

December 10, 2021

International Auditing and Assurance Standards Board  
529 Fifth Avenue  
New York, NY 10017

**Re: Exposure Draft: Proposed International Standard on Auditing for Audits of Less Complex Entities (ISA for LCE)**

Thank you for the opportunity to comment on this Exposure Draft (“ED”).

MNP LLP (“MNP”) is one of Canada’s largest chartered professional accountancy and business advisory firms. Our client base is focussed on small to mid-size businesses covering a broad range of industries including agriculture, agribusiness, retail and manufacturing as well as credit unions, co-operatives, Indigenous communities and businesses, medical and legal professionals, not-for-profit organizations, municipalities, government entities, and publicly traded companies. We believe that we are positioned well to provide feedback on this ED for a standalone auditing standard for audits of Less Complex Entities (LCEs).

Canadian Audit Standards (CAS) are directly based on the ISAs. Increasingly, our practitioners, those charged with governance and client management are challenged with whether the CAS are fit-for-purpose when applied to small and medium sized entities (SMEs). As one example, many SMEs may not have formalized or evidenced internal control and risk-assessment processes. Certain aspects of the revised ISA 315 may be both onerous and of little value to the quality of these audits. According to the government of Canada<sup>1</sup>, SMEs make up the vast majority of businesses in Canada and provide the vast majority of employment. We believe an auditing standard focussed on less complex entities is necessary for efficient, effective assurance SMEs require when attracting new investment.

Moreover, to have the intended impact of a globally consistent set of assurance standards eliminating or reducing the usage of divergent national standards, the LCE standard should be as broadly applicable as possible.

We also note that both in Canada, and globally, the attractiveness of audit as a profession is being examined. Firms in Canada are experiencing a rapid shift in the ability to attract and retain talented individuals. We believe that standards sharply focussed on the needs of SMEs is a critical element of the attractiveness of the profession to the majority of our practitioners and accordingly, to have the capacity to meet the assurance needs of the broader economy.

**Questions**

**Question 4: Do you agree with the proposed limitations relating to the use of ED-ISA for LCE? If not, why and what changes (clarifications, additions or other amendments) need to be made?**

**Please distinguish your response between the:**

- (a) **Specific prohibitions; and**
- (b) **Qualitative characteristics.**

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<sup>1</sup> [Key Small Business Statistics — 2020 - SME research and statistics](#)

**If you provide comments in relation to the specific prohibitions or qualitative characteristics, it will be helpful to clearly indicate the specific item(s) which your comments relate to and, in the case of additions (completeness), be specific about the item(s) that you believe should be added and your reasons.**

We agree with some of the proposed limitations relating to the use of ISA for LCE, however there are a number of areas where we do not agree with the limitations or we believe further clarification is needed.

#### Public interest characteristics

We believe that further clarification is needed with regards to public interest characteristics that may unduly prohibit a practitioner from using the LCE standard where it is otherwise an appropriate choice. We perform audits for Indigenous groups, municipalities, and local school divisions who all follow Public Sector Accounting Standards. Although these groups may be in the public interest, they generally are not complicated entities and are likely to be eligible for the LCE standard when considering the qualitative considerations. However, stakeholders may be confused or apprehensive about LCE standards which may deter their use. We also perform audits for not-for-profits and cooperatives which are less complex however they may be perceived as being or actually are in the public interest, even though they don't meet the characteristics per paragraph A.7(c) in the ED. We recommend adding essential explanatory material for paragraph A.5 to specify that ISA for LCE may be appropriate even for public sector entities, not-for-profit organizations, or cooperative entities.

#### Organizational structure

Paragraph A.9 describes one of the characteristics of complexity as "ownership or oversight structures [that] are complex". Oftentimes complex structures exist for the purposes of tax planning, however these are not indicative of complexity in a way that would impact our audit efforts or the needs of the users. We believe that further clarification should be provided so it is specific that the complexity of the ownership or oversight structure is such that it impacts the complexity of the audit or that this characteristic should be removed.

#### Complexity of users vs. complexity of entity

We believe that the authority of the ISA for LCE standard combines the complexity of the entity with the complexity of the userbase. As ISA for LCE is designed to achieve a level of reasonable assurance, regardless of the user. It should not matter who the users are or how many there are. While increased users (e.g., more widely held, publicly traded) is an audit consideration, this isn't a characteristic of the entity itself and should not factor into the entity's complexity determination.

#### New/emerging markets and development stage companies

Paragraph A.9 also presumes that entities operating in new or emerging markets or entities in the development stage increase the complexity of the audit. Many development or exploration stage entities in a number of industries are less complex, from extractive industries through to biotech industries. We believe this language should be softened (e.g., "may increase the complexity of the audit") or removed to prevent truly less-complex entities from being scoped out of the ISA for LCE standard.

#### Accounting estimates

Paragraph A.9 includes the characteristic of "...accounting estimates [that] are subject to a higher degree of estimation uncertainty or the measurement basis requires complex methods...". We believe there are

many entities that should be considered less complex, however contain one or two accounting estimates with a higher degree of estimation uncertainty. For example, there may be entities in the agriculture industries that have simple, less-complex operations however they have livestock (e.g., cattle) or fruit orchards that are treated like a complex estimate in audit due to the data and computations used. As well, if any intangible rights or goodwill are determined to be complex estimates, this will exclude a significant number of entities that otherwise would have been deemed to be less complex.

We expect that this qualitative characteristic will come up for many LCEs that undergo business combinations given there are typically more complicated estimates involved. This results in one year where the entity is deemed complex followed by the entity being deemed less complex in subsequent years. This will have further impacts on the audit opinion and the users' perception of the audit report when practitioners are required to report using the LCE standard and then having to change to the full suite of ISAs due to the business combination (i.e., audit report's prepared in accordance with different auditing standards). We believe that a practitioner should be able to use the ISA for LCE standard, consistently year-to-year, in scenarios where there are a limited number of estimates.

**Question 10: For Part 9, do you agree with the approach taken in ED-ISA for LCE with regard to auditor reporting requirements, including:**

- (c) **The presentation, content and completeness of Part 9.**
- (d) **The approach to include a specified format and content of an unmodified auditor's report as a requirement?**
- (e) **The approach to providing example auditor's reports in the Reporting Supplemental Guide.**

We agree with the approach to include a specified format and content as a requirement, except for where the auditor's report references the audit as being performed in accordance with ISA for LCE. We believe that having the auditor's report reference a separate ISA may cause confusion amongst report users or create a false perception that ISA for LCE provides a lesser level of assurance. In certain scenarios with two-year opinions, this can result in two different auditing standards being referenced in the auditors' report. If an audit of a LCE under the proposed standard achieves the same level of reasonable assurance as an audit in accordance with the extant ISAs, and as stated in paragraph 101 of the ED, "it is not envisioned that ED-ISA for LCE will necessarily reduce the core procedures the auditor is required to perform to support the overall quality of the audit", we believe it would reduce the risk of misunderstanding by containing the ISA for LCE within the existing catalogue of ISAs (e.g., as ISA 1000) in order to keep the auditor's report reference to the auditing standards the same regardless of which audit approach is taken.

**Question 13: Please provide your views on transitioning:**

- (a) **Are there any aspects of the proposed standard, further to what has been described above, that may create challenges for transitioning to the ISAs?**
- (b) **What support materials would assist in addressing these challenges?**

We believe there will be challenges for transitioning to the ISAs from ISA for LCE. We believe that based on the current drafting of the authority of the standard, audit teams will often encounter transactions (e.g., business combinations, transactions outside the normal course of business that involve estimates) that would prohibit the use of the ISA for LCE standard in a subsequent audit period. These transactions may not occur until near period-end, after planning has already been completed. This would increase time

pressure for the audit team to transition from ISAs for LCE to ISAs. The audit team would need to re-establish the terms of the engagement, reissue communications with those charged with governance, and “restart” some of their planning activities, which could impact an entity’s perception of the audit process and the auditing standards. Additionally, there may be incremental procedures that need to be performed over prior year balances or transactions. We recommend that ISA for LCE be expanded and clarified such that less entities would be scoped out by these type of one-time transactions.

**Question 16: Should a separate Part on the ISA-800 series be included within ED-ISA for LCE? Please provide reasons for your response.**

We believe that a separate Part on the ISA-800 series should be included within ED-ISA for LCE. There are many circumstances where we perform audits over special purpose financial statements for less complex entities. We do not expect it to require a high level of effort in order to incorporate these sections into the new standard, therefore it would be better to include now than to consider including after the new standard is effective.

**Question 17: In your view, would ED-ISA for LCE meet the needs of users and other stakeholders for an engagement that enables the auditor to obtain reasonable assurance to express an audit opinion and for which the proposed standard has been developed? If not, why not. Please structure your comments to this question as follows:**

- (a) **Whether the proposed standard can, and will, be used in your jurisdiction.**
- (b) **Whether the proposed standard meets the needs of auditors, audited entities, users of audited financial statements and other stakeholders.**
- (c) **Whether there are aspects of the proposed standard that may create challenges for implementation (if so, how such challenges may be addressed).**

Overall, we believe that ED-ISA for LCE would meet the needs of users and other stakeholders. We believe that this standard will be particularly useful to smaller audit practitioners that find the current set of ISAs too cumbersome. We do, however, believe that some changes should be made (as described throughout this response) in order to facilitate its broad usage for audit practitioners and to reduce the chance of misinforming audit report users.

We believe including a statement that the audit was performed in accordance with ISAs for LCE may confuse users, especially when transactions arise that prohibit the engagement team from using the standard from one year to another (i.e., having the prior year reported under ISA for LCE, the current year under ISAs, then the subsequent year under ISA for LCE). Having the standalone standard within the suite of existing ISAs and keeping a consistent audit report would eliminate this confusion.

**Question 22: The IAASB is looking for views on whether group audits should be excluded from (or included in) the scope of ED-ISA for LCE. Please provide reasons for your answer.**

We believe that group audits should be included in the scope of ED-ISA for LCE. An entity having components does not necessarily add to the complexity of the entity. 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.

**Question 24: 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 are in favour of using qualitative characteristics to determine the complexity specific to groups as no two group entities are the same. This encourages the use of professional judgement. Establishing a proxy (or proxies) for complexity of group audits may unnecessarily preclude certain group entities that are actually less complex and allow for certain group entities that are complex.

**Question 26: 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.**

As ISA 600 is a separate standard, we believe keeping that consistency and having a separate part in addition to Part 1 to Part 9 would make the most sense for including group audit requirements. This would reduce the amount of unnecessary information that auditors of non-group LCEs would have to filter through when using the standard.

We would be pleased to offer assistance to the IAASB in further exploring issues raised in our response or in finding alternative solutions.

Yours truly,

**MNP LLP**

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