

OPTIONAL RESPONSE TEMPLATE: PROPOSED ISA FOR LCE**Guide for Respondents**

- The International Auditing and Assurance Standards Board (IAASB) has published this separate Microsoft Word document for respondents to use for submitting their comments, if they wish. The questions below are from the exposure draft of proposed International Standard on Auditing for Audits of Financial Statements of Less Complex Entities Management (ED-ISA for LCE), which is available at www.iaasb.org/publications/exposure-draft-proposed-international-standard-auditing-financial-statements-less-complex-entities.
- Respondents are asked to comment on the clarity, understandability and practicality of application of ED-ISA for LCE. In this regard, comments will be most helpful if specific aspects of ED-ISA for LCE are identified and the reasons for any concerns along with suggestions for improvement, are included. Specific suggestions for any proposed changes to wording in ED-ISA for LCE are also welcome.
- **Respondents are free to address only questions relevant to them, or all questions.** When a respondent agrees with the proposals in ED-ISA for LCE, it will be helpful for the IAASB to be made aware of this view as support for the IAASB's proposals cannot always be inferred when not explicitly stated.
- We request that comment letters do not include tables as they are incompatible with the software we use to help analyze respondents' comments.

Comments are requested by January 31, 2022

Name of Respondent:

Austrian Chamber of Tax Advisors and Public Accountants

Organization (*where relevant*):

Country/Region/Jurisdiction:

Austria, Vienna, Single Jurisdiction

General Comments on Proposed ISA for LCE

Response: We fully support the IAASB's initiative to develop an audit standard for LCE audits. It is an important step to increase the efficiency of LCE audits. Depending on the responses received the IAASB should not shy away from a second exposure draft if it is needed. Quality is paramount and not to act promptly.

We acknowledge the quality of the ISA for LCE standard summarizing the requirements for relevant audits in a less complex environment. We did not identify any material differences in audit procedures and requirements between full ISA scaled for small and medium sized entities and ISA for LCE. Hence, we recommend that the auditor's report under ISA for LCE including the same opinion should not explicitly refer to a different set of standards. Especially, we are concerned that there is potential for confusion for users of auditor's reports as to the nature of an audit engagement conducted in accordance with this standard and how this differs from an audit performed in accordance with the full ISAs.

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?

Response: We support the standalone nature of the draft LCE standard. Although the final LCE standard must be clear, concise, and easy to apply. We encourage the IAASB to use the principles laid down in the CUSP project.

We are not quite sure if the requirement in paragraph 1.3.3.(a) contradicts the standalone nature of the standard. Paragraph 1.3.3.(a) states whether any audit procedures in addition to those required by the relevant Part are necessary to achieve the objectives stated in the draft standard. This could lead that the auditor goes back to ISA without changing the scope of the audit.

- (b) The title of the proposed standard.

Response: Agreed

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

Response: Auditors who will be performing only ISA for LCE engagements will have to be given adequate training and supervision and will also need to have knowledge of ISA.

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?

Response: Agreed

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?

Response: The authority of the LCE standard will be determined by local authorities. Therefore, we acknowledge the limitations of the IAASB's mandate with this respect. Local authorities will most

likely also use quantitative criteria (e.g., number of employees, balance sheet total or revenues) for defining the scope of the LCE standard.

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

Response: The challenges could be that we will have two sets of global auditing standards. Users' perceptions could mean a lower quality audit with less audit procedures. Clear messages from the IAASB will be essential to inform stakeholder that audit quality is not compromised and that the work carried out will only be performed more efficiently.

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

Response: No

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

Response: Yes, but it will depend on the practitioners and local authorities to achieve the intended objectives.

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

Response: Yes

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: Response: We believe that the proposed limitations in paragraph A.7.(b) – listed entities – are too narrow. There could be very small, listed entities without any complex transactions and only a few shareholders.

(b) Qualitative characteristics: Response: Yes, we agree.

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.

5. Regarding the Authority Supplemental Guide:

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

Response: Yes, the guide will be helpful for local authorities.

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

Response: None

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

Response: No, not aware of any other matters.

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).

Response: In general, we agree with taking the ISAs as starting point and having a risk-based audit approach with principles-based requirements and referring to the same overall objectives.

As explained in our comments to Part 4 to 9 there is still room for simplifications in certain areas on the one hand and adding further requirements and EEMs to some areas on the other hand.

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

Response: We agree with the approach.

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

Response: We agree. It is fundamental that there are no differences in the meaning of these terms in the ISAs and ISA for LCE.

- (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.

Response: The content of the EEMs is appropriate, although we believe that some EEMs could be simplified or expanded; see our detailed responses to Parts 1 to 9.

We recommend that in Essential Explanatory Materials (EEMs) direct references to relevant other paragraphs of the standards (e.g., as in the EEM to paragraph 7.3.1.) are included more often (e.g., to paragraph 6.3.6. in this context). This would ease the use and understanding of the ISA for LCE standard.

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).

Response: The structure according to flow of an audit is more appropriate and makes the ISA for LCE standard easier to read, to understand, and apply than the structure of the ISA according to subject matter or topic.

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.

Response:

Part 1: Fundamental Concepts, General Principles and Overarching Requirements

The auditor's communication with the management, and those charged with governance (TCWG) where relevant, is paramount to audit quality. Part 1 of the ED-ISA for LCE includes general requirements for communicating with the entity's management and TCWG. Other specific matters to be communicated by the auditor are required throughout Parts 2-9.

We recommend the IAASB to categorise these requirements into 2 groups starting from a simple case scenario:

- Essential communication requirements (for entities where all of those charged with governance are involved in managing the entity)
- Conditional communication requirements (for entities where those charged with governance are separate from management)

Paragraph 1.8.3. contains a requirement to communicate with management, and when appropriate, those charged with governance. Therefore, we suggest amending the EEM thereto as follows: "... and the actions to be taken by management or, where appropriate, by those charged with governance."

Paragraph 1.8.4. further elaborates the content of paragraph 1.8.2. Therefore, we suggest changing the sequence of paragraphs 1.8.3. and 1.8.4.

Like the heading above paragraph 1.8.7. we suggest including a heading "Specific Communications to Management in Relation to Fraud" above paragraph 1.8.6.

Part 2: Audit Evidence and Documentation

There is no requirement in section 2.4. and an EEM is provided giving guidance to ATT. We agree with the content which is quite helpful but should be placed in section 2.3.

In paragraph 2.5.5. we propose to swap the order of (a) and (b) as communications usually precede discussions.

On documentation, we suggest that the standard states explicitly that only what is done is documented and when a requirement has been considered not applicable, the auditor is not implicitly required to explain and document why he has not applied it.

For clarification purposes we suggest:

- Section 2.5. deals with general communication requirements. In our view, the requirement in paragraph 2.5.5. is a specific communication requirement that would be better placed at the end of Section 1.8. or in Section 7.7. after paragraph 7.7.3.
- The meaning of the second sentence in paragraph 2.5.8. is not clear to us, especially since the admissibility of oral communication is already clear from paragraph 2.5.7. We therefore suggest deleting the second sentence or more clearly formulating its meaning.

Part 3: Engagement Quality Management

In practice, many LCE audits are carried by a very small audit team. Most of these engagements may not be subject to a separate engagement quality review. Small and mid-sized practitioners will most likely have fewer formal processes and might use colleagues in other firms to perform engagement quality reviews. Therefore, we recommend to restructure and to simplify the requirements in section 3.2. Requirements referring to firm's or network's monitoring and remediation processes and engagement quality reviews should be presented as conditional requirements at the end of this Part.

The term "resources" is neither explained in paragraphs 3.2.7. to 3.2.9. nor in the Glossary of Terms. In order to improve the understandability, we propose to insert an EEM that shortly explains the meaning of the term "resources" (human, technological, and intellectual).

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

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

Part 5: Planning

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

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.

Part 6: Risk Identification and Assessment

In Paragraph 6.2.2. we suggest deleting the word "and" after (b) Analytical procedures. The use of the word "and" leads to the conclusion that always all 3 types of procedures stated in paragraph 6.2.2.(a) to (c) must be performed together and that there is no option to choose or combine some of those procedures.

Paragraph 6.2.3. relates to risks arising from fraud, related parties and going concern. The EEM to paragraph 6.2.3. explains LCE related risks to fraud and going concern. We suggest to also include considerations to typical LCE related risks into the EEM, e.g., inadequate segregation between the sphere of the LCE and the owner. We also suggest adding 'lack of a succession plan' as an example for a typical owner-related going concern risk.

Paragraphs 6.3.6., 6.3.7. and 6.3.8. should be merged and auditors should be required to understand the entity's internal control system as a whole instead of having specific requirements for 3 elements from the COSO framework. The control environment is likely to be simpler and there is unlikely to be

separate risk assessment and monitoring processes established in a less complex entity. As a consequence, documentation requirements related to auditor's understanding of the entity's internal control system should be proportionate.

Section 6.4. should include risk assessment as well. In an LCE environment risk identification and assessment could be done together as a single step. This will also require simplifying requirements for the risk assessment in section 6.5.

For clarity purposes we suggest beginning the requirement in paragraph 6.4.3. with the phrase 'For identified risks of material misstatement, the auditor shall ...'.

The reference in EEM 6.5.4. seems to be incorrect. Please check the accuracy of the reference, which should rather go to paragraph 6.5.7.

Paragraph 6.5.5., where the auditor shall determine whether the assessed risks associated with related party relationships and transactions are significant risks, should be removed as it is essentially covered by requirements 6.5.4, 6.5.7(b) and 1.7.1.

Considerations relating to "management bias" are included in the documentation requirement in paragraph 6.8.1.(f) for the first time. We suggest including them already in the requirements relating to risk assessment (significant risks), such as e.g., in requirement 6.5.6 or any other appropriate requirement.

In Appendix 4 we suggest the use of the combined Assertions as described in the IFAC Guide to Using ISAs in the Audits of Small and Medium-Sized Entities, Volume 1, Chapter 6.

Part 7: Responding to Assessed Risks of Material Misstatement

Just to reflect the sequence of procedures of an audit as described in section 7.3., we suggest that the sequence of the descriptions of the various audit procedures should be reconsidered, e.g., substantive analytical procedures should be positioned after test of controls.

At the beginning of paragraph 7.3.5. to audit sampling, we recommend including ISA 500.10. Further, important guidance of ISA 500.A63 is missing and should be included as well.

Just to avoid any misunderstanding, the first sentence in paragraph 7.3.6. should be reworded as follows: "For tests of details, the auditor shall project misstatements found in the sample to the population."

In our opinion, the important guidance of ISA 500.A14 to .A24 is missing in paragraph 7.3.16. and should be included in this standard as well.

The EEM to paragraph 7.4.1. addresses guidance of ISA 570.A12 but should be extended to the important guidance of ISA 570.A13 (i.e., include this paragraph) as well.

We strongly recommend including important guidance of ISA 570.A3 as EEM to paragraph 7.4.4.

Since the LCE standard intends to follow the sequence of an audit, paragraph 7.4.6., in our opinion, is misplaced, and should be better moved to Part 8, e.g., Section 8.5. "The Auditor's Evaluations and Other Activities to Support the Auditor's Conclusion"

The content of paragraph 7.4.7. should be moved as a EEM to paragraph 6.5.7.

Paragraph 7.4.10.; as a general comment to this exposure draft, we want to highlight that, in our opinion, the term "auditor" is inappropriately used in the standard, based on its definition in the Glossary of Terms (GoT).

Considering the importance of this topic for LCE audits (e.g., regarding the regular outsourcing of bookkeeping), in our opinion, paragraph 7.4.26. on the use of a Service Organization should be more comprehensive and include more guidance. This is also important to promote and guarantee the intended character of this standard as a standalone standard.

Considering the general importance of the topic of the evaluation of materiality of misstatements, in our opinion, paragraphs 7.5.1./8.2.3. should be more comprehensive and include more guidance (e.g., regarding ISA 450.A20). This is also important to promote and guarantee the intended character of this standard as a standalone standard.

Paragraphs 7.5.3./7.5.4. include overlapping provisions (e.g., regarding misstatements indicative of fraud) and should be consolidated.

As described in EM.112 it is intended in this standard not to distinguish between the "overall audit strategy" and the "audit plan", and thus not to use the term "audit plan". Therefore, the term "audit plan" should be replaced in paragraph 7.5.5.

Due to its general importance, we recommend including important guidance of ISA 260.A10 as EEM to section 7.6.

In order to have communication requirements in one place we recommend consolidating section 7.6. into section 8.8.

Part 8: Concluding

We suggest combining the requirements of paragraphs 8.4.4. to 8.4.6. under a new subtitle "Facts which become known to the Auditor after the date of the Auditor's Report" and add a new chapter with additional requirements if the financial statement is issued as outlined in ISA 560.15(b).

We recommend adding a EEM outlining the requirements of ISA 560.13/resp.17 how to react if management does not take the necessary steps.

As the requirement in paragraph 8.5.5. is already substantially covered by paragraph 8.5.2.(c), paragraph 8.5.5. may be deleted.

The attached footnote 61 in paragraph 8.6.1.(b) contains a requirement regarding the management representation to be obtained by the auditor ("shall"). Hence, this note should be included in the main text.

Second sentence of paragraph 8.6.7. is redundant to the first sentence of paragraph 8.6.1. and shall be removed.

Paragraphs 8.9.1. (a) and (b) contain two totally different topics, we suggest putting these topics in separate paragraphs.

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.
 - (b) The approach 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.

Response: Yes, we agree. Please note that we have summarized all our comments under question 12.

11. With regard to the Reporting Supplemental Guide:

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

Response: Yes, however we have noted that the inclusion of those charged with governance is inconsistent in some examples (e.g., Appendix starting on page 12 of the guidance does not include TCWGs in the header and in the text whilst under the Auditor's responsibilities the passage on TCGW is included, the same was noted in the opinion included in the standard itself under paragraph 9.4.1.).

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

[Response: None noted.](#)

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.

[Response:](#)

We have noted that ISA 700.43 to ISA 700.45 is not included in the ISA for LCE standard and the “Report on Other Legal and Regulatory Requirements” is only included in one illustrative opinion in the supplemental guidance. We suggest adding paragraph 9.4.4. to summarise the requirements in relation to reporting on other legal and regulatory requirements as we consider this requirement of utmost importance.

In section 9.5. we recommend improving the reference to the tables as follows:

- 9.5.1.A should only refer to table A
- 9.5.1.B should only refer to table B

In Table C under paragraph 9.5.1.F the footnote 78 is missing in the footnote section.

Section 9.6. describes all other paragraphs in the Auditor`s Report. Also, the paragraph in relation to a Material Uncertainty Related to Going Concern is included. In order to emphasize the importance of a Material Uncertainty Related to Going Concern we recommend reordering the section and include a separate heading right at the beginning of section 9.6. for “Material Uncertainty Related to Going Concern paragraph” and include a separate paragraph (9.6.1.) containing the requirements according to ISA 570.22. Consequently, splitting table D into table D containing the information in relation to Going Concern (9.6.6.) and a table E for the Emphasis of matter paragraph (9.6.7.) and the other matter paragraph (9.6.8.).

In relation to paragraph 9.6.3. we would be interested why the differentiation between corresponding figures and comparative financial statements was not made.

Further we were wondering about the requirement of the other matter paragraph as this is optional in relation to corresponding figures under ISA 710.13.

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?

[Response: None](#)

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

Response: We believe there is a need for a separate document for the transitioning to the ISAs as described in 4F paragraphs 130 to 141 (supplemental guidance).

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

Response: Yes, but a stable platform is important. Recent revisions to ISA mainly pertained complex matters related to public interest entities. Accordingly future updates should be considered carefully, and ISA LCE should only be revised when there are changes relevant for LCE.

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

Response: Yes, but local endorsement mechanism could take some time and different effective dates could harm comparability.

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

Response: Yes, later considerations are appropriate on a timely basis.

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.

Response: We will consider this in the near future and prepare a proposal for the implementation in Austria which we have to discuss and agree with our Audit Oversight Authority.

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

Response: Yes, the proposed standard is easy to understand for auditors and appropriate in an LCE environment.

(c) Whether there are aspects of the proposed standard that may create challenges for implementation (if so, how such challenges may be addressed).

Response: Addressing the challenge to adapt the audit tools existing in the market concurrently we recommend a timely decision to issue the standard including an adequate transition period (see question 21).

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?

Response: We recommend to check if all relevant definitions are included in the Glossary of Terms (e.g. materiality is missing).

Section 4G - Approach to Consultation and Finalization

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

Response: An implementation guide such as the IFAC Guide to Using ISAs in the Audits of Small and Medium-Sized Entities would be very much welcomed and will be most beneficiary for small and medium-sized practitioners.

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.

Response: None noted, language is much better than in ISA but there is still room for improvement. Consistent use of plain language can facilitate a good translation, avoiding the need to refer to the English original when in doubt.

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.

Response: Effective date is sufficient (see question 17c).

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.

Response: We would encourage to include Group Audits in the scope of ISA LCE as it limits the applicability of the ISA LCE standard in practice. Our answers to questions 23 to 26 should be understood under the recommendation to include Group Audits in the scope of 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?

Response: Excluding group audits under ISA for LCE would significantly reduce the number of potential audits at the component level which could be performed in accordance with ISA for LCE.

- (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?

Response: There are no official data available about less complex groups, but we estimate the majority of local statutory group audits to be potentially performed under ISA for LCE.

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

Response: A group consisting of LCE components only.

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.

[Response: Option 2 is preferred.](#)

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?

[Response: No comment.](#)

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.

[Response: Option b is preferred.](#)

