

Supplement 1-02 to Agenda Item 6

Audits of Less Complex Entities – ED-ISA for LCE – Q9 (Part 3) and Q7(c) (Selected Responses Related to Quality Management)

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(c) - The principles of professional skepticism and professional judgement, relevant ethical requirements and quality management\1) Agree

3. Regulators and Audit Oversight Authorities

Botswana Accountancy Oversight Authority

We agree with the concept of professional skepticism, risk-based approach and ethical requirements to align in the same way as it would in an ISA audit.

4. National Auditing Standard Setters

Austrian Chamber of Tax Advisors and Public Accountants (KSW)

Response: We agree. It is fundamental that there are no differences in the meaning of these terms in the ISAs and ISA for LCE.

Hong Kong Institute of Certified Public Accountants

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

Institute of Chartered Accountants of India

We agree with the principles in relation to professional skepticism and professional judgement, relevant ethical requirements and quality management.

Public Accountants and Auditors Board Zimbabwe

Response: We agree with the principles

5. Accounting Firms

Baker Tilly International

If you have a separate standard then the approach is reasonable.

BDO International

Response: We concur with how professional skepticism, professional judgment, relevant ethical requirements and quality management principles have been incorporated into the proposed LCE standard.

Crowe Global

Principles in relation to professional scepticism and professional judgment, relevant ethical requirements, and quality management are foundational for the performance of an audit. We agree with how these principles have been used in the proposed standard.

Duncan & Toplis Limited

We believe that the three areas noted above are fundamental to the audit process, however complex an entity may be, and therefore agree that the three areas must be retained in the LCE-ISA. Audit cannot be a prescriptive exercise. There are too many differing scenarios an entity can exhibit – therefore the skill of the auditor, the fundamental ability to give an opinion on financial statements is underpinned by the ability to exhibit the scepticism, judgement, to follow the ethical standards and to ensure that the audit firm operates under a system of quality management.

Ernst & Young Global Limited

We believe that sufficient detail is given to professional skepticism and professional judgement, relevant ethical requirements, and quality management within the ED-ISA for LCE.

Famme & Co. Professional Corporation

We agree with the principles in these paragraphs.

Grant Thornton International Limited

We agree with the inclusion of the same principles in ED-ISA for LCE as those for the ISAs for the areas of professional skepticism and professional judgement, relevant ethical requirements and quality management given these principles would be

equally applicable in an audit performed under ED-ISA for LCE as under the ISAs. Similar to comments we have made previously on recent ISA exposure drafts, professional skepticism is an area where practical guidance on its application and demonstration of such is more valuable than additional requirements concerning its application in audits of financial statements.

KPMG IFRG Limited

We are supportive of the approach taken by the IAASB in relation to the core principles of professional skepticism and professional judgement, relevant ethical requirements and quality management. We believe these principles are foundational to an audit and we consider the approach taken by the IAASB to include these is appropriate.

PKF International Limited

We support the principles applied in relation to professional scepticism and professional judgement, relevant ethical requirements and quality management

PriceWaterhouseCoopers

Other than our comments in response to part (d) below regarding the sufficiency of EEM, we are comfortable with the approach in relation to professional scepticism, professional judgement, relevant ethical requirements and quality management.

RSM International

Response: Yes, we agree with the approach to these matters outlined in paragraphs 81-84.

6. Public Sector Organizations

Audit Scotland

The principles in relation to professional scepticism and professional judgement, relevant ethical requirements and quality management are appropriate.

Government Accountability Office (USA)

We agree that including the requirements related to professional skepticism, professional judgment, ethics, and quality management is appropriate.

7. Professional Accountancy and Other Professional Organizations

Accountancy Europe

We agree with referring to professional scepticism and professional judgement which are two fundamental concepts for an audit. We also agree that the auditor performing an LCE engagement should be subject to ethical requirements and an appropriate level of quality management.

Belgian Institute of Registered Auditors (IBR-IRE)

We share IAASB's view in this area and underline the importance of using these principles in relation to professional skepticism and professional judgement.

Botswana Institute of Chartered Accountants

We agree with the proposals to require the same level of professional scepticism and professional judgement including application of relevant ethical requirements and quality management as in ISAs to the proposed standard. There ought be no difference in terms of quality and "behaviour" of engagement team members for engagements performed according to full ISAs and those performed by ISA for LCE simply because of varying procedures.

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:

(c) principles of professional skepticism and professional judgment, relevant ethical requirements, and quality management (see paragraphs 81–84);

Chamber of Financial Auditors of Romania

We consider that independence and professional skepticism are fundamental to intended users of the audited financial statements and the exercise of professional judgement is essential in a risk-based audit.

Confederation of Swedish Enterprise

We support the chosen approach.

CPA Australia

We agree with the proposed approach of incorporating the requirements of professional scepticism and professional judgement, relevant ethical requirements and quality management. See also our comment to a).

CPA Ireland

CPA considers that it is essential to retain the principles in relation to professional skepticism and professional judgement, relevant ethical requirements, and quality management.

European Federation of Accountants and Auditors for SMEs

We agree with the inclusion of these principles.

Institute of Certified Public Accountants of Cyprus

We agree with this approach.

Institute of Certified Public Accountants of Kenya

We are in agreement with the principles in relation to professional scepticism and professional judgement, relevant ethical requirements and quality management.

Institute of Certified Public Accountants of Rwanda

We agree with the key principles of professional scepticism and professional judgement as set out in the standard.

Institute of Certified Public Accountants of Uganda

We agree with the principles in relation to professional skepticism and professional judgment, relevant ethical requirements and quality management.

Institute of Chartered Accountants of Ghana

We agree with the principle used regarding professional skepticism and professional judgement. The principles in relation to professional skepticism, professional judgement, relevant ethical requirements and quality management mirror the ISA requirements. This is in order and is acceptable.

Institute of Chartered Accountants of Jamaica

We are in agreement with the principles.

Institute of Chartered Accountants of Namibia

No issues noted.

Institute of Chartered Accountants of Pakistan

We agree with the inclusion of these principles in the proposed ISA for LCE.

Institute of Chartered Accountants of Scotland

We are supportive of the approach adopted.

Instituto dos Auditores Independentes do Brasil

We agree with no further comments.

Instituto Mexicano de Contadores Públicos (IMCP)

We agree with the principles associated with skepticism and professional judgment, relevant ethical requirements, and quality management set forth in the ED-ISA LCE. These concepts are addressed in a consistent and similar manner to the ISAs, establishing the requirements that the audit team should follow under the approach of the proposed standard.

International Federation of Accountants' Small and Medium Practices Advisory Groups

We agree with the principles in relation to professional skepticism and professional judgement, relevant ethical requirements, and quality management as outlined in paragraphs 81-84 of the proposal.

Korean Institute of Certified Public Accountants

We agree with the principles of the ED-ISA for LCE.

Polish Chamber of Statutory Auditors Warsaw (Regional Branch)

Appropriate.

REA Auditores

We agree with the inclusion of these principles.

Self-Regulatory Organization of Auditors Association (SRO AAS)

We agree with the principles in relation to professional skepticism and professional judgement, relevant ethical requirements, and quality management.

Society of Certified Accountants and Auditors of Kosovo (SCAAK)

We agree with the inclusion of these principles.

South African Institute of Chartered Accountants (2)

We agree with the approach taken.

South African Institute of Professional Accountants

We agree with the principles in relation to professional skepticism and professional judgement, relevant ethical requirements and quality management

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

Professional scepticism and professional judgement are the backbone of an audit. Given the purpose and objective of an LCE audit, ethical requirements and quality management measure should be an integral part of the engagement.

Wirtschaftsprüferkammer (WPK)

We agree with the principles in relation to professional skepticism and professional judgement, relevant ethical requirements and quality management.

9. Individuals and Others

ASK KSA Consulting Inc.

We support the principles. No further comment.

Rodoula Roussou

Nothing to comment. The above principles should apply in the same way as it would in an ISA audit.

Vera Massarygina

Using of key principles is correct.

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(c) - The principles of professional skepticism and professional judgement, relevant ethical requirements and quality management\2) Agree with Comments\c. Comments on Quality Management

3. Regulators and Audit Oversight Authorities

Finance Professions Supervisory Centre Indonesia

The principles in relation to professional scepticism and professional judgement, relevant ethical requirements and quality management (see paragraphs 81-84): Other core matters such as the exercise of professional scepticism, a risk-based approach, compliance with the IAASB Quality Management Standards (MSS), and other matters related to the independence of financial statement audit engagements, we believe it is best to apply the same way in the ED-ISA for LCE, as it has gone through a process of professional consideration in its preparation.

Regarding ISQM 1 which replaces ISQC 1 (Quality Control for Firms that Perform Audits and Reviews of Financial Statements and Other Assurance and Related Services Engagements), is it possible if ISQM 1 be separated by adjusting the type and size of the firm?

4. National Auditing Standard Setters

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

We agree with the principles and approach taken in relation to professional skepticism, professional judgment, and relevant ethical requirements. Since these apply throughout the engagement, in the German LCE standards we placed these in the first operational standard (AuSLCE 2 – see our response to Question 8, which deals with the fact that the German LCE standards are a set of standards, rather than one standard), which covers the overarching requirements that apply throughout the audit. In contrast to the IAASB LCE standard, we chose to allocate the quality management requirements to those standards representing the important milestones of the audit, which means that engagement partner responsibilities are largely included in the AuSLCE 2, but some quality management requirements are included in other standards as appropriate to reflect the audit process, such as planning. We believe that the IAASB should also allocate the quality management requirements to that part of the audit process to which they apply (e.g., to audit planning).

New Zealand Auditing and Assurance Standards Board

The NZAuASB is of the view that the proposed standard's approach to professional scepticism and judgement, ethical requirements and quality management are appropriate, taking into consideration AFAANZ's view. On the basis of the extant academic research, the AFAANZ is of the view that the coverage of material on relevant ethical requirements and firm level quality management (Section 1.2), as well as professional scepticism (Section 1.4.5 – 1.4.6), needs to be elaborated upon in order to reflect unique but important characteristics of less complex entity audits.

7. Professional Accountancy and Other Professional Organizations

Indonesian Committee on Public Accountant Profession (KPAP)

Response:

Related to professional skepticism and professional judgment, KPAP sees that the underlying concepts of professional skepticism apply in the same way as in an ISAs-based audit. This ED-ISA for LCE has also participated in the ISAs-based audit in terms of relevant ethical requirements, including independence, for financial statement audit engagements. Thus, KPAP agrees with this principle and appreciates that several changes to improve auditor's professional skepticism have referred to ISA 540 and ISA 315.

Regarding Quality Management, this ED has also required that the member of a firm be subject to the IAASB's Quality Management Standards (ISQMs) or national requirements. KPAP suggests that the regulation regarding national requirements to comply with Quality Management has minimum requirements that refer to ISQMs, so mandatory requirements are not needed. KPAP hopes that the IAASB can provide instructions to countries implementing this ISA for LCE. If the concerned countries establish national requirements, national requirements should refer to ISQMs.

8. Academics

Argentine institute of Auditing Professors

We conclude that the principles regarding skepticism and professional judgment are appropriate. However, we understand that evaluating the quality management of the auditor's work in a small firm or in audits performed by a single auditor could be difficult because there could be a lack of objectivity or incompatibility since only one person would be performing the work and also performing the quality management control.

9. Individuals and Others

Cristian Munarriz

I generally agree with the approach. Nonetheless, even when I know that it is out of the scope of IAASB work, I think some limited exceptions for bookkeeping services should be included in IESBA code for audits under the ISA for LCE (similar to the alternative provisions for audits of small entities in the UK ethical standard). Also it may be clarified that an audit performed under ISA for LCE does not require appointing an EQR.

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(c) - The principles of professional skepticism and professional judgement, relevant ethical requirements and quality management\2) Agree with Comments\d. More Guidance

3. Regulators and Audit Oversight Authorities

Independent Regulatory Board for Auditors (IRBA)

We agree with the principles in relation to professional skepticism and professional judgment, relevant ethical requirements and quality management.

However, it is recommended that Implementation Guidance 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.

4. National Auditing Standard Setters

Malaysian Institute of Accountants

Response: The principles are appropriate. However, this is an area where more literature outside of the standard will also be well received especially when it pertains to an LCE audit.

5. Accounting Firms

ETY sas

We agree with the principles in relation to professional skepticism and professional judgement, relevant ethical requirements and quality management.

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

Chartered Governance and Accountancy Institute in Zimbabwe

: We agree with the principles in relation to professional skepticism and professional judgement, relevant ethical requirements and quality management.

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.

Malaysian Institute of Certified Public Accountants

The principles are appropriate. Again, more practical examples and guidance to provide application of the principles would be useful to the practitioners.

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

We agree with the principles in relation to professional skepticism and professional judgement, relevant ethical requirements and quality management.

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)

We agree with the principles in relation to professional skepticism and professional judgement, relevant ethical requirements and quality management.

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.

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(c) - The principles of professional skepticism and professional judgement, relevant ethical requirements and quality management(2) Agree with Comments\e. Comment on Documentation

5. Accounting Firms

Azets Audit Services

We agree with the principles used in relation to professional scepticism and professional judgement, relevant ethical requirements, and quality management. We recommend that more is done to specifically address documentation requirements applicable to LCE audits in order that proportionate effort is required in documentation as well as seen through application.

7. Professional Accountancy and Other Professional Organizations

Nordic Federation of Public Accountants

We support the emphasis on both professional skepticism and professional judgment. Since the exercise of professional judgment is so closely linked to a risk-based approach, we think it would be helpful if the IAASB could further explore and clarify how the standard allows auditors to exercise professional judgment when planning and performing the audit, but also how this concept is expected to be taken into account in regard to the documentation requirements.

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(c) - The principles of professional skepticism and professional judgement, relevant ethical requirements and quality management(3) Disagree

4. National Auditing Standard Setters

Australian Auditing and Assurance Standards Board

AUASB Response:

Refer to paragraphs 11(e) and 11(f) of the attached covering letter.

Some Australian stakeholders from the academic and small practitioner stakeholder groups, recommend that the IAASB liaise with IESBA to consider the appropriateness of Section 600 of the International Code of Ethics for Professional Accountants (including International Independence Standards) (the Code) and the current restrictions on the provision of non-assurance

services to less complex clients. They recommend that the IAASB give greater attention to the unique independence issues that are present in audits of less complex entities.

The AUASB considers that the length and complexity of the new ISQM 1 is a potential barrier to its understanding and application, particularly for small or sole practitioners who work predominately on LCE clients. The AUASB encourages the IAASB to consider how ISQM 1 can be more effectively considered as part of the proposed ED-ISA for LCE Standard, with specific considerations for small or sole practitioners more readily identified.

Federación Argentina de Consejos Profesionales de Cs. Económicas

Answer: The statement that skepticism and professional judgment, as well as relevant ethical requirements and quality management will be similar to those that would apply to a firm applying ISAs and that the objectives of many topics may be broader than in the Although the ISA can be considered as logical, it goes against the proper differentiation between an audit in an LCE entity and an entity that is not.

8. Academics

Accounting and Finance Association of Australia and New Zealand

We believe that the material on professional skepticism, relevant ethical requirements and quality management is incomplete and does not fully reflect the unique circumstances in which an audit of a less complex entity is undertaken.

We provide comment in response to this question under the headings of 'Professional Skepticism', 'Relevant Ethical Requirements', and 'Quality Management'.

Professional Skepticism

The stronger relationship between the auditor and client management / personnel in audits of less complex entities gives rise to unique threats to the exercise of an appropriate level of skepticism that are not as significant in audits of more complex entities. The past experience that the essential explanatory material associated with paragraph 1.4.6 refers to is likely to be more salient, and a greater threat, than is the case when auditing more complex entities (where there are fewer opportunities to develop strong social bonds). We recommend that the essential explanatory material be strengthened to remind auditors that strong and long-standing relationships, and beliefs as to management honesty and integrity that these relationships foster, does not relieve the auditor of the need to remain skeptical. We recommend that the expression of the underlying principle of professional skepticism be strengthened.

We note literature highlighting the increased significance of social bonding in audits of private companies (and by inference, audits of less complex entities) (Langli and Svanstrom 2014). This has implications for the exercise of professional skepticism in that research has shown that objectivity can be compromised when the auditor identifies with their client (Bamber and Iyer 2007; Stefaniak et al. 2012) and when a social bond exists between the auditor and the client by way of audit firm alumni associations (Favere-Marchesi and Emby 2018). Similarly, Kadous et al. (2013) find that auditors employ a trust heuristic (or rule of thumb) when evaluating the advice from colleagues with whom they have a stronger social bond and do not subject the advice to critical evaluation.

Relevant Ethical Requirements

We recommend that the IAASB liaise with IESBA as the project progresses with a view to considering the appropriateness of Section 600 of the Code and the current restrictions on the provision of non-assurance services to less complex (owner manager) clients.

We recognize the importance of complying with a high ethical standard when performing audits (and other assurance and related services). This is the case, irrespective of the nature of the practitioner and client. However, given the objective of this project, and with reference to extant research literature, we recommend that the IAASB give greater attention to the unique independence issues that are present in audits of less complex entities and liaise with the IESBA with a view to being satisfied that current ethical requirements around the provision of non-assurance services (i.e., Section 600 of the Code) are fit for purpose and complement the application of the proposed standard. Guo et al. (2021) review PCAOB disciplinary orders on small US domestic audit firms and find that concerns around auditor independence frequently arise. Small and medium audit practices tend to have closer connections to local businesses (Louis 2005), and social bonding with owners/managers is a greater threat to independence in audits of less complex entities than is the case for larger, more complex entities (Svanstrom 2013; Langli and Svanstrom 2014).

We also note ongoing discussion around the provision of non-assurance services by small and medium practices to their less complex (owner-manager) clients. With regard to the impact on audit quality of the provision of non-assurance services to private companies, the research is mixed. Svanstrom (2013) reports results consistent with the understanding that there are knowledge spillovers associated with the provision of non-assurance services such that audit quality is improved. Bell et al. (2015), on the other hand, find that audit quality decreases with the provision of non-assurance services to privately held clients. We further note in our response to Question 9 that the performance of risk assessment in an audit of less complex entities is a challenge, and the increased knowledge (and the positive spillover effects often associated with the provision of non-assurance services) may go some way to alleviating this threat to audit quality.

Quality Management

We recommend that the IAASB reinforces the principles of firm and engagement level quality control in an audit of a less complex entity by supplementing the material currently presented in the proposed standard to reflect important differences between small to medium practices and those larger practices for which much of the material in ISQM 1, ISQM 2 and ISA 220 is written.

With reference to quality management, we concur with the principle that those practitioners completing an engagement with reference to the proposed standard are subject to the IAASB's Quality Management standards (or national equivalents that are at least as demanding). At the same time, however, we highlight differences in the structure and organization of the small and medium practices that perform these engagements and note the need for additional essential explanatory material in Section 1 as it relates to firm quality management and Section 3 as it relates to engagement quality management.

Research highlights that auditors in small and medium practices do not have the same opportunities as auditors in larger practices to seek advice from colleagues (as they have fewer colleagues) (Langli and Svanstrom 2014; Sundgren and Svanstrom 2013). Small to medium practices, instead, rely on other mechanisms to compensate for this knowledge deficit (such as formal networks and insurers) (Bills et al. 2018; Frank et al. 2021). Research further highlights that differences in the interpersonal relationships and interactions between engagement team members across large and small practices means that partners in small practices need to be especially careful in directing the work of their subordinates, or otherwise risk inappropriately influencing the audit judgments of those subordinates (Harding and Kim 2021).

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. (Part 3)

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 3\General Comments

3. Regulators and Audit Oversight Authorities

Botswana Accountancy Oversight Authority

Part 3: Engagement Quality Management

Part 3 looks complete and relevant.

5. Accounting Firms

Crowe Macro Brazil

Proposed standard – Parts 1,2 and 3

Excellent. It reinforces the concept that an examination conducted by applying SA for LCEs is not 'second class audit'.

7. Professional Accountancy and Other Professional Organizations

Indonesian Committee on Public Accountant Profession (KPAP)

Part 3: Engagement Quality Management

This part is complete and submitted to the ISA 220 (Revised).

International Federation of Accountants' Small and Medium Practices Advisory Groups

Part 3: Engagement Quality Management

There is general support for the content in Part 3. As the IAASB will be aware, the SMPAG did raise concerns about the scalability of the new quality management standards and continues to focus on developing and sharing resources to SMPs how can effectively implement the new standards.

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 3\b.Specific Comments\3.1.Objective

7. Professional Accountancy and Other Professional Organizations

Institute of Chartered Accountants in England and Wales

PART 3: ENGAGEMENT QUALITY MANAGEMENT

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

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 3\b.Specific Comments\3.2.The Engagement Partner's Responsibilities\1.Applicability of Monitoring, Remediation Process, EQR

4. National Auditing Standard Setters

Austrian Chamber of Tax Advisors and Public Accountants (KSW)

Part 3: Engagement Quality Management

In practice, many LCE audits are carried by a very small audit team. Most of these engagements may not be subject to a separate engagement quality review. Small and mid-sized practitioners will most likely have fewer formal processes and might use colleagues in other firms to perform engagement quality reviews. Therefore, we recommend to restructure and to simplify the requirements in section 3.2. Requirements referring to firm's or network's monitoring and remediation processes and engagement quality reviews should be presented as conditional requirements at the end of this Part.

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

Many LCE audits are carried out entirely by the engagement partner (who may be a sole practitioner) or by a small audit team (who may be small or medium-sized practitioners). Most of these engagements may not be subject to a separate engagement quality review. For quality management, small and medium-sized practitioners will most likely have less formal processes that are supplemented by other sources such as guidance from professional accounting organisations and consulting colleagues in other firms.

Therefore, we recommend the IAASB restructure the requirements in section 3.2 (The Engagement Partner's Responsibilities) starting from a simple case scenario. Requirements referring to the firm's network's monitoring and remediation processes and engagement quality reviews should be presented as conditional requirements at the end of this section or in a separate module for cases when these are relevant.

5. Accounting Firms

KPMG IFRG Limited

In addition to the matters described elsewhere in this letter, we note that requirements are included in respect of Engagement Quality Control Reviews, however, we question the inclusion of these requirements, as our view is that the need to perform such a review is a response to complexity in the audit, and therefore an example of a "proxy for complexity", and in such situations we would recommend that the full-scope ISAs are used.

6. Public Sector Organizations

Swedish National Audit Office

Part 3 Engagement Quality Management

The concept of engagement quality control reviewer would normally not be applicable in an LCE, on our opinion. If there is a need for an engagement quality control reviewer, it implies that the audit is complex or the entity is listed. Referring to paragraph 3.2.13.

If kept within the standard our suggestion would be to shorten the section as it is overwhelming. As for example we find paragraph 3.2.11 to be a good example of a paragraph which is clear and gives room for the engagement partner professional judgement for level of engagement.

7. Professional Accountancy and Other Professional Organizations

Accountancy Europe

PART 3: ENGAGEMENT QUALITY MANAGEMENT

Many SME/LCE audits are carried out entirely by the engagement partner (who may be a sole practitioner) or by a small audit team (who may be small or medium-sized practitioners). Most of these engagements may not be subject to a separate engagement quality review. For quality management, small and medium-sized practitioners will most likely have less formal processes that are supplemented by other sources such as guidance from professional accounting organisations and consulting colleagues in other firms.

Therefore, we recommend that the IAASB restructure the requirements in section 3.2 (The Engagement Partner's Responsibilities) starting from a simple case scenario. Requirements referring to the firm's or network's monitoring and remediation processes and engagement quality reviews should be presented as conditional requirements at the end of this section.

Chamber of Auditors of the Czech Republic

PART 3: ENGAGEMENT QUALITY MANAGEMENT

Many LCE audits are carried out entirely by the engagement partner (who may be a sole practitioner) or by a small audit team (who may be small or medium-sized practitioners). Therefore, we recommend the IAASB restructure the requirements in section 3.2 (The Engagement Partner's Responsibilities) starting from a simple case scenario. Requirements referring to the firm's or network's monitoring and remediation processes and engagement quality reviews should be presented as conditional requirements at the end of this section.

Finnish Association of Authorised Public Accountants

We present below some detailed comments about the different Parts of the draft standard that could, in our opinion, be streamlined further without compromising reasonable assurance and quality audit. We suggest that the IAASB increases alternativeness and the use of professional judgement in deciding whether a requirement is relevant or efficient in the circumstances. One should always consider the value of the procedure/requirement to the ultimate goal of the audit – a reasonable assurance on that the financial statement does not include material misstatements – not to the audit process. Our comments are given mainly from the Finnish point of view (low audit thresholds, big number of SMEs, big number of audits conducted entirely at once, big number of remote audits etc.) and they aim to the appropriateness of the standard in regard to an SME audit.

PART 3: ENGAGEMENT QUALITY MANAGEMENT

Most LCEs are not subject to engagement quality review. This could be taken into account in part 3. The need for such review could actually be considered an indicator of complexity!

Nordic Federation of Public Accountants

PART 3: ENGAGEMENT QUALITY MANAGEMENT

Many SME/LCE audits are carried out entirely by the engagement partner (who may be a sole practitioner) or by a small audit team (who may be small or medium-sized practitioners). Most of these engagements may not be subject to a separate engagement quality review. For quality management, small and medium-sized practitioners will most likely have less formal processes that are supplemented by other sources such as guidance from professional accounting organizations and consulting colleagues in other firms.

Therefore, we recommend the IAASB to restructure the requirements in section 3.2 (The Engagement Partner's Responsibilities) starting from a simple case scenario. Requirements referring to the firm's or network's monitoring and remediation processes and engagement quality reviews should be presented as conditional requirements at the end of this section. Overall, such a drafting approach throughout the standard should in our view be further considered by the IAASB since that would probably more easily capture the characteristics of audits of LCEs.

If firm policies require an engagement quality review, this could be an indication that the audit is complex. At the same time the reason to appoint an engagement quality reviewer can be to respond to other risk management reasons, e.g. initial audit, audit performed by an auditor with recently obtained signing rights or similar reasons. We suggest that the EEM is expanded to explain this.

South African Institute of Chartered Accountants (2)

67. Engagement quality is important, but due consideration is required if EQCR is indeed required on an LCE audit. Some of the firms that conduct the audits of LCEs are one partner practices and may not have engagement quality reviewers. Consideration needs to be given to the less complex nature and circumstances of a LCE which may include limited number of systems, processes and transactions etc and the fact that a lot of LCE audits may be carried out by one engagement partner. In such an environment, the requirement to have engagement quality control reviews may be an exception rather than a norm. Therefore,

our view is that the LCE standard should be written for the expected circumstances in an LCE audit and the EQCR requirements be included in the EEM paragraphs.

68. Firms that perform audits of LCEs often outsource the function of monitoring and remediation of quality to external consultants. The LCE standard should address those particular circumstances where this function is outsourced and what the considerations should be when appointing the consultants. Some of the firms may not have resources dedicated to quality management. It would be useful if the LCE standard made reference to some of the mechanisms that smaller firms may employ for monitoring and remediation; e.g. making use of regulatory inspection findings reports to identify areas of improvement, training interventions by senior staff etc, review of engagement files by other partners within the firm or external consultants.

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

PART 3: ENGAGEMENT QUALITY MANAGEMENT

The implementability of the requirements are somewhat questionable given that the audits of the LCEs are usually carried out by small audit teams who will not be able to have a separate engagement quality review team. The Engagement Partner's Responsibilities need to be reconsidered requirement-wise considering scalability.

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 3\b. Specific Comments\3.2.The Engagement Partner's Responsibilities\2.Editorial

3. Regulators and Audit Oversight Authorities

Independent Regulatory Board for Auditors (IRBA)

Part 3: Engagement Quality Management

Editorial changes to paragraph 3.2.4. – The paragraph can be split to simplify a long and complicated sentence:

“In taking overall responsibility for managing and achieving quality through direction, supervision and review of the work, the engagement partner shall determine that:

- a) ~~T~~he nature, timing and extent of direction, supervision and review is responsive to the nature and circumstances of the engagement; and
- b) ~~T~~he resources assigned, are in compliance with the firm's related policies or procedures, this [draft] standard, relevant ethical requirements and regulatory requirements.”

Editorial changes to paragraph 3.2.10.:

“... (a) Understand the information from the firm's monitoring and remediation process that has been communicated; ~~;~~ and, if applicable, the information ~~for~~ from the monitoring and remediation process of other network firms that has been communicated, ...”

5. Accounting Firms

ETY sas

Part 3:

Comments:

Editorial to paragraph 3.2.4. – To restructure and simplify a long and complicated sentence:

“In taking overall responsibility for managing and achieving quality through direction, supervision and review of the work, the engagement partner shall determine that:

- a) The nature, timing and extent of direction, supervision and review is responsive to the nature and circumstances of the engagement; and
- b) The resources assigned, are in compliance with:
 - The firm's related policies or procedures,
 - This [draft] standard,
 - Relevant ethical requirements and regulatory requirements.”

7. Professional Accountancy and Other Professional Organizations

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

Part 3:

Comments:

Editorial to paragraph 3.2.4. – To restructure and simplify a long and complicated sentence:

“In taking overall responsibility for managing and achieving quality through direction, supervision and review of the work, the engagement partner shall determine that:

- a) The nature, timing and extent of direction, supervision and review is responsive to the nature and circumstances of the engagement; and
- b) The resources assigned, are in compliance with:

- The firm's related policies or procedures,
- This [draft] standard,
- Relevant ethical requirements and regulatory requirements.”

Pan-African Federation of Accountants (PAFA)

Part 3:
Comments:
Editorial to paragraph 3.2.4. – To simplify a long and complicated sentence:
“In taking overall responsibility for managing and achieving quality through direction, supervision and review of the work, the engagement partner shall determine that:
a) ~~T~~he nature, timing and extent of direction, supervision and review is responsive to the nature and circumstances of the engagement; and
b) ~~T~~he resources assigned, are in compliance with the firm's related policies or procedures, this [draft] standard, relevant ethical requirements and regulatory requirements.”

Editorial to paragraph 3.2.10.:
“...(a) Understand the information from the firm's monitoring and remediation process that has been communicated, and if applicable, information ~~for~~ from the monitoring and remediation process of other network firms that has been communicated,...”

8. Academics

Hunter College Graduate Program

Section 3.2.2 (ED Pg 82)
The engagement partner shall take responsibility for clear, consistent and effective actions being taken that reflect the firm's commitment to quality, ~~and establish~~ and communicate the expected behavior of the engagement team members, including emphasizing:

Section 3.2.6 (ED Pg 83)
If matters come to the engagement partner's attention that indicate that a threat to compliance with relevant ethical requirements exists ~~or relevant ethical requirements have not been fulfilled~~, the engagement partner shall take action, as appropriate in the circumstances, including:

Section 3.2.8 (ED Pg 83)
If the conditions in paragraph 3.2.7. are not met, the engagement partner shall take appropriate action including, if relevant, communicating with appropriate individuals about the need to assign or make ~~available~~ additional or alternative resources **available** to the engagement.

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 3\b.Specific Comments\3.2.The Engagement Partner's Responsibilities\3.Other

3. Regulators and Audit Oversight Authorities

Independent Regulatory Board for Auditors (IRBA)

ISA Paragraph Reference: ISA 220 (Revised). Paragraph 19
ISA for LCE Paragraph Reference: Part 3, paragraph 3.2.5(b)
Proposed Wording Change:
Throughout the audit engagement, the engagement partner shall:

...
Remain alert, through observation, inspection of audit documentation and making inquiries as necessary, for ~~evidence of non-compliance with breaches of~~ relevant ethical requirements by members of the engagement team.

Comment:
We suggested that the wording in the proposed standard be more closely aligned to the wording in paragraph 19 of ISA 220 (Revised) because it reflects the most up-to-date terminology used by the IESBA.

ISA Paragraph Reference: ISA 220 (Revised), paragraph 39
ISA for LCE Paragraph Reference: Part 3, paragraph 3.2.10.
Proposed Wording Change:
The engagement partner shall:

- (a) Obtain an understanding of ~~Understand~~ the information from the firm's monitoring and remediation process that has been ...

Comment:

In terms of Paragraph 5.1.2 of the CUSP Drafting Principles and Guidelines, the term “obtain an understanding” should be used, rather than the word “understand”.

We suggest that the term “obtain an understanding” be used instead.

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 220, paragraph 19/ISA for LCEs paragraph 3.2.5(b)

Austrian Chamber of Tax Advisors and Public Accountants (KSW)

The term “resources” is neither explained in paragraphs 3.2.7. to 3.2.9. nor in the Glossary of Terms. In order to improve the understandability, we propose to insert an EEM that shortly explains the meaning of the term “resources” (human, technological, and intellectual).

5. Accounting Firms

Mazars

Part 3: Engagement Quality Management

3.2.6: The proposed standard includes a requirement that “the engagement partner shall take action, as appropriate in the circumstances, including: (a) Following the firm’s policies or procedures to evaluate the threat; and (b) Consulting with others in the firm”. The reference to “in the firm” is in our view too prescriptive. Smaller audit firms might use other sources for consultation such as experienced colleagues in other firms, within their network or from professional institutes where they are members.

PriceWaterhouseCoopers

Appendix 3 - Detailed Comments

Draft Standard

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

Part 3 - Engagement Quality Management

- Paragraph 3.2.2 - We recommend bifurcating the requirement. The engagement partner’s responsibility for clear, consistent and effective actions being taken that reflect the firm’s commitment to quality should reflect an overarching principle requirement. The remainder of the requirement could be addressed in a conditional requirement that resides under a sub-heading of “Responsibilities when there are members of the engagement team other than the engagement partner”. This concept, consistent with the requirements in ISA 600 (Revised) when component auditors are involved, can also be applied to other requirements that only apply when there are other members of the engagement team (for example, paragraphs 3.2.5 and 3.2.11). This would further help segregate and highlight requirements that are not applicable in specific circumstances.
- Paragraph 3.2.7 - we suggest the sub-heading be amended to “Engagement Resources”. The sub-heading “Other Engagement Partner Responsibilities” can be relocated to above paragraph 3.2.10.

SRA

Part 3

The definition of “significant matter” is also important to the role of the engagement partner.

6. Public Sector Organizations

Office of the Auditor General of Alberta

Part 3

- Section 3.2 covers the responsibility of the engagement partner. For public sector entities, the ISA definition of engagement partner is not always applicable as the individual signing the auditor’s report may not be the person responsible for the completion of the audit. We recommend public sector guidance is added, similar to the following: the term engagement partner may not be the individual signing the auditor’s report in the public sector and the term engagement partner should be applied based on the individual jurisdictions legislation that is applicable for the audit.
- As noted under question 4, the ED incorporates factors that may indicate that the entity is not a less complex entity. Section 3.2.12 provides the example of a difference of opinion between the engagement partner and an EQCR, stating,

“the engagement partner may also consider whether the use of ISA for LCE continues to be appropriate.” We suggest that in such an instance, the ISA for LCE would no longer be appropriate. We also note that the ISAs for More Complex Entities should have a similar provision: as a separate standard ISAs for More Complex Entities should not be used for Less Complex Entities. Although perhaps rare, if the IAASB really intends the ISA for LCE to be a standalone standard and an auditor thought an entity was complex but it actually was not a complex entity, then the auditor should be required to stop using the ISAs for MCEs and to switch to using ISA for LCE, otherwise the audit is inefficient.

- The documentation of the agreement to use ISA for LCE is currently not included in Section 3.2.13. If the IAASB determines an EQCR is permitted for a less complex entity, we recommend the agreement to use the ISA for LCE by the EQCR be a specific requirement within 3.2.13 (b) and 4.2.1 (see below).

7. Professional Accountancy and Other Professional Organizations

Institute for the Accountancy Profession in Sweden (FAR)

Part 3:
3.2.6: The proposed standard includes a requirement that “the engagement partner shall take action, as appropriate in the circumstances, including: (a) Following the firm’s policies or procedures to evaluate the threat; and (b) Consulting with others in the firm”. The reference to “in the firm” is in our view too explicit. Smaller audit firms might use other sources for consultation such as experienced colleagues in other firms, within their network or from professional institutes where they are members.

Institute of Chartered Accountants in England and Wales

3.2.1 to 3.2.13 still seem repetitive and labour the point in places. The EEM to 3.2.1 is good but seems to be repeated in requirements that follow. Is the explanatory material in 3.2.1 also covered in 3.2.3 and 3.2.4?
3.2.2 is particularly verbose and some attempt might be made to slim it down while retaining the key points about collective responsibility, culture, behaviours, good communication and scepticism. For example, in 3.2.2, subsections (a) and (c), and subsections (b) and (d), could be merged. 3.2.1 could be strengthened to enable 3.2.3 to be further pruned. The key point of 3.2.3 is that even if tasks are assigned, the engagement partner still has overall responsibility.
3.2.6 is wordier and less helpful than ISA 220.18
3.2.11 is well worded.
Condensed requirement for EQCR in 3.2.14 is nicely drafted – a model for other sections.

Flow:

- The responsibility to determine sufficient and appropriate resources assigned does not appear until 3.2.7 under ‘Other Engagement Partner Responsibilities’, when the resources are the foundation for a high-quality audit.
- The timing of the review of documentation, responsibility for resolving differences of opinion and consultations (3.2.11-13) are also rather lost at the end of the section and might be better follow on from 3.2.3 - 3.2.4.
- Overall, the structure of this section does not have to be so closely tied to the structure of ISA 220. Suggest starting with content explaining the principles, then actions to meet those principles.

South African Institute of Professional Accountants

Part 3: Paragraph 3.2.4 states: “In taking overall responsibility for managing and achieving quality through direction, supervision and review of the work, the engagement partner shall determine that the nature, timing and extent of direction, supervision and review is responsive to the nature and circumstances of the engagement and the resources assigned, in compliance with the firm’s related policies or procedures, this [draft] standard, relevant ethical requirements and regulatory requirements”
The sentence structure is not easily read and understandable and should be structured in separate sections.

8. Academics

Accounting and Finance Association of Australia and New Zealand

Part 3 – Engagement Quality Management

The material on engagement quality management, quite appropriately, emphasizes the direction, supervision, and review of members of the engagement team. Research, however, highlights that there are differences in the relationships between members of the engagement team across large and small practices (Langli and Svanstrom, 2014; Harding and Kim 2021). Given that audits of less complex entities will often be undertaken by small to medium practices (Ghosh and Lustgarten 2006), we are of the view that the material in Part 3 could be usefully expanded to increase the salience and implications of these different relationships. Research highlights that the interpersonal relationships between members of the engagement team in small practices are such that partners may inadvertently and inappropriately influence the judgments of their subordinates when directing and supervising their work (Harding and Kim 2021). In particular, Harding and Kim (2021) find that auditor judgments are more aligned with their superior’s preference in smaller practices. We recommend that the IAASB consider elaborating on the essential explanatory material accompanying paragraph 3.2.4 such that the practitioner is cognizant of the need to avoid inappropriately influencing a subordinate’s judgments through their direction, supervision, and review.

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 3\c.Other Comments

4. National Auditing Standard Setters

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

Part 3

As we noted in our response to Question 7 (c), in contrast to the IAASB LCE standard, in the German LCE standards we chose to allocate the quality management requirements to those standards representing the important milestones of the audit, which means that engagement partner responsibilities are largely included in our first operation standard AuSLCE 2, but some quality management requirements are included in other standards as appropriate to reflect the audit process, such as planning. We believe that that IAASB should also allocate the quality management requirements to those parts of the audit process to which they apply (e.g., to audit planning). As a result, we are not convinced that a separate Part 3 is necessary.

5. Accounting Firms

Grant Thornton International Limited

Part 3, Engagement Quality Management

We note that ISA 220 (Revised) paragraph 24 dealing with situations where the engagement team becomes aware of information that may have caused the firm to decline the engagement had the information been known at the time of acceptance has not been included in the Proposed Standard on the basis that the requirement is addressed through ISQM 1. It is not clear why this is considered appropriate for ED-ISA for LCE when a separate requirement has been determined to be necessary in ISA 220 (Revised).

We note that ISA 220 (Revised), paragraph 39 requires the engagement partner to obtain an understanding of the information from the monitoring and remediation process of the network and across network firms, yet the ED-ISA for LCE only requires an understanding of this process for 'other network firms.' Other network firms may not be interpreted to include the network as well as the member firms, as such we would recommend terminology between the ISAs and ED-ISA for LCE remains consistent.

KPMG IFRG Limited

In addition to the matters described elsewhere in this letter, we note that requirements are included in respect of Engagement Quality Control Reviews, however, we question the inclusion of these requirements, as our view is that the need to perform such a review is a response to complexity in the audit, and therefore an example of a "proxy for complexity", and in such situations we would recommend that the full-scope ISAs are used.

Price Bailey LLP

Part 3 - There are a number of paragraphs in section 3.2 which are repetitive and could be consolidated succinctly.

7. Professional Accountancy and Other Professional Organizations

South African Institute of Chartered Accountants (2)

Part 3: Engagement Quality Management

66. Quality Management applies to all stages of the engagement. It is our view that Part 3 should precede the Audit Evidence and Documentation chapter. This will be consistent with the approach followed in the ISAs where ISA 220 precedes ISA 230. Quality management is also an iterative process throughout the audit engagement, therefore, consideration should also be given to including some of the requirements in the different sections of the draft standard.