

Supplement 1-04 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 5)

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\ a. General Comments

1. Monitoring Group

International Organization of Securities Commissions (IOSCO)

To the extent that the IAASB implements elements of the Paper despite our objections, we emphasize the need for clear limitations for the use of ISA for LCE, strengthening and expanding of audit planning, and clear and transparent identification in the auditor's report of the framework under which the audit was conducted

7. Professional Accountancy and Other Professional Organizations

CPA Ireland

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

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

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

Finnish Association of Authorised Public Accountants

We 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.

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.

Korean Institute of Certified Public Accountants

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

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

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

PART 5: PLANNING

In the planning no separation of the audit strategy and audit plan is foreseen, which we fully support. In practice, identification risk level and planning materiality are often issues that challenge the auditors. It is obvious that the most guidance needed areas are those where the auditor needs exercising more professional judgement and professional scepticism. Demonstration of how these are determined under different cases would be very useful.

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\b. Specific Comments\0 Introductory Box

5. Accounting Firms

BDO International

Part 5 - Planning

Suggestions re EEM:

Introductory text box for Part 5 - Consider a comment in this introductory text box that planning also includes all of the requirements in Part 6.

Specific Questions\Section 4E – Content of ED-ISA for LCE\Question 9- Views on the content of Parts 1 through 8 of ED-ISA for LCE\2) Responses on Parts 1 through 8\Part 5\b. Specific Comments\5.1 Objectives

5. Accounting Firms

Mazars

Part 5: Planning

5.1.1 (b) – more guidance on if materiality would be applied differently from ISA or additional elements if the target is a standalone standard.

Specific Questions\Section 4E – Content of ED-ISA for LCE\Question 9- Views on the content of Parts 1 through 8 of ED-ISA for LCE\2) Responses on Parts 1 through 8\Part 5\b. Specific Comments\5.2 Planning Activities\1) General (5.2.1.- 5.2.5)

5. Accounting Firms

Famme & Co. Professional Corporation

5.2.2 The EEM suggests that a “suitable brief memorandum” can serve as documentation for the scope, timing and direction for the audit. Given the many specific documentation requirements, we do not see how this approach could adequately address these requirements.

Mazars

5.2.1 – no definition of “key members of engagement team” has been provided.

5.2.2 EEM: The intention in the EEM is good and relevant. It is, however, stated that “... a brief memorandum prepared “at the completion” of the previous audit ...”. We believe that the limitation “at the completion” should be changed to “after the completion” to avoid unnecessary time constraints for the practitioners.

7. Professional Accountancy and Other Professional Organizations

Institute for the Accountancy Profession in Sweden (FAR)

Part 5:

5.2.2 EEM: The intention in the EEM is good and relevant. It is, however, stated that “... a brief memorandum prepared “at the completion” of the previous audit ...”. We believe that the limitation “at the completion” should be changed to “after the completion” to avoid unnecessary time constraints for the practitioners.

Institute of Chartered Accountants in England and Wales

PART 5: PLANNING

Paragraph 5.2.2 (d) refers to ‘preliminary risk activities’ without making it clear what these might be. 5.2.2 (d) might be expanded to clarify what is meant, or some EEM be added.

Nordic Federation of Public Accountants

PART 5: PLANNING

We believe there are requirements in this Part where the ability to use scalability and proportionality should be clarified, for example:

5.2.2 EEM: The intention in the EEM is good and relevant. However, we suggest changing "... a brief memorandum prepared "at the completion" of the previous audit ..." to "after the completion" to avoid unnecessary time constraints for the practitioners.

8. Academics

Hunter College Graduate Program

Section 5.2.2 (ED Pg 92)

For example, ~~a suitable brief~~ **take the** memorandum prepared at the completion of the previous audit, based on inspection of the working papers **completed in last year's audit regarding the workpapers** and **the** highlighting issues identified in the audit just completed, updated in the current period based on discussions with the owner-manager, **and update it with the current period based on the discussion with the owner-manager, and this** can serve as the documented scope, timing and direction for the current audit 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 5\b. Specific Comments\5.2 Planning Activities\2) Engagement Team Discussion

5. Accounting Firms

PriceWaterhouseCoopers

Part 5 - Planning

Paragraphs 5.2.6 and 5.2.7 - These requirements relate to the identification and assessment of risks of material misstatement. They would therefore be better placed in Part 6.2/6.3.

6. Public Sector Organizations

Office of the Auditor General of Alberta

Part 5

Section 5.2.6 states, "Discussions among the engagement team shall occur setting aside the beliefs the engagement team may have that management, and where appropriate, those charged with governance are honest and have integrity." This wording may not be interpreted as the Board intends. The auditor's assessment of the integrity of management, and where appropriate, those charged with governance, is a critical part of the auditor's risk assessment. For example, if the auditor is engaged by those charged with governance and they communicate that they suspect management lacks integrity, the auditor will modify their audit procedures accordingly and not "set aside" this information. This paragraph should be clarified.

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.

Nordic Federation of Public Accountants

5.2.6 Engagement Team Discussion: The requirement should allow for audit teams with only 2-3 persons to use a more simplistic approach.

South African Institute of Chartered Accountants (2)

Part 5: Planning

Engagement Team Discussion

72. The Section 5 introductory paragraph regarding the content of this section refers to “an engagement team discussion”. Similarly, the Section 6 introductory paragraph regarding the content refers to “auditor’s obligations for planning activities, including the requirements for the engagement team discussion”.

73. Paragraph 5.2.6 only requires the engagement partner and other key engagement team members to have these engagement team discussions. The engagement partner is required in terms of paragraph 5.2.7 to determine which matters are to be communicated to those members who were not involved in the discussion.

74. Based on the importance of the matters to be included in the engagement team discussion, being how and where the entity’s financial statements may be susceptible to material misstatement due to fraud, including how fraud may occur, and how fraud or error could arise from related party relationships or transactions, we are of the opinion that the engagement team discussions should not be limited to key engagement team members but should require all engagement team members to attend the engagement team discussions. If all engagement team members are not present at the engagement team discussions, the engagement partner should be obligated to communicate certain information to engagement team members who were not required to attend these discussions.

8. Academics

Hunter College Graduate Program

Section 5.2.6 (ED Pg 93)

The engagement team discussion may also include other matters related to the audit such as the logistics, ~~operational~~ **operations** and other matters (such as when risks of material misstatement may have changed from prior years or matters related to relevant ethical requirement including independence) and the timing of the audit and communications that are required.

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\b. Specific Comments\5.2 Planning Activities\3) Using the Work of Management's Expert

3. Regulators and Audit Oversight Authorities

Independent Regulatory Board for Auditors (IRBA)

Paragraph 5.2.8. (b) and (c): We suggest that these be included in Part 7, under “Using the Work of an Auditor’s Expert” as they are consistent with the auditors’ experts. Further, we propose that auditors would require additional guidance to apply requirement (b) – “Understand the work of that expert”.

5. Accounting Firms

Famme & Co. Professional Corporation

5.2.8 We do not see how an entity that falls under the scope of an LCE would ever be using an expert to assist them. An LCE, as we would encounter it in practice, would be an owner-manager entity or a not-for-profit organization with limited staff, simple accounting policies and few, if any, complex transactions or estimates that would necessitate the need for an expert. We believe this section is unnecessary or could be greatly reduced.

We believe any audit requiring us to bring in an expert, would, by definition, be scoped out of a standard for LCEs.

Mazars

5.2.8 – at what point will work of management’s expert needed but still scoped in as LCE (reference to qualitative characteristic of complexity). Need more guidance if not covered in the standard.

Price Bailey LLP

However reference to the use of type 1 or type 2 reports on service companies used by management should be included.

PriceWaterhouseCoopers

Paragraph 5.2.8 - We believe EEM is necessary to support this requirement. There is extensive application material in ISA 500 and it seems inconsistent to conclude that no EEM is necessary. We suggest that, as a minimum, the matters addressed in the following ISA 500 paragraphs should be addressed in EEM: A47-A50, A52, A54 and A59.

6. Public Sector Organizations

Office of the Auditor General of Alberta

As noted above, the Board should further analyze and clarify when an entity should no longer be considered a less complex entity. Based on this analysis, do entities where an expert is engaged, either by management or the auditor, remain as less complex entities (Section 5.2.8/5.29)?

7. Professional Accountancy and Other Professional Organizations

South African Institute of Chartered Accountants (2)

Using the Work of Management's Expert

75. The engagement team is required to evaluate the appropriateness of the expert's work as audit evidence for the relevant assertion. We are of the opinion that consideration should be given to the inclusion of the relevant application material pertaining to this evaluation as guidance in 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 5\b. Specific Comments\5.2 Planning Activities\4) Determining Whether to Use the Work of an Auditor's Expert

3. Regulators and Audit Oversight Authorities

Independent Regulatory Board for Auditors (IRBA)

Paragraph 5.2.11. is an example of a long and complicated paragraph. It is a combination of paragraphs 9-11 of ISA 620. Paragraph 10 of ISA 620 contains two sub-bullets and paragraph 11 contains three. In line with the CUSP Drafting Principles and Guidelines, it is suggested that paragraph 5.2.11 be split into three requirements that mirror paragraphs 9-11 of ISA 620.

4. National Auditing Standard Setters

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

We consider that paragraphs A2 and A8 of ISA 620 which deal with the definition of an Auditor's expert should be included in ED-ISA for LCE.

Moreover, we believe it would be important to mention that the cases where an auditor's expert is needed to assist the auditor in its audit may reveal complex situations.

5. Accounting Firms

Crowe Macro Brazil

12

Proposed standard - item 5.2.9

We suggest writing this paragraph as follows: "In the extremely unlike circumstances where expertise in a field other than accounting or auditing is necessary to obtain sufficient appropriate audit evidence, the auditor shall determine whether to use the work of an auditor's expert".

Mazars

5.2.8 – at what point will work of management's expert needed but still scoped in as LCE (reference to qualitative characteristic of complexity). Need more guidance if not covered in the standard.

5.2.9 – same as above.

Price Bailey LLP

Part 5 - The section in relation to the use of an auditor's expert could be reduced and simplified.

6. Public Sector Organizations

Office of the Auditor General of Alberta

As noted above, the Board should further analyze and clarify when an entity should no longer be considered a less complex entity. Based on this analysis, do entities where an expert is engaged, either by management or the auditor, remain as less complex entities (Section 5.2.8/5.2.9)?

Swedish National Audit Office

In our opinion, an audit where there is a need for an auditor's expert would not be considered an LCE. The need for an expert implies that there are complex matters that should scope the audit out of this standard. Therefore, we believe that the requirements regarding an auditor's expert could be removed from the standard.

7. Professional Accountancy and Other Professional Organizations

Institute of Certified Public Accountants of Kenya

Paragraph 5.2.11. is an example of a long and complicated paragraph. It is a combination of paragraphs 9-11 of ISA 620. In themselves, paragraph 10 of ISA 620 contains two sub-bullets and paragraph 11 contains three sub-bullets. In the spirit of the

CUSP Drafting Principles and Guidelines, it is suggested that paragraph 5.2.11 be split into three requirements that mirror paragraphs 9-11 of ISA 620.

International Federation of Accountants' Small and Medium Practices Advisory Groups

Part 5: Planning

The full ISAs include performing an independence assessment when using the work of an expert. We believe it would be helpful to add this requirement to the proposal.

Pan-African Federation of Accountants (PAFA)

Part 5:

Comments:

Paragraph 5.2.11. is an example of a long and complicated paragraph. It is a combination of paragraphs 9-11 of ISA 620. In themselves, paragraph 10 of ISA 620 contains two sub-bullets and paragraph 11 contains three sub-bullets. In the spirit of the CUSP Drafting Principles and Guidelines, it is suggested that paragraph 5.2.11 be split into three requirements that mirror paragraphs 9-11 of ISA 620.

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\b. Specific Comments\5.2 Planning Activities\5) Going Concern

5. Accounting Firms

Famme & Co. Professional Corporation

5.2.12 We believe that any entity that falls under the scope of an LCE would rarely, if ever, perform any formal assessment of its ability to continue as a going concern.

MHA Monahans

5.2.12. Going concern

Some owner managed businesses do not prepare long term forecasts, so we agree with the proposed approach where an assessment has not been made by management.

PriceWaterhouseCoopers

Paragraph 5.2.12 - This requirement relates to understanding the entity as part of risk assessment procedures and would therefore be better located in Part 6.2/6.3.

6. Public Sector Organizations

Office of the Auditor General of Alberta

We note that a less complex entity may not be a going concern and therefore Section 5.2.12 is appropriate. An example of when a less complex entity is not a going concern is the disestablishment of a public sector fund. The government may pass legislation to disestablish a fund and this should not prohibit the use of the ISA for LCE on the final financial statements of the fund.

7. Professional Accountancy and Other Professional Organizations

Finnish Association of Authorised Public Accountants

5.2.12-13 Going concern (also Parts 7, 8 and 9 as regards to going concern)

The requirements regarding going concern are now scattered in different parts of ISA for LCE. Although this might be necessary for the “flow”, it might cause confusion, omission of some procedures and unnecessary overlaps. The IAASB could consider presenting the procedures regarding going concern in a more streamlined way in one or at a maximum of two parts of the standard.

As stated in EEM in 7.7.4, the management of an SME rarely makes a detailed written documentation to support the assumption used. An auditor’s responsibility should be simply:

to conclude on the appropriateness of management’s use of the going concern basis of accounting (5.2.12 and 8.5.7)

to conclude whether a material uncertainty exists (5.2.12. and 6.6.1.(g))

to remain alert throughout the audit (5.2.13 and 8.5.8)

to conclude that there are adequate disclosures in the financial statements (8.5.9-10)

to report accordingly (part 9.5.1.p-s)

The auditor should inquire of management about potential events and conditions that can cast significant doubt on the going concern (6.6.1.(g) and 7.4.4). Only when a written assessment is done, the requirements regarding the assessment should apply – otherwise the procedures listed above should be enough.

Nordic Federation of Public Accountants

5.2.12 Going Concern: Many of these smaller entities have very informal procedures for assessing going concern. They also have stable secure operations with low risk regarding going concern. We suggest that the standard clarifies that such assessments does not have to be written.

Self-Regulatory Organization of Auditors Association (SRO AAS)

Paragraph EMM before 5.2.12

Text of the standard statement

Under the going concern basis of accounting, the financial statements are prepared on the assumption that the entity is a going concern and will continue its operations for the foreseeable future. General purpose financial statements are prepared using the going concern basis of accounting, unless management either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so.

Comments

It is not indicated in the going concern description that the entity will be able to fulfill its obligations as they become due. But this is one of the most important criteria for a going concern entity.

8. Academics

Hunter College Graduate Program

Section 5.2.12 (ED Pg 95)

The auditor's responsibilities are to obtain sufficient appropriate audit evidence regarding, and conclude on, the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements. ~~and to conclude, This is~~ based on the audit evidence obtained, whether a material uncertainty exists about the entity's ability to continue as a going concern.

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\b. Specific Comments\5.3 Materiality\1) General - More Guidance

4. National Auditing Standard Setters

Austrian Chamber of Tax Advisors and Public Accountants (KSW)

Materiality is an area where auditors often seek guidance. We therefore suggest to provide more guidance for the determination of materiality and performance materiality. This essential guidance should be presented in form of EEM.

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

Additional application material in ISA 320 that might be needed by auditors should be included in non-authoritative guidance, rather than in the EEM of the LCE standard.

7. Professional Accountancy and Other Professional Organizations

Accountancy Europe

We observe that materiality is an area where auditors often seek guidance. Hence, we suggest the IAASB to provide more direction for the determination of the materiality and performance materiality in the ISA for LCE. Essential guidance should be presented in the form of EEM and could draw on the introductory material in ISA 320. We also believe that illustrative examples outside the standard could be helpful.

Finally, in illustrative examples and additional EEM, the IAASB should focus not only on profit-orientated entities but also on non-profit organisations as an audit is often required for such entities.

Chamber of Auditors of the Czech Republic

PART 5: PLANNING

We observe that materiality is an area where auditors often seek guidance. Hence, we suggest the IAASB to provide more direction for the determination of the materiality and performance materiality in the ISA for LCE. We believe that in illustrative examples or other EEM, the IAASB should focus not only on profit-orientated entities but also on non-profit organisations as an audit is often required for such entities.

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

Part 5 – Planning

We are overall supportive of this section of the standard; however, we suggest that materiality is an area where more guidance is needed in the standard. More specifically, the application material in ISA 320 provides useful information on materiality and

audit risk and more detailed guidance on the benchmarks which are of particular importance for practitioners. While we understand that larger firms have developed their own methodologies based on ISA 320 and their practices, guidance in relation to materiality is of significant importance for SMPs.

Finnish Association of Authorised Public Accountants

5.3 Materiality

Materiality is a very important concept in audit. Calculating and using materiality varies a lot among auditors, leading, for example, to very different materiality thresholds and scoping. The IAASB could use this opportunity and further guide the auditors in this matter. For example, rules of thumb for ranges or cutters as presented in the “Guide to Using International Standards on Auditing in the Audits of SMEs” could be added to ISA for LCE as an EEM or an Appendix. An Appendix could also present other examples and take into account different kinds of entities – all clients are not profit-oriented.

Institute of Certified Public Accountants of Cyprus

ISA 320 provides more guidance than the ISA for LCE which is useful for the determination of the materiality and performance materiality. We suggest the IAASB to provide more direction to this respect including paragraphs from the Application and Other Explanatory Material of this ISA.

Institute of Chartered Accountants of Scotland

PART 5: PLANNING

We are cognisant that materiality is an area where auditors often seek guidance. Whilst we would not propose the inclusion of additional EEM in this regard, this may be an area that is ripe for development of non-authoritative material.

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\b. Specific Comments\5.3 Materiality\2) Comments on EEM

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 320, paragraphs A4-A5/with ISA for LCEs paragraph 5.3.1

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

Part 5

In relation to the requirements on materiality we believe that the text from paragraphs 2, 3 and 4 from ISA 320 needs to be taken up as EEM because this text forms the basis for all materiality decisions. We agree with the other EEM that was included in this Part.

5. Accounting Firms

BDO International

Regarding additional EEM material that should be considered:

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

Mazars

5.3.2 – implementation guidance on materiality will be useful.

PriceWaterhouseCoopers

Section 5.3 - We question the sufficiency of EEM in this section to both describe the concept of materiality and to support the relevant requirements. For example, we believe paragraphs 2, 4, and the remainder of paragraph 6 of ISA 320 not included in the draft standard, provide necessary context for understanding and determining materiality. We also suggest that elements of ISA 320.A11 and further content from ISA 320.A13 would be useful additions. Further examples of typical benchmarks would also be useful, as is the guidance in ISA 320.A8.

RSM International

Paragraph 5.3.1 refers to a) “gross profit and total expenses” and b) “total equity or net asset value”. In respect of a), presumably these are intended as two different measures and so the punctuation needs amending.

7. Professional Accountancy and Other Professional Organizations

Accountancy Europe

We also believe that the requirement in 5.3.2 should be turned into EEM. We do not expect that it will be common to have the need for different materiality levels to be applied to particular classes of transactions, account balances or disclosures in an LCE audit.

Finnish Association of Authorised Public Accountants

EEM 5.3.1: “When profit before tax from continuing operations is volatile, other benchmarks may be more appropriate, such as gross profit or total revenues.” An SME’s profit before tax is often low, volatile or even negative. Especially in owner-managed companies the owners might withdraw an amount of salary that equals profit before tax or use other legal means for minimizing taxes. The EEM should not give the impression that profit before tax would be the preferred basis for calculating materiality, because it might lead to unnecessarily low materiality levels and an inefficient audit. A slightly different wording in the EEM would be good.

Korean Institute of Certified Public Accountants

Chapter 5. Planning

Concerning determination of the materiality amount described in 5.3., LCEs involve a small number of information users who often rely on the materiality standard developed based on impact on public interest, etc., and released by public authorities (e.g., regulatory authorities) as important criteria for decision-making. Therefore, the EEM or other materials need to provide the criteria that is developed based on such publicly available standard to guide the decision of the materiality amount.

South African Institute of Chartered Accountants (2)

Materiality

76. Paragraph 5.3.1 EEM: amend the reference to the ‘financial needs’ of the users of the financial statements to the ‘financial information needs’ of the users of the financial statements.

77. Paragraph 5.3.1 EEM refers to “Profit before tax from continuing operations is often used for profit-oriented entities. When profit before tax from continuing operations is volatile, other benchmarks may be more appropriate, such as gross profit or total revenues.”

78. The appropriateness of including this statement should be reconsidered. It may be misconstrued as the default benchmark for profit-oriented entities and may thus limit the application of professional judgement by the engagement partner regarding the benchmark to apply in the specific circumstances of the entity.

Specific Questions\Section 4E – Content of ED-ISA for LCE\Question 9- Views on the content of Parts 1 through 8 of ED-ISA for LCE\2) Responses on Parts 1 through 8\Part 5\b. Specific Comments\5.3 Materiality\3) Add Trivial Misstatements

7. Professional Accountancy and Other Professional Organizations

Finnish Association of Authorised Public Accountants

The flow of an audit would benefit from calculating the amount below which misstatements would be considered clearly trivial as in 7.7.1.(e) in connection with other materiality figures.

9. Individuals and Others

ASK KSA Consulting Inc.

Part 5: Planning

As further explained below in the paragraph 7.5.1 discussion we believe the concept of trivial misstatements should be included in the planning materiality requirements in 5.3.

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 5\b. Specific Comments\5.3 Materiality\4) Other Comments

7. Professional Accountancy and Other Professional Organizations

South African Institute of Chartered Accountants (2)

79. ISA 320, Materiality in Planning and Performing and Audit, in our view, needs to be revised to provide improved guidance to auditors on aspects such as performance materiality and determining the percentage that is applied to the chosen benchmark. In our comment letter on the IAASB Workplan for 2022-2023, we had noted this standard as needing urgent revision.

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\b. Specific Comments\5.4 Specific Communication Requirements\1) Oral or Informal Nature

4. National Auditing Standard Setters

Canadian Auditing and Assurance Standards Board

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

5. Accounting Firms

Mazars

5.4: In smaller LCE communication with management (TCWG often not applicable) this communication is often made orally or in a more informal way. We suggest that the standard allows oral communication, based on professional judgement, in this respect, with a reduced level of documentation.

MHA Monahans

5.4.1 We agree that communication should be made with management during the initial stages of the audit, this is usually done via a meeting. We do not think a formal communication is appropriate.

7. Professional Accountancy and Other Professional Organizations

Institute for the Accountancy Profession in Sweden (FAR)

5.4: In smaller LCE communication with management (TCWG often not applicable) the communication is often made orally or in a more informal way. We suggest that the standard allows oral communication, based on professional judgement, in this respect.

Nordic Federation of Public Accountants

5.4 Specific Communication Requirements: Taking into account both that most LCEs are smaller in size and that the subject matters of this particular communication requirement often, based on the specific circumstances, are informal and oral, we suggest that this should also be reflected in this requirement.

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\b. Specific Comments\5.4 Specific Communication Requirements\2) Other Comments

5. Accounting Firms

MHA Monahans

We also think that these communications should include a discussion of materiality to obtain the views of management or those charged with governance.

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.

5.4 Specific Communication Requirements

Most LCEs are so small that it does not make sense to communicate separately the planned scope, timing and direction, even if there is a separate plan. This requirement should be more scalable.

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\c. Supporting Comments

3. Regulators and Audit Oversight Authorities

Botswana Accountancy Oversight Authority

Part 5: Planning

This part looks complete and relevant as it did not lose context from the ISAs.

7. Professional Accountancy and Other Professional Organizations

Accountancy Europe

PART 5: PLANNING

We support the IAASB’s decision not to require two separate documents for an audit strategy and an audit plan for LCE engagements.

Indonesian Committee on Public Accountant Profession (KPAP)

Part 5: Planning

The contents in part 5 are complete and according to the audit plan in the same manner as the ISAs.

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.

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

PART 5: PLANNING

In the planning no separation of the audit strategy and audit plan is foreseen, which we fully support.

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\d. Other Specific Comments

4. National Auditing Standard Setters

Austrian Chamber of Tax Advisors and Public Accountants (KSW)

Part 5: Planning

We suggest renaming the Part in “Audit Planning Considerations”, as the content of this Part is broader than just Planning.

6. Public Sector Organizations

Swedish National Audit Office

Part 5 Planning

The LCE does not include any reference to the use of internal auditor work. In the public sector you may find internal auditors even in smaller and less complex entities. This is usually an effect of mandatory internal audit on the state level of governance. We would suggest some reference to what the auditor needs to consider if using the work of internal audit.