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Board
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Subject: IAASB ED-ISA for LCE

Dear Sir,

The Compagnie Nationale des Commissaires aux Comptes (CNCC) and the Conseil Supérieur de l'Ordre des Experts-Comptables (CSOEC) are pleased to provide you with their comments on the Proposed International Standard on Auditing for Audits of Financial Statements of Less Complex Entities (ISA for LCE).

It is a statement of fact that smaller, less complex entities (LCEs) make a critical contribution to the world economy and account for the great majority of audits globally. At the same time, the audit of increasingly complex structures and transactions have been addressed through the constant development and revision of the International Standards on Auditing (ISAs) leading to a complexification of the ISAs themselves. We are concerned that reflecting this increasing complexity in the ISAs could pose challenges for the audits of less complex entities.

The two French institutes have always valued the audit of smaller and less complex entities to protect the economy and France felt very early the need to address the specifics of the audit of smaller and less complex entities and therefore developed a specific, standalone standard for such entities. This standard was established on the same basis as the ISAs, i.e. with the following basic principles: reasonable assurance, sufficient appropriate audit evidence, professional skepticism, professional judgment, full compliance with the Code of Ethics.

Conscious that many countries were developing their own standards for the audit of LCE, the Compagnie Nationale des Commissaires aux Comptes (CNCC) and the Conseil Supérieur de l'Ordre des Experts-Comptables (CSOEC) initiated with the IAASB the first two "Paris Conferences" to address

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the specifics of LCEs and their audits and to have an overview of the initiatives launched in the different jurisdictions, including France.

In such a context, we fully support the proposed ISA for LCE.

We particularly support the following criteria of the ISA for LCE:

- the nature of the standard: a separate standalone standard with essential explanatory material (EEM);
- the level of assurance provided: reasonable assurance;
- the scope of the standard (i.e. LCEs) and its limitations, including group audits in a first step;
- the overall design and structure of the standard;
- the fact that specific ISA requirements cannot be used to top-up a requirement from ED-ISA for LCE to address a particular circumstance.

Furthermore, we believe that to ensure success of the standard and to gain buy-in from all stakeholders, it is crucial that the IAASB implement the following actions:

- develop an appropriate communication plan to accompany the issuance of the standard, with the following key messages:
 - ISA for LCE provides the same level of assurance as the ISAs, namely a reasonable assurance;
 - the ISA for LCE is tailored to the context of less complex entities, i.e. it has been built upon the ISAs and the requirements that were not relevant to less complex entities have been removed;
 - the use of the ISA for LCE is subject to the auditor's professional judgment in determining the appropriateness of using the standard, based on the entity's characteristics.
- explain the key differences between an audit conducted in accordance with the ED-ISA for LCE and an audit conducted in accordance with the ISAs and how to transition from one audit to the other. The underlying mapping document should be issued and updated regularly;
- promote the development of appropriate guidance and tools to support the auditors' use of the ISA for LCE.


We consider that the implementation of these measures will affect positively the perception of the value of the audit for LCEs and acceptance of the proposed standard.

Responses to specific questions raised in the Exposure Draft are set out below.

If you have any questions about our views on these matters, please do not hesitate to contact us.

Yours faithfully,


Yannick Ollivier
President of CNCC

Lionel Canesi
President of CSOEC


Specific Questions

Section 4A – Overarching Positioning of ED-ISA for LCE

1. Views are sought on:

- (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?

As mentioned above, we fully support the standalone nature of the proposed standard for audits of LCEs. The standalone nature of this standard is completely in line with the one that France chose for its own standard relating to the audit of small entities.

With respect to the conditions of use of the proposed standard, we believe that they should be clarified in the standard itself. We believe, in particular, that the principles set in paragraph 26 of the explanatory memorandum (which explains that cherry picking specific paragraphs of the ISAs to address a particular circumstance in the audit of an LCE (for example a complex estimate by referring to ISA 540) is not permitted) is not sufficiently reflected in the draft ISA. Therefore, we consider that paragraph A9 of the draft ISA for LCE should be amended to reflect the principle set in paragraph 26 of the explanatory memorandum i.e. relevant ISA requirements cannot be used to “top-up” ED-ISA for LCE in order to address a particular circumstance.

- (b) The title of the proposed standard.

We have no specific comment to make regarding the title of the proposed standard.

- (c) Any other matters related to ED-ISA for LCE as discussed in this section (Section 4A).

For educational reasons, we consider it is important for the IAASB to establish an appropriate communication plan to promote the new standard, with the following key messages:

- ISA for LCE provides the same level of assurance as the ISAs, namely a reasonable assurance;
- ISA for LCE is tailored to the context of less complex entities, i.e. it has been built upon the ISAs and the requirements that were not relevant to less complex entities have been removed;
- the use of the ISA for LCE is subject to the auditor’s professional judgment in determining the appropriateness of using the standard based on the entity’s characteristics.

2. Do you agree with the proposed conforming amendments to the IAASB Preface (see paragraphs 39-40)? If not, why not, and what further changes may be needed?

Yes, we agree with the proposed conforming amendments to the IAASB Preface. However, we have the following comments:

- For a better link between paragraph 5 and 6 of page 166, we consider that it would be appropriate to add at the end of paragraph 5 “unless ISA for LCE is applied”. Paragraph 5 would become “International Standards on Auditing (ISAs) are to be applied in the audit of historical financial information, unless ISA for LCE is applied”;
- Paragraph 13 of the conforming amendments to the preface (page 167) refers to the authority of the ED-ISA for LCE being set in “the preface and part A of the standard”¹. However, these references do not include paragraphs 1.4.3 (Part 1 – Fundamental Concepts, General Principles and

¹ “The ISA for LCE is written in the context of an audit of financial statements of a less complex entity by an independent auditor. The authority of the ISA for LCE is set out in the preface and part A of the standard”

Overarching Requirements) and 2.5.4 (part 2 – Audit Evidence and Documentation) of the draft ISA. These two paragraphs clearly explain that, in exceptional circumstances, the auditor may judge it necessary to depart from a relevant requirement of the proposed standard.

This fundamental principle (possibility to depart from a relevant requirement of the standard in certain circumstances) is however clearly mentioned in the ISA (paragraph 12) and the other international standard (paragraph 17).

We consider that this principle should also be included in paragraph 13 of the conforming amendments to the preface dealing with the ISA for LCE. Therefore, we consider that paragraph 13 should be amended either to delete the reference to the preface and part A of the standard and refer only to the whole standard or to include the content of paragraph 17².

However, we also caution the IAASB that this possibility given to the auditor, in exceptional circumstances, to depart from relevant requirements of the ISA for LCE should not open the door for the auditor to cherry-pick and use certain relevant ISA requirements to “top-up” ED-ISA for LCE to address specific circumstances of the audit. We recommend that this possibility of departure from requirements of the standard be clearly limited in this sense.

Section 4B – Authority of the Standard

3. Views are sought on the Authority (or scope) of ED-ISA for LCE (Part A of the proposed standard). In particular:

(a) Is the Authority as presented implementable? If not, why not?

Yes, we consider that the Authority of the standard as presented is implementable.

However, we recommend replacing the term “Authority” by “Scope” because, in fact, the authority can only be given by law or regulation or by an official third party.

(b) Are there unintended consequences that could arise that the IAASB has not yet considered?

Because the proposed standard includes fewer requirements than the full suite of ISA, and despite the fact that the core requirements of the ISAs have been maintained, we believe that there is a risk that the ED-ISA for LCEs will nevertheless be perceived as a downgraded audit, compared to an audit conducted in full ISAs. This could lead to a significant damage to the value of the LCE audits.

Therefore, we believe it is fundamental that the IAASB provides a clear communication message with the issuance of the standard explaining to stakeholders that:

- an audit properly performed in accordance with the standard will result in the same quality as an audit properly performed in accordance with ISAs;
- an audit properly performed in accordance with the standard will result in the same level of assurance as an audit properly performed in accordance with ISAs.

Hence, we believe that an umbrella paragraph introducing the proposed standard would be appropriate to explain that an audit conducted in accordance with the ISA for LCE is not “downgraded” from that

² “The basic principles and essential procedures of a Standard are to be applied in all cases where they are relevant in the circumstances of the engagement. In exceptional circumstances, however, a professional accountant may judge it necessary to depart from a relevant essential procedure in order to achieve the purpose of that procedure. When such a situation arises, the professional accountant is required to document how alternative procedures performed achieve the purpose of the procedure and, unless otherwise clear, the reasons for the departure. The need for the professional accountant to depart from a relevant essential procedure is expected to arise only where, in the specific circumstances of the engagement, that procedure would be ineffective.”

conducted in accordance with the ISAs, but merely tailored to the less complex characteristics of the LCEs.

(c) Are there specific areas within the Authority that are not clear?

With respect to the Authority's specific areas of the draft ISA, the IAASB will have to amend the draft standard to take into consideration the new PIE definition of the International Code of Ethics for Professional Accountants (including International Independence Standards).

(d) Will the Authority, as set out, achieve the intended objective of appropriately informing stakeholders about the scoping of the proposed standard?

Considering the comments made above, we believe that the Authority of the draft standard, as set out, will achieve the intended objective of appropriately informing stakeholders about the scoping of the proposed standard.

(e) Is the proposed role of legislative or regulatory authorities or relevant local bodies with standard setting authority in individual jurisdictions clear and appropriate?

Yes, it is clear that additional restrictions can be imposed by local bodies on the use of the standard.

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.

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 the proposed limitations relating to the use of ED-ISA for LCE, both in terms of specific prohibitions and qualitative characteristics. We also agree that audit firms are responsible for establishing policies or procedures in relation to the permitted use of ED-ISA for LCE.

5. Regarding the Authority Supplemental Guide:

(a) Is the guide helpful in understanding the Authority? If not, why not?

Yes, we consider that the Authority Supplemental Guide could be helpful to understand the Authority of the standard, but we have the following concerns.

We find the table in paragraph 28, which provides examples of characteristics of complexity for the entity to qualify or not as a LCE, to be too binary (green tick mark / red cross) in its presentation. We believe it would be more appropriate to present the qualitative characteristics listed as criteria to be considered rather than the pass or fail approach which seems to be implied in the actual presentation of the table of paragraph 28.

If we go into more details, we have the following concerns:

- some characteristics mentioned in paragraph 28, such as the ownership structure (single shareholder), technological obsolescence of products/ services, entity characteristics (start-up) seem to be treated in too binary a way and the positions taken may be challenged, especially with regard to the entities in the start-up stage of their life cycle;

- the table in paragraph 28, as it is presented, seems to wrongly exclude professional judgment when deciding whether an entity is complex or not.

We are not opposed to the IAASB developing a tool in the supplemental guidance to the standard, but we consider that the format of paragraph 28 needs to be rethought.

Otherwise, such a table could lead to the conclusion that the audit is simply a series of questionnaires that the auditor answers by ticking boxes.

- (b) Are there other matters that should be included in the guide?

Please refer here above.

6. Are there any other matters related to the Authority that the IAASB should consider as it progresses ED-ISA for LCE to finalization?

We consider that the auditor's report (in the Auditor's responsibilities for audit of the financial statements section) should state that the auditor has exercised professional judgment in assessing the appropriateness of using ED-ISA for LCE for the entity concerned.

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

7. Views are sought on the key principles used in developing ED-ISA for LCE as set out in this Section 4C. Please structure your response as follows:

- (a) The approach to how the ISA requirements have been incorporated in the proposed standard (see paragraphs 74-77).

We agree that ED-ISA for LCE provides reasonable assurance. We also welcome the effort made to reduce the number of requirements as well as the number of Application and other Explanatory Material paragraphs to keep only the "Essential Explanatory Material".

However, we believe that the IAASB needs to do more education and clearly explain the differences between (1) the full set of ISAs and (2) the ED-ISA for LCE. A mapping document between the full set of ISAs and ED-ISA for LCEs already exists but it is difficult to see the key differences in principles. To obtain the buy-in of the LCE project, we believe that the IAASB should provide an overview of the main differences between an audit conducted in accordance with (1) the full set of ISAs and (2) with the ED-ISA for LCE.

In our opinion, this analysis should be built around the following two objectives: (1) presentation of the key differences between an audit "LCE" versus an audit in full ISAs and (2) explanation of what additional work needs to be done to transition from an audit "LCE" to an audit "full ISA".

However, based on our understanding of this ED-ISA for LCE, it is difficult to argue that an audit conducted in accordance with ED-ISA for LCE is simpler than an audit conducted in full ISAs (smart application of the ISAs). Indeed, we do not consider that there is less work to be done.

Regarding audit procedures on internal controls and accounting estimates, we understand that the IAASB has based the content of the requirements in the ED-ISA for LCE on recently approved ISA 315 (revised) and ISA 540 (revised) respectively. Although we support the robustness of these revised standards, we are of the view that further simplification is possible to meet the needs of audits of LCEs. It seems to us that the granularity of the requirements that have been included will drive a detailed granularity of documentation that is not necessary considering the scope of the LCE (simpler internal control environment, less formalized internal control procedures, less complex estimates...). We strongly encourage IAASB to further simplify these parts of the ISA for LCE.

In addition, as the ISA for LCE is a principle-based standard, there would be a need for the IAASB to provide operational tools (e.g., guidance to compute materiality under ED-ISA for LCE), further guidance and appropriate practical examples.

(b) The approach to the objectives of each Part of the proposed standard (see paragraphs 78-80).

We agree with the approach retained. We have no comment to make.

(c) The principles in relation to professional skepticism and professional judgement, relevant ethical requirements and quality management (see paragraphs 81-84).

We have no comment to make.

(d) The approach to EEM (see paragraphs 85-91) including:

(i) The content of the EEM, including whether it serves the purpose for which it is intended.

(ii) The sufficiency of EEM.

(iii) The way the EEM has been presented within the proposed standard.

We fully support the approach taken by the IAASB to limit application material to cases where it was considered that explanatory material was crucial to support the requirements or concepts used.

Section 4D – Overall Design and Structure of ED-ISA for LCE

8. Please provide your views on the overall design and structure of ED-ISA for LCE., including where relevant, on the application of the drafting principles (paragraph 98-101).

We have no concern with the overall design and structure of ED-ISA for LCE. We have only one formal remark on the flow chart page 27. We propose to mention that parts 1 to 3 are “applicable to all entities” and that parts 4 to 9 are “specific to each engagement”. This would make the chart more explicit.

Section 4E – Content of ED-ISA for LCE

9. 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.

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.

Finally, we consider that the links between the following topics should be further explained, i.e. audit sampling, tests of controls, tests of details, substantive procedures. These clarifications could be developed either in parts 7.3.5 to 7.3.10 of the draft ISA for LCE or in a separate application guide.

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

(a) The presentation, content and completeness of Part 9.

Yes, we agree with the approach taken by the IAASB.

We have however the following concerns. We consider it is important to emphasize the need for the auditor to exercise professional judgment in deciding whether to use the ED-ISA for LCE. This analysis and the exercise of professional judgment by the auditor should be specified in the section “Auditor’s responsibilities for the audit of financial statements” of the auditor’s report.

In addition, we recommend that the IAASB develops further guidance on when it is necessary to move from ED-ISA for LCE to full ISAs and vice versa and explains the impacts on the work effort.

- (b) The approach to include a specified format and content of an unmodified auditor's report as a requirement?

Yes, we agree with the approach taken in the ED to include a specified format and content of an unmodified auditor's report as a requirement.

- (c) The approach to providing example auditor's reports in the Reporting Supplemental Guide.

Yes, we agree with the approach taken in the ED to providing example auditor's reports in the Reporting Supplemental guide, but only if hyperlinks are incorporated into the handbook and allow easy access to the other examples of auditor's reports.

11. With regard to the Reporting Supplemental Guide:

- (a) Is the support material helpful, and if not, why not?

Yes, we consider that the support material is helpful.

- (b) Are there any other matters that should be included in relation to reporting?

We do not have any other matters to mention.

12. Are there any areas within Parts 1–9 of the proposed standard where, in your view, the standard can be improved? If so, provide your reasons and describe any such improvements. It will be helpful if you clearly indicate the specific Part(s) which your comments relate to.

We do not have any other matters to mention.

Section 4F – Other Matters

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?

Please refer to our response to question paragraph 7(a).

- (b) What support materials would assist in addressing these challenges?

Please refer to our response to question 10 (a).

14. Do you agree with the proposed approach to the future updates and maintenance of the Standard and related supplemental guidance?

Recent revisions to ISAs have mainly focused on public interest entities and complex matters. We believe that this trend will continue.

Thus, we believe that revisions of the Standard should only be made when the changes are relevant for the audit of LCEs. Only changes / amendments that are relevant to the Standard and those that are necessary to maintain the level of reasonable assurance and the audit quality should be considered. Therefore, we do not support systematic updates of the ED-ISA for LCE and the related supplemental guidance based on the revisions of the ISAs. We prefer a case-by-case analysis. However, because it is so central to the expectation gap, we believe that fraud should be given particular attention in the updating and maintenance of the Standard and the related supplemental guidance when the work currently undertaken by the IAASB on fraud will be finalized.

Finally, even though we ask for a stable platform on the ISA for LCE, we nevertheless recommend that the mapping document (ISA/ISA for LCE) be updated regularly. In particular, we believe that updating and maintaining the mapping document is essential to support the audit quality conducted in accordance with ED-ISA for LCE and to justify its relevance. Such procedures contribute to the foundations of the Standard.

15. For any subsequent revisions to the standard once effective, should early adoption be allowed? If not, why not?

Yes, we agree that early adoption should be allowed.

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

Yes, we believe that it might be interesting to include a separate Part on the ISA-800 within the ED-ISA for LCE, but at a later stage. It is not a major and urgent problem at this stage.

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.

Yes, we confirm that the proposed standard can and will be used in our jurisdiction.

(b) Whether the proposed standard meets the needs of auditors, audited entities, users of audited financial statements and other stakeholders.

Subject to the comments made above, we consider that the proposed standard meets the needs of the 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).

We have no further comments beyond those already mentioned.

18. Are there any other matters related to ED-ISA for LCE that the IAASB should consider as it progresses the proposed standard to finalization?

We do not have any other matters to mention.

Section 4G - Approach to Consultation and Finalization

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

We believe that the many useful guides that have been developed by SMP AG of IFAC for the audit of SMEs should be updated as soon as possible to fit the ISA for LCE standard.

20. 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.

The draft standard as proposed is easy to understand and it usually uses plain English with a few exceptions.

21. **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 believe that the suggested period for the effective date is sufficient and consistent with the process retained for the other ISAs.

Section 5 – Group Audits

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.

Yes, we support, at this stage, the exclusion of group audits from the scope of the ED-ISA for LCE.

We think it is important that the IAASB focuses on less complex entities as a first step. Once the ISA for LCEs will be finalized and adopted, it will then be possible to assess whether it is appropriate to address less complex group audits in the ED-ISA for LCE, or in a separate standard, in a second phase. At this stage, we favor the policy of small steps. We therefore agree to exclude the group audits from the ED-ISA for LCE.

23. 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:

- (a) Would you use the standard if group audits are excluded? If not, why not?

Yes, we will use the standard if group audits are excluded.

- (b) Approximately what % of the audits within your firm or practice would be group audits that would likely be able to use ED-ISA for LCE (i.e., because it is likely that such group audits could be considered less complex entities for the purpose of the proposed standard) except for the specific exclusion?

We have no comments to this question.

- (c) What common examples of group structures and circumstances within your practice would be considered a less complex group.

We consider that a group with 2 or 3 wholly owned subsidiaries could be an example of group structure and circumstances considered as a less complex group.

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.

As mentioned above, we agree to exclude groups from the ED-ISA for LCE as a first step. Then in a second phase (in 2 or 3 years), the IAASB will be able to assess whether it is appropriate to use ISA for less complex groups. ISA 600 has just been revised. The auditors need time to be comfortable with this

new standard. Let's apply LCE first as actually proposed, and we will see in 2 – 3 years whether ED-ISA for LCE can be used for less complex groups.

25. Are there other ways that group audits could be incorporated into the scope of the proposed standard that is not reflected in the alternatives described above? For example, are there proxies for complexity other than what is presented in paragraph 169 that the IAASB should consider?

Yes, we consider that there are proxies for complexity other than what is presented in paragraph 169 that the IAASB should consider. These include for example the number of subsidiaries, their size, the complexity of the group's tax system, the accounting framework (the same for all subsidiaries?), the use of a shared service center abroad. These characteristics must be assessed on a case-by-case basis. None of the indicator detailed in paragraph 169 should be considered in a mechanical and systematic way to confirm the concept of complexity.

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.

If group audits are included in ED-ISA for LCE, we consider that the requirements for group audits should be presented in a separate Part, otherwise it could make the standard too complex and unclear.