

# Supplement 1-01 to Agenda Item 6

## Audits of Less Complex Entities – ED-ISA for LCE – Q9 (Part 2, Specific Document Requirements and Comments on Documentation in General) and Q7 (Selected Responses Related to Documentation)

### Selected Responses from Question 7 - Views on the key principles used in developing ED-ISA for LCE\Question 7(a) - The approach to how the ISA requirements have been incorporated in the proposed standard\2) Agree with Comments\2b) Further Differentiate from ISAs\Further Differentiate from ISAs - General

#### 5. Accounting Firms

##### BDO International

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

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

##### PriceWaterhouseCoopers

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

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

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

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

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

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## **Selected Responses from Question 7 - Views on the key principles used in developing ED-ISA for LCE\Question 7(a) - The approach to how the ISA requirements have been incorporated in the proposed standard\2) Agree with Comments\2b) Further Differentiate from ISAs\Risk Assessment, Internal Control & Documentation**

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

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

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

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

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

### **5. Accounting Firms**

#### **BDO International**

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

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

#### **KPMG IFRG Limited**

##### **Scaling Solutions**

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

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

## 7. Professional Accountancy and Other Professional Organizations

### Accountancy Europe

We acknowledge also that the ED is simpler, shorter hence more accessible than the full set of ISAs but we believe that the standard has not explored all possibilities to simplify the audit requirements especially regarding the documentation and audit procedures related to the entity's internal control system.

On documentation, we suggest that the standard states explicitly that only what is done should be documented and when a requirement has been considered not applicable, the auditor is not implicitly required to explain and document why (s)he has not complied with it.

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

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

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### South African Institute of Chartered Accountants

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

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

### Specific Questions\Section 4E – Content of ED-ISA for LCE\Question 9- Views on the content of Parts 1 through 8 of ED-ISA for LCE\1) Overall Comments\d. Comments on Documentation

#### 5. Accounting Firms

##### PriceWaterhouseCoopers

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

The suggested revisions below illustrate our suggested logical order if the documentation requirements were consolidated into one section. Certain edits to consolidate, simplify or relocate the requirements, may also remain applicable if the requirements are retained within each individual Part.

Illustrative alternative requirement	Comment
<b>2. Audit Evidence and Documentation</b>	
<b>2.5 General Documentation Requirements</b>	
2.5.1 [moved below 4.8.1]	
2.5.2 [moved below 7.7.1]	

2.5.3 [consolidated into 2.5.2 and moved below 7.7.1]	
2.5.4 [consolidated into 2.5.2 and moved below 7.7.1]	
2.5.5 [moved below 8.9.6]	
2.5.6 [moved below 8.9.6]	
2.5.7 [moved below 8.9.6]	
2.5.8 [moved below 8.9.6]	
<b>3. Engagement Quality Management</b>	
<b>3.3 Specific Documentation Requirements</b>	
3.3.1 [moved to follow 2.5.1A below]	
<b>4. Acceptance or Continuance of an Audit Engagement and Initial Audit Engagements</b>	
<b>4.8. Specific Documentation Requirements</b>	
4.8.1 [moved below 4.8.5]	
4.8.2. The auditor shall document the determination made for using the [draft] ISA for LCE.	Proposed combined documentation section would commence with the overarching documentation obligations relating to the determination made for using the ISA for LCE.  No change
4.8.3. The auditor shall document changes, if any, to the determination of the use of the [draft] ISA for LCE if further information comes to the auditor's attention during the audit that may change the professional judgment made in this regard.	No change
4.8.4. The auditor shall record in an audit engagement letter or other suitable form of written agreement: a. That the audit will be undertaken using the [draft] ISA for LCE. b. The objective and scope of the audit of the financial statements; c. The respective responsibilities of the auditor and management; d. Identification of the applicable financial reporting framework for the preparation of the financial statements; e. Reference to the expected form and content of any reports to be issued by the auditor; and f. A statement that there may be circumstances in which a report may differ from its expected form and content.	No change
4.8.5. If law or regulation prescribes in sufficient detail the terms of the audit engagement referred to in this [draft] standard, the auditor need not record them in a written agreement, except for the fact that such law or regulation applies, and that management acknowledges and understands its responsibilities.	
4.8.1. <b>In addition to the general documentation requirements (Part 2.5.), To the extent necessary to evidence key decisions made in engagement acceptance,</b> the auditor shall include in the audit documentation matters identified, relevant discussions, and conclusions reached with respect to the acceptance and continuance of the client relationship and audit engagement.	Suggestion to follow the initial determination requirements with the acceptance related documentation.  Language amended to reflect restructuring of requirements.
<b>2.5 General Documentation Requirements for the performance of the audit</b>	Amended subheading to reflect new positioning
2.5.1. <del>Specific matters to be documented are set out throughout this [draft] standard.</del> The auditor shall prepare audit documentation on a timely basis that is sufficient to enable an experienced auditor, having no previous connection with the audit, to understand: a. The nature, timing and extent of the audit procedures performed in accordance with this [draft] standard and applicable legal and regulatory requirements, including recording: <del>(i) the identifying characteristics of the specific items or matters tested;</del> ii. <del>Who performed the work and the date such work was completed;</del> iii. <del>Who reviewed the audit work performed and the date and extent of such review, including what was reviewed;</del> b. The results of the audit procedures performed, and the audit evidence obtained; and c. Significant matters arising during the audit, the conclusions reached thereon, and	Language amended to reflect restructuring of requirements.  2.5.1(a)(ii) and (iii) - Now suggested 2.5.1A. (With unbold new sub-heading)

<p>significant professional judgments made in reaching those conclusions.</p> <p><b><u>Responsibilities when there are members of the engagement team other than the engagement partner</u></b></p> <p><b><u>2.5.1A When there are members of the engagement team other than the engagement partner, the audit documentation shall also include:</u></b></p> <p>a. <b><u>Who performed the work and the date such work was completed;</u></b>  b. <b><u>Who reviewed the audit work performed and the date an extent of such review, including what was reviewed.</u></b></p>	
<p><b>Engagement quality management</b></p>	
<p>3.3.1. <del>In addition to the general documentation requirements (Part 2.5.) for an audit engagement,</del> <del>the auditor shall</del> <b><u>include in the audit</u></b> <del>documentation</del> matters identified, relevant discussions, and conclusions reached with respect to fulfillment of responsibilities for relevant ethical requirements, including applicable independence requirements.</p>	<p>Language amended to reflect restructuring of requirements and made language consistent with other requirements (“shall document”).</p>
<p><b>5-Planning</b> <b><del>5.5. Specific Documentation Requirements</del></b></p>	
<p>5.5.1. <del>In addition to the general documentation requirements (Part 2.5.) for an audit engagement,</del> <del>the auditor shall</del> <b><u>document the audit plan that</u></b> <del>includes:</del></p> <p>a. a description of the scope, timing and direction of the audit; <del>and</del>  b. <del>any</del> <b><u>significant changes made during the audit, together with the reasons for such changes, in the audit documentation;</u></b>  c. <del>5.5.4 The auditor shall include in the audit documentation the following amounts and the factors considered in their determination of</del> <b><u>the following materiality (including any revisions as applicable):</u></b></p> <p>i. Materiality determined for the financial statements as a whole;  ii. if applicable, the materiality level or levels for particular classes of transactions, account balances or disclosures;  iii. Performance materiality; <del>and</del>  iv. <b><u>The amount below which misstatements would be considered clearly trivial.</u></b></p> <p><del>The auditor shall include in the audit documentation a description of:</del>  d. <del>5.5.2 The auditor shall include in the audit documentation a description of:</del> a. <del>The nature, timing and extent of planned risk identification and assessment procedures.</del>  e. <del>b. The nature, timing and extent of planned further audit procedures at the financial statement and assertion level.</del>  f. <del>c. Other planned audit procedures that are required to be carried out so that the engagement complies with the requirements of this [draft] standard.</del></p> <p>5.5.2. <del>The auditor shall include in the audit documentation a description of:</del>  a. <del>The nature, timing and extent of planned risk identification and assessment procedures.</del>  b. <del>The nature, timing and extent of planned further audit procedures at the financial statement and assertion level.</del>  c. <del>Other planned audit procedures that are required to be carried out so that the engagement complies with the requirements of this [draft] standard.</del></p> <p>5.5.4. <del>The auditor shall include in the audit documentation the following amounts and the factors considered in their determination of materiality (including any revisions as applicable):</del>  a. <del>Materiality for the financial statements as a whole;</del>  b. <del>If applicable, the materiality level or levels for particular classes of transactions, account balances or disclosures; and</del>  c. <del>Performance materiality.</del></p>	<p>Language amended to reflect restructuring of requirements.</p> <p>Redrafted 5.5.1(c)(i) to (iii) moved from 5.5.4 to consolidate into one requirement.</p> <p>Redrafted 5.5.1(c)(iv) moved from 7.7.1(e).</p> <p>Redrafted 5.5.1(d) to (f) moved from 5.5.2.</p>
<p>5.5.3 [Moved below 6.8.1]</p>	
<p><b>6-Risk Identification and Assessment</b> <b><del>6.8. Specific Documentation Requirements</del></b></p>	
<p>6.8.1. <del>In addition to the general documentation requirements (Part 2.5.) for an audit of an LCE,</del> <del>the auditor shall</del> <b><u>include the following in the audit</u></b> <del>documentation:</del></p> <p>a. Key elements of the understanding obtained regarding:</p> <p>i. <del>each of the aspects of</del> the entity and its environment; <del>and</del> the applicable financial reporting framework <del>and the entity’s internal control system;</del>  ii. <b><u>The entity’s control environment and process to prepare the financial statements;</u></b>  iii. <b><u>The controls set out in paragraphs 6.3.14 and 6.3.15 including the evaluation whether the control is designed effectively and determination whether the control has been implemented; and</u></b>  iv. <b><u>For accounting estimates, key elements of the auditor’s understanding of</u></b></p>	<p>Language amended to reflect restructuring of requirements and made language consistent with other requirements (“shall document”).</p> <p>Parts (e) and (f) of this requirement moved to be a sub-list of (a) to consolidate all related “understanding” matters together.</p> <p>Part (d) updated to reflect changes proposed in risk assessment requirements table above.</p>

<p><b><u>the accounting estimates, including controls as appropriate and any indicators of management bias and how those were addressed.</u></b></p> <p>b. The names of the identified related parties (including changes from prior period) and the nature of the related party relationships;</p> <p>c. The identified and assessed risks of material misstatement, including risks due to fraud, at the financial statement level and at the assertion level, including significant risks and risks for which substantive procedures alone cannot provide sufficient appropriate audit evidence, and the rationale for the significant judgments made;</p> <p>d. If applicable, the reasons for the <b>determination conclusion</b> that there <b>are no types of revenue, revenue transactions or assertions that give rise to is not</b> a risk of material misstatement due to fraud related to revenue recognition;</p> <p>e. <del>The controls set out in paragraphs 6.3.14. and 6.3.16 and the evaluation whether the control is designed effectively and determination whether the control has been implemented; and</del></p> <p>f. <del>For accounting estimates, key elements of the auditor's understanding of the accounting estimates, including controls as appropriate, the linkage of the assessed risks of material misstatements to the auditor's further procedures, and any indicators of management bias and how those were addressed.</del></p>	
<p>5.5.3 The auditor shall document the discussion among the engagement team and significant decisions reached including significant decisions regarding the susceptibility of the entity's financial statements to material misstatement due to fraud or error.</p>	<p>No change</p>
<p><b>6.8.2. The auditor shall document the evaluation about whether the [draft] ISA for LCE continues to be appropriate for the nature and circumstances of the entity being audited.</b></p>	<p>Covered by 4.8.3.</p>
<p><b>7. Responding to Assessed Risks of Material Misstatement</b> <b>7.7. Specific Documentation Requirements</b></p>	
<p><b>7.7.1. In addition to the general documentation requirements (Part 2.5.) for an audit engagement, <del>t</del>The auditor shall <u>include the following in the audit documentation the following regarding how the audit responded to assessed risks of material misstatement:</u></b></p> <p>a. The overall responses to the assessed risks of material misstatement at the financial statement level;</p> <p>b. The linkage between the procedures performed and the assessed risks at the assertion level, <del>including 7.7.2 W</del> <del>where</del> the assessed risk of material misstatement is due to fraud, <del>the auditor's documentation shall include the</del> specific fraud response;</p> <p>c. The results of the audit procedures, including the conclusions where these are not otherwise clear;</p> <p><b>CA. 7.7.4</b> For accounting estimates, the <del>auditor shall document</del> significant judgments relating to the auditor's determination of whether the accounting estimates and related disclosures are reasonable in the context of the applicable financial reporting framework, or are misstated.</p> <p>d. The results of audit procedures designed to address the risk of management override of controls;</p> <p>e. <del>The amount below which misstatements would be considered clearly trivial;</del> and</p> <p>f. All misstatements accumulated during the audit and whether they have been corrected.</p> <p><b>7.7.2. Where the assessed risk of material misstatement is due to fraud, the auditor's documentation shall include the specific fraud response.</b></p> <p>7.7.3. [presented alongside 2.5.2 below]</p> <p><b>7.7.4. For accounting estimates, the auditor shall document significant judgments relating to the auditor's determination of whether the accounting estimates and related disclosures are reasonable in the context of the applicable financial reporting framework, or are misstated.</b></p>	<p>Language amended to reflect restructuring of requirements and made language consistent with other requirements ("shall document").</p> <p>7.7.2 and 7.7.4 now built into the redrafted 7.7.1</p> <p>7.7.1(e) moved to redrafted 5.5.1.</p>
<p>2.5.2. The auditor shall <b>also</b> document <b>the following specific matters:</b></p> <p>a. <b>if the auditor has</b> identified or suspected non-compliance with law or regulation, <del>and</del> the results of discussion with management, and where appropriate, those charged with governance and parties outside the entity, <b>the audit procedures performed, the significant professional judgments made, and the conclusions reached thereon;</b></p> <p>b. <del>2.5.3</del> If the auditor identified information that is inconsistent with the auditor's conclusion regarding a significant matter, <del>the auditor shall document</del> how the inconsistency was addressed;</p> <p>c. <del>2.5.4</del> If, in exceptional circumstances, the auditor judges it necessary to depart from a relevant requirement of this [draft] standard, <del>the auditor shall document</del> how the alternative audit procedures performed achieve the aim of that requirement, and the reasons for the departure.</p> <p><b>2.5.3. If the auditor identified information that is inconsistent with the auditor's conclusion regarding a significant matter, the auditor shall document how the inconsistency was addressed.</b></p>	<p>2.5.3 and 2.5.4 incorporated in (b) and (c) of redrafted 2.5.2.</p> <p>7.7.3 incorporated within redrafted 2.5.2.</p>

<p><del>2.5.4. If, in exceptional circumstances, the auditor judges it necessary to depart from a relevant requirement of this [draft] standard, the auditor shall document how the alternative audit procedures performed achieve the aim of that requirement, and the reasons for the departure.</del></p> <p><del>7.7.3. Where the auditor has identified or suspected non-compliance with law or regulation, the auditor shall document the audit procedures performed, the significant professional judgments made, and the conclusions reached thereon.</del></p>	
<p><del>8. Concluding</del> <del>8.9. Specific Documentation Requirements</del></p>	
<p><del>8.9.1 [moved below 8.9.2]</del></p>	
<p><del>8.9.2 The auditor's documentation shall demonstrate that information in the financial statements agrees or reconciles with the underlying accounting records, including agreeing or reconciling disclosures, whether such information is obtained from within or outside of the general and subsidiary ledgers.</del></p>	No change
<p><del>8.9.1. In addition to the general documentation requirements (Part 2.5.) for an audit engagement, the auditor shall include the following in the audit documentation the following regarding the conclusions on which the auditor's opinion is based:</del></p> <p><del>a. The amount below which misstatements would be regarded as clearly trivial, all misstatements accumulated during the audit and whether they have been corrected, and the auditor's conclusion as to whether the uncorrected misstatements accumulated during the audit are material, individually or in aggregate, and the basis for that conclusion.</del></p> <p><del>b. The nature and scope of, and conclusions from, consultations undertaken during the audit, including how such conclusions were implemented.</del></p>	<p>Language amended to reflect restructuring of requirements and made language consistent with other requirements ("shall document").</p> <p><i>"The amount below which misstatements would be regarded as clearly trivial" - moved to redrafted 5.5.1.</i></p> <p><i>"all misstatements accumulated during the audit and whether they have been corrected" - covered by redrafted 7.7.1(e).</i></p>
<p><del>8.9.3 [moved below 8.9.5]</del></p>	
<p><del>8.9.4 [moved below 8.9.5]</del></p>	
<p><del>8.9.5 If applicable, the auditor shall document the failure to meet an objective of any Part of the [draft] ISA for LCE, and the resulting action (such as the effect on the auditor's opinion or withdrawal from the engagement if the overall objective of the auditor cannot be met).</del></p>	No change
<p><del>8.9.3 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.</del></p>	No change
<p><del>8.9.4 After assembly of the final audit file is complete, the auditor shall not delete or discard audit documentation of any nature before the end of its retention period.</del></p>	No change
<p><del>8.9.6 If the auditor finds it necessary to modify existing audit documentation or add new audit documentation after the assembly of the final audit file has been completed, the auditor shall, regardless of the nature of the modifications or additions, document:</del></p> <p><del>a. The specific reasons for making them; and</del></p> <p><del>b. When and by whom they were made and reviewed.</del></p>	No change
<p><b>Documentation of Communications</b></p>	Moved from section 2
<p><del>2.5.6 The auditor shall document discussions of significant matters with management, and where appropriate, those charged with governance, and others, including the nature of the significant matters discussed and when and with whom the discussions took place.</del></p>	No change
<p><del>2.5.5 The auditor shall include in the audit documentation any:</del></p> <p><del>a. Communications about fraud made to management, those charged with governance, regulators and others; and</del></p> <p><del>b. Discussions of significant matters related to non-compliance with law or regulation, or fraud, with management, those charged with governance and others, including how the matter has been responded to.</del></p>	
<p><del>2.5.7 Where matters required to be communicated by this [draft] standard are communicated orally, the auditor shall include them in the audit documentation, and when and to whom they were communicated.</del></p>	No change

2.5.8 Where matters have been communicated in writing, the auditor shall retain a copy of the communication as part of the audit documentation. Written communications need not include all matters that arose during the audit.	No change
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## 7. Professional Accountancy and Other Professional Organizations

### Institute of Certified Public Accountants of Cyprus

Limit documentation of the auditor's professional judgement for not doing work in some circumstances.

### Institute of Chartered Accountants of Namibia

Not specific to a Part:

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

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

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

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

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

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

We recommend to either:

- include significant additional EEM regarding documentation requirements to guide auditors on how to reduce the extent of documentation for LCE's, or
- remove documentation requirements ("the auditor shall") and replace these with required auditor considerations. The auditor would need to include evidence on file that the matters were considered (Minutes etc.) but would not need to document the considerations themselves unless the consideration leads to an impact on the audit plan/ strategy. This would limit the need to document considerations that are intuitive thereby reducing audit documentation that adds no value.

An example of these cases is:

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

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

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

- Internal control risk
- Fraud risk
- IT systems

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



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

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

#### **Botswana Accountancy Oversight Authority**

Part 2: Audit Evidence and Documentation

Part 2 looks complete as it has been accurately aligned to ISA 230, which will help in managing the quality of documentation across the audit file.

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

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

Part 2: Audit Evidence and Documentation

This part is complete, and the ED-ISA for LCE is the same as the approach to documentation in the ISAs. KPAP believes that the affirmation in paragraph 110, which requires that audit documentation be sufficient to enable an experienced auditor, having no previous experience with the audit, to understand the nature, timing, and extent of the audit procedures undertaken, is excellent.

## **Specific Questions\Section 4E – Content of ED-ISA for LCE\Question 9- Views on the content of Parts 1 through 8 of ED-ISA for LCE\2) Responses on Parts 1 through 8\Part 2\ b. Specific Comments\2.2.Sufficient Appropriate Audit Evidence**

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

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

Editorial changes to the EEM paragraph below paragraph 2.2.2. – Delete the sentence that is struck through. This sentence is repeated and better placed in the EEM below paragraph 2.3.1.:

~~“Appropriateness is the measure of the quality of the audit evidence, that is its relevance and reliability in providing support for the conclusions on which the auditor’s opinion is based. The reliability of audit evidence is influenced by its source and by its nature, and dependent on the individual circumstances under which it is obtained.”~~

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

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

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

From Mapping Document #1

ISA 200, paragraphs A31-A33/with ISA for LCEs paragraph 2.2.2

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

Given the definitions taken up in the Appendix, we believe that the EEM to paragraph 2.2.2. is unnecessary and can be deleted.

### **5. Accounting Firms**

#### **ETY sas**

Part 2:

Comments:

Editorial to EEM paragraph below Paragraph 2.2.2. – Delete last sentence in second sub-paragraph already better consistent and place in the EEM below Paragraph 2.3.1.:

~~“Appropriateness is the measure of the quality of the audit evidence, that is its relevance and reliability in providing support for the conclusions on which the auditor’s opinion is based. The reliability of audit evidence is influenced by its source and by its nature, and dependent on the individual circumstances under which it is obtained.”~~

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

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

Part 2:

Comments:

Editorial to EEM paragraph below Paragraph 2.2.2. – Delete last sentence in second sub-paragraph already better consistent and place in the EEM below Paragraph 2.3.1.:

“Appropriateness is the measure of the quality of the audit evidence, that is its relevance and reliability in providing support for the conclusions on which the auditor’s opinion is based. ~~The reliability of audit evidence is influenced by its source and by its nature, and dependent on the individual circumstances under which it is obtained.~~”

## Pan-African Federation of Accountants (PAFA)

Part 2:  
Comments:  
Editorial to EEM paragraph below Paragraph 2.2.2. – Delete sentence that is struck through. This sentence is repeated and better place in the EEM below Paragraph 2.3.1.:  
“Appropriateness is the measure of the quality of the audit evidence, that is its relevance and reliability in providing support for the conclusions on which the auditor’s opinion is based. ~~The reliability of audit evidence is influenced by its source and by its nature, and dependent on the individual circumstances under which it is obtained.~~”

## Specific Questions\Section 4E – Content of ED-ISA for LCE\Question 9- Views on the content of Parts 1 through 8 of ED-ISA for LCE\2) Responses on Parts 1 through 8\Part 2\b.Specific Comments\2.3.Information to be Used as Audit Evidence

### 3. Regulators and Audit Oversight Authorities

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

Editorial changes to paragraph 2.3.4.:  
“The auditor shall determine what modifications or additions to audit procedures are necessary if:

### 4. National Auditing Standard Setters

#### American Institute of Certified Public Accountants

The following represents those ISA paragraphs and corresponding ISA for LCE paragraphs that we assigned a “B” rating – meaning that omission or revision of the ISA requirement might create an issue for auditors when any one item is aggregated with another or others. We are pleased to provide additional information if requested.  
From Mapping Document #1

ISA 500, paragraph 11/ISA for LCEs paragraph 2.3.4

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

We also believe that competent auditors will not need the EEM to paragraphs 2.3., 2.3.1., 2.5.1. (c) and that this EEM can be deleted.

### 5. Accounting Firms

#### BDO International

Part 2 - Audit Evidence and Documentation  
Suggestions re EEM:  
Paragraphs 2.3 and 2.4 - We like the inclusion of references to Automated Tools and Techniques; consider adding additional guidance on data analytics.

### 6. Public Sector Organizations

#### Swedish National Audit Office

Part 2 Audit Evidence and Documentation  
2.3 – Consider combining the EEM right after 2.3 with the EEM for 2.3.1.

### 7. Professional Accountancy and Other Professional Organizations

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

Editorial to paragraph 2.3.4.:  
“The auditor shall determine what modifications or additions to audit procedures are necessary if:...”

#### South African Institute of Professional Accountants

Part 2: Paragraph 2.2.2 states the following: “Appropriateness is the measure of the quality of the audit evidence, that is its relevance and reliability in providing support for the conclusions on which the auditor’s opinion is based. The reliability of audit evidence is influenced by its source and by its nature, and dependent on the individual circumstances under which it is obtained”. We recommend that the section dealing with reliability should be stated under paragraph 2.3.1 which is dealing with designing the audit procedures and determining the reliability thereof.

## 8. Academics

### Hunter College Graduate Program

3. We believe separating the sentences on the sections below and having the information in a list format makes it easier to understand.

Section 2.3.1 (ED Pg 77)

The reliability of information to be used as audit evidence is influenced by its source and nature, as well as the circumstances under which it was **obtained**. , ~~including~~ **This includes** the controls over its preparation and maintenance where relevant.

Generally, the reliability of information is increased when it is obtained from:

- independent sources outside of the entity
- ~~by~~ the auditor directly
- Is an original document rather than a copy
- Written rather than oral information

However, circumstances may exist that could affect these generalizations.

Section 2.3.2 (ED Pg 77)

Obtaining audit evidence about the accuracy and completeness of such information may be performed concurrently with the actual audit procedure applied to the information ~~when obtaining such audit evidence is an integral part of the audit procedure itself~~. In other situations, the auditor may have obtained audit evidence of the accuracy and completeness of such information by testing controls over the preparation and maintenance of the information. In some situations, however, the auditor may determine that additional audit procedures are needed.

Section 2.3.4 (ED Pg 78)

Audit procedures to obtain audit evidence can include inspection, observation, confirmation, recalculation, reperformance and analytical procedures, as well as inquiry ~~often in some combination, in addition to inquiry~~. Although Inquiry may provide important audit evidence, and may even produce evidence of a misstatement, inquiry alone ordinarily does not provide sufficient audit evidence of the absence of a material misstatement at the assertion level, nor of the operating effectiveness of controls.

## **Specific Questions\Section 4E – Content of ED-ISA for LCE\Question 9- Views on the content of Parts 1 through 8 of ED-ISA for LCE\2) Responses on Parts 1 through 8\Part 2\b.Specific Comments\2.4.Procedures for Obtaining Audit Evidence**

### 4. National Auditing Standard Setters

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

Part 2: Audit Evidence and Documentation

There is no requirement in section 2.4. and an EEM is provided giving guidance to ATT. We agree with the content which is quite helpful but should be placed in section 2.3.

### 5. Accounting Firms

#### BDO International

Part 2 - Audit Evidence and Documentation

Suggestions re EEM:

Paragraphs 2.3 and 2.4 - We like the inclusion of references to Automated Tools and Techniques; consider adding additional guidance on data analytics.

### 6. Public Sector Organizations

#### Office of the Auditor General of Alberta

Part 2

Section 2.4 includes guidance on the use of Automated Tools and Techniques (ATT). This guidance should be further enhanced by providing addition emphasis on the need for the auditor to control the transfer of information/data (similar to a bank confirmation) that is used to complete the ATT. Ensuring the completeness and accuracy of the information received is critical due to the high reliance placed on the information/data.

#### Swedish National Audit Office

2.4 – There is no requirement addressing Procedures for Obtaining Audit Evidence. There is only EEM. It is a bit unclear to the auditor what she/he is supposed to do with this information in the EEM. Would it be possible to combine the EEM with the EEMs in the 2.3 section?

## 7. Professional Accountancy and Other Professional Organizations

### Accountancy Europe

#### PART 2: AUDIT EVIDENCE AND DOCUMENTATION

In principle, EEM should be included only if it provides essential guidance on implementing requirements of the ISA for LCE. Under section 2.4 (Procedures for Obtaining Audit Evidence), there is no requirement and EEM is provided to give some details about audit procedures, including the effects of automated tools and techniques. We do not disagree with the content of the EEM. However, we are not convinced if it is essential. It could be positioned earlier – in previous section 2.3 (Information to be Used as Audit Evidence) – if the IAASB concludes that it is necessary to explain the requirements in this section.

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

#### Part 2: Audit Evidence and Documentation

##### 2.4 Procedures for obtaining audit evidence

62. There is no requirement that has been included in the LCE standard. Only the EEM paragraph has been provided. The flow of the LCE standard should be similar to that of IAASB pronouncements; i.e. Requirement followed by the standard. It has also been identified in other sections of the draft standard that the requirements follow the EEM; e.g. 1.5; 1.6; 2.3; 2.5.

## 9. Individuals and Others

### ASK KSA Consulting Inc.

#### Part 2: Audit Evidence and Documentation

Paragraph 2.4 Procedures for Obtaining Audit Evidence only includes EEM, no requirements. This needs to be revised to include the specific requirement, especially related to Automated Tools and Techniques (ATT). ATT is an evolving area and there are many auditors who may move to this area; however there are many sole practitioners and smaller SMPs who may never use ATT due to the nature of their clients. The way this is written is it seems the use of ATT is almost expected and in real-life, this is not the case.

### **Specific Questions\Section 4E – Content of ED-ISA for LCE\Question 9- Views on the content of Parts 1 through 8 of ED-ISA for LCE\2) Responses on Parts 1 through 8\Part 2\b.Specific Comments\2.5.General Documentation Requirements**

## 3. Regulators and Audit Oversight Authorities

### Independent Regulatory Board for Auditors (IRBA)

#### Part 2: Audit Evidence and Documentation

##### Paragraph 2.5.1. (a)(iii):

It is unclear what is meant by “what was reviewed”. This addition to the proposed standard goes beyond the requirements of ISA 230, which states the extent of review should be clear. For example, would a review memorandum have to be documented or would a sign off on the working paper be sufficient?

## 4. National Auditing Standard Setters

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

In paragraph 2.5.5. we propose to swap the order of (a) and (b) as communications usually precede discussions.

On documentation, we suggest that the standard states explicitly that only what is done is documented and when a requirement has been considered not applicable, the auditor is not implicitly required to explain and document why he has not applied it. For clarification purposes we suggest:

- Section 2.5. deals with general communication requirements. In our view, the requirement in paragraph 2.5.5. is a specific communication requirement that would be better placed at the end of Section 1.8. or in Section 7.7. after paragraph 7.7.3.
- The meaning of the second sentence in paragraph 2.5.8. is not clear to us, especially since the admissibility of oral communication is already clear from paragraph 2.5.7. We therefore suggest deleting the second sentence or more clearly formulating its meaning.

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

#### Part 2

In line with our proposed negative requirement for Part 1, we recommend that the IAASB explicitly limit the documentation required for LCE audits for cases when the auditor decides that a requirement is not relevant by adding a negative documentation requirement using the following words “The auditor need not document why a requirement is not relevant in the circumstances unless significant professional judgment is required to determine this lack of relevance.”

Given the definitions taken up in the Appendix, we believe that the EEM to paragraph 2.2.2. is unnecessary and can be deleted. We also believe that competent auditors will not need the EEM to paragraphs 2.3., 2.3.1., 2.5.1. (c) and that this EEM can be deleted. However, in line with the approach taken in the German LCE standard, we do believe that Part 2 of the IAASB LCE standard should include EEM for the negative requirements in relation to documentation currently in ISA 230 paragraphs A4, A7 (second and third sentences), A16 (second sentence), and A19.

## 5. Accounting Firms

### Ernst & Young Global Limited

#### Part 2

General Documentation Requirements 2.5.2 – This requirement appears to be duplicated with 2.5.5(b). Additionally, it is unclear in 2.5.2 is intended to/needs to cover suspected or actual fraud.

### Mazars

1.4.1: The wording in this paragraph should be modified. The documentation requirements when a requirement is relevant or not should involve an amount of professional judgment. In the draft standard it says “A requirement is relevant when the circumstance of the audit addressed by the requirement exists” In our view the wording should be changed to “A requirement is relevant when in the circumstance of the audit the auditor, using his or her professional judgment, consider the requirement relevant.” We suggest that specific documentation requirements should be included to Part 1 or as EEM to this paragraph including that clearly not applicable requirements do not require further documentation. This could be included in section 2.5.4. Also 1.4.4 covers professional judgment and could be also referenced.

2.5 General: ISA for LCE emphasize the auditor's use of professional judgement in performing an audit according to ISA for LCE. Extended room for professional judgement raises the question of how extensive this should be documented. In our view, IAASB should consider if further guidance (requirement, EEM or other support material is needed to clarify documentation needs for engagement quality procedures. In our view, this is one of the areas where ISA for LCE could clearly mark a distinction between ISA and ISA for LCE, especially in audits of small and micro entities.,

2.5 EEM: In the second paragraph about oral explanations, the following part of the text from ISA 230 A5 missing “... but may be used to explain or clarify information contained in the audit documentation.” Especially for LCE this possibility is important to state in the standard.

2.5.1: The documentation requirements are in line with the ISA. ISA and ISA for LCE are two separate audit standards. In our view, this requirement could be more precise in “... to enable an auditor experience with audits according to ISA for LCE, having no previous connection with the audit to understand: “

2.5.7: In LCE, and owner managed entities in particular, communication to management and those charged with governance is often informal and oral. Significant communication items would of course require more detailed documentation and often in writing. Other communication tends to be more of compliance nature (refer to section 8.8 as an example). We suggest that this is further elaborated in EEM to this paragraph.

## SRA

#### Part 2

Within the documentation requirements the term “significant matter” plays a key role. We note that this term as such is not defined in the glossary of terms. For the documentation requirement to be clear, it is essential to provide such a definition.

## 6. Public Sector Organizations

### Swedish National Audit Office

2.5.1 c) – Possibly add not fulfilling any of the objectives of the LCE standard. Referring to what is stated in paragraph 1.3.4.  
2.5.5. a) – Suggestion to add that the auditor should document how the management or those in charge of governance has responded to fraud issues reported just as in non-compliance issues in 2.5.5 b).

## 7. Professional Accountancy and Other Professional Organizations

### Accountancy Europe

We also believe the application material in ISA 230 A.7 should be included as EEM under Section 2.5 of the ISA for LCE to emphasise that it is neither necessary nor practicable for the auditor to document every matter considered, or professional judgment made, in an audit.

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

### Part 2 – Audit Evidence and Documentation

In respect of documentation we received some differing views in regards to the general documentation requirements. Some stakeholders find that having a section that sets out general documentation requirements in addition to the specific documentation requirements in each section makes the standard repetitive and could create confusion. However, others suggested that this is particularly helpful as it provides some helpful information and works as an education tool for practitioners asking for additional documentation guidance. On balance, we find that the general documentation requirements are useful given that documentation is an area where practitioners often raise concerns and often ask for more guidance.

## Finnish Association of Authorised Public Accountants

### PART 2: AUDIT EVIDENCE AND DOCUMENTATION

#### 2.5 General Documentation Requirements

The documentation requirements are too extensive in many parts of ISA for LCE. More room for professional judgement could be left. General documentation requirement could include a statement that clearly not applicable requirements do not require further documentation or reasoning.

Compared to ISA 230.A5 there are some missing words in this sentence: "Oral explanations, by the auditor on their own, do not adequately support the work performed by the auditor or the conclusions reached." The missing words "but may be used to explain or clarify information contained in the audit documentation" should be added to ISA for LCE. Oral explanations can be very important in an external quality inspection, particularly if the quality inspector does not understand the statements, notes and markings made by the auditor. The auditor might, for example, have used words and expressions that diverge from the language used in the ISAs or his/her written presentation might not be clear.

Also, parts of ISA 230.A7 could be included in ISA for LCE (as EEM) to emphasize that it is not necessary or practicable to document every matter.

In 2.5.1.(a)(i) the identifying characteristics are not described. In ISA 230.A12 there is a good sentence that should be included in an EEM: "Identifying characteristics will vary with the nature of the audit procedure and the item or matter tested." Also, some examples given in ISA 230.A12 could be added. This is because there seems to be a misunderstanding that an invoice number or a journal number is the only acceptable way to document the characteristics.

The requirement in paragraph 2.5.7 should be removed or scaled. In LCEs, and SMEs in particular, communication with management and others is usually informal and oral.

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

### Part 2:

2.5 General: ISA for LCE emphasize the auditor's use of professional judgement in performing an audit according to ISA for LCE. Extended room for professional judgement raises the question of how extensive this should be documented. In our view, IAASB should consider if further guidance (requirement, EEM or other support material) is needed in order to clarify documentation needs for engagement inspection procedures. In our view, this is one of the areas where ISA for LCE could clearly mark a distinction between ISA and ISA for LCE, especially in audits of small and micro entities.

2.5 EEM: In the second paragraph about oral explanations, the following part of the text from ISA 230 A5 is missing "... but may be used to explain or clarify information contained in the audit documentation." Especially for LCE this possibility is important to state in the standard.

2.5.1: The documentation requirements are in line with the ISA. ISA and ISA for LCE are two separate audit standards. In our view, this requirement could be more precise in "... to enable an auditor experience with audits according to ISA for LCE, having no previous connection with the audit to understand".

2.5.7: In LCE, and owner managed entities in particular, communication to management and those charged with governance is often informal and oral. Significant communication items would of course require more detailed documentation and often in writing. Other communication tends to be more of compliance nature (refer to section 8.8 as an example). We suggest that this is further elaborated in EEM to this paragraph.

## Institute of Chartered Accountants in England and Wales

2.5.1: Part (a) might make reference to the source of the information.

2.5.1: Part (c) might specifically refer or cross refer to the recording of any corrected/uncorrected misstatements as part of the conclusions reached.

## Institute of Chartered Accountants of Pakistan

It is suggested that key documentation requirements of each Part of proposed ISA are compiled in the tabular form, similar to Table C included in the proposed standard. This will be very helpful for the auditors of LCE to refer as and when needed.

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

### Part 2: Audit Evidence and Documentation

Some of the SMPAG members found the icons previously used to identify key documentation points to be very helpful when reading the proposal. If those icons do not get put back in the final standard, consideration could be given to whether a table similar to Table C in the reporting section could be generated to reflect the documentation requirements.

We also believe that there should be more auditor judgment permitted with regard to which items to document, with the focus on those items that involved the greatest risk and/or auditor judgment being applied. Documentation is an area where auditors can spend too much time resulting in overdocumentation without an increase in audit quality. Allowing for more professional judgment about the nature and extent of documentation may help to reduce the additional burden placed on auditors in this area. Perhaps the IAASB could consider limiting documentation requirements to those specific areas and matters that involved the auditor exercising considerable professional judgment. For example, we believe the standard should reflect clarification in ISA 320, Materiality in Planning and Performing an Audit, and specifically note that there is no requirement for the auditor to justify what was not done (i.e., not applicable in the engagement circumstances).

## Nordic Federation of Public Accountants

### PART 2: AUDIT EVIDENCE AND DOCUMENTATION

One of the areas where the respondents to the DP had most concerns with the ISAs regards documentation requirements that were considered to be extensive and onerous. The feedback we have received in our outreach activities, is that even more could be done in this area.

The draft standard emphasizes the auditor's use of professional judgment in performing an audit according to ISA for LCE. Therefore, we believe that further consideration needs to be done on how to document this, including documentation requirements linked to scalability and proportionality in section 1.4 of the draft standard.

We would also encourage the IAASB to further consider how to address documentation needs for engagement quality procedures. In our view, this is one area where ISA for LCE could clearly mark a distinction between ISA and ISA for LCE, especially in audits of small and micro entities.

Our encouragement to reconsider the documentation requirements also include the specific documentation requirements in the other Parts of the standard, especially since those are even more granular in nature and more focused on documenting procedural actions.

The scope of 2.5.7 is quite broad. In LCEs, and owner managed entities in particular, communication to management and those charged with governance is often informal and oral. Significant communication items would of course require more detailed documentation and often in writing, while other communication tends to be more of compliance nature. We suggest that this is further elaborated on in EEM to this paragraph.

The second paragraph in the EEM to section 2.5 refer to oral explanations. This sentence is not fully aligned with ISA 230.A5, in that it does not include the end of the sentence: "... but may be used to explain or clarify information contained in the audit documentation." We believe this is important and suggest that it should be added to the EEM. Oral explanations can be very important in an external quality inspection.

## South African Institute of Chartered Accountants (2)

63. The IAASB should consider incorporating the following paragraphs from ISA 230, Audit Documentation, to the LCE standard (probably as EEM paragraphs): A4: The auditor need not include in audit documentation superseded drafts of working papers and financial statements, notes that reflect incomplete or preliminary thinking, previous copies of documents corrected for typographical or other errors, and duplicates of documents.

A7: It is neither necessary nor practicable for the auditor to document every matter considered, or professional judgment made, in an audit. Further, it is unnecessary for the auditor to document separately (as in a checklist, for example) compliance with matters for which compliance is demonstrated by documents included within the audit file.

A19: The documentation requirement applies only to requirements that are relevant in the circumstances.

64. All three of these paragraphs highlight areas where the auditor's requirements with regards to documentation are made less onerous. This becomes even more important to highlight in the LCE standard where the focus is ensuring that the procedures performed are proportionate to the LCE environment.

65. Including these paragraphs will not detract from the overall objective when it comes to documentation which is set out in paragraph 2.5.1 of the LCE standard.

## 8. Academics

### Hunter College Graduate Program

5. Listed below are sections we are recommending grammatical correction, rephrasing the sentence or omitting unnecessary words in order for the users to understand the ED more effectively and precisely.

Section 2.5 (ED Pg 78)

The form, content and extent of audit documentation depends on the nature and circumstances of the entity and the procedures being performed. Audit documentation may be in paper or electronic any format suitable for auditor for whatever the compliance is. It is not necessary to include superseded drafts of working papers or financial statements in the audit documentation.

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

### **5. Accounting Firms**

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

Part 2. The EEM discusses the use of ATT. Given the nature of an LCE, we believe this audit technique would rarely be appropriate or even possible in an entity to which this proposed standard might apply.

#### **Mazars**

Part 2: Audit evidence

It seems that the LCE standard does not cover auditor's communication to TCWG with regards to independence.

#### **Price Bailey LLP**

Part 2 - We like the fact that there is reference to automated tools and techniques. Overall there has been some improvement to the language used but this could still be improved and made more succinct in areas.

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

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

PART 2: AUDIT EVIDENCE AND DOCUMENTATION

The modifications for succinctness are welcome and do not appear to detract from the requirements of the extant ISAs.

The additional EEM include references to Automated Tools and Techniques which is welcome in the current audit environment.

Drafting/flow: ISA 520 (Analytical Procedures) and ISA 530 (Audit Sampling) appear in Part 7 of the draft ISA for LCEs and might reasonably have been included within Part 2.

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

PART 2: AUDIT EVIDENCE AND DOCUMENTATION

The EEMs under this part need to be revisited with the lens provided in our comments above.

## **Specific Questions\Section 4E – Content of ED-ISA for LCE\Question 9- Views on the content of Parts 1 through 8 of ED-ISA for LCE\2) Responses on Parts 1 through 8\Part 4\Specific Comments\4.8 Specific Documentation Requirements**

### **5. Accounting Firms**

#### **Crowe Macro Brazil**

Proposed standard – item 4.2.1

It should be clarified the conduct to adopt when the auditor finds out that ISA for LCEs is no longer applicable once the job has been accepted or even initiated. In our opinion, item 4.8.3 does not help.

#### **PriceWaterhouseCoopers**

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

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

#### **Auditor-General of New Zealand**

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

Paragraph: 4.8.5

Observation: This contains no "shall" statement.

Possible Correction: Perhaps this is extended explanatory material?



## 7. Professional Accountancy and Other Professional Organizations

### Institute of Chartered Accountants in England and Wales

The wording of sections 4.2 on determining applicability, the preconditions for an audit in 4.3 and the communication and documentation requirements in 4.7 and 4.8 could be tightened. For example, the following words could be deleted here (and in the extant ISAs where relevant):

4.3.1 (b) (i) ....including where relevant their fair presentation.

4.3.1 (b) (ii) ....that are free from material misstatement, whether due to fraud or error.

4.3.1 (b) (iii) a. ...such as records, documentation and other matters.

## 8. Academics

### Hunter College Graduate Program

Section 4.8.5 (ED Pg 91)

If law or regulation prescribes in sufficient detail the terms of the audit engagement referred to in this [draft] standard, the auditor ~~need not~~ **is not required to** record them in a written agreement, except for the fact that such law or regulation applies, and that management acknowledges and understands its responsibilities.

## Specific Questions\Section 4E – Content of ED-ISA for LCE\Question 9- Views on the content of Parts 1 through 8 of ED-ISA for LCE\2) Responses on Parts 1 through 8\Part 5\Specific Comments\5.5 Specific Documentation Requirements

### 3. Regulators and Audit Oversight Authorities

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

Paragraph 5.5. does not have specific documentation requirements regarding management experts, auditor's experts and going concern, which is required in this part. We suggest that these be included.

## 5. Accounting Firms

### Crowe Macro Brazil

Proposed standard – item 5.5.1

We suggest that IAASB considers the possibility of allowing the auditor to communicate orally those important matters during a meeting (preferably including the audit team) with administrators/those charged with corporate governance and then summarizing those points through a 5- to 10-line memorandum or e-mail.

### Ernst & Young Global Limited

Part 5

Specific Documentation Requirements - 5.5.1 – We believe that documenting significant changes made during the audit should be within Part 7 or Part 8 of the ED-ISA for LCE instead of Part 5 (planning).

### Mazars

5.5.1: We propose that the requirement to document changes is amended with an “if applicable”.

### PriceWaterhouseCoopers

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

## 7. Professional Accountancy and Other Professional Organizations

### Finnish Association of Authorised Public Accountants

PART 5: PLANNING

The main goal of an audit should be to obtain sufficient audit evidence and reasonable assurance on the financial statements – not that the audit was planned and communicated or conducted according to the plan in all respects.

In LCE audits and particularly in SME audits, the audit is often conducted at one time (often in 1-2 days). There is no separate planning phase, or at least the planning is very light and is usually done based on the previous year's audit, just before starting the further audit procedures. There might not even be a team or at least it is very small and works closely together. The auditor reacts to the findings and misstatements 'on the go' and has no need to update the plan, if there even is a detailed one. Going back to the plan, communicating and documenting changes is not necessary for the sake of sufficient assurance.

For these reasons, the requirements regarding planning (including risk assessment), related communications with the team and the client and the documentation of all this, as well as possible updates, are far too burdensome for an LCE/SME audit.

Especially the requirements in 5.2.6 and 5.4. and 5.5. should be made conditional based on professional judgement or even be partially removed.

#### 5.5 Specific Documentation Requirements

As we have already stated in our comments elsewhere in this letter, the documentation requirements are too burdensome considering the variety of sizes of LCEs and the complexity of their audits. An example are the documentation requirements in paragraph 5.5.

It should be acceptable to combine the documentation of planning with the documentation of further procedures, as much as possible.

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

5.5.1: We propose that the requirement to document changes is amended with an “if applicable”.

#### Nordic Federation of Public Accountants

5.5 Specific Documentation Requirements: The IAASB should reconsider the documentation requirements in 5.5, especially those in 5.5.1. and how those could be applied proportionately in an efficient and relevant way for LCEs that are also small in size. Also, we suggest that the requirement in 5.5.1. to document changes is amended to include an “if applicable”.

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

#### 4. National Auditing Standard Setters

##### American Institute of Certified Public Accountants

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

From Mapping Document #1

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

#### 5. Accounting Firms

##### Grant Thornton International Limited

Part 6, Risk Identification and Assessment

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

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

##### Mazars

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

##### PriceWaterhouseCoopers

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

6.8. Specific Documentation Requirements

6.8.1-6.8.2 - See separate table below for specific documentation requirements

Paragraph 5.5.3 moved to sit alongside other risk assessment related documentation requirements.

## 6. Public Sector Organizations

### Office of the Auditor General of Alberta

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

### Swedish National Audit Office

Consider combining paragraph 6.8.2 and 6.5.11.

## 7. Professional Accountancy and Other Professional Organizations

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

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

### Institute of Chartered Accountants in England and Wales

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

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

6.8.2: suggest delete.

### Nordic Federation of Public Accountants

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

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

## 8. Academics

### Hunter College Graduate Program

Section 6.8 (ED Pg 111) [Below sentence is missing ‘,’ after ‘size’.]  
The nature, size, and complexity of the entity and its internal control system.

Section 6.8.1(a) (ED Pg 112) [Below sentence is missing ‘,’ after ‘framework’.]  
Key elements of the understanding obtained regarding each of the aspects of the entity and its environment, the applicable financial reporting framework, and the entity’s internal control system.

### **Specific Questions\Section 4E – Content of ED-ISA for LCE\Question 9- Views on the content of Parts 1 through 8 of ED-ISA for LCE\2) Responses on Parts 1 through 8\Part 7\ b. Specific Drafting Comments\7.7 Specific Documentation Requirements**

## 4. National Auditing Standard Setters

### American Institute of Certified Public Accountants

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

ISA 330, paragraph 29/ - (omitted from Exposure Draft)

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

For clarification purposes we suggest:

Section 2.5. deals with general communication requirements. In our view, the requirement in paragraph 2.5.5. is a specific communication requirement that would be better placed at the end of Section 1.8. or in Section 7.7. after paragraph 7.7.3.

### **5. Accounting Firms**

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

Specific Documentation Requirements 7.7 – ISA 330.29 requirement (If the auditor plans to use audit evidence about the operating effectiveness of controls obtained in previous audits, the auditor shall include in the audit documentation the conclusions reached about relying on such controls that were tested in a previous audit) is missing from the ED-ISA for LCE. We suggest that the IAASB add this paragraph to the ED-ISA for LCE.

Specific Documentation Requirements 7.7 (f) – ISA 450.7 requirement (i.e., If, at the auditor's request, management has examined a class of transactions, account balance or disclosure and corrected misstatements that were detected, the auditor shall perform additional audit procedures to determine whether misstatements remain) is not properly addressed in paragraph 7.7.1 (f) because as written the auditor would not have obtained evidence regarding whether other misstatements remain. We suggest that the IAASB add the requirement from ISA 540.7 to the ED-ISA for LCE.

## **Specific Questions\Section 4E – Content of ED-ISA for LCE\Question 9- Views on the content of Parts 1 through 8 of ED-ISA for LCE\2) Responses on Parts 1 through 8\Part 8\Specific Comments\8.9 Specific Documentation Requirements**

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

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

Paragraphs 8.9.1. (a) and (b) contain two totally different topics, we suggest putting these topics in separate paragraphs.

### **5. Accounting Firms**

#### **BDO International**

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.

#### **Mazars**

8.9 – Specific documentation requirements – difference between ISA and LCE standard is not clear.