

Supplement 1-03 to Agenda Item 6

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 4)

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\ a. Comments on Engagement Letter

4. National Auditing Standard Setters

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

We also believe that the requirements in Part 4 for the engagement letter should cover the eventuality that, as the audit progresses, the auditor determines that the LCE standard is no longer applicable and therefore a transition to the use of the full ISAs may be necessary. This may need to be augmented by some clarification that if the full ISAs need to be applied, then these need to be applied in their entirety as relevant, but that auditors may use the audit work that they have already completed in seeking to comply with the full ISAs.

5. Accounting Firms

Crowe Macro Brazil

Proposed standard – item 4.8.4

We suggest that the standard proposes that the engagement letter includes an express mention on what happens in case the conditions that allowed the use of this ISA for LCEs change dramatically or become invalid.

Mazars

4.8.4 – Matters to be included in the engagement letter – independence matters not included. We believe the engagement for LCE should require independence mention similar to ISA 200

4.8.4 (a): There is a requirement to record that the audit will be undertaken using the ISA for LCE. We believe that it should be enough to state that an audit will be undertaken. To some extent 4.8.5 allow this (i.e. reference to national GAAS that allow use of ISA and ISA for LCE.

7. Professional Accountancy and Other Professional Organizations

Accountancy Europe

PART 4: ACCEPTANCE OR CONTINUANCE OF AN AUDIT ENGAGEMENT AND INITIAL AUDIT ENGAGEMENTS

The information available to the auditor at the acceptance stage will be deepened and supplemented as the auditor performs risk identification and risk assessment – in practice this can be more relevant for the initial audit engagements. In some cases, the auditor may conclude that the audit engagement cannot be undertaken using the ISA for LCE. Hence, the engagement letter should specifically include the possibility for transitioning to the ISAs unless the local regulations impose the use of the ISA for LCE.

Chamber of Auditors of the Czech Republic

PART 4: ACCEPTANCE OR CONTINUANCE OF AN AUDIT ENGAGEMENT AND INITIAL AUDIT ENGAGEMENTS

The information available to the auditor at the acceptance stage will be deepened and supplemented as the auditor performs risk identification and risk assessment, therefore the engagement letter should specifically include the possibility for transitioning to the ISAs unless the local regulations impose the use of the ISA for LCE.

Institute of Chartered Accountants of Pakistan

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

- We would like to highlight requirement of section 4.2.1 which states that:
“Consideration of further information throughout the audit may change the engagement partner’s determination about the appropriateness of the use of the [draft] ISA for LCE.”
We understand that the impacts of transitioning to full ISAs could have various impacts. It might involve fee re-negotiations and revised fees arrangements, disagreements with management or TCWG, need for extra resources and time to complete the audit on full ISAs basis.

- We suggest that a guidance to add a 'transition clause' in the engagement letter may consider to be added in this Part. This should discuss and cover the aspects such as mutual agreement between auditor and client on fees, resources and timelines.

Institute of Chartered Accountants of Scotland

Response to Question 9

We are broadly supportive of the content of each of Parts 1 through 8 of ED-ISA for LCE and found the mapping documents very useful in forming this assessment. Our specific comments are set out below. We do not view any of these of being of a fatal flaw nature.

Our specific comments are as follows:

PART 4: ACCEPTANCE OR CONTINUANCE OF AN AUDIT ENGAGEMENT AND INITIAL AUDIT ENGAGEMENTS

Particularly in a situation where an entity is being audited for the first time by the firm concerned, the firm's knowledge of the audited entity will be enhanced following its work on the identification and assessment of risks. In some situations, as a result of the additional information obtained, this may lead to the auditor arriving at a conclusion contrary to their earlier assessment that use of the ISA for LCE was appropriate for the engagement concerned. Therefore, we believe that there would be merit in the inclusion of EEM highlighting that the engagement letter should specifically include the possibility of such an occurrence and allow for appropriate transitioning of the audit to the full suite of ISAs.

Institute for the Accountancy Profession in Sweden (FAR)

Part 4:

4.8.4 (a): There is a requirement to record that the audit will be undertaken using the ISA for LCE. We believe that it should be enough to state that an audit will be undertaken. To some extent 4.8.5 allow this (i.e. reference to national GAAS) that allow use of ISA and ISA for LCE.

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

PART 4: ACCEPTANCE OR CONTINUANCE OF AN AUDIT ENGAGEMENT AND INITIAL AUDIT ENGAGEMENTS

Particularly for initial audit engagements, the auditor will decide whether the engagement can be performed using ISA for LCE based on professional judgement. As a result, the auditor may decide that the entity does not qualify as LCE. Therefore, unless otherwise mandated by regulation the format and content of the engagement letter should allow for converting to ISAs as the applicable standard for 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 4\b. Specific Comments\4.2 Determining that ISA for LCE is Appropriate for the Audit Engagement

4. National Auditing Standard Setters

Austrian Chamber of Tax Advisors and Public Accountants (KSW)

Part 4: Acceptance and Continuance of an Audit Engagement and Initial Audit Engagements

In paragraph 4.2.1. is a wrong reference to paragraph 6.5.10., the reference should go to paragraph 6.5.11.

6. Public Sector Organizations

Office of the Auditor General of Alberta

Part 4

As noted above, the agreement to use ISA for LCE by the EQCR should be included into Section 4.2.1 if the IAASB determines an EQCR is permitted for less complex entities.

7. Professional Accountancy and Other Professional Organizations

Korean Institute of Certified Public Accountants

In our opinion, the proposed standard can be improved as described below, in addition to those outlined in the answer to Question 9.

Chapter 4. Acceptance or Continuance of an Audit Engagement and Initial Audit Engagements

Paragraph 4.2. requires the engagement partner to determine whether the audit engagement can be undertaken using the ISA for LCE. This level of responsibility is disproportionately higher than the level of responsibility the engagement partner has with regard to acceptance and continuance of client relationships and audit engagement under ISA 220.

Under ISA 220, the engagement partner shall be satisfied that appropriate procedures regarding the acceptance and continuance of client relationships and audit engagements have been followed and shall determine that conclusions reached in this regard are appropriate (paragraph 12). And if the engagement partner obtains information that would have caused the firm to decline the audit engagement had that information been available earlier, the engagement partner shall only communicate that information promptly to the firm so that the firm and the engagement partner can take the necessary action (paragraph 13). The ultimate responsibility for acceptance and continuance of client relationships and audit engagements lies with the firm. In this light, we believe that it is appropriate for the engagement partner to have a similar level of responsibility as the one required under ISA 220 whereas the firm takes the ultimate responsibility to determine using the system of quality control whether an audit engagement can be undertaken using the ISA for LCE. This approach is deemed to be helpful in maintaining consistency in judgements across different engagement teams.

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\b. Specific Comments\4.3 Preconditions for an Audit

5. Accounting Firms

PriceWaterhouseCoopers

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

Section 4.3 - We consider that there are certain fundamental principles addressed in the application material of ISA 210 that should be reflected in EEM. These include the matters addressed in paragraphs: A11 (parts not addressed under P.6) and A14.

8. Academics

Hunter College Graduate Program

Section 4.3.1(a) (ED Pg 87)

Determine whether the financial reporting framework ~~to be~~ **being** applied in the preparation of the financial statements is acceptable;".

Section 4.3.2 (b) (ED Pg 88)

If the agreement ~~of with~~ management ~~that it~~ acknowledges and understands its responsibility has not been 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 4\b. Specific Comments\4.4 Additional Considerations in Engagement Acceptance

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 24/ - (omitted from Exposure Draft)

5. Accounting Firms

Mazars

4.4 – Will users understand the difference between the two standards. We suggest to have an overview of the main changes between ISA for LCE and ISA for each ISA.

6. Public Sector Organizations

Office of the Auditor General of Alberta

For entities where Section 4.4.3 would apply, we do not believe the entity would be a less complex entity. The ISA for LCE should not incorporate requirements for entities which indicate the entity is not an LCE.

8. Academics

Hunter College Graduate Program

4. The information in the section referenced below is repeated as this requirement is already stated in 4.2 when the standard states the requirements for using the ISA for LCE.

Section 4.4.1 (ED Pg 88)

~~The engagement partner shall determine that the firm's policies or procedures regarding acceptance and continuance of the audit engagement have been followed and that conclusions reached in this regard are appropriate, including the appropriate use of the [draft] 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 4\b. Specific Comments\4.5 Terms of the Audit Engagement

3. Regulators and Audit Oversight Authorities

Committee of European Auditing Oversight Bodies

Acceptance and continuance

Regarding the Acceptance and Continuance section, in paragraph 4.5.4 when the auditor is requested to change the audit engagement to an engagement that conveys a lower level of assurance, the auditor shall determine whether there is reasonable justification for doing so, it should be added that the auditor has to consider whether this is permitted by local law or regulation. The auditor must also consider whether the engagement is still an audit.

Irish Auditing and Accounting Supervisory Authority

Acceptance and continuance

In paragraph 4.5.4 when the auditor is requested to change the audit engagement to an engagement that conveys a lower level of assurance, the auditor also has to consider whether this is permitted by local law and whether the engagement is still an audit.

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 210, paragraph 18/ - (omitted from Exposure Draft)

ISA 210, paragraph 19/ - (omitted from Exposure Draft)

ISA 210, paragraph 20/ - (omitted from Exposure Draft)

5. Accounting Firms

PriceWaterhouseCoopers

Section 4.5 - We recommend the first paragraph of the EEM be relocated to sit under section 4.4 as it pertains to acceptance and continuance rather than the terms of engagement.

6. Public Sector Organizations

Office of the Auditor General of Alberta

We suggest the following edit to Section 4.5.1 “The auditor shall agree the terms of the audit engagement including an ISA for LCE audit, with management...”

7. Professional Accountancy and Other Professional Organizations

Accountancy Europe

The requirement in 4.5.4 does not seem to be relevant. If the auditor is requested with a reasonable justification to change the audit engagement to an engagement that conveys a lower level of assurance, practically the ISA for LCE will not apply any more.

Chamber of Auditors of the Czech Republic

The requirement in 4.5.4 seems to be relevant only for voluntary audits. If an audit of the financial statements is required by legislation, it is often forbidden by law to change the level of assurance. We proposed to skip it.

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\b. Specific Comments\4.6 Initial Audit Engagements

4. National Auditing Standard Setters

Japanese Institute of Certified Public Accountants

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

5. Accounting Firms

Mazars

4.6 – Initial audit engagements – same scope of procedures as ISA. How would procedures need to be revised if prior year audit was under ISA?

6. Public Sector Organizations

Swedish National Audit Office

Consider adding more guidance on initial audit engagements or imply that new audit engagements should not be audited with LCE. It may be difficult to assess the risks appropriately in an initial audit. Therefore, it could be relevant to scope these engagements out of this standard.

7. Professional Accountancy and Other Professional Organizations

Chamber of Financial Auditors of Romania

Response:

Our comments are regarding Part 4: Acceptance or Continuance of an Audit Engagement and Initial Audit Engagements, Sub-section 4.6

All paragraphs from 4.6.1 to 4.6.6 consider that previous financial statements were audited. But if the audit client has the financial statement audited for the first time (the comparatives are not audited) a reference should be made, in a new paragraph 4.6.7. “In case the previous financial statements were not audited, the auditor report shall contain an “other matters paragraph” that disclose “the comparatives were not audited and were not in scope of the engagement”.

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 4: ACCEPTANCE OR CONTINUANCE OF AN AUDIT ENGAGEMENT AND INITIAL AUDIT ENGAGEMENTS

4.6 Initial engagements

4.6.1 In our opinion, it should be a matter of professional judgement in an LCE audit whether there is a need to communicate with the predecessor auditor. The other requirements in paragraph 4.6 are usually sufficient in obtaining sufficient audit evidence. SME auditors typically have dozens or even hundreds of small clients, and clients can change auditors quickly at a short notice – sometimes in the middle of the busy season. It creates unnecessary burden on both auditors if communication is always required.

8. Academics

Hunter College Graduate Program

Section 4.6.6 (ED Pg 89)

The auditor shall obtain sufficient appropriate audit evidence about whether the accounting policies reflected in the opening balances have been consistently applied in the current period’s financial statements, and whether any changes in accounting policies have been appropriately accounted for and adequately presented and disclosed in accordance with the applicable financial reporting framework.52

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\b. Specific Comments\4.7 Specific Communication Requirements

4. National Auditing Standard Setters

Canadian Auditing and Assurance Standards Board

Various Parts – Specific Communication Requirements

We note the following pain points:

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

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\b. 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 4\c. Other Comments

3. Regulators and Audit Oversight Authorities

Botswana Accountancy Oversight Authority

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

This part looks complete and relevant.

4. National Auditing Standard Setters

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

Part 4

Given the close relationship between acceptance and continuance, activities that need to be undertaken for initial audit engagements, and planning, we are not convinced that a Part 4 separate from Part 5 is needed. This is why in our German LCE standards, we merged these parts into a single standard.

6. Public Sector Organizations

Swedish National Audit Office

Part 4 Acceptance or Continuance

We find it a bit odd to have this section after Engagement Quality Management. We would prefer to have it before.

7. Professional Accountancy and Other Professional Organizations

Association of Practising Accountants

Acceptance – as noted above the key ethical requirements should be included within this standard.

Indonesian Committee on Public Accountant Profession (KPAP)

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

The content in this part is complete and already addresses the requirements for opening balances in initial audit engagements.

International Federation of Accountants' Small and Medium Practices Advisory Groups

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

As it relates to paragraph 106(b) in the Explanatory Memorandum and the use of service organizations, we believe there are many situations where LCEs use a service organization for processing transactions and receive a Type 1 or Type 2 report, but otherwise meet all other criteria for being considered an LCE. We do not think this criterion should be limited to payroll processors as obtaining reports from all service organizations has become common practice in many jurisdictions and is not necessarily an indicator of an entity's complexity.

For example, in many jurisdictions, there are entities that hold investments managed by a broker and therefore receive income from this portfolio. In many cases, these could be very straightforward, noncomplex entities, but the auditor would normally get a type 1 or 2 report in respect of the investment manager as a typical audit procedure as part of the risk assessment and testing controls process. We do not believe an entity should automatically be characterized as complex just because such a report is obtained. Developments are expected to evolve with regard to use of service organizations (as it is becoming more and more common), so we believe the application of the standard should not be limited.

South African Institute of Chartered Accountants (2)

Part 4: Acceptance or Continuance of an audit engagement and initial audit engagements

69. The content of Part 4 of the LCE standard is materially complete and appears to have been refined to be shorter and more easily readable.

70. The changes made to accommodate for LCE pertain to matters that the IAASB viewed as “unlikely” in the context of an LCE.

71. Fundamentally, we agree with the proposed changes in respect of acceptance and continuance considerations, except for: The removal of the considerations that relate to additional requirements by Laws & Regulations for reporting (over and above the financial reporting framework) may actually be more common than the IAASB have envisaged. Whilst this can be managed through jurisdictional add ins, where there are matters which the IAASB thought to be uncommon would be added jurisdictionally by many countries, it may indicate that the provision should be scoped back in. Additional laws and regulations requirements do not necessarily indicate complexity.

The standard may be enhanced by including the “scoping” provisions or definitions for when an engagement may or may not fall into the scope of LCE in the section where the auditor will consider these, with additional explanatory examples.

There is insufficient guidance in this part (as opposed to the memorandum for the standard) on implementing transitional requirements between ISAs and the LCE standard. In South Africa, especially, we may have these scenarios as the Public Interest Score of audit engagements fluctuate. Therefore, the requirements in Part 4 should consider the possible scenario where the LCE standard may no longer be applicable and the need to transition to the ISAs arises. In this regard, the IAASB should also consider implementation guidance using examples from various jurisdictions.

8. Academics

Hunter College Graduate Program

12. In our view, Section 4 can be improved. Section 4 is set to clarify an auditor's responsibility and whether use of the ISA for LCE is appropriate. Subsection 4.2 & 4.4 states one of the objectives for an auditor is to determine that the ISA for LCE is appropriate for the audit engagement. However, these subsections tend to repeat the same requirements. Subsection 4.2 sets out the precedent for what is needed for the use of ISA for LCE. Subsection 4.3 then proceeds to discuss the preconditions for an audit and whether an auditor should accept or continue with an audit. Subsection 4.4 then discusses additional considerations for the preconditions of an audit. However, it states similar requirements to what was already mentioned in Subsection 4.2. We suggest that the subsections just be merged, or the standard clearly identifies the difference in the requirements of the two subsections 4.2 and 4.4.

9. Individuals and Others

Vera Massarygina

Part 4. It seems rational to include into this part not only opening balances but comparatives too. It seems strange that comparatives are included into part 9 when it is already late to perform any procedures to their transition (para.9.7.2 and others).