and its environment and applicable financial reporting framework,</u></b> <del>t</del>The engagement partner and other key engagement team members shall discuss the susceptibility of the entity's financial statements to material misstatement, including:</p> <p>(a) The application of the applicable financial reporting framework to the entity's facts and circumstances.</p> <p>(b) How and where the entity's financial statements may be susceptible to material misstatement due to fraud, including how fraud may occur, and how fraud or error could arise from related party relationships or transactions (<b><u>fraud risk factors</u></b>).</p> <p>Discussions among the engagement team shall occur setting aside beliefs the engagement team may have that management, and where appropriate, those charged with governance are honest and have integrity.</p>	<p>As noted in appendix 3, paragraphs 5.2.6 &amp; 5.2.7 relate directly to risk assessment and are therefore more appropriately located in Part 6. Suggest this placement represents a logical order having obtained the understanding of the entity and its environment and applicable financial reporting framework.</p> <p>Reference to fraud risk factors deemed more helpful here than 6.2.4.</p>
<p>5.2.7 When there are engagement team members not involved in the discussion, the engagement partner shall determine which matters are to be communicated to those members.</p>	Moved but no change
<p><b><u>Inherent Risk Factors</u></b><del>Events or Conditions that Affect Susceptibility to Misstatement and Significant Classes of Transactions, Account Balances and Disclosures</del></p>	
<p>6.3.5. <b><u>Based on the auditor's</u></b> <del>in</del> understanding <b><u>of</u></b> the entity and its environment and the applicable financial reporting framework <del>in accordance with this Part,</del> the auditor shall:</p> <p>(a) <b><u>consider how events or conditions</u></b> <del>understand how inherent risk factors</del> affect the susceptibility of <del>assertions</del> <b><u>the financial statements</u></b> to misstatement, and the degree to which they do so; and</p>	<p>Intended simplification by deletion of the defined term "Inherent Risk Factors" and focusing instead on the substance of what needs to be understood by utilising wording from the definition. Reinforced the</p>

<p>(b) <b><u>identify classes of transactions, account balances and disclosures the auditor expects to be significant classes of transactions, account balances and disclosures based on an expectation that a risk of material misstatement may exist.</u></b></p>	<p>link to consideration being “based on” the understanding of the entity.</p> <p>Part (b) added to provide the basis for the extent of understanding to be obtained in subsequent requirements addressing the understanding of the system of internal control (to avoid the circularity question embedded in ISA 315 (Revised 2019)). We suggest that some short EEM be added that includes paragraph A15a of ISA 200 as approved in the conforming amendments arising from ISA 315 (Revised 2019)).</p>
<p><i>Understanding the Entity’s <del>Internal Control System</del>Control Environment and Process to Prepare its Financial Statements</i></p>	
<p>6.3.6. The auditor shall <del>evaluate whether management (with the oversight of those charged with governance, if applicable) has created and maintained a control environment that provides an appropriate foundation for the other components of the entity’s internal control system, including determining whether there are any deficiencies in the control environment that undermine the other components of the entity’s internal control system. For this purpose, the auditor shall</del> understand:</p> <ul style="list-style-type: none"> <li>(a) How management<sub>1</sub> and<sub>2</sub> where appropriate, those charged with governance, oversee the entity, and demonstrate integrity and ethical values, <b><u>including communicating to employees regarding expectations for business practices and ethical behavior;</u></b></li> <li>(b) The entity’s assignment of authority and responsibility;</li> <li>(c) The culture of the entity, including whether the culture supports honesty and ethical behavior; and</li> <li>(d) When applicable, <b><u>if and</u></b> how <b><u>the active involvement of</u></b> owner-managers <del>have an active involvement and may</del> influence the risks arising from management override of controls due to lack of segregation of duties.</li> </ul> <p><b><u>and evaluate whether the control environment created provides an appropriate foundation for the other components of the entity’s internal control system, and whether there are any deficiencies in the control environment that undermine the other components of the entity’s internal control system.</u></b></p>	<p>Lead in language moved to a hanging paragraph and simplified, to focus first on the matters the auditor is required to understand.</p> <p>Incorporated 6.6.1(d) into part (a) as elements are related.</p>

<p><del>6.3.7. The auditor shall evaluate whether the entity’s risk assessment process is appropriate to the entity’s circumstances considering the nature and complexity of the entity. For this purpose, the auditor shall understand the entity’s risk assessment process relevant to the preparation of the financial statements (i.e., how risks are identified, assessed and addressed), including how this process identifies and addresses risks related to accounting estimates.</del></p>	<p>Excluded on the basis that proposed 6.3.2 achieves a similar outcome in a more direct manner, recognising that many LCEs are unlikely to have a “process”.</p>
<p><del>6.3.8. The auditor shall evaluate whether the entity’s process for monitoring the internal control system is appropriate to the entity’s circumstances considering the nature and complexity of the entity. For this purpose, the auditor shall understand the entity’s process to monitor the entity’s internal control system, including the sources of information and the basis upon which management considers the information to be sufficiently reliable, as well as how deficiencies are remediated.</del></p>	<p>Deemed not essential to the nature and circumstances of an audit of an LCE. Inquiries under 6.3.2 deemed sufficient to identify relevant matters.</p>
<p>6.3.9. The auditor shall understand <del>the information system relevant to the preparation of</del> the <u>entity’s process to prepare its</u> financial statements, including:</p> <p>(a) <u>The accounting records and other records that support the classes of transactions, account balances and disclosures in the financial statements;</u></p> <p>a. (b) <del>a</del>For <u>expected</u> significant classes of transactions, account balances and disclosures, how <del>these</del> transactions are initiated, recorded, processed, corrected as necessary, transferred to the general ledger and reported in the financial statements, <del>as well as:</del></p> <p>b. (c) <del>i.</del>How <del>the information system captures, processes and discloses</del> events and conditions, other than transactions, <u>are identified, processed and disclosed;</u></p> <p><del>ii. The accounting records, specific accounts in the financial statements and other supporting records for the flows of information;</del></p> <p>(d) <del>iii.</del>The entity’s resources used in the financial reporting process, <u>including the IT systems and processes used;</u></p> <p>(e) <u>Controls within the process that address expected significant classes of transactions, account balances and disclosures.</u></p> <p>iv. The financial reporting process used to prepare the entity’s financial statements, including disclosures; and</p> <p><del>b. The IT environment relevant to (a)(i) to (iv) above.</del></p>	<p>Requirement simplified to focus on the entity’s process to prepare its financial statements. Understanding of IT simplified. Elements reordered based on assessment of logical flow. Original part (b) incorporated into new (d).</p>
<p><del>6.3.10. The auditor shall understand how the entity communicates significant matters related to the preparation of the financial statements, and related reporting responsibilities, between people within the entity, between management and those charged with governance (if applicable) and with external parties (such as regulatory authorities or others as required).</del></p>	<p>Deemed not essential to the nature and circumstances of an audit of a LCE.</p>

6.3.11 [moved below 6.3.12]	6.3.12 is a granular extension of the matters covered in paragraph 6.3.9 in the context of accounting estimates. The evaluation in paragraph 6.3.11 would cover both these requirements and therefore logically follow both.
<p>6.3.12. For accounting estimates and related disclosures for <b>expected</b> significant classes of transactions, account balances or disclosures, the auditor's <del>understanding of the information system and the flow of information relevant to the preparation of the financial statements shall include</del> <b>also understand how management:</b></p> <p>(a) <del>How management identifies, selects and applies relevant methods, assumptions and data that are appropriate in the context of the applicable financial reporting framework, including identification of significant assumptions;</del></p> <p>(b) <del>How management understands the degree of estimation uncertainty and addresses such uncertainty, including selecting a point estimate and related disclosures for inclusion in the financial statements;</del></p> <p>(c) <del>Controls over management's process for making accounting estimates;</del> and</p> <p>(c) <del>(d) How management reviews the outcomes of previous estimates and responds to the results of that review.</del></p>	Simplified lead-in and deleted reference to management's controls as will already be covered by base requirement in 6.3.9.
6.3.11. The auditor shall evaluate whether the entity's <del>information system and communication processes</del> appropriately supports the preparation of the entity's financial statements in accordance with the applicable financial reporting framework.	Simplified language based on 6.3.9.
<del>6.3.13. Based on the auditor's evaluations about whether the control environment, the entity's risk assessment process, the monitoring of the entity's internal control system and the information system are appropriate in context of the nature and circumstances of the entity, the auditor shall determine whether one or more control deficiencies have been identified.</del>	Deemed adequately addressed by revised 6.3.18.
6.3.14-6.3.16 [moved below 6.5.7]	All controls related work now consolidated in a single section below.
<u><b>Service organisations</b></u>	
6.3.17. If the entity uses the services of a service organization, the auditor's understanding of the information system shall include:	New sub-heading added for conditional requirement. Language in (e) amended to

<p>(a) The nature of the services provided by the service organization and the significance of those services to the entity;</p> <p>(b) The nature and materiality of the transactions processed or accounts or financial reporting processes affected by the service organization;</p> <p>(c) The relevant contractual terms for the activities undertaken by the service organization;</p> <p>(d) Controls at the service organization relevant to the entity's transactions; and</p> <p>(e) The controls <b><u>within the entity that relate to the information provided by</u></b><del>applied to transactions with</del> the service organization.</p>	<p>make clear these are controls within the entity.</p>
<p><i>Deficiencies in the Entity's Internal Control System</i></p>	
<p>6.3.18. <b><u>Based on the auditor's evaluation of each of the components of the entity's system of internal control,</u></b>  <del>T</del>he auditor shall determine whether <b><u>there are any control</u></b> deficiencies identified in the entity's internal control system, individually or in combination, <b><u>and, if so, if they</u></b> constitute significant deficiencies.</p>	<p>Updated to address both identification (6.3.13) and determination of significance, and more explicitly linked to the understanding obtained.</p>
<p><b><u>Evaluation of the Procedures to Identify and Assess Risks of Material Misstatement</u></b></p>	
<p>6.5.9. The auditor shall evaluate whether the audit evidence obtained from procedures to identify and assess the risks of material misstatement provides an appropriate basis for the identification and assessment of the risks of material misstatement. If not, the auditor shall perform additional procedures until audit evidence has been obtained to provide such a basis. In identifying and assessing the risks of material misstatement, the auditor shall take into account all audit evidence obtained from the procedures to identify and assess the risks of material misstatement, whether corroborative or contradictory to assertions made by management.</p>	<p>Moved from below. 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.</p>
<p><b>6.4. Identifying Risks of Material Misstatement</b></p>	
<p>6.4.1. The auditor shall identify the risks of material misstatement, due to fraud or error, at:</p> <p>(a) The financial statement level; and</p> <p>(b) The assertion level for classes of transactions, account balances, and disclosures, <b><u>identifying the relevant assertions and the related significant classes of transactions, account balances and disclosures.</u></b></p>	<p>6.4.3 incorporated into 6.4.1(b).</p>

<p><b>6.4.1A The auditor shall determine whether risks of material misstatement identified at the financial statement level affect risks at the assertion level.</b></p>	<p>Moved from 6.5.1 below - as this relates to identification of risks so deemed more appropriately located in this section.</p>
<p>6.4.2. In identifying the risks of material misstatement due to fraud, the auditor shall <del>determine whether, based on a presumption that there are risks of fraud in revenue recognition, evaluate which there are</del> types of revenue, revenue transactions or assertions <u>that</u> give rise to such risks, <u>which when identified shall be considered to be significant risks.</u></p>	<p>Slight softening of the presumptive risk while retaining a requirement that such risks, if so identified, are to be treated as significant risks.</p>
<p><del>6.4.3. The auditor shall determine the relevant assertions and the related significant classes of transactions, account balances and disclosures.</del></p>	<p>6.4.3 incorporated into 6.4.1(b).</p>
<p><b>6.5. Risk Assessment</b> <i>Assessing Inherent Risk</i></p>	
<p>6.5.1. <del>For identified risks of material misstatement, t</del>The auditor shall assess:          (a) The risks of material misstatement <u>identified</u> at the financial statement level, <del>In doing so, the auditor shall determine whether such risks affect risks at the assertion level, and</del> evaluating the nature and extent of their pervasive effect on the financial statements; and          (b) <u>For the risks of material misstatement identified at the assertion level, inherent risk, inherent risk for identified risks of material misstatement at the assertion level</u> by assessing the likelihood and magnitude of misstatement. <del>In doing so, the auditor shall take into account how, and the degree to which inherent risk factors affect the susceptibility of relevant assertions to misstatement.</del></p>	<p>Further simplification proposed. Element of 6.5.1(a) moved to new 6.4.1A above. Reference to Inherent Risk Factors deleted in (b) - suggestion that this concept (events or conditions) could be incorporated as EEM.</p>
<p>6.5.2. In <del>identifying and</del> assessing risks of material misstatement relating to an accounting estimate and related disclosure at the assertion level, the auditor shall take into account the degree to which the accounting estimate is subject to estimation uncertainty, and the degree to which the following are affected by complexity, subjectivity or <u>susceptibility to misstatement due to management bias or</u> other <u>inherent fraud</u> risk factors:          (a) The selection and application of the method, the assumptions and data used; and          (b) The selection of management’s point estimate and related disclosures.</p>	<p>Change to replace “other inherent risk factors” with “susceptibility to misstatement due to management bias or other fraud risk factors” as these are the other critical factors to be considered. Deemed more directive.</p>
<p><del>6.5.3. The auditor shall determine whether substantive procedures alone cannot provide sufficient appropriate audit evidence for any of the risks of material misstatement at the assertion level.</del></p>	<p>Deleted as this is a response matter and is already covered by 7.3.2(d). However, also now proposed as an explicit addition in 6.5.8(b).</p>

<p>6.5.4. The auditor shall determine whether any of the assessed risks of material misstatement are, in the auditor's professional judgment, a significant risk.</p>	<p>No change</p>
<p>6.5.5. In exercising professional judgment as to which assessed risks are significant risks, the auditor shall determine whether the <b>following are significant risks:</b></p> <p>(a) assessed risks associated with related party relationships and transactions; <b>and</b></p> <p>(b) <b>assessed risks relating to accounting estimates are significant risks.</b></p> <p><del>6.5.6. The auditor shall determine whether risks of material misstatement assessed relating to accounting estimates are significant risks.</del></p>	<p>6.5.6 merged into 6.5.5 with the language simplified.</p>
<p>6.5.7. The auditor shall treat the following as significant risks: (a) Identified fraud risks including:</p> <p>(i) Management override of controls. Although the level of risk of management override of controls will vary from entity to entity, the risk is nevertheless present in all entities. Due to the unpredictable way in which such override could occur it is a risk of material misstatement due to fraud and therefore a significant risk; and</p> <p>(ii) <b>Types of revenue, revenue transactions or assertions, if any, that the auditor identified as significant risks in accordance with 6.4.2</b><del>Risk of fraud in revenue recognition. Based on a presumption that there are risks of fraud in revenue recognition the auditor shall evaluate which types of revenue, revenue transactions or assertions give rise to such risks;</del> and</p> <p>(b) Identified significant related party transactions outside the entity's normal course of business</p>	<p>(a)(ii) aligned with proposed amended 6.4.2.</p>
<p><b><u>Understanding the Entity's Control Activities</u></b></p>	<p>Requirements relating to understanding control activities relocated from above to:</p> <p>(i) provide an enhanced flow (follows the assessment of significant risks, which is referred to in part (a), and co-locates the understanding of controls with assessing control risk); and</p> <p>(ii) increase the perception of scalability.</p>
<p>6.3.14. The auditor shall <b>perform procedures to evaluate the design and implementation of the following identify</b> controls <del>that address risks of material misstatement at the assertion level as follows:</del></p> <p>(a) Controls that address risks determined to be significant risks;</p>	<p>Lead in text amended to bring forward the primary obligation from the hanging paragraph. Deletion from (c) due to being</p>

<p>(b) Controls over journal entries <b>related to identified risks of material misstatement at the assertion level</b>, including <b>journals</b> to record non-recurring, unusual transactions or adjustments;</p> <p>(c) Controls, <b>if any</b>, for which the auditor plans to test the operating effectiveness of controls in determining the nature, timing and extent of substantive testing, <del>including those controls that address risks for which substantive procedures alone are not enough to obtain sufficient appropriate audit evidence</del>;</p> <p>(d) <del>Other controls, based on the auditor’s professional judgment, where the auditor considers it appropriate to meet the objectives of identifying risks of material misstatement at the assertion level</del>;</p> <p>(e) <del>If applicable, controls that relate to information processed by a service organization</del>; and</p> <p>(f) Controls, if any, <del>related to identify, account for, and disclose related party relationships and transactions in accordance with the applicable financial reporting framework, authorize and approve</del> significant transactions and relationships with related parties, and <del>authorize and approve</del> significant transactions and arrangements outside the normal course of business.</p> <p><del>The procedures performed shall include more than inquiry. For each control identified in (a)–(f) above, the auditor shall evaluate whether the control is designed effectively to address the risk of material misstatement at the assertion level, or effectively designed to support the operation of other controls, and determine whether the control has been implemented, by performing procedures more than inquiry.</del></p>	<p>implicitly covered by remainder of (c) and can be explained in EEM. (d) deleted as not widely understood in practice and technically covered by (c). (e) deleted as already covered by 6.3.17. (f) simplified.</p>
<p>6.3.15. For the controls identified in paragraph 6.3.14, the auditor shall <del>identify the IT applications and other aspects of the IT environment that are subject to risks arising from the use of IT.</del></p> <p><del>6.3.16. For the IT applications and other aspects of the IT environment identified in paragraph 6.3.15, the auditor shall identify the related risks to the design and operating effectiveness of those controls arising from the use of IT, and the entity’s general IT controls that respond to those risks, and evaluate whether the general IT controls are effectively designed to address the risk of material misstatement at the assertion level, or effectively designed to support the operation of other controls, and determine whether the control has been implemented by performing procedures more than inquiry.</del></p>	<p>6.3.15 and 6.3.16 merged. Principles retained but language simplified.</p>
<p><i>Assessing Control Risk</i></p>	
<p>6.5.8. <del>If the auditor plans to test the operating effectiveness of controls</del> The auditor shall assess control risk <b>when</b>:</p> <p>(a) <b>The auditor has determined that the substantive procedures alone cannot provide sufficient appropriate audit evidence for any of the risks of material misstatement at the assertion level; or</b></p> <p>(b) <b>The auditor otherwise plans to test the operating effectiveness of controls,</b></p>	<p>Added additional clarity on when control risk needs to be assessed in lieu of 6.5.3.</p>

<p>otherwise the risk of material misstatement is the same as the assessment of inherent risk.</p>	
<p><b><del>Evaluation of the Procedures to Identify and Assess Risks of Material Misstatement and Revision of Risk Assessment</del></b></p>	
<p>6.5.9 [moved before 6.4.1]</p>	
<p>6.5.10 The auditor’s assessment of the risks of material misstatement at the assertion level may change during the course of the audit as additional audit evidence is obtained. In circumstances where the auditor obtains audit evidence from performing further audit procedures, or if new information is obtained, either of which is inconsistent with the audit evidence on which the auditor originally based the assessment, the auditor shall revise the assessment and modify the further planned audit procedures accordingly.</p>	<p>No change</p>
<p><i>Evaluation of the Appropriateness of Using the [draft] ISA for LCE</i></p>	
<p>6.5.11 Based on the procedures performed to identify and assess the risks of material misstatement, the engagement partner shall evaluate whether the [draft] ISA for LCE continues to be appropriate for the nature and circumstances of the entity being audited.</p>	<p>No change</p>
<p><b>6.6. Specific Inquiries of Management and Those Charged with Governance</b></p>	
<p><del>6.6.1. In designing and performing procedures to identify and assess the risks of material misstatement due to fraud or error, the auditor shall make inquiries of management regarding:</del></p> <ul style="list-style-type: none"> <li><del>a. Management’s assessment of the risk that the financial statements may be materially misstated due to fraud, including the nature, extent and frequency of such assessments;</del></li> <li><del>b. Management’s process for identifying and responding to the risks of fraud in the entity, including any specific risks of fraud that management has identified or that have been brought to its attention, or classes of transactions, account balances, or disclosures for which a risk of fraud is likely to exist;</del></li> <li><del>c. Management’s communication, if any, to those charged with governance regarding its processes for identifying and responding to the risks of fraud in the entity;</del></li> <li><del>d. Management’s communication, if any, to employees regarding its views on business practices and ethical behavior;</del></li> <li><del>e. The identity of the entity’s related parties, including changes from the prior period; the nature of the relationships between the entity and these related parties; and whether the entity entered into any transactions with these related parties during the period and, if so, the type and purpose of the</del></li> </ul>	<p>This is not deemed to be a “specific communication” requirement as such (see 6.7 below) and is considered to form part of the required understanding to be obtained. Consequently, the following changes have been made:</p> <ul style="list-style-type: none"> <li>(a) Deleted - not deemed necessary given (b)</li> <li>(b) Deemed covered by 6.3.2</li> <li>(c) Deleted - not deemed critical</li> <li>(d) Moved to 6.3.6(b)</li> <li>(e) Moved to 6.3.2</li> <li>(f) Moved to 6.3.2</li> </ul>

<p><b>transactions;</b></p> <p><del>f. Non-compliance with law or regulation that may have a material effect on the financial statements, and inspecting correspondence, if any, with the relevant licensing or regulatory authorities; and</del></p> <p><del>g. Events or conditions that exist that individually, or collectively, may affect the ability of the entity to continue as a going concern.</del></p>	<p>(g) Moved to 6.3.2</p>
<p><del>6.6.2. The auditor shall make inquiries of management, and as appropriate, those charged with governance, and others within the entity as appropriate, to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity.</del></p>	<p>Moved to new 6.3.2A</p>
<p><b>6.7. Specific Communication Requirements</b></p>	
<p>6.7.1 The auditor shall communicate to management, and where appropriate, those charged with governance, the significant risks identified by the auditor.</p>	<p>No change</p>
<p><b>6.8. Specific Documentation Requirements</b></p>	
<p>6.8.1-6.8.2 - See separate table below for specific documentation requirements</p>	<p>Paragraph 5.5.3 moved to sit alongside other risk assessment related documentation requirements.</p>