

Comments of the Auditing and Assurance Standards Board (AASB) of the Institute of Chartered Accountants of India (ICAI) on the Questions given in the IAASB’s Exposure Draft of Proposed International Standard on Auditing for Audits of Financial Statements of Less Complex Entities (ISA for LCE)

Appendix 2 – Request for Comments: Summary of Questions

Guide for Respondents

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 concern about clarity, understandability and practicality of application, 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.

Section 4A – Overarching Positioning of ED-ISA for LCE	Comments of AASB
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?	We agree with the standalone nature of the proposed standard.
(b) The title of the proposed standard.	We agree with the title of the proposed standard.
(c) Any other matters related to ED-ISA for LCE as discussed in this section (Section 4A).	We agree with following matters related to ED-ISA for LCE as discussed in Section 4A: <ul style="list-style-type: none"> Proposed standard is designed to provide reasonable assurance opinion.

	<ul style="list-style-type: none"> Proposed standard requires auditor to make clear in auditor's report which standard(s) have been used to provide transparency to users of financial statements.
<p>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?</p>	<p>We agree with the proposed conforming amendments to the IAASB Preface.</p>
<p>Section 4B – Authority of the Standard</p>	
<p>3. Views are sought on the Authority (or scope) of ED-ISA for LCE (Part A of the proposed standard). In particular:</p>	
<p>(a) Is the Authority as presented implementable? If not, why not?</p> <p>(b) Are there unintended consequences that could arise that the IAASB has not yet considered?</p> <p>(c) Are there specific areas within the Authority that are not clear?</p> <p>(d) Will the Authority, as set out, achieve the intended objective of appropriately informing stakeholders about the scoping of the proposed standard?</p>	<p>We agree with “Specific prohibitions” given in the Authority of the Standard. However, we have strong reservations regarding “Qualitative characteristics” due to following reasons:</p> <ul style="list-style-type: none"> Qualitative characteristics are highly subjective in nature and require use of high level of professional judgment on part of auditors. It will require auditors to make detailed risk assessment of the entity before accepting the engagement in order to decide whether ISA for LCE can be used. It is putting all responsibilities on auditors to decide which standards is to be used for audit. <p>In our view, this is an area where specific attention of IAASB is required while progressing the standard to finalization.</p> <p>Qualitative characteristics are subjective and involve lot of judgments. Further, on account of these judgements we feel that the conclusions reached by one auditor may not be similar to the conclusions reached by another auditor. There has to be more specific guidance in this area.</p> <p>Clarity is required on whether there is any specific exemption for:</p> <ul style="list-style-type: none"> An entity which has obtained borrowing from banks/Financial institutions up to a certain threshold. Entities engaged in NBFC activities.

<p>(e) Is the proposed role of legislative or regulatory authorities or relevant local bodies with standard setting authority in individual jurisdictions clear and appropriate?</p>	<p>In our view, the proposed role of legislative or regulatory authorities or relevant local bodies with standard setting authority in individual jurisdictions is clear and appropriate.</p>
<p>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:</p> <p>(a) Specific prohibitions; and</p> <p>(b) Qualitative characteristics.</p> <p>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.</p>	<p>Please see our views on questions 3(a) to (d) above.</p>
<p>5. Regarding the Authority Supplemental Guide:</p> <p>(a) Is the guide helpful in understanding the Authority? If not, why not?</p> <p>(b) Are there other matters that should be included in the guide?</p>	<p>In our view, the guide is helpful in understanding the Authority.</p>
<p>6. Are there any other matters related to the Authority that the IAASB should consider as it progresses ED-ISA for LCE to finalization?</p>	<p>Please see our views on questions 3(a) to (d) above.</p>
<p>Section 4C – Key Principles Used in Developing ED-ISA for LCE</p>	
<p>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:</p>	

<p>(a) The approach to how the ISA requirements have been incorporated in the proposed standard (see paragraphs 74-77).</p>	<p>We agree with the approach to how the ISA requirements have been incorporated in the proposed standard particularly following aspects:</p> <ul style="list-style-type: none"> • Core requirements from various ISAs have been included. • Risk-based audit approach has been used. • Requirements are principles based.
<p>(b) The approach to the objectives of each Part of the proposed standard (see paragraphs 78-80).</p>	<p>We agree with the approach to the objectives of each Part of the proposed standard.</p>
<p>(c) The principles in relation to professional skepticism and professional judgement, relevant ethical requirements and quality management (see paragraphs 81-84)</p>	<p>We agree with the principles in relation to professional skepticism and professional judgement, relevant ethical requirements and quality management.</p>
<p>(d) The approach to EEM (see paragraphs 85–91) including:</p> <p>(i) The content of the EEM, including whether it serves the purpose for which it is intended.</p> <p>(ii) The sufficiency of EEM.</p> <p>(iii) The way the EEM has been presented within the proposed standard.</p>	<p>We agree with the approach to essential explanatory material (EEM) including content and presentation of EEM.</p>
<p>Section 4D – Overall Design and Structure of ED-ISA for LCE</p>	
<p>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).</p>	<p>We agree with the overall design and structure of ED-ISA for LCE., including where relevant, on the application of the drafting principles. However, in our view, the flow of “Part 2- Audit evidence and documentation” is not proper. This part may be shifted to later stage.</p>
<p>Section 4E – Content of ED-ISA for LCE</p>	
<p>9. Please provide your views on the content of each of Parts 1 through 8 of ED-ISA for LCE, including the</p>	<p>In our view, contents of various parts are fine.</p>

<p>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.</p>	
<p>10. For Part 9, do you agree with the approach taken in ED-ISA for LCE with regard to auditor reporting requirements, including:</p> <p>(a) The presentation, content and completeness of Part 9.</p> <p>(b) The approach to include a specified format and content of an unmodified auditor’s report as a requirement?</p> <p>(c) The approach to providing example auditor’s reports in the Reporting Supplemental Guide.</p>	<p>For Part 9, we agree with the approach taken in ED-ISA for LCE with regard to auditor reporting requirements, including:</p> <p>(a)The presentation, content and completeness of Part 9.</p> <p>(b)The approach to include a specified format and content of an unmodified auditor’s report as a requirement.</p> <p>(c)The approach to providing example auditor’s reports in the Reporting Supplemental Guide.</p>
<p>11. With regard to the Reporting Supplemental Guide:</p> <p>(a) Is the support material helpful, and if not, why not?</p> <p>(b) Are there any other matters that should be included in relation to reporting?</p>	<p>In our view, the support material is helpful.</p>
<p>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.</p>	<p>No comment</p>
<p>Section 4F – Other Matters</p>	
<p>13. Please provide your views on transitioning:</p> <p>(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?</p> <p>(b) What support materials would assist in addressing these challenges?</p>	<p>Implementation challenges in transitioning from ED-ISA for LCE to ISAs or other applicable auditing standards</p> <p>Paragraph 139 of Section 4F of Explanatory Memorandum to ED-ISA for LCE mentions that if it is determined that ED-ISA for LCE is no longer appropriate for use in an audit engagement, to transition the auditor would broadly need to take various actions given in paragraph 139. Such actions inter alia include the</p>

	<p>following actions:</p> <ul style="list-style-type: none"> • Design and perform additional procedures necessary to comply with all applicable ISA requirements (or requirements of other applicable auditing standards), with additional documentation as appropriate. • Undertake other actions as considered necessary to meet the objectives of the ISAs (or requirements of other applicable auditing standards) or to meet the obligations in terms of the firm's policies or procedures. <p>In our view, clarity is required on how the auditor will determine which additional procedures to be performed and which other actions to be undertaken by auditor.</p> <p>Further, clarity is required on following aspects:</p> <ul style="list-style-type: none"> • If a company is planning to go for listing, how and when does the auditor transition from ISA for LCE to main ISAs? Some guidance is needed on the same as the offer document will include at least 3 years audited financial information. • Can a company request an auditor not to apply ISA for LCE?
<p>14. Do you agree with the proposed approach to the future updates and maintenance of the Standard and related supplemental guidance?</p>	<p>We agree with the proposed approach to the future updates and maintenance of the Standard and related supplemental guidance.</p>
<p>15. For any subsequent revisions to the standard once effective, should early adoption be allowed? If not, why not?</p>	<p>In our view, in case of subsequent revisions to the standard, early adoption should not be allowed because it may create inconsistency in adoption date of standard by different jurisdictions. Further, sufficient time needs to be given to understand and implement the revised standard. In our view, time period of at least 18 months mentioned in paragraph 149 of Explanatory Memorandum to ED-ISA for LCE for effective date of the updated revised standard is fine.</p>
<p>16. Should a separate Part on the ISA-800 series be included within ED-ISA for LCE? Please provide reasons for your response.</p>	<p>In our view, a separate Part on the ISA-800 series need not be included within ED-ISA for LCE because ED-ISA for LCE should be restricted to audit of complete set of general-purpose financial statements.</p>

<p>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:</p> <p>(a) Whether the proposed standard can, and will, be used in your jurisdiction.</p> <p>(b) Whether the proposed standard meets the needs of auditors, audited entities, users of audited financial statements and other stakeholders.</p> <p>(c) Whether there are aspects of the proposed standard that may create challenges for implementation (if so, how such challenges may be addressed).</p>	<p>In our view, the proposed standard meets the needs of auditors. However, in case of audited entities, users of audited financial statements and other stakeholders, their feedback may be sought as to whether the proposed standard meets their needs.</p> <p>We are planning to adopt the proposed standard for use in India. However, while adopting, we will make necessary changes to the proposed standard that may be required to align the proposed standard with Indian legal & regulatory requirements and the auditing practices prevalent in India.</p>
<p>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?</p>	<p>No comment</p>
<p>Section 4G - Approach to Consultation and Finalization</p>	
<p>19. What support and guidance would be useful when implementing the proposed standard?</p>	<p>In our view, IAASB may develop a detailed Implementation Guide on proposed standard to provide guidance. The Guide may cover guidance to explain various concepts/requirements in proposed standard and may include practical examples.</p> <p>More practical examples need to be provided on who would be defined as those charged with governance in promoter driven entities?</p> <p>Guidance is needed on what are the additional procedures to be performed to identify and address fraud risks – since the LCEs are expected to be typically promoter driven companies, there is a potential increase in fraud risk considerations as there would not be any segregation of duties.</p>

<p>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.</p>	<p>No comment</p>
<p>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.</p>	<p>In our view, proposed effective date is fine.</p>
<p>Section 5 – Group Audits</p>	
<p>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.</p>	<p>In our view, group audits per se should be excluded from the scope of ED-ISA for LCE because of following reasons:</p> <ul style="list-style-type: none"> • In most cases, group audits inherently exhibit characteristics of complexity (also mentioned in paragraph 155 of Explanatory Memorandum to ED-ISA for LCE), so group audits should be excluded from scope of the standard. • Inclusion of group audit in scope of the standard will make the standard very lengthy and complex. It will defeat the purpose of standard being a simple standard to apply in audits of LCE. <p>However, the following exception should be given in this regard:</p> <p>If all components in a group are eligible to use ISA for LCE, then the group audit may also be allowed to use ISA for LCE. It will ensure uniformity in the auditing framework used across the group. If, however, even a single component in a group is not eligible to use ISA for LCE, then group audit should not be allowed to use ISA for LCE.</p>

<p>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:</p> <p>(a) Would you use the standard if group audits are excluded? If not, why not?</p> <p>(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?</p> <p>(c) What common examples of group structures and circumstances within your practice would be considered a less complex group.</p>	<p>Point (a)- We would use the standard if group audits are excluded.</p> <p>Points (b) and (c)- These questions are from the perspective of specific practitioners/audit firms. These questions are not relevant for us.</p>
<p>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):</p> <p>(a) The IAASB establishes a proxy(ies) for complexity for when the proposed standard may be used ("Option 1 - see paragraph 169); or</p> <p>(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.</p>	<p>Please see our views on question 22 above.</p>
<p>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?</p>	<p>Please see our views on question 22 above.</p>

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.

please see our views on question 22 above.