

Supplement 1-03 to Agenda Item 3

Audits of Less Complex Entities – ED-ISA for LCE – Q7(d) Views are sought on the key principles used in developing ED-ISA for LCE as set out in this Section 4C: The approach to EEM (see paragraphs 85–91) including: (i) The content of the EEM, including whether it serves the purpose for which it is intended. (ii) The sufficiency of EEM. (iii) The way the EEM has been presented within the proposed standard.

Audits of Less Complex Entities - ED

Specific Questions\Section 4C – Key Principles Used in Developing ED-ISA for LCE\Question 7 - Views on the key principles used in developing ED-ISA for LCE\Question 7(d) - The approach to EEM\1) Overall Support

4. National Auditing Standard Setters

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

We fully support the approach taken by the IAASB to limit application material to cases where it was considered that explanatory material was crucial to support the requirements or concepts used.

Federación Argentina de Consejos Profesionales de Cs. Económicas

Answer: It is considered adequate

Institute of Chartered Accountants of India

We agree with the approach to essential explanatory material (EEM) including content and presentation of EEM.

Public Accountants and Auditors Board Zimbabwe

Response: We agree with the content, sufficiency and the presentation of the EEM.

5. Accounting Firms

Azets Audit Services

The approach and content of essential explanatory material is good, and the structure helps auditors to obtain guidance within the flow and the context of the requirements, similar to that seen where draft ISAs are presented in tabular fashion with the application material in the right column.

Crowe Global

The concept of “EEM” appears right in the context of trying to create a workable standard that addresses the demand for a standard on the audit of less complex entities. Presenting EEM as “explanation” or “guidance”, constructed following broad principles, is appropriate and avoids having application material as presented in the ISAs.

Duncan & Toplis Limited

We agree that a standard designed for less complex entities, should indeed, itself, be less complex. Reducing the advisory material provided by the standard and replacing with high-level considerations is a positive step. Often firms and authors or audit methodology take advisory material to be requirements, in turn this leads to a complex approach. As the aim is to ensure a less complex approach is taken to the audit of LCE, the lower the amount of application material (or equivalent, whilst still providing some high-level guidance, the better.

6. Public Sector Organizations

Auditor-General of New Zealand

The approach to assessing the need for, and including, essential explanatory material in the proposed standard is reasonable and appropriate.

7. Professional Accountancy and Other Professional Organizations

Botswana Institute of Chartered Accountants

The EEM is sufficient and appropriate.

Chamber of Auditors of the Republic of Azerbaijan

Key principles used in developing ED-ISA for LCE are quite accurately specified in the following paragraphs:

- (d) approach to the Essential Explanatory Material (see paragraphs 85–91) covering the following:
- (i) The content of EEM, including whether it serves the intended purpose;
 - (ii) Sufficiency of EEM;
 - (iii) How EEM is presented within the proposed standard.

Confederation of Swedish Enterprise

We support the chosen approach.

European Federation of Accountants and Auditors for SMEs

We broadly agree with the approach to EEM including content, sufficiency, and its presentation.

Institute of Certified Public Accountants of Rwanda

The approach used is clear and it is useful to the understanding of the standard.

Institute of Chartered Accountants in England and Wales

The nature and extent of the EEM is broadly appropriate. IAASB must very carefully consider any calls for further EEM based on its merits and consensus amongst respondents.

Institute of Chartered Accountants of Jamaica

The EEM serves its purpose and is sufficient and there is no problem in how it is presented.

Instituto dos Auditores Independentes do Brasil

We agree with the approach to EEM, content and how they are presented, also considering the length of the proposed standard. However, seeing our points expressed in question 6, we are concerned that over time the EEM could not be sufficient, and practitioners lose the understanding of AM of full ISAs.

Instituto Salvadoreño de Contadores Públicos (ISCP)

Answer:

Taking taking into account the need to keep a concise and short standard, the BFC-ISA for LCE, the essential explanatory material “EEM” meets the needs; but the observations made above should be considered.

REA Auditores

We agree with the approach to EEM including content, sufficiency, and its presentation. We, however, consider that the content of the EEM is sometimes quite complicated and lengthy. We recommend further efforts to reduce and simplify.

Society of Certified Accountants and Auditors of Kosovo (SCAAK)

We agree with the approach to EEM including content, sufficiency, and its presentation. We propose to IFAC developing a ‘Guide to using ISA for LCE’ similar to ‘Guide to using ISAs for Audits of SMEs’.

Wirtschaftsprüferkammer (WPK)

In our view the IAASB's approach to EEM is convincing for Audits of Financial Statements of Less Complex Entities and helps to make the standard easier to apply than the (full) ISAs in these audits.

8. Academics

Argentine institute of Auditing Professors

The EEM approach meets the intended purpose, is sufficient, and its form is adequate.

9. Individuals and Others

Cristian Munarriz

I generally agree with the approach.

Rodoula Roussou

The approach and content of EMM and the way the EEM has been presented make sense. In addition, IAASB should consider issuing a new “Guide to Using ISAs for LCE” to substitute “Guide to Using ISAs in the Audits of SMEs”, which has been very helpful for the auditors.

Specific Questions\Section 4C – Key Principles Used in Developing ED-ISA for LCE\Question 7 - Views on the key principles used in developing ED-ISA for LCE\Question 7(d) - The approach to EEM\2) Overall - Do Not Support

5. Accounting Firms

KPMG IFRG Limited

We believe that the approach to remove/reduce the EEM to such a significant degree appears to have been a decision taken principally to shorten the standard with the aim of making this easier to use/navigate for LCE auditors. We note that initially this standard was developed with no application material, although the IAASB reconsidered this approach and introduced this high-level EEM as the project developed. It appears that the positioning of several aspects of guidance within non-authoritative supplementary materials rather than as part of the standard itself appears to have been done with the same objective in mind. i.e. to reduce the overall length of the standard.

If our understanding is correct, we consider this overriding objective of shortening the standard per se to be unhelpful to auditors and potentially other stakeholders. We also do not consider that rearrangement of elements of important guidance into supplementary materials makes the LCE ISA any easier to understand/ navigate, and the fact that the supplemental materials are identified as non-authoritative, but cross referred to from the standard, is likely to create confusion as to the authority of such guidance.

For example, the reporting section of the LCE ISA is focused on the unmodified auditor’s report, with only very brief guidance regarding modifications. Much of the guidance regarding such modifications is included within the Auditor Reporting Supplemental Guide, which is described as non-authoritative, although it is clearly cross-referenced from the standard. We believe the authority status of the material in the supplemental guide is therefore unclear, which could cause confusion/challenges for auditors and potentially other stakeholders. We believe the IAASB’s objectives may be better achieved by placing such material in an Appendix, within the LCE ISA itself, or in a separate standard on reporting for LCEs, noting that this material is authoritative in the full-scope ISAs. We highlight that the auditor’s report is the external deliverable resulting from the performance of an audit, and, as such, material addressing reporting should be afforded the appropriate authority status and given sufficient prominence, and should not be de-emphasised in any way.

We have significant concerns that without adding substantially more application guidance there could be unintended consequences, in particular, that there could be significant inconsistency and divergence in practice, as a result of different interpretations amongst auditors as to what would be appropriate without the additional context as well as the “guardrails” of more detailed application material. This inconsistency in practice is likely to worsen over time, as auditors’ knowledge of the full-scope ISAs is lost/ new auditors are not trained in the full-scope ISAs. Such inconsistency may arise within particular jurisdictions, and also across different jurisdictions, if local regulators take different views in the absence of detailed application guidance, leading to divergence in practice. We suggest that the IAASB perform detailed outreach with regulatory bodies from a wide range of jurisdictions, to understand whether they have any concerns regarding the lack of EEM.

We highlight that auditors and other stakeholders may look to the supplementary guidance as a basis for interpreting the requirements. However, the supplementary guidance is substantially less comprehensive than the full-scope ISAs and is described as non-authoritative. This may, in turn, result in auditors (and other stakeholders) reverting to the application material in the full-scope ISAs, which would undermine the intentions of the IAASB in developing this standard.

Although we recognise that the lower complexity of the entities subject to audit as contemplated by this standard somewhat reduces the risks associated with providing less application guidance, we highlight that one of the IAASB’s key objectives is to drive global consistency in application of auditing standards, and removal of the majority of the application material risks undermining this key objective. We also highlight earlier that, over time, the scope of entities which were originally envisaged as falling within the scope of this standard has broadened as the project has progressed, from the small and clearly not complex, to those further along the spectrum of complexity, and which may not be small at all.

Please refer to Appendix 3 for a more detailed example of the importance of application material when applying ISA requirements.

We note that the inconsistency that we believe will arise, when formalised across different jurisdictions, would also likely create challenges for multi-jurisdictional networks in developing a consistent methodology for use by all its member firms and could either discourage uptake of the standard entirely by such networks, or would result in the network needing to make “higher of” interpretations to accommodate different jurisdictional interpretations (and the views of the different regulators). This would

be challenging and we believe would likely result in the use of the full-scope ISAs by default, which would undermine the objectives of the IAASB.

We recommend, therefore, that a much more substantial body of application guidance be developed by the IAASB

to clarify how the requirements are expected to be applied when conducting an LCE Audit, within the standard itself, in order to drive consistency of application in practice, and to support audit quality.

We also recommend, as we describe in our response to Question 3c), further restricting the authority of the standard by explicit identification of areas of the audit where there are specific matters which are potential sources of complexity, in addition to those currently described by the IAASB, which may give rise to complexity in the audit, and, furthermore, that the IAASB scale the LCE ISA requirements accordingly, by removing requirements specifically designed to address complexity in relation to such matters. Clearly, if the IAASB were to implement this recommendation, certain elements of the EEM in respect of these matters would also not need to be included in the LCE ISA.

In the event that the IAASB does not implement the above recommendations, we consider it particularly important that the IAASB implements our recommendations set out in our response to Question 3c) to further restrict the authority of the standard by placing a more active responsibility on jurisdictional bodies to formally approve the standard, and as part of this approval process, to establish size thresholds appropriate to their jurisdictions, to ensure this standard is only applied to audits of entities that are small and more likely to be non-complex.

We recognise that in removing most of the application material, the IAASB may, in fact, deliberately intend a much greater degree of flexibility for the auditor, in terms of their ability to interpret and apply the requirements of the standard as they believe to be appropriate, and this may be the intended key difference between an audit performed in accordance with this standard and an audit performed in accordance with the full-scope ISAs, appropriately scaled for an LCE.

If this is the intent, it is unclear whether, in removing all guidance except what is considered to be essential, the IAASB's expectation is that successful application presumes auditor knowledge of and experience in applying the full-scope ISAs, which will be brought to bear when using this standard, or whether the IAASB believes it has, in fact, included all relevant application material for a less complex audit and, if incremental application material in the full ISAs is considered to be necessary/relevant, whether this is an indicator that the LCE ISA should not be used and instead the full-scope ISAs should be applied.

6. Public Sector Organizations

Office of the Auditor General of Alberta

Overall, we do not agree with the concept of introducing “Essential Explanatory Material” or EEM. If the material is “essential,” it should be included within the standard or the standard should be re-written so that the material is no longer “essential” and therefore removed. We disagree with EEM because in practice it becomes interpreted as required and is often used by practice reviewers to identify deficiencies.

Alternatively, if this is simply a naming convention, then the guidance in the ISAs for More Complex Entities should also label application material as EEM.

Specific Questions\Section 4C – Key Principles Used in Developing ED-ISA for LCE\Question 7 - Views on the key principles used in developing ED-ISA for LCE\Question 7(d) - The approach to EEM\3) Question 7(d)(i) - The content of the EEM\A. Support Approach

3. Regulators and Audit Oversight Authorities

Independent Regulatory Board for Auditors (IRBA)

The EEM provides additional guidance on aspects that could be considered judgmental; therefore, it provides a structure to approach contentious matters and judgments. The content of the EEM is useful and written in a simple manner.

We agree with the approach to the content of the EEM, including that it serves the purpose for which it is intended.

5. Accounting Firms

Baker Tilly International

Baker Tilly comments: If you have a separate standard then the approach is reasonable.

ETY sas

We agree with the approach to the content of the EEM, including that it serves the purpose for which it is intended.

Mazars

(i) EEM serves the intended purpose.

7. Professional Accountancy and Other Professional Organizations

Chamber of Financial Auditors of Romania

The content is adequate and fit for purposes disclosed in paragraphs 87 and 88.

Chartered Governance and Accountancy Institute in Zimbabwe

Response: i) We agree with the approach to the content of the EEM, including that it serves the purpose for which it is intended.

CPA Ireland

CPA Ireland supports the inclusion of EEM and also supports the positioning of the EEM within the relevant section of the standard rather than at the end of the standard. It is agreed that this improves the flow of the standard.

Finnish Association of Authorised Public Accountants

We support incorporating the relevant application guidance (EEM) into the standard and presenting it in connection with the requirements it applies to. The EEMs are mainly useful. They also help scaling down the requirements at certain circumstances.

Institute for the Accountancy Profession in Sweden (FAR)

(i) EEM serves the intended purpose.

Institute of Certified Public Accountants of Kenya

(i) We agree with the approach to the content of the EEM, including that it serves the purpose for which it is intended.

Institute of Certified Public Accountants of Uganda

We agree with the approach to the content of the EEM, as we believe that it will serve the purpose for which it is intended.

Institute of Chartered Accountants of Scotland

We are supportive of the content of the EEM and believe that it serves the purpose for which it is intended.

Institute of Singapore Chartered Accountants

We also agree with the approach to limit the EEM to where it is essential to understanding or applying a requirement(s) to keep it succinct for the purpose of LCE audits.

Instituto Mexicano de Contadores Públicos (IMCP)

We consider that it effectively fulfills the purposes for which it was defined: it is concrete, it does not establish additional requirements, it is included only in those requirements that are considered worthy of EEM.

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

We agree with the approach to the content of the EEM, including that it serves the purpose for which it is intended.

Pan-African Federation of Accountants (PAFA)

i) We agree with the approach to the content of the EEM, including that it serves the purpose for which it is intended.

Saudi organization for Chartered and Professional Accountants

The guidance provided by the EEM is sufficiently clear and comprehensible and serves the intended purpose of its inclusion.

South African Institute of Professional Accountants

We agree with the approach to the content of the EEM, including that it serves the purpose for which it is intended.

Specific Questions\Section 4C – Key Principles Used in Developing ED-ISA for LCE\Question 7 - Views on the key principles used in developing ED-ISA for LCE\Question 7(d) - The approach to EEM\3) Question 7(d)(i) - The content of the EEM
b. Suggest to be More Proportionate or Simplified

3. Regulators and Audit Oversight Authorities

Independent Regulatory Board for Auditors (IRBA)

Further, based on a more narrowly defined Authority, there would be greater scope for the EEM to better reflect the nature and circumstances of audits of entities for whom the proposed standard was intended for use.

4. National Auditing Standard Setters

Austrian Chamber of Tax Advisors and Public Accountants (KSW)

Response: The content of the EEMs is appropriate, although we believe that some EEMs could be simplified or expanded; see our detailed responses to Parts 1 to 9.

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

We would like to commend the IAASB for having reduced the application material by such a large amount, which makes the LCE standard easier to read. However, one of the most important ethical requirements in the Code of Ethics is that professional accountants – including auditors – are professionally competent and exercise due care. There is therefore a presumption in the ISAs, and there ought to be a presumption in the LCE Standard, that engagement partners and any senior staff on an audit have the needed professional competence, which includes having an understanding of the applicable auditing standards and considerable experience in applying them. Furthermore, auditing and quality management standards are never applied directly at the level of an individual audit: the requirements in the LCE standard form a basis for firm methodologies and as a reference for auditors when seeking to apply those methodologies. For these reasons and given the fact that we are dealing with a simpler LCE environment, as a matter of principle, we believe that auditors ought to have the requisite competence through extensive education, training, and experience to apply the LCE standard without any additional explanatory guidance. However, there are matters, such as the so-called “negative requirements” in the application material of the ISAs and statements of a crucial nature for the benefit of third parties (such as regulators), that do need to be included in an LCE standard.

For these reasons, when writing the German LCE standards, we limited the essential explanatory material (EEM) to such negative requirements and statements of a crucial nature for the benefit of third parties. On this basis, we believe that the nature and extent of the EEM in the IAASB LCE standard to be excessive and unnecessary because the principles in paragraph 90 of the Explanatory Memorandum are too broad.

Royal Netherlands Institute of Chartered Accountants (NBA)

The content of the EEM is sometimes quite complicated and consists of long text. We recommend exploring whether further reduction and simplification is possible.

7. Professional Accountancy and Other Professional Organizations

ASSIREVI

In our view, the guidance in the EEM does not always seem to relate to the LCEs. The information included in the EEM should reflect the simple and limited nature of their internal control systems and, therefore, allow the easy application of the concepts for this type of entity.

CPA Australia

One of the drafting principles to exclude material that is lengthy, educational or background in nature seems at odds with the EEM, which in many cases is exactly that.

Some of the EEM content duplicates the sections on content and scope or the objectives paragraphs and could be consolidated.

European Federation of Accountants and Auditors for SMEs

Second, the content of the EEM is sometimes quite complicated and lengthy. We recommend further efforts to reduce and simplify.

REA Auditores

We agree with the approach to EEM including content, sufficiency, and its presentation. We, however, consider that the content of the EEM is sometimes quite complicated and lengthy. We recommend further efforts to reduce and simplify.

We, however, consider that the content of the EEM is sometimes quite complicated and lengthy. We recommend further efforts to reduce and simplify.

8. Academics

Hunter College Graduate Program

However, there are some paragraphs where the guidance can be formulated more clearly using less redundant thoughts. One such paragraph, “Section 5.2.12 Going Concern”, is addressed more precisely in our comments on that section.

Specific Questions\Section 4C – Key Principles Used in Developing ED-ISA for LCE\Question 7 - Views on the key principles used in developing ED-ISA for LCE\Question 7(d) - The approach to EEM\3) Question 7(d)(i) - The content of the EEM\c. Missing Contents - Themes

4. National Auditing Standard Setters

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

On the other hand, some important material is missing – particularly in relation to the so-called “negative requirements”. Our response to Question 9 provides further details.

7. Professional Accountancy and Other Professional Organizations

ASSIREVI

The guidance about professional skepticism and professional judgement should be included in the EEM.

Specific Questions\Section 4C – Key Principles Used in Developing ED-ISA for LCE\Question 7 - Views on the key principles used in developing ED-ISA for LCE\Question 7(d) - The approach to EEM\3) Question 7(d)(i) - The content of the EEM\d. Prefer Scalability in Requirements not EEM

7. Professional Accountancy and Other Professional Organizations

Finnish Association of Authorised Public Accountants

From the scalability and applicability point of view, we would prefer that the alternativeness and conditionality were incorporated to the requirement itself. This would also help with the building and updating the audit software and checklists that are usually constructed at the level of a separate requirement.

Because the effects of EEMs to the requirements are not always clear, they can be interpreted differently by different auditors, stakeholders and software providers – especially when it comes to scaling.

Nordic Federation of Public Accountants

Although we appreciate that the EEM includes examples of scalability and proportionality, we would prefer having these options and conditionality incorporated in the requirements themselves or, even better, redrafting section 1.4 to more generally expand and clarify the use of these principles.

9. Individuals and Others

ASK KSA Consulting Inc.

The EEM, where appropriate, may illustrate how a requirement could be applied for different circumstances to illustrate scalability of the proposed standard. This is inconsistent with the overall standard. Is not the objective the whole standard is for a less complex entity? The idea of scalability is built into the ISAs but is not required in the ED-ISA for LCE. If we have to further explain scalability, why do we even need the separate standard.

We come back to our concept that the standard should be narrower in scope further eliminating the need for scalability. The standard either applies or it does not.

Specific Questions\Section 4C – Key Principles Used in Developing ED-ISA for LCE\Question 7 - Views on the key principles used in developing ED-ISA for LCE\Question 7(d) - The approach to EEM\3) Question 7(d)(i) - The content of the EEM\e. Mapped to Other Code (Q9)

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.

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.

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 4C – Key Principles Used in Developing ED-ISA for LCE\Question 7 - Views on the key principles used in developing ED-ISA for LCE\Question 7(d) - The approach to EEM\3) Question 7(d)(i) - The content of the EEM\e. Other Comments

4. National Auditing Standard Setters

Austrian Chamber of Tax Advisors and Public Accountants (KSW)

We recommend that in Essential Explanatory Materials (EEMs) direct references to relevant other paragraphs of the standards (e.g., as in the EEM to paragraph 7.3.1.) are included more often (e.g., to paragraph 6.3.6. in this context). This would ease the use and understanding of the ISA for LCE standard.

Canadian Auditing and Assurance Standards Board

Some practitioners and developers of firm methodologies and tools felt that the EEM helps implement selected concepts and requirements.

5. Accounting Firms

BDO International

The content that is currently included as EEM serves the purpose for which it was intended. However, it is not clear how this would work alongside implementation material. The latter would be welcome if the volume of EEM in the standard will be limited, but we are unsure why distinguishing between this and EEM is needed given that they have the same authority behind them – i.e., they do not create additional obligations. If the sole reason behind this is to not have an overly long standard, we would question whether it might not be more beneficial to instead revisit the decision to have a separate guidance section like the application materials in the ISAs. Whilst we acknowledge this might give a disconnected feeling, the decisions on what to include as EEM would largely be based on a model that has not been field tested (footnote 13 on page 13) and might not entirely be what users of the LCE standard might initially need. Having such a distinction would also be a first for a new auditing standard and might inadvertently create a confusing three-tiered structure, being: Standard requirements -> EEMs -> All other material.

In addition, many public sector entities are currently scoped out of the proposed LCE standard (e.g., via prohibition on group audits, etc.). If they remain scoped out in the final standard, we question whether it is necessary to include so much EEM on public sector entities.

Grant Thornton International Limited

The approach to EEM (see paragraphs 85-91) including:

The content of the EEM, including whether it serves the purpose for which it is intended.

We support the intent to keep the proposed standard as succinct as possible by taking a critical look at the guidance that is necessary to support the application of the requirements. We are of the view that the EEM only partially serves the purpose for which it is intended due to its sufficiency, or lack thereof, as noted in our response below. Further, if the intent is truly to create a standard that is designed specifically for the audit of LCEs, we are of the view that further modifications of the requirements from those as written in the ISAs is possible, particularly in the area of understanding the entity and its processes and performing risk assessments (ISA 315 (Revised 2019)).

7. Professional Accountancy and Other Professional Organizations

CPA Australia

Content: We consider that the general introductory EEM could be incorporated into the content and scope sections of each part. The EEM would then be restricted to material which is relevant to the paragraph above it and would flow more logically from that material. Some of the EEM content duplicates the sections on content and scope or the objectives paragraphs and could be consolidated. It is somewhat confusing to have so many different types of sections in the standard. For example, the EEM included under paragraph 4.2.1 could be incorporated into the scope box of Part 4.

Finnish Association of Authorised Public Accountants

With some EEMs it is, though, not clear what the scaling effect is in practice – can the requirement be ignored partly or in total?

Institute for the Accountancy Profession in Sweden (FAR)

Larger audit firms have issued audit guidance/manuals based on ISA's Application and Other Explanatory Material expanded with additional firm specific guidance. There might be a risk that firms will add further guidance reducing the intention in ISA for LCE.

Institute of Chartered Accountants of Ghana

ED-ISA for LCE includes "essential explanatory material" (EEM) where it has been considered that explanatory material is crucial to support the requirements or concepts used. The EEM serves a similar purpose to application and other explanatory material in the ISAs, but is much more limited than what is presented within the ISAs, and is targeted at a higher level (i.e., a conceptual and contextual level), taking into account the typical nature and circumstances of audits for which the proposed standard has been designed.

South African Institute of Chartered Accountants (2)

We agree with the current structure of presenting the requirements according to the various stages of the audit process. This certainly gives context to where the requirements (of the different ISA's) fit into the bigger picture. The EEM paragraphs could give further distinctions in terms of the differences (particularly in documentation requirements) between a less complex entity and a complex entity.

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

The EEM is an important integral part of audit standards. The purposefulness and sufficiency of the content of EEM can better be assessed by the implementers. We believe IAASB has put best effort towards this end, but it can only be commented by auditors performing audit work. Our main observation is that there appears to be an imbalance of the level of detail and guidance among different EEM. Therefore, we believe the EEM should be revisited throughout the standard set to have a more cohesion through further simplification where possible and further clarification or demonstration where appropriate.

9. Individuals and Others

ASK KSA Consulting Inc.

In certain cases, a "why" has been included but not in all cases. This is confusing.

Specific Questions\Section 4C – Key Principles Used in Developing ED-ISA for LCE\Question 7 - Views on the key principles used in developing ED-ISA for LCE\Question 7(d) - The approach to EEM\4) Question 7(d)(ii) - The sufficiency of EEM\ a. Sufficient

3. Regulators and Audit Oversight Authorities

Botswana Accountancy Oversight Authority

The EEM will be sufficient and targeted at a conceptual and contextual level rather than providing more detail which is in the ISAs.

Independent Regulatory Board for Auditors (IRBA)

The EEM is sufficient.

5. Accounting Firms

Baker Tilly International

Baker Tilly comments: If you have a separate standard then the approach is reasonable.

ETY sas

It is our belief that the EEM is sufficient.

Mazars

(ii) The intention to include limited amount of EEM is positive and will allow the auditor to use professional judgement to a larger extent.

6. Public Sector Organizations

Government Accountability Office (USA)

We believe that including essential explanatory material (EEM) is helpful to the auditor performing a financial audit of an LCE. We did not identify areas in the ED-ISA for LCE where the EEM was insufficient.

7. Professional Accountancy and Other Professional Organizations

Chamber of Financial Auditors of Romania

Regarding the sufficiency of EEM, considering the essential concepts we believe it is sufficient. But cross referencing to ISAs for further guidance or redirecting to mapping material might be of further help.

Chartered Governance and Accountancy Institute in Zimbabwe

ii) It is our belief that the EEM is sufficient.

CPA Australia

Whilst we appreciate that the EEM is more restricted than the application material in the ISAs, we support limiting the volume of EEM. Providing links or references to relevant material in the ISAs may help to avoid the need for further guidance material.

CPA Ireland

It is considered that there is sufficient EEM

Institute for the Accountancy Profession in Sweden (FAR)

(ii) The intention to include limited amount of EEM is positive and will allow the auditor to use professional judgement to a larger extent.

Institute of Certified Public Accountants of Kenya

(ii) It is our belief that the EEM is sufficient.

Institute of Certified Public Accountants of Uganda

We believe that the approach to EEM is sufficient.

Institute of Chartered Accountants of Ghana

Not every concept or requirement is explained. EEM has only been provided when it is deemed to provide crucial support to the appropriate application of the concept or requirement(s). EEM does not in itself impose a requirement or expand any requirement. Rather it is used when the explanation or guidance it provides is considered to be so important that including it in the proposed standard and positioning it alongside the requirement(s) is deemed necessary and informative for a proper understanding of the requirement(s). Given this, we believe the EEM has sufficiency.

Institute of Chartered Accountants of Scotland

We believe that sufficient and appropriate EEM has been included. It is a fine balancing act in terms of what level of EEM should be included but we believe that a reasonable compromise has been struck.

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

It is our belief that the EEM is sufficient.

Pan-African Federation of Accountants (PAFA)

ii) It is our belief that the EEM is sufficient.

South African Institute of Professional Accountants

It is our belief that the EEM is sufficient.

Specific Questions\Section 4C – Key Principles Used in Developing ED-ISA for LCE\Question 7 - Views on the key principles used in developing ED-ISA for LCE\Question 7(d) - The approach to EEM\4) Question 7(d)(ii) - The sufficiency of EEM\b. Concerns Not Sufficient\General - More EEM

1. Monitoring Group

International Forum of Independent Audit Regulators (IFIAR)

The proposed new standard does not provide enough guidance to auditors and will therefore result in a deterioration of audit quality. Paragraph 19 of ISA 200, Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing (ISA 200), states that “the auditor shall have an understanding of the entire text of an ISA, including its application and other explanatory material, to understand its objectives and to apply its requirements properly.” This is explained further in A61 of that standard. The application and other explanatory material may “explain more precisely what a requirement means or is intended to cover.” Our concerns on the stand-alone nature of the ISA for LCE include:

How an auditor of an LCE will be able to understand and apply the ISA for LCE without a full understanding of the ISAs. For practitioners that decide to focus on the audits of LCE exclusively, their knowledge of the ISAs may decline over time. The requirements in the ISAs have been included almost in their entirety in the ISA for LCE, but they are presented in a different format and exclude large portions of the application and other explanatory material. One example is the exclusion of the application guidance from the ISAs on substantive analytical procedures. Substantive analytical procedures are an area where auditors have experienced challenges, and it is unclear why this additional application guidance is not necessary for auditors using the ISA for LCE to understand the objective, apply the requirements properly, and provide the same of level of assurance as the ISAs.

3. Regulators and Audit Oversight Authorities

Committee of European Auditing Oversight Bodies

On the other hand, the IAASB has tried to keep the essential explanatory material as limited as possible. As a result of this approach, the ISA for LCE summarizes the requirements from the ISAs without the full context that it is provided in the ISAs by the explanatory material in the ISAs. As such, the proposal could be a useful guide that may help auditors in their application of the ISAs, rather than a separate standard.

Irish Auditing and Accounting Supervisory Authority

The proposed new standard does not provide enough guidance to auditors and could therefore result in a deterioration of audit quality. Paragraph 19 of ISA 200, Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing states that “the auditor shall have an understanding of the entire text of an ISA, including its application and other explanatory material, to understand its objectives and to apply its requirements properly.” This is explained further in paragraph A59 of that standard. The application and other explanatory material may “explain more precisely what a requirement means or is intended to cover.” Our concerns on the stand-alone nature of the ISA for LCE include:

How an auditor of an LCE will be able to understand and apply the ISA for LCE without a full understanding of all ISAs. For practitioners that decide to focus exclusively on audits of LCE, their knowledge of the full suite of ISAs is likely to decline over time. While the requirements of the ISAs have largely been included in the ISA for LCE, they are presented in a different format and exclude large portions of the related application and other explanatory material. One example is the exclusion of the application guidance on substantive analytical procedures. These are an area where auditors have experienced challenges, and it is unclear why this additional application guidance is not considered necessary for auditors using the ISA for LCE to understand the objective, apply the requirements properly, and provide the same of level of assurance as the full ISAs.

4. National Auditing Standard Setters

Australian Auditing and Assurance Standards Board

Additionally, while the standard has limited EEM, the IAASB has noted in the exposure draft materials that supplemental guidance may be issued. The AUASB cautions the IAASB against issuing too much additional supplemental guidance outside of the standard, as this is counterintuitive to the purpose and objective of the proposed ED-ISA for LCE Standard. Indeed, if supplemental guidance is necessary to understand and apply the standard, this raises a query if the EEM is sufficient. It also means that any such supplementary guidance must be issued at the same time as the standard, reducing the risk that the standard is applied incorrectly and/or inconsistently, which raises a resourcing risk for the IAASB.

Whilst the AUASB is generally supportive of the approach to EEM in the standard, the AUASB considers that there is some risk that EEM may not be sufficient to assist practitioners consistently apply the relevant ISA requirements included in the proposed ED-ISA for LCE Standard. This could be resolved by allowing auditors greater flexibility to consider using application material from individual ISAs in certain circumstances.

Canadian Auditing and Assurance Standards Board

However, these stakeholders, along with practice inspectors and advisors were concerned that, as a standalone standard, there may not be sufficient EEM to support the proper application of the requirements. They strongly felt that additional EEM should be included to provide guidance on the pain points in ED-ISA for LCE.

We share stakeholders' concern that the EEM may be insufficient to support the proper application of the requirements. Practitioners in small to medium-sized practices who are likely to use the ISA for LCE often do not have the resources larger firms have to implement standards. Therefore, guidance is essential to help such practitioners properly apply the requirements.

The public interest issues of having insufficient guidance are that:

- requirements may be misinterpreted, misapplied or applied inconsistently, which may impact audit quality; and
- practitioners may refer to sources developed by those other than the IAASB or NSSs that may contain guidance that is not consistent, complete, accurate or representative of the IAASB's views.

We remain mindful of the IAASB's objective to balance how much EEM is incorporated so as not to add unnecessary length to the standard, but at the same time develop a standalone "self-contained" standard. Therefore, we suggest that the additional EEM focus on:

- addressing the pain points replicated in ED-ISA for LCE, and
- adding guidance from the ISAs that, if not provided, may create significant application challenges.

This may entail:

- modifying the relevant requirements or developing EEM to address pain points; or
- identifying guidance in the ISAs specific to LCEs that addresses the pain points. Some ISAs, especially those that have been recently revised, include helpful guidance in addressing the pain points. For example, ISA 315 (Revised) includes guidance on how to address the risks associated with an entity using "off-the-shelf" commercial accounting packages and the extent of the work effort in performing preliminary analytical procedures.

Hong Kong Institute of Certified Public Accountants

In applying the proposed guidelines on complexity, understandability, scalability and proportionality (CUSP), the IAASB has made good efforts in keeping the ED concise and succinct. We would suggest the IAASB to revisit the sufficiency of essential explanatory material (EEM) and extend it as necessary to ensure consistent understanding and application of ED-ISA for LCE.

EEM is designed to provide further explanation relevant to a sub-section or a specific requirement. However, we note that not all concepts or requirements in the ED are explained to the extent necessary for a proper understanding thereof. We are concerned as to the sufficiency of EEM, particularly given the standalone nature of the ED.

For instance, audit sampling is dealt with in paragraphs 7.3.5 to 7.3.7 of the ED with only one EEM on misstatements projection. This is a big contrast to ISA 530 Audit Sampling, of which the length of the application and other explanatory material is similar to that of the requirements. We also compare the sufficiency of EEM to ISA 315 (Revised 2019) and ISA 540 (Revised). The length of the application and other explanatory material in the latter two ISAs is several times that of the corresponding requirements.

Although it is the IAASB's intention to limit EEM to "essential" matters for succinctness, we question whether they are sufficient to ensure auditors' proper understanding in and implementation of the relevant requirements, given the ED's standalone nature and there is no fallback to the application and explanatory materials in the ISAs. As the ED-ISA for LCE shares the same principles and methodologies with the ISAs, not having sufficient EEM may be a practical challenge for auditors not experienced in the ISAs. We therefore suggest the IAASB to revisit the sufficiency of EEM and extend it as necessary to ensure consistent understanding and application of ED-ISA for LCE. Developing additional application guidance outside the standard would also be helpful without adding to the volume of the standard.

Japanese Institute of Certified Public Accountants

We understand that the IAASB limits EEM only to where it is essential to understanding or applying a requirement to keep the standard concise and succinct, but it is advisable to reconsider whether the EEM is sufficient for auditors to properly perform procedures under the ISA for LCE. For example, for paragraph 4.6.4(c)(iii), "Performing specific audit procedures to obtain evidence regarding the opening balances." it would be useful in practice to include application materials A3 and A7 of ISA 510 "Initial Audit Engagements – Opening Balances".

Malaysian Institute of Accountants

Response: The approach is appropriate although perhaps not sufficient as noted above.

New Zealand Auditing and Assurance Standards Board

On the sufficiency of EEM, the NZAuASB is of the view that there is a risk that too much explanatory material might have been excluded. The included EEM may be inadequate for consistent application of the requirements in the proposed standard. For example, the proposed standard has excluded almost all the application material pertaining to the use of audit sampling. A similar lack of application material exists in relation to use of substantive analytical procedures.

5. Accounting Firms

BDO International

We appreciate the process that the IAASB followed to determine what should be included as EEM and what should be excluded from the proposed LCE standard. We agree that it is much easier for a practitioner to see the 'big picture' when the proposed LCE standard is not full of additional guidance paragraphs.

However, we also received feedback from practitioners that the EEM may not be sufficient on its own, and that auditors will still need to take ISA training and perhaps refer to the Application and Other Explanatory Material in the ISAs to fully understand the intentions of the LCE requirements. Many auditors perform both 'full ISA' audits and LCE audits, so it is not an additional burden for them. But if there are auditors who only perform LCE audits, those practitioners, or more importantly, certain regulators, may expect them to supplement their understanding by taking full ISA training and/or referring to the full suite of ISAs when further guidance is needed. Perhaps the proposed LCE standard should make it clear that such actions are not considered mandatory, but obviously – in the public interest - are permitted if the practitioner wants to do so.

Ernst & Young Global Limited

As a separate standalone standard, we do not believe that the ED-ISA for LCE contains sufficient explanatory material to guide the auditor in proper and consistent application of the requirements. This lack of sufficient guidance creates a risk that the standard will not enable consistent achievement of audit quality or reasonable assurance. Refer to Q1(a) for more details.

In our view, the ED-ISA for LCE is not a standalone separate standard for audits meeting the Authority of the Standard requirements because the ED-ISA for LCE does not contain sufficient Application Material from the ISAs. We do not believe that audits that would qualify for using the ED-ISA for LCE will be capable of consistent application of the standard without underlying knowledge and of, and access to, the Application Material in the ISAs. The Essential Explanatory Material (EEM) in the ED-ISA for LCE is currently not detailed enough to consistently execute a high-quality audit that achieves reasonable assurance.

Additionally, auditors using the ED-ISA for LCE may find it difficult to discern why certain ISA requirements have been omitted from or modified in the ED-ISA for LCE, which may be better understood through clarifying EEM.

However, we do not believe that the EEM is sufficient to promote consistent achievement of reasonable assurance and audit quality. It is our view that audits that qualify for using the ED-ISA for LCE will not be able to implement the standard without referring to, or having sufficient knowledge and experience about, the relevant Application Material in the ISAs. We believe that the EEM should be expanded to a sufficient extent to enable the standard to truly standalone or there should be an explicit

acknowledgement that the ED-ISA for LCE has been designed under the assumption the auditors who apply it have a sufficient working knowledge of the ISAs, including the Application Material.

Grant Thornton International Limited

To be capable of being applied as a standalone standard for the audit of less complex entities, ED-ISA for LCE would need to include requirements tailored to the needs of the audit of a less complex entity and clear direction on the application of those requirements through the inclusion of appropriate essential explanatory material (EEM) that negate the need to reference the ISAs.

Assuming the standard is issued as a standalone standard, we do have concerns that the standard, as currently proposed will be capable of such application. Specifically, we have concerns that the requirements will not be consistently and appropriately applied with the limited amount of EEM included in the proposed standard. The existing suite of ISAs include significantly more guidance on the application of the requirements, and whilst we appreciate some of that guidance is focused on the application of the requirements to more complex circumstances, we believe that substantially more of that guidance would need to be incorporated into ED-ISA for LCE. Auditors who have never performed audits under the ISAs and, over time, auditors that exclusively perform audits under ED-ISA for LCE, will not have the detailed application knowledge of the ISAs and will be solely reliant on the guidance contained within the LCE standard.

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.

KPMG IFRG Limited

As a result of the significance of these concerns, we strongly encourage the IAASB to take the necessary time to appropriately address these matters prior to issuance of the LCE ISA by taking one or, ideally, both of the following courses of action:

Include significantly more application guidance within the standard itself, having conducted a thorough review of where this is needed. This would provide context and clarify how the requirements are expected to be applied when conducting an LCE audit, along the lines of the material included within the full-scope ISAs. We do recognise that such application guidance is likely to extend the length of the standard significantly, however, we consider that, without such guidance, the LCE ISA would not be sufficiently robust to drive consistency in its application and to support audit quality across the profession; and/or

Removal/Reduction of Application Guidance and the IAASB's Intentions

We consider that the principal difference between the LCE ISA and the full-scope ISAs appears to be that the IAASB has removed most of the application material that is an integral part of the full-scope ISAs and instead has included only very high-level EEM within the ED. The IAASB has also developed supplementary guidance in respect of certain key aspects of the standard, which is placed outside the standard itself and is non-authoritative. We believe this approach has been taken principally to shorten the standard with the aim of making this easier to use/navigate for LCE auditors.

If this assumption is correct, we consider this overriding objective of shortening the standard per se to be unhelpful to auditors and potentially other stakeholders, e.g., regulators, who would have a very limited framework/ basis against which to perform their quality inspections. We have significant concerns that without adding substantially more application guidance there could be unintended consequences. In particular, there could be significant inconsistency and divergence in practice, as a result of different interpretations amongst auditors as to what would be appropriate without the additional context and the “guardrails” of more detailed application material. Inconsistency may arise within particular jurisdictions, and also across different jurisdictions, if local regulators take different views in the absence of detailed application guidance, leading to divergence in practice. Furthermore, we do not consider that rearrangement of elements of important guidance into supplementary materials makes the LCE ISA any easier to understand/ navigate, and the fact that the supplemental materials are also identified as non-authoritative is likely to cause confusion with respect to application. We suggest that the IAASB perform detailed outreach with regulatory bodies from a wide range of jurisdictions, to understand whether they have any concerns regarding the lack of EEM.

We also believe that this inconsistency in practice is likely to worsen over time, as the understanding of the full-scope ISAs by practising auditors may degrade over time, and future auditors may not receive training or gain experience of applying the full-scope ISAs. Although we recognise that the lower complexity of the entities subject to audit as contemplated by this standard

somewhat reduces the risks associated with providing less application guidance, we highlight that one of the IAASB's key objectives is to drive global consistency in application of auditing standards, and removal of the majority of the application material risks undermining this key objective, which we do not consider to be in the public interest.

Furthermore, the current lack of EEM to provide context and guidance in performing audit procedures in relation to these matters exacerbates the risks of inconsistent application and reduced audit quality should the auditor conclude that the LCE ISA can be applied to address such matters when they involve complexity, which would not be in the public interest.

We also recommend that the IAASB include additional EEM in the LCE ISAs for the above matters if they do arise but do not involve "complexity". This EEM would also provide helpful context to give the auditor greater confidence as to whether they should be conducting the audit using the LCE ISA or not.

We recommend, therefore, that a much more substantial body of application guidance be developed by the IAASB to clarify how the requirements are expected to be applied when conducting an LCE Audit, within the standard itself, in order to drive consistency of application in practice, and to support audit quality.

PriceWaterhouseCoopers

We know first-hand how important the application material in the ISAs is to understanding how the ISAs' requirements are intended to be interpreted and applied. As a result of the lack of essential explanatory material (EEM) in the draft ISA for LCE, we are concerned that there may be an implied reliance on an understanding of the ISAs, in particular the application material, to properly understand and apply the requirements of the proposed standard. This puts auditors in a difficult position – the standard claims to be stand-alone, but there is a high likelihood of being challenged as to why they did not refer to the ISAs for additional guidance in a particular circumstance. Considerably more EEM is needed in the draft ISA for LCE to guide consistent understanding of its requirements (and specifically what is not required). The lack of sufficient EEM creates a significant threat to audit quality and increases the potential for misunderstandings which increase the expectation gap (see further discussion in our response to question 7(d)).

EEM plays a critical role in supporting a clear understanding and interpretation of requirements as a foundation for consistent application and audit quality. We do not believe there is sufficient EEM to achieve these objectives. There may be an underlying presumption of ISA knowledge supporting auditors in determining the expectations of individual requirements. In the short term this may not present a problem. However, over time there is a potential risk of institutional ISA knowledge and training reducing over time if smaller firms predominantly use the proposed ISA for LCE. As noted in our response to question 1, the standard must be able to stand alone and be capable of consistent interpretation and application without relying on auditors' understanding of the ISAs.

A further consequence of choosing to leverage the majority of ISA requirements is that it is hard to justify why application material that is deemed important to support consistent understanding, interpretation and application of the ISA requirements is not considered necessary within the proposed LCE standard. We believe this risks giving rise to inconsistent interpretation and work effort.

The decision to significantly limit EEM restricts the ability of the Board to explain the "why" (intent) of a requirement. As evidenced in the recent revision of ISA 315 (Revised 2019), the application material can serve a critical purpose in bringing the necessary clarity to the intended outcome of a requirement, including its scalability. Based on a more narrowly defined Authority, there would also be greater scope for the EEM to better reflect the nature and circumstances of audits of entities for whom the standard was intended for use.

The length of the standard should not be prioritised at all costs over its clarity and understandability. We therefore encourage the Board to consider the adequacy of EEM in key areas of the standard and have provided comments in this regard within appendix 3. Further examples within the standard may also be useful to illustrate the application of a requirement.

RSM International

We recognise and agree with the desire to keep the proposed standard succinct. However, we do believe that more guidance will be required by auditors and we would prefer this to be incorporated into the final standard, rather than in a separate implementation guide, so as to remain consistent with the principles of positioning EEM with the requirements.

7. Professional Accountancy and Other Professional Organizations

ASEAN Federation of Accountants

We recognise the usefulness of the Essential Explanatory Material (EEM) presented as part of the standard in providing further implementation guidance. However, some respondents believe the standard would benefit from presenting more comprehensive EEM (with examples to support consistent application of the standard) separate from the body of the standard. This is particularly important for areas/parts where auditors of LCEs are facing significant challenges, such as risk identification and assessment (part 6) and responding to assessed risks of material misstatement (part 7).

ASSIREVI

We believe the approach taken in the proposed ED ISA for LCE to EEM is inadequate. We note that the proposed standard has been shortened mainly by eliminating or moving the guidance that is an integral part of the ISAs to supplemental guides. This means that, in some cases, the proposed standard lacks those guidelines and application examples that are necessary to allow application of the requirements. In other cases, the removal to supplemental guides (see for example the amendments to the opinion that are mainly treated in the LCE Supplemental Guidance Auditor Reporting) gives these supplemental guides a different authority to that of the ISAs for the same topics.

We recommend that additional guidance be included in the ED-ISA for LCE, including the re-introduction of guidance moved to supplemental guides to the proposed standard. This would make the proposed standard longer but would facilitate its more consistent application.

However, as we noted earlier, there is a lack of guidance which, if provided, would facilitate the more consistent application of the proposed standard. Specifically, the EEM should provide the auditor with more appropriate and defined explanatory material with information about the characteristics that an LCE should have (simplified internal control system, less reporting lines, etc.) and guidance about how to respond to such characteristics.

Chamber of Auditors of the Czech Republic

We believe that currently proposed EEMs are not sufficient. We are missing for example guidance on materiality or sampling.

Chartered Accountants Ireland

We do not believe that the EEM currently presented is sufficient and consider that application material from the ISAs should only be removed if it relates to a requirement that is not included in the ED-ISA for LCE (Question 7).

We note the objective of the design of the proposed standard was to keep the standard as concise and succinct as possible. However, in our experience auditors currently refer extensively to the application material included in the ISAs to assist them in consistently applying the requirements of the standards. We believe that the need for the guidance material will continue to exist whether or not it is included in the ED-ISA for LCE.

We therefore believe that the EEM currently presented is not sufficient and consider that application material should only be removed if it relates to a requirement that is not included in the ED-ISA for LCE.

As noted in response to question 7 above, further consideration of the inclusion of application paragraphs from the ISAs and where these would appear in the standard should be undertaken.

Institute of Certified Public Accountants of Cyprus

We agree with the approach set to EEM, yet we highlight the importance of EEMs in promoting understanding and consistency in application of the standard and accordingly would encourage the board to revisit the sufficiency and potentially expand further the EEM spectrum

Institute of Chartered Accountants of Namibia

As noted in our general comments, we believe significant additional EEM should be provided regarding how to apply the documentation requirements with respect to extent and simplicity compared with Full ISA's.

We recommend that the IAASB take note of a guide on how to apply IFRS for SMEs to micro-entities. Such guidance for applying the provisions in the draft standard for micro-entities could be very valuable. This would be most valuable when giving

guidance on the extent of documentation that would be considered sufficient. This could be done in the form of EEM. The guide referred to can be found at IFRS - Guidance for micro-sized entities

Institute of Chartered Accountants of the Maldives

Essential Explanatory Material: We remain skeptical as to whether there is sufficient Essential Explanatory Material (EEM) within the standard. By choosing to base the requirements of the standard on the ISA requirements, we find difficulty in reconciling a view that application material deemed necessary for the appropriate application of requirements in the ISAs, is not necessary for the same requirements in the ISA for LCE. We agree that any separate standard must be capable of being applied without presuming existing ISA knowledge of the auditor. However, we are skeptical as to whether the standard contains sufficient EEM to achieve this objective. There appears to be an implicit assumption of existing ISA knowledge on the part of auditors in expectation of ability to effectively and consistently apply the requirements. Perceptions of length of the standard may have been unduly prioritised over effective understanding and application.

Instituto Mexicano de Contadores Públicos (IMCP)

We think that the EEM is included in a concrete and specific way. We only propose that EEM to be included in the part related to the qualitative characteristics related to the authority of the ISA for LCE as previously commented; however, we also support the issuance of implementation materials.

International Federation of Accountants' Small and Medium Practices Advisory Groups

We suggest IAASB revisit the sufficiency of the EEM in some specific places so that the proposed standard could be standalone. For example, audit sampling is dealt with in paragraphs 7.3.5 to 7.3.7 of the ED with one EEM on misstatements and this guidance is much shorter than those in equivalent ISA 530, Audit Sampling. There is a similar issue with the use of electronic confirmations which we discuss further in our response to question 9 related to part 7, Responding to Assessed Risks of Material Misstatement.

Malta Institute of Accountants

We remain sceptical as to whether there is sufficient EEM within the standard. As mentioned above, there is the risk that the lack of guidance will result in different interpretations.

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.

9. Individuals and Others

ASK KSA Consulting Inc.

In the ISAs, the application paragraphs are critical to help auditors further understand the requirements of the standards. We acknowledge the objective to make the ED-ISA for LCE concise and succinct, but we feel it has gone too far. There are areas within the standard that it would be helpful to auditors to have further guidance.

Specific Questions\Section 4C – Key Principles Used in Developing ED-ISA for LCE\Question 7 - Views on the key principles used in developing ED-ISA for LCE\Question 7(d) - The approach to EEM\4) Question 7(d)(ii) - The sufficiency of EEM\b. Concerns Not Sufficient\More Guidance Needed - Supplemental Guide

5. Accounting Firms

PriceWaterhouseCoopers

The length of the standard should not be prioritised at all costs over its clarity and understandability. We therefore encourage the Board to consider the adequacy of EEM in key areas of the standard and have provided comments in this regard within appendix 3. Further examples within the standard may also be useful to illustrate the application of a requirement.

7. Professional Accountancy and Other Professional Organizations

Instituto Mexicano de Contadores Públicos (IMCP)

We think that the EEM is included in a concrete and specific way. We only propose that EEM to be included in the part related to the qualitative characteristics related to the authority of the ISA for LCE as previously commented; however, we also support the issuance of implementation materials.

Specific Questions\Section 4C – Key Principles Used in Developing ED-ISA for LCE\Question 7 - Views on the key principles used in developing ED-ISA for LCE\Question 7(d) - The approach to EEM\4) Question 7(d)(ii) - The sufficiency of EEM\c. Other Comments

6. Public Sector Organizations

Swedish National Audit Office

Whether they are sufficient or not will depend on how much understanding of the underlying ISA the auditor has. The question is whether the auditor would understand the scope of each requirement if they haven't performed a full ISA audit.

7. Professional Accountancy and Other Professional Organizations

Accountancy Europe

Please see our response to question 9 which includes references to EEM that we believe should be expanded or simplified.

Our members had different views on the sufficiency of the EEM. This is mainly due to lack of a guiding principle adopted by the IAASB on when to include EEM. For example, the proposed standard includes extensive EEM on internal control systems and procedures for obtaining audit evidence. In contrast, the EEM is quite limited on significant matters for auditors such as materiality and sampling.

We are not in a position to comment on the sufficiency of the EEM until we see the full implementation package including support materials to be developed by the IAASB. However, we recommend that the IAASB set criteria for deciding what is essential (i.e., to be explained in the standard) and not essential (i.e., to be included in support materials as appropriate).

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

We are supportive of keeping ISA for LCEs as streamlined as possible but also recognise that finding the right balance of application material is difficult. We believe that it is likely that the balance of EEM may need to be refined over time as practitioners implement the standard and encourage the board to determine their approach to further outreach and post implementation review of the standard and the EEM.

Specific Questions\Section 4C – Key Principles Used in Developing ED-ISA for LCE\Question 7 - Views on the key principles used in developing ED-ISA for LCE\Question 7(d) - The approach to EEM\4) Question 7(d)(ii) - The sufficiency of EEM\d. Mapped to Other Code (Q9)

4. National Auditing Standard Setters

Hong Kong Institute of Certified Public Accountants

EEM is designed to provide further explanation relevant to a sub-section or a specific requirement. However, we note that not all concepts or requirements in the ED are explained to the extent necessary for a proper understanding thereof. We are concerned as to the sufficiency of EEM, particularly given the standalone nature of the ED.

For instance, audit sampling is dealt with in paragraphs 7.3.5 to 7.3.7 of the ED with only one EEM on misstatements projection. This is a big contrast to ISA 530 Audit Sampling, of which the length of the application and other explanatory material is similar to that of the requirements. We also compare the sufficiency of EEM to ISA 315 (Revised 2019) and ISA 540 (Revised). The length of the application and other explanatory material in the latter two ISAs is several times that of the corresponding requirements.

Japanese Institute of Certified Public Accountants

We understand that the IAASB limits EEM only to where it is essential to understanding or applying a requirement to keep the standard concise and succinct, but it is advisable to reconsider whether the EEM is sufficient for auditors to properly perform

procedures under the ISA for LCE. For example, for paragraph 4.6.4(c)(iii), “Performing specific audit procedures to obtain evidence regarding the opening balances.” it would be useful in practice to include application materials A3 and A7 of ISA 510 “Initial Audit Engagements – Opening Balances”.

5. Accounting Firms

BDO International

Regarding additional EEM material that should be considered:

In section 5.3.1 on materiality, consider adding the examples of materiality benchmarks contained in ISA 320 paragraph A8 (5% of profit before tax from continuing operations and 1% of total revenue or total expenses) as these benchmarks establish a generally accepted starting point for determining materiality, before other qualitative factors are incorporated. We find that practitioners appreciate these quantitative guidelines which help to ensure at least a base level of consistency across firms.

Under section 8.9.3, the proposed standard states “The auditor shall assemble the audit documentation in an audit file and complete the administrative process of assembling the final audit file on a timely basis after the date of the auditor’s report.” – The use of “timely basis” is open to interpretation and could create a scenario where regulators globally can challenge this inconsistency. We would recommend the IAASB considers whether to include EEM in relation to expected days, similar to the application material in ISA 230, paragraph A21.

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).

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

International Federation of Accountants’ Small and Medium Practices Advisory Groups

We suggest IAASB revisit the sufficiency of the EEM in some specific places so that the proposed standard could be standalone. For example, audit sampling is dealt with in paragraphs 7.3.5 to 7.3.7 of the ED with one EEM on misstatements and this guidance is much shorter than those in equivalent ISA 530, Audit Sampling. There is a similar issue with the use of electronic confirmations which we discuss further in our response to question 9 related to part 7, Responding to Assessed Risks of Material Misstatement.

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.

Specific Questions\Section 4C – Key Principles Used in Developing ED-ISA for LCE\Question 7 - Views on the key principles used in developing ED-ISA for LCE\Question 7(d) - The approach to EEM\5) Question 7(d)(iii) - The way the EEM has been presented\A. Support

3. Regulators and Audit Oversight Authorities

Independent Regulatory Board for Auditors (IRBA)

The layout of the proposed standard is also simple to navigate.

We support the way that the EEM has been presented within the proposed standard.

4. National Auditing Standard Setters

Canadian Auditing and Assurance Standards Board

They also felt that placing the EEM near the related requirements and presenting them in italics within blue boxes helps distinguish the EEM from the requirements and enhances the readability of the standard.

We agree with stakeholders that the placement and presentation of the EEM streamlines the ED-ISA for LCE and improves readability and user friendliness.

New Zealand Auditing and Assurance Standards Board

The NZAuASB considers the way the EEM has been presented within the proposed standard is appropriate, i.e., having the EEM throughout the standard, rather than as a separate section within the proposed standard, is helpful.

5. Accounting Firms

Baker Tilly International

Baker Tilly comments: If you have a separate standard then the approach is reasonable.

BDO International

The responses from practitioners across a number of our BDO firms were split between whether the EEM should be integrated with the related requirements or whether it would be more useful segregated in each section from the related requirements (like the Application and Other Explanatory Material is presented in the ISAs). However, on balance, we believe that presenting the EEM with the related requirements is more useful, particularly since there are not a lot of EEM paragraphs.

Ernst & Young Global Limited

The approach to using EEM within the text of the ED-ISA for LCE is helpful to ensure that the explanatory guidance is included in direct context of the respective requirement.

ETY sas

We support the way that the EEM has been presented within the proposed standard

Mazars

(iii) The approach to include EEM in the body of the standard makes the standard more reader friendly for both practitioners and for other stakeholders especially since they are less extensive than in the ISA.

MHA Monahans

It is also very helpful having the EEM in blue paragraphs alongside the requirements for ease of use.

PKF International Limited

We are generally supportive of the approach taken on EEM.

PriceWaterhouseCoopers

We support the approach to the presentation of EEM within the standard.

RSM International

Response: We support the use of EEM and agree with the positioning of the EEM together with the related requirements. We also like the use of italics and highlighting of EEM in blue as this makes it easier for the reader to distinguish it from the requirements.

7. Professional Accountancy and Other Professional Organizations

Chamber of Financial Auditors of Romania

Presentation of EEM: it is very easy to follow and we consider it to be helpful for practitioners.

Chartered Accountants Ireland

We consider that the way the EEM is presented within the proposed standard will assist in ensuring it is properly considered by auditors but as noted above have significant concerns about the sufficiency of the EEM.

Chartered Governance and Accountancy Institute in Zimbabwe

iii) We support the way that the EEM has been presented within the proposed standard

CPA Ireland

CPA Ireland is supportive of the presentation of the EEM.

Institute for the Accountancy Profession in Sweden (FAR)

(iii) The approach to include EEM in the body of the standard makes the standard more reader friendly for both practitioners and for other stakeholders especially since they are less extensive than in the ISA:s.

Institute of Certified Public Accountants of Kenya

(iii) We support the way that the EEM has been presented within the proposed standard

Institute of Certified Public Accountants of Uganda

ICPAU supports the way the EEM has been presented within the proposed standard.

Institute of Chartered Accountants of Ghana

To distinguish EEM from the requirements within ED-ISA for LCE, the EEM has been presented in italics (and highlighted in light blue). There are two 'types' of EEM included: general introductory EEM that explains the context of the section that follows and EEM specific to the requirement directly above it. However, there is no difference in the status of each 'type'. The presentation to us seems okay.

Institute of Chartered Accountants of Scotland

We are supportive of the manner in which the EEM has been presented within the proposed standard.

Institute of Singapore Chartered Accountants

We agree with the approach to include the EEM in the body of the proposed standard as it would be easier to read and more reader-friendly.

The manner in which the EEM has been presented is also clear (i.e. presented in italics in separate blue boxes).

Instituto Mexicano de Contadores Públicos (IMCP)

We agree that the EEM (highlighted in italics and in blue), facilitates its reading and contributes to the understandability of the proposed standard.

International Federation of Accountants' Small and Medium Practices Advisory Groups

The SMPAG supports the way that the EEM has been presented within the standard.

Nordic Federation of Public Accountants

The approach to include EEM in the body of the standard and presenting it in connection with the requirements makes the standard reader and user friendly for both practitioners and other stakeholders.

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

We support the way that the EEM has been presented within the proposed standard

Pan-African Federation of Accountants (PAFA)

iii) We support the way that the EEM has been presented within the proposed standard

South African Institute of Professional Accountants

We support the way that the EEM has been presented within the proposed standard

Specific Questions\Section 4C – Key Principles Used in Developing ED-ISA for LCE\Question 7 - Views on the key principles used in developing ED-ISA for LCE\Question 7(d) - The approach to EEM\5) Question 7(d)(iii) - The way the EEM has been presented\b. Suggestions to Make it User Friendly\Add Headings

7. Professional Accountancy and Other Professional Organizations

Saudi organization for Chartered and Professional Accountants

Its presentation within the ED-ISA for LCEs is clear and well designed, however, we believe that starting each EEM blue box with a title as well as structuring its content with a certain systemic numbering could add more clarity.

9. Individuals and Others

Vera Massarygina

It seems better to use subheadings for requirements and EEM.

Specific Questions\Section 4C – Key Principles Used in Developing ED-ISA for LCE\Question 7 - Views on the key principles used in developing ED-ISA for LCE\Question 7(d) - The approach to EEM\5) Question 7(d)(iii) - The way the EEM has been presented\b. Suggestions to Make it User Friendly\Add Numbering

5. Accounting Firms

PKF International Limited

However, with regard to point (iii) above, in our view each EEM paragraph should be assigned a paragraph reference number. We agree that the current approach of shading the EEM paragraphs in blue is somewhat helpful. However, the contents of the proposed standard will be even easier to search for, and to make reference to (for example, within audit programs) if each EEM paragraph were provided with a unique reference number.

7. Professional Accountancy and Other Professional Organizations

CPA Australia

We consider that the location and presentation of the EEM can be confusing. We suggest that it would be clearer to place it either separately as application material in the same way as other standards, insert as footnotes or link it electronically in a digital tool (see IAASB e-Handbook). At a minimum it requires an alpha-numeric identifier, so it can be referenced and can be clearly identified as not being a requirement.

Saudi organization for Chartered and Professional Accountants

Its presentation within the ED-ISA for LCEs is clear and well designed, however, we believe that starting each EEM blue box with a title as well as structuring its content with a certain systemic numbering could add more clarity.

Specific Questions\Section 4C – Key Principles Used in Developing ED-ISA for LCE\Question 7 - Views on the key principles used in developing ED-ISA for LCE\Question 7(d) - The approach to EEM\5) Question 7(d)(iii) - The way the EEM has been presented\b. Suggestions to Make it User Friendly\Location of EEM

4. National Auditing Standard Setters

Royal Netherlands Institute of Chartered Accountants (NBA)

The presentation of EEM is a bit confusing as it stated before, between and after the requirements. We recommend presenting them in a uniform way after the requirements.

6. Public Sector Organizations

Swedish National Audit Office

We find the EEM to be helpful. Though some of the EEMs placement could be discussed. We think that the EEM should follow a requirement and not the other way around. In our comments on the content section 4E you will find our suggestions.

7. Professional Accountancy and Other Professional Organizations

CPA Australia

We consider that the general introductory EEM could be incorporated into the content and scope sections of each part. The EEM would then be restricted to material which is relevant to the paragraph above it and would flow more logically from that material

European Federation of Accountants and Auditors for SMEs

Third, the presentation of EEM, between and after the requirements, is somewhat confusing. We recommend presenting them in a uniform way after the requirements.

Finnish Association of Authorised Public Accountants

It is also not always clear whether the EEM refers only to the requirement presented before it or also the following ones related to the same issue. So, the positioning of the EEM needs to be considered carefully and in a consistent matter.

Nordic Federation of Public Accountants

However, the positioning of the blue boxes, with different scope depending on whether they occur before or after certain requirements, is confusing and a streamlined approach would be preferred.

Specific Questions\Section 4C – Key Principles Used in Developing ED-ISA for LCE\Question 7 - Views on the key principles used in developing ED-ISA for LCE\Question 7(d) - The approach to EEM\5) Question 7(d)(iii) - The way the EEM has been presented\b. Suggestions to Make it User Friendly\Other Comments

6. Public Sector Organizations

Government Accountability Office (USA)

However, the presentation of EEM within the proposed standard is not clear. Without the information from paragraphs 85 through 91, it would be difficult to understand why certain text was italicized and highlighted in blue. A paragraph in the Preface section explaining that the EEM is italicized and highlighted in blue would help users of the standard.

9. Individuals and Others

ASK KSA Consulting Inc.

We agree that explanatory material is necessary to clarify certain aspects of the ED-ISA for LCE however there are a number of changes related to the EEM.

There are two types of EEM that have been included in the proposed standard. The first is general introductory EEM that explains the concept of the section that follows and EEM specific to the requirement directly above it. In both cases, the EEM has presented in italics and in light blue. It is confusing to distinguish between these. If there are two types of EEM then clarify this by using different colours; and in the EEM that explains the concepts, use headers within the EEM.

Specific Questions\Section 4C – Key Principles Used in Developing ED-ISA for LCE\Question 7 - Views on the key principles used in developing ED-ISA for LCE\Question 7(d) - The approach to EEM\5) Question 7(d)(iii) - The way the EEM has been presented\c. Do Not Support

5. Accounting Firms

Famme & Co. Professional Corporation

(d) We do not agree with including EEM in the body of the standard. For consistency with other Handbooks, we would prefer to see the explanatory material follow the specific ISA requirements in each section. Intermingling requirements with explanatory material serves to confuse users. We find this approach inconsistent with the drafting principles as detailed in paragraph 98 which states the goal of "...presenting any required actions as clearly, understandably and stated as simply and concisely as possible."

7. Professional Accountancy and Other Professional Organizations

CPA Australia

We consider that the location and presentation of the EEM can be confusing. We suggest that it would be clearer to place it either separately as application material in the same way as other standards, insert as footnotes or link it electronically in a digital tool (see IAASB e-Handbook). At a minimum it requires an alpha-numeric identifier, so it can be referenced and can be clearly identified as not being a requirement. The EEM is quite visually dominating and could be taken to be of greater significance than the requirements. It is somewhat problematic that the explanatory material is not part of the standard when the EEM shaded boxes are sitting in between the requirements and appear to be integral to the standard. An alternative approach would be to separate the EEM from the requirements by moving it to application material, consistent with the format of the ISAs, or provide links to the EEM in the relevant requirements using a digital tool. The clarity project from over a decade ago, separated all of the application material from the requirements moving that material to the back section of the ISAs, whereas the approach in the LCE standard is the reverse by positioning the EEM alongside the requirements as it is "deemed necessary and

informative for the proper understanding of the requirement.” We consider that much of the EEM is similar to application material and it would be more aligned to the other IAASB standards to use the same term and approach to its presentation. This could mean that all application material should be moved back below the requirements if it aids understanding.

Self-Regulatory Organization of Auditors Association (SRO AAS)

The approach to EEM doesn't look reasonable because:
Requirements and EMM explanations may be confused.

The way the EEM has been presented within the proposed standard (the font and the frame) is not commonly acceptable for the Russian practice. The official acts don't have such characteristics as different color of the font or text box or the field. This will cause significant effort in Russia to distinguish standard from EMM explanations without the adoption of the standard format to the one similar to the official act in Russia.

Specific Questions\Section 4C – Key Principles Used in Developing ED-ISA for LCE\Question 7 - Views on the key principles used in developing ED-ISA for LCE\Question 7(d) - The approach to EEM\5) Question 7(d)(iii) - The way the EEM has been presented\d. Other Comments

4. National Auditing Standard Setters

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

We are less concerned with the presentation of the EEM, as long as it is clear that this material does not represent requirements.

5. Accounting Firms

Grant Thornton International Limited

The way the EEM has been presented within the proposed standard.

We have no significant comments on the way that the EEM has been presented within the standard. In general, it is helpful to have EEM explaining the context of the section prior to reading the section. Locating the EEM that explains the requirement directly below the requirement, is helpful given its proximity, but is reminiscent of 'pre-clarity' drafting structures and may be somewhat academic if the proposed standard is to be made available in an electronic format similar to the ISAs. We recommend that the IAASB give further consideration to how the digitalisation of ED-ISA for LCE can be used as an effective means of providing sufficient EEM to facilitate the consistent and appropriate application of requirements and, in particular, those requirements that are conditional. Further, if linkage back to the ISAs is to be permitted, this could also be a means of creating that linkage.

7. Professional Accountancy and Other Professional Organizations

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

(iii) The way the EEM has been presented within the proposed standard.

Some stakeholders would prefer that the explanatory material was provided separately to the standard as the current presentation may present challenges for practitioners in jurisdictions, such as Australia, where the standards are legislative instruments and have force of law. We recommend that the board consider the implications for these jurisdictions in finalising how the EEM is presented, including exploring technological solutions to presenting the material.

Specific Questions\Section 4C – Key Principles Used in Developing ED-ISA for LCE\Question 7 - Views on the key principles used in developing ED-ISA for LCE\Question 7(d) - The approach to EEM\6) More Guidance (General)\a. Supplemental Guide

3. Regulators and Audit Oversight Authorities

Independent Regulatory Board for Auditors (IRBA)

However, it is recommended that Implementation Guidance (including practical examples) be issued as soon as possible after the issue of the final standard, to support auditors by providing further explanation of the requirements and guidance for applying them.

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

4. National Auditing Standard Setters

Indonesian Institute of Certified Public Accountants (IAPI)

Response: There is a risk that the lack of guidance for auditors may introduce differing interpretations as to what is required, which may potentially be detrimental to the overall audit quality. Currently in ISAs, application material has been helpful to support the appropriate application of requirements in the standards. Therefore, we proposed IAASB to consider issuing additional guidance to supplement these EEMs.

New Zealand Auditing and Assurance Standards Board

In addition, while the IAASB indicated that additional supplemental guidance would be issued in the future, it is not feasible to assess the impact of such guidance at present. Also, excluded EEM is the primary reason for the proposed standard being shorter than the ISAs. This achievement is likely to be adversely affected by the need to add more supplemental guidance in the future, which will not be authoritative in nature.

5. Accounting Firms

Crowe Global

We note that the IAASB acknowledges that implementation support materials are required. Such materials accompany all IAASB standards and are welcome, but in the case of this standard they must avoid being a proxy for “application material” as associated with ISAs.

ETY sas

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

7. Professional Accountancy and Other Professional Organizations

European Federation of Accountants and Auditors for SMEs

Finally, we have a few general remarks as it relates to guidance and explanatory material. The IAASB is a standard setter and needs to focus on developing and maintaining high quality standards that are implementable. It also has a role to play in promoting adoption and facilitating the development of implementation material and guidance. The standard, quite rightly, does not include guidance as such. Guidance for the most part is best left out of the standards and included in separate non-authoritative documents produced by PAOs and others. We urge IFAC to consider producing a Guide to the Use of ISA for LCEs, emulating its ‘Guide to Using ISAs in the Audits of SMEs’ (‘ISA Guide’).

Institute of Certified Public Accountants of Kenya

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

Instituto Mexicano de Contadores Públicos (IMCP)

We think that the EEM is included in a concrete and specific way. We only propose that EEM to be included in the part related to the qualitative characteristics related to the authority of the ISA for LCE as previously commented; however, we also support the issuance of implementation materials.

International Federation of Accountants’ Small and Medium Practices Advisory Groups

We believe the EEM highlights what is important and should be considered in each sub section and is clearly differentiated from the requirements. However, we also think that additional non-authoritative implementation guidance will be needed to help guide auditors through using this standard by providing additional examples and practical guidance. See additional point below regarding potential IFAC and IAASB collaboration.

Korean Institute of Certified Public Accountants

We generally agree with the approach to EEM. However, some local auditors have views that a separate ‘Supplemental Guidance’ or others are needed to illustrate specific examples as auditors may face challenges in applying the standard to their practical audit activities due to lack of specific examples.

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

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

Pan-African Federation of Accountants (PAFA)

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

Society of Certified Accountants and Auditors of Kosovo (SCAAK)

We agree with the approach to EEM including content, sufficiency, and its presentation. We propose to IFAC developing a 'Guide to using ISA for LCE' similar to 'Guide to using ISAs for Audits of SMEs'.

9. Individuals and Others

Rodoula Roussou

The approach and content of EEM and the way the EEM has been presented make sense. In addition, IAASB should consider issuing a new "Guide to Using ISAs for LCE" to substitute "Guide to Using ISAs in the Audits of SMEs", which has been very helpful for the auditors.

Specific Questions\Section 4C – Key Principles Used in Developing ED-ISA for LCE\Question 7 - Views on the key principles used in developing ED-ISA for LCE\Question 7(d) - The approach to EEM\6) More Guidance (General)\b. More Examples

7. Professional Accountancy and Other Professional Organizations

Federation of Accounting Professions of Thailand

We suggest that the proposed standard provides a bit more examples on most EEM sections, covering more varieties of the aspects under consideration.

Indonesian Committee on Public Accountant Profession (KPAP)

Response:

In terms of the approach of essential explanatory material of ED-ISA for LCE, the content of the EEM is sufficient. Regarding the sufficiency and presentation of EEM, the ED-ISA for LCE states that EEM does not impose a requirement or expand any requirement itself. KPAP suggests including illustrations and examples of how the standard is implemented into various conditions/situations for a more apparent reference.

Institute of Chartered Accountants of Pakistan

The guidance provided in essential explanatory material (EEM) in the ISA for LCE is limited as compared to the application material provided in the ISAs.

We would suggest IAASB to consider expanding the EEM to include additional guidance material with examples. For example, in the specific focus areas (as explained in Part 7.4 of the proposed ISA) such as, going concern, related parties and accounting estimates etc., more EEM would be helpful.

Malaysian Institute of Certified Public Accountants

As indicated, more practical examples and guidance to provide application of the approach would always be useful and helpful to the practitioners.

Polish Chamber of Statutory Auditors Warsaw (Regional Branch)

Consider adding examples to EEM („essential explanatory material”).

Specific Questions\Section 4C – Key Principles Used in Developing ED-ISA for LCE\Question 7 - Views on the key principles used in developing ED-ISA for LCE\Question 7(d) - The approach to EEM\7) Other Comments

3. Regulators and Audit Oversight Authorities

Botswana Accountancy Oversight Authority

The use of essential explanatory material (EEM) will be vital if it will be deemed to provide explanation and guidance on how to apply a requirement and for a proper understanding of the requirements by auditors.

4. National Auditing Standard Setters

Canadian Auditing and Assurance Standards Board

Also, we recognize that there may be guidance in the ISAs on scalability that may not meet the IAASB's principle for including as EEM in ED-ISA for LCE but helps explain the proper application of a requirement. To help practitioners locate the relevant application material in the ISAs, we suggest that the IAASB retain and maintain the mapping documents.

Finally, we recommend removing the word "essential" from "Essential Explanatory Material" to reduce the risk of readers misinterpreting this material as mandatory application material. Retaining the language "explanatory" is sufficient to distinguish the material from the requirements.

Finally, stakeholders were concerned that using the word "essential" in EEM may imply that its application is mandatory, rather than guidance material.

7. Professional Accountancy and Other Professional Organizations

Institute of Certified Public Accountants in Israel

ICPAI believes that EEMs should be included in the standard as is the case in ISAs. It is our opinion that when users find that the provisions are not sufficiently clear (or detailed), an exposure arises to the auditor.

Institute of Chartered Accountants of Ghana

The EEM should be developed just like ISA because it expands the objective and explains the main requirement of the standard.

Instituto dos Auditores Independentes do Brasil

We agree with the approach to EEM, content and how they are presented, also considering the length of the proposed standard. However, seeing our points expressed in question 6, we are concerned that over time the EEM could not be sufficient, and practitioners lose the understanding of AM of full ISAs.

South African Institute of Chartered Accountants (2)

We agree with the approach to limit explanatory material to ED-ISA for LCE so as to prevent the standard from becoming too long. Following this approach would however then require a deep understanding of the ISAs, otherwise the requirements may be open to interpretation. However, it is also our view that such engagements will be performed by professional accountants subject to the IESBA Code and even stricter local Codes of Professional Conduct such as the IRBA Code of Professional Conduct for Registered Auditors. These codes place a requirement to exercise professional competence and due care at all times. The firms that conduct LCE audits will also be subject to the Quality Management standards that come into effect from December 2022.

9. Individuals and Others

ASK KSA Consulting Inc.

The EEM is not supposed to create additional obligations however the fact that it is titled "Essential" may lead one to conclude that there are additional requirements. We recommend eliminating the word "Essential".

Specific Questions\Section 4C – Key Principles Used in Developing ED-ISA for LCE\Question 7 - Views on the key principles used in developing ED-ISA for LCE\Question 7(d) - The approach to EEM\8) Concerns Over Status or Intent

4. National Auditing Standard Setters

Australian Auditing and Assurance Standards Board

The AUASB also raises a concern that in jurisdictions where the auditing standards are legislative instruments, the form of the EEM may not conform to legal requirements.

Royal Netherlands Institute of Chartered Accountants (NBA)

The purpose/status of the EEM is not fully clear. In ISA 200 paragraph A60 is stated that the whole text of an ISA -including the application material- is relevant for understanding the objectives of the ISA and the appropriate application of the requirements of an ISA. EEM seems to have a different approach which is not in line with the ISAs.

5. Accounting Firms

BDO International

The content that is currently included as EEM serves the purpose for which it was intended. However, it is not clear how this would work alongside implementation material. The latter would be welcome if the volume of EEM in the standard will be limited, but we are unsure why distinguishing between this and EEM is needed given that they have the same authority behind them – i.e., they do not create additional obligations. If the sole reason behind this is to not have an overly long standard, we would question whether it might not be more beneficial to instead revisit the decision to have a separate guidance section like the application materials in the ISAs. Whilst we acknowledge this might give a disconnected feeling, the decisions on what to include as EEM would largely be based on a model that has not been field tested (footnote 13 on page 13) and might not entirely be what users of the LCE standard might initially need. Having such a distinction would also be a first for a new auditing standard and might inadvertently create a confusing three-tiered structure, being: Standard requirements -> EEMs -> All other material.

KPMG IFRG Limited

We also do not consider that rearrangement of elements of important guidance into supplementary materials makes the LCE ISA any easier to understand/ navigate, and the fact that the supplemental materials are identified as non-authoritative, but cross referred to from the standard, is likely to create confusion as to the authority of such guidance.

For example, the reporting section of the LCE ISA is focused on the unmodified auditor's report, with only very brief guidance regarding modifications. Much of the guidance regarding such modifications is included within the Auditor Reporting Supplemental Guide, which is described as non-authoritative, although it is clearly cross-referenced from the standard. We believe the authority status of the material in the supplemental guide is therefore unclear, which could cause confusion/challenges for auditors and potentially other stakeholders. We believe the IAASB's objectives may be better achieved by placing such material in an Appendix, within the LCE ISA itself, or in a separate standard on reporting for LCEs, noting that this material is authoritative in the full-scope ISAs. We highlight that the auditor's report is the external deliverable resulting from the performance of an audit, and, as such, material addressing reporting should be afforded the appropriate authority status and given sufficient prominence, and should not be de-emphasised in any way.

Notwithstanding our recommendation above to include substantially more application material, we highlight to the IAASB that it is important that they explicitly clarify their intentions, within the standard itself, both in terms of envisaging the auditor exercising a significantly greater degree of professional judgment when interpreting what is sufficient to address relevant requirements, as well as to explicitly clarify that, regardless of their intentions, as a standalone standard, there is neither a requirement, nor an expectation, that an auditor needs to refer to the application guidance in the full-scope ISAs in order to conduct an engagement in accordance with the LCE ISA.

7. Professional Accountancy and Other Professional Organizations

European Federation of Accountants and Auditors for SMEs

First, we wonder whether the purpose and status of the EEM is clear. ISA 200 states that the whole text of an ISA, including the application material, is relevant for understanding the objectives of the ISA and the appropriate application of the requirements of an ISA. It is not clear whether EEM has the same purpose and status. We recommend this be clarified.

Institute of Certified Public Accountants in Israel

We believe that in order to serve the purpose for which the EEM is intended, the explanations provided within the EEM should be binding and not only serve to support users. For example, when we assessed the treatment applied to materiality and risk assessment, we reached the conclusion that the provisions of the standard cannot be implemented without requiring that the EEM will be binding.