



# MINISTRY OF FINANCE OF THE REPUBLIC OF INDONESIA

## SEKRETARIAT JENDERAL

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Subject : Submission – Response of ED ISA for LCE

Dear Chairman of International Auditing and Assurance Standards Board (IAASB)

The Finance Professions Supervisory Centre (Pusat Pembinaan Profesi Keuangan or PPPK) is unit under the Ministry of Finance of the Republic of Indonesia, which acts as a regulator of the finance profession, including public accountants, in Indonesia. We thank you for the opportunity to comment on the Exposure Draft, Proposed International Standard on Auditing of Financial Statements of Less Complex Entities (ED-ISA for LCE). As Indonesia's audit regulator, this is a topic that we have discussed internally on a number of occasions. We have also held a dissemination by presenting IAASB's Task Force of this standard project, to encourage audit report stakeholders in our country to provide their views on this draft.

We support the IAASB's efforts to facilitate greater understanding of the challenges that practitioners will encounter in applying the ISAs and applaud the IAASB's initiative to consider the situation holistically by focus on scalability and proportionality of the ISAs with developing the ED-ISA for LCE. PPPK strongly agrees that smaller entities make a critical contribution to the world economy, and also considering that quantitatively the majority of audits globally are audits of smaller.

In this regard, we are pleased to attach PPPK's comments as set out in Appendix 1 for your consideration. We hope that these comments will be useful to the IAASB in determining the appropriate next steps relating to this key project. PPPK looks forward to the IAASB's careful consideration of diverse stakeholder feedback arising from the ED-ISA for LCE.

Please do not hesitate to contact us if have any questions regarding this response. Thank you.

Yours sincerely,

Chairman,



Ditandatangani secara elektronik  
Firmansyah N. Nazaroedin

CC:

Ketua Umum Institut Akuntan Publik Indonesia (IAPI)



## General Comments on Proposed ISA for LCE

### 1. Section 4A – Overarching Positioning of ED-ISA for LCE:

#### a. The standalone nature of the proposed standard, including detailing any areas of concern in applying the proposed standard, or possible obstacles that may impair this approach?

We applaud the IAASB's initiative to consider the situation holistically and chart the best way forward by focus on scalability and proportionality of the ISAs with developing the ED-ISA for LCE. As our concern, that smaller entities make a critical contribution to the world economy, and quantitatively the majority of audits globally are audits of smaller. As Indonesia's audit regulator, this is a topic that we have discussed internally on a number of occasions. The audit deficiencies and risks that we observe through our inspections lead us to believe that there are areas where auditors are calling out for more guidance. Guidance must quickly become standards, recognizing that for emerging issues a fulsome assessment of the audit approach is required. In this regard, we have also held a dissemination by presenting IAASB's Task Force of this standard project, to encourage audit report stakeholders in our country to provide their views on this draft.

Here are our matters views about overarching positioning of ED-ISA for LCE, as follows:

- We support ED-ISA for LCE as a starting point. This could be a global solution to addressing the concerns that the ISAs are too complex and challenging to apply to LCE audits. We believe that a separate standalone standard for LCE audits is an appropriate solution to cope with the typical nature and circumstances of an LCE. Referring to the results of a survey conducted by IFAC in June 2019, with respondents from all IFAC member organizations (received over 1000 responses from over 120 countries as per August 2019), showing that more than 85% of respondents considered more than half of their audit clients to be LCE, this finding reinforces the importance of preparing this new standard.
- Provide a clearer foothold for practitioners of LCE in applying appropriate auditing standards and tune out the tendency of "cherry-pick" an element from the complex entities audit requirements (ISAs) to audit an LCE, as was often before these two standards were drafted separately. Here it is also clear that the relevant ISA requirements cannot be used to "top-up" the ED-ISA for LCE in order to overcome the limitations when auditing the LCE.
- Reduce the issue of which standard(s) have been complied with in the auditor's report (for example, it is inappropriate to refer to the ISAs in the auditor's report if the auditor has not fully complied with all ISAs relevant to the audit).
- The ISAs will be too complex, lengthy, overly detailed and challenging to navigate, if each substance must contain an entity scaling or modifications requirements for the LCE. With the consideration that the business complexity and financial reporting will growing rapidly in the future and the audit standard potentially will follow.

#### b. The tittle of the proposed standard

The title of the standard should be distinguished from the existing ISA series by referring specifically to audits of LCE (ISA for LCE). This is meant to avoid confusion about the standalone nature of the standard and ISAs being incorrectly used in conjunction with the standard. We believe this approach to 'titling' is also consistent with the approach used by the



International Accounting Standards Board (IASB) in distinguishing its International Financial Reporting Standard for Small and Medium-Sized Entities (IFRS for SME) from the 'full' International Financial Reporting Standards (IFRS).

**c. Any other matters**

However, there are several possible obstacles that need to be considered before the implementation of the ED-ISA LCE, as follows:

- Determining whether an entity is complex versus one that is less complex is difficult and somewhat arbitrary because an entity may have both complex and less-complex elements. In this case, the auditor would need to determine whether ED-ISA for LCE standard is appropriate for use initially and during the audit considering the qualitative characteristics. We believe the existence of these risks would be a significant barrier to LCE audit practitioners in their decision to adopt the ED-ISA for LCE standard. Although there would inevitably still be a level of judgment involved, we considered that this approach would achieve a better balance between prescription and judgement.
- Stakeholders may be confused as to the differences between an audit performed under the ISAs and under a standalone auditing standard for LCEs. So, this separate standard would need to be clearly distinguished from the ISAs in the practitioner's report in order to avoid any confusion with an ISAs based audit. Besides, we think it would be better if providing local jurisdictions with an option to set further prohibitions or restrictions. Example, for entities that exceed a certain revenue threshold.
- That approach might be viewed by some stakeholders as a low level of assurance work, so we are concerned that audit opinions using the ISAs approach and ISA LCE approach can't be simply equated in some case. Public has an expectation that the audits, specifically from all public entities, are of a uniform level of quality and are comparable across entities regardless of size and complexity. This could have a significant impact on adoption within the Indonesia environment.
- Increased cost, time, and resources maybe required for practitioners to develop methodologies and train audit staff for keep current on two sets of auditing standards.
- However, if the proposed standard was implemented in Indonesia, we caution that the training effort would be the same as it is for the ISAs every time a new or amended standard becomes applicable.

**2. Conforming amendments to the IAASB Preface?**

We agree on the adjustment of the IAASB preface, within the scope of facilitating this new category of international standards, as in the section:

- Added ISA for LCE into "The Authority Attaching to International Standards Issued by the IAASB" section, and
- Adjustment of explanations and details about ISA and ISA for LCE, to avoid scope misperception between the two standards.

**3. Section 4B – Authority of the Standard**

***The authority (or scope) of ED-ISA for LCE, Unintended consequences, Role of legislative, regulatory and relevant local bodies:***

- Although the ED ISA for LCE sets out requirements that, taken together, would fulfil the overall objective of the auditor (i.e., to express an opinion based on the audit evidence obtained),

users may not understand this when they see different auditor's reports, does it use the ISAs approach or ISA for LCE approach. The stakeholders (for example: banks, tax authority, etc) who reads these auditor's reports will not understand the difference why the auditor chooses to audit an entity with ISAs or ISA for LCE. The proposed standard could widen the expectation gap around levels of assurance but it potentially caused confusion in the marketplace.

- We believe professional judgment should be permitted to be applied in establishing whether an entity is an LCE and that application is documented in the engagement file. Further guidance, training and tools would all be necessary implementation supports initially and on an ongoing basis. In particular, Professional Engagement Guide checklists adapted to the proposed standard would be necessary as a clarity to where the standard fits within an assurance hierarchy.

#### **4. Section 4C – Key Principles Used in Developing ED-ISA for LCE**

Our views on the key principles used in developing ED-ISA for LCE:

- Specific classes of entities for which the use of the standard is prohibited, where there will be multiple effects for respective country regulators to determine which companies whose audited financial statements using the ISA for LCE approach are acceptable, and which companies are only accepted if using ISAs. This needs to be clarified to prevent the emergence of different perceptions between practitioners, regulators, and stakeholders who will use the audit report itself.
- Qualitative characteristics, where there will be other considerations from legislative or regulatory authorities or relevant local bodies with standard-setting authority, regarding these qualitative elements. In Indonesia, regulations regarding entity levelling generally use quantitative indicators. We believe that more specific guidance to practitioners is needed, an appropriate to the developing countries environment, to reduce regulatory risk.

#### **5. Regarding the Authority Supplemental Guide:**

In this case, we agree that legislative or regulatory authorities or relevant local bodies with standard-setting authority may set quantitative size criteria (other specific needs that may be relevant in the jurisdiction) in designating for which audits within that jurisdiction the ISA for LCE standard can be used.

#### **6. Any Other Matters Related to the Authority**

We believe guidance about how a practitioner transitions between the standard for LCE and the full ISAs is required. Moving back and forth between the ISA for LCE and the ISAs (in case there are changes in complexity measurement) may cause confusion for the auditors as well as the users of the financial statements who will not be receiving the same type of auditor's report year over year. Consideration would need to be given regarding how to describe comparative figures in such a situation, as those figures would not have been audited using the same standards. As such, any significant changes or complexities should be known at a very early stage in the audit process.

#### **7. Key Principles Use in Developing ED-ISA for LCE**

- There will be group entities that are deemed to be complex and others that are less complex. Auditors should be able to make the determination as to whether the group structure, group control environment, and group accounting processes contribute to the complexity of an entity.
- The approach to the objectives of each Part of the proposed standard (see paragraphs 78-80): Considering the components of the ED SA for LCE are the core of the substance of the

ISAs, we believe that the objectives in the ED SA for LCE and ISAs should be convenient and equivalent, even though both standards have their own scope and goals.

- 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?

#### **8. Section 4E - Content of ED-ISA for LCE**

To answer the question number 11 and 12, the supporting material that has been presented in the Reporting Supplemental Guide (for Authority and Auditor Reporting) is quite useful because it includes limitations for using the (draft) ISA LCE, guidance and examples on modifications to the auditor's report, including a number of full illustrative reports. Furthermore, supplemental should not only about reporting, but also for other provisions that are deemed important, for example relating to materiality, fraud audit, understanding, and assessment of internal control, and others. So, that the ISA for LCE becomes complete and obvious.

#### **9. Section 4F - Other Matters**

##### ***Transitioning between ED-ISA for LCE and the ISAs:***

Aspects contained in the possibility of a transition between the ED-ISA for LCE and ISA are already quite clear. In order to minimize transitions after the acceptance or continuance of the engagement, the specific boundaries and characteristics of the entity should be relevant and detailed in the ED-ISA for LCE. Furthermore, to addressing these challenges, at the time of acceptance or continuance of the engagement agreement from using the DE-ISA for LCE it is necessary to explain that matters of complexity not contemplated by the proposed standard have arisen during the audit, then the audit need to be transitioned to use the ISAs or other applicable auditing standards.

We agree with the explanation in paragraph 138, in accordance with the typical nature and circumstances of an audit of an LCE, not necessarily considered the use of additional "modules," which may contain specific procedures for a more complex topic or area that could be "added on" where needed.

To that end, firms and auditors that perform audits under both sets of standards need to understanding of the "differences" between the ED-ISA for LCE and the ISAs to navigate this situation in a practical manner.

#### **10. Maintenance of ED-ISA for LCE:**

To answer questions 14 and 15, we agree with the proposed approach to the future updates and maintenance of the standard and related supplemental guidance. Likewise, regarding the urgency to adjust the contents of the ED-ISA for LCE when the ISA changes as described in paragraphs 146-148. Therefore, it is allowed to early adoption with any subsequent revisions to the standard, but by considering the complexity of the revision of the standard as well as for adjustment to ISA changes. Therefore, the understanding and limitations of companies and auditors on this standard

need to be properly disseminated. So that if there are revisions to the ISA in the future, the ED-ISA for LCE can immediately adjust.

**11. *Should a separate Part on the ISA-800 series be included within ED-ISA for LCE?***

If there is urgency and it is possible to include the ISA 800-series in the ED-ISA for LCE, then it is necessary. By concentrating on the matters contained in the ISA 800-series, such as explaining in detail how to distinguish between the parties responsible for supervising the preparation of financial statements prepared according to a special framework, as well as other matters related to the ISA 800-series.

**12. *Views of ED-ISA for LCE meet the needs of users and other stakeholders to express an audit opinion***

This standard is likely to be used in our jurisdiction and meets all aspects of stakeholders, as in Indonesia, it is estimated that 90% of businesses are small and medium-sized entities. However, before this standard is established, it is necessary to consider a number of points contained in our response to 1.c (any other matters).

**13. *Section 4G - Approach to Consultation and Finalization***

***What support and guidance would be useful when implementing the proposed standard?***

Supplemental guidance and glossary of terms would be useful when implementing the proposed standard. Supplemental guidance provides additional information that may be of assistance when adopting and implementing the IAASB's proposed International Standard on Auditing for Audits of Financial Statements of Less Complex Entities (ISA for LCE). It has been developed to further explain matters and circumstances that may be relevant in determining the use of the ISA for LCE. Glossary of terms assist in the consistent application and interpretation of the ISA for LCE. The IAASB can add illustrative examples for auditing of Financial Statements of Less Complex Entities and explanation of the IAASB's basis for conclusions with respect to comments received on significant and other matters relating to the ISA for LCE, if needed. The illustrative examples provide clearer examples to auditors how to audit of Financial Statements of Less Complex Entities.

**14. *Translations—recognizing that many respondents may intend to translate the final ISA for LCE in their own environments, the IAASB welcomes comment on potential translation issues noted in reviewing ED-ISA for LCE.***

Potential translation problems that occur include mismatches in terms meaning from English to the translated language.

**15. *Effective Date—Recognizing ISA for LCE is a new standard, and given the need for national due process and translation, as applicable, the IAASB believes that an appropriate effective date for the standard would be for financial reporting periods beginning at least 18 months after the approval of a final standard. Earlier application would be permitted and encouraged. The IAASB welcomes comments on whether this would provide a sufficient period to support effective implementation of the ISA for LCE.***

We suggested that an appropriate effective date for the standard would be for financial reporting periods beginning at least 24 months after the approval of a final standard. Earlier application would be permitted and encouraged. As is the case in the implementation of ISA 315 (Revised 2019) – Identifying and Assessing the Risks of Material Misstatement and ISA 220 (Revised) – Quality Management at the Engagement Level, the effective date for the standard start for financial reporting periods beginning at 24 months after the approval of a final standard. Apart from the need

for a national process and translation into national languages, the jurisdiction, firms and auditors also need to be preparing to apply the new standard.

## **16. Section 5 – Group Audits**

***Based on Specific Matters for Comment from IAASB mainly based on par. 154-157, there are several considerations whether the ED-ISA for LCE should include requirements for group audits and how those considerations have been determined in accordance with section A. Authority of the [Draft] ISA for Audits of Financial Statements of Less Complex Entities par. A.7. The [draft] ISA for LCE shall not be used if: ... (d) The audit is an audit of group financial statements.***

- In our opinion, the ED-ISA for LCE needs to include auditing arrangements in group financial statements but with strict restrictive requirements imposed in the ED-ISA for LCE, as follows:
  - a. Parent and component are not included in the category of complex entities

If parent and component are not included in the complex entity category in accordance with the Specific Prohibitions and Qualitative Characteristics requirements set out in section A. Authority of the [Draft] ISA for Audits of Financial Statements of Less Complex Entities in the ED-ISA for LCE, we believe it is possible to audit the group financial statements with ISA for LCE.
  - b. A Component is a non-significant component, and it is not included in the category of a complex entities

For group financial statements that use ISA, some component's financial statements that fulfil the LCE criteria may use ISA for LCE. These criteria must be met cumulatively which need to be made in more detail and can be applied, including:

    - The component is not categorized as complex entities according to the Specific Prohibitions and Qualitative Characteristics requirement that have been regulated in the A. Authority of the [Draft] ISA for Audits of Financial Statements of Less Complex Entities in the ED-ISA for LCE
    - Judgment by the auditor that the component showed non-significant criteria and did not require additional audit procedures other than performing analytical procedures in accordance with ISA 600 par 29
- Clarify the implementation to audit of group financial statements, in case:
  - a. The parent is significant, but there is a component that non-significant, is it possible if the component use ISA for LCE?
  - b. The parent is an issuer, but only as a holding (not conducting operational activities) and the dominant business activity is in the component, is it possible if the parent or component use ISA for LCE?

## **17. Respondents in public practice are asked to share information about the impact of excluding group audits from the scope of ED-ISA for LCE on the use of the proposed standard. In particular: What common examples of group structures and circumstances within your practice would be considered a less complex group.**

There is no clear definition of less complex entities/groups in our jurisdiction. The structure and state of the group will be considered similar to that of a less complex group within our practice are micro, small and medium enterprises (MSMEs). Regulations on MSMEs are regulated in Government Regulation no. 7 of 2021 concerning Ease, Protection, and Empowerment of

Cooperatives and Micro, Small, and Medium Enterprises. We set out quantitative characteristics for MSMEs. The MSMEs are grouped based on the criteria for net asset or annual sales. Based on net asset which is excluding land and buildings for: (1) Micro Enterprises: maximum IDR 1 billion; (2) Small Enterprises: more than IDR 1 billion – maximum IDR 5 billion; and (3) Medium Enterprises: more than IDR 5 billion– maximum IDR 10 billion. Based on annual sales: (1) Micro Enterprises: maximum IDR 2 billion; (2) Small Enterprises: more than IDR 2 billion – maximum IDR 15 billion; and (3) Medium Enterprises: more than IDR 15 billion – maximum IDR 50 billion.

**18. If group audits are to be included in the scope of ED-ISA for LCE, the IAASB is looking for views about how should be done (please provide reasons for your preferred option):**

- a) The IAASB establishes a proxy(ies) for complexity for when the proposed standard may be used (“Option 1 - see paragraph 169); or**
- b) ED-ISA for LCE sets out qualitative characteristics for complexity specific to groups (Option 2 - see paragraph 176), to help users of the proposed standard to determine themselves whether a group would meet the complexity threshold.**

We choose option (b) ED-ISA for LCE sets out qualitative characteristics for complexity specific to groups, to help users of the proposed standard to determine themselves whether a group would meet the complexity threshold. We argue if qualitative characteristics are used to determine whether the proposed standard is appropriate to use for a group audit, the standard will be more clearly applied. The qualitative characteristics, for example: the complexity of the group’s structure; the geographic locations of the group’s operations; the structure and complexity of the group’s IT environment and IT systems; relevant regulatory factors, including the regulatory environment; the ownership, and relationships between owners and other people or entities, including related parties, and the consolidation process used by the group (e.g., sub-consolidations and consolidation adjustments), help users of the proposed standard determine themselves whether a group would meet the complexity threshold for the purpose of using ED-ISA for LCE. Further explanation regarding the qualitative characteristics can be described clearly in the supplemental guidance and the illustrative examples.

**19. Proposed Presentation of the Group Audits Requirements in the ISA for LCE**

**If group audits are included in ED-ISA for LCE, how should the relevant requirements be presented within the proposed standard (please provide reasons for your preferred option):**

- a) Presenting all requirements pertaining to group audits in a separate Part; or**
- b) Presenting the requirements pertaining to group audits within each relevant Part.**

If group audits are included in ED-ISA for LCE, the relevant requirements pertaining to group audits is presenting within each relevant Part. With such a presentation format, it can make it easier for standard users and auditor to understand the standard and performing audit. The auditor would have access to all relevant requirements organized in the flow of the audit which is consistent with how the proposed standard has been developed. In those circumstances when the requirements for group audits apply, the auditor would have easy access to the group audit procedures in the flow of the audit, and would not have to refer to another Part to determine the relevant requirements.