

January 28, 2022

Mr. Willie Botha
Technical Director, International Auditing and Assurance Standards Board
529 5th Avenue
New York, New York 10017

Dear Mr. Botha,

We appreciate the opportunity to respond to the International Auditing and Assurance Standards Board (IAASB) on the IAASB's Proposed International Standard on Auditing for the Audits of Financial Statements of Less Complex Entities (ED-ISA for LCE).

ASK KSA Consulting Inc. works with many small- to mid-sized practitioners (SMPs) across Canada to assist them in performing effective and efficient audit engagements and meet the requirements of being in public practice. We provide a unique view on the issue of auditing LCEs as we are exposed to varying viewpoints on this topic, not just one. Our response incorporates feedback based on our experience. In addition, we have included perspectives of our clients; these insights have been gathered over the past several years by working with our clients and discussing the issues they face on a day-to-day basis.

The challenges faced by SMPs are not new and it is exciting the standard setters are addressing this issue. The practitioners that we work with absolutely want to conduct quality audits but find it challenging in to do so in today's environment. There are several reasons for this including the challenge of keeping up to date, the increasing complexity of the standards and a lack of clarity on scalability. It can be a frustrating to implement the requirements of the ISAs as there are a number of ISAs that do not apply to the audits of an LCE. Our response details many of these issues.

SMPs often serve clients that the larger firms do not for a variety of reasons including cost and location. These smaller firms are critical to the profession and therefore standards setters need to ensure they protect the public interest while strengthening these firms by addressing the challenges they face.

We believe this is an important issue to address and fully support the concept of a standalone standard in general. However, as you will see in our response attached to this letter, we do not believe the proposed standard, as it has been drafted, accomplishes the original objective of addressing challenges faced by auditors in the auditing of less complex entities as outlined in the 2019 Discussion Paper. Many of those challenges still exist and/or have not been addressed. Nevertheless, we do believe there is a way forward and look forward to the next steps.

If you have any questions, or require clarification, please do not hesitate to contact us.

Yours very truly,



Kirsten S. Albo, FCPA, FCA. ICD.D

General Comments on Proposed ED-ISA for LCE

Auditing Financial Statements of Less Complex Entities

The fact the profession is discussing audits of less complex entities and gathering input from users, stakeholders and practitioners is wonderful. This is an issue that must be addressed. We have supported this project from the beginning and were excited about the fact a standalone standard was proposed.

We fully support the idea of a separate standard if it accomplishes the objectives of addressing the challenges faced by auditors of less complex entities and appreciate the efforts of the IAASB to get us to this point in the discussion.

We also fully support the concept of reasonable assurance in an audit. The issue at hand is the ability for auditors to be effective, performing a quality with the right procedures while being efficient, that is, performing the right amount of procedures.

We expected the ED-ISA for LCE to address many of the issues raised in response to the initial Discussion Paper from 2019. However, we believe the ED-ISA for ISA has not accomplished what it set out to do. The purpose of the initial Discussion Paper was to obtain input on the challenges faced by auditors in the audits of less complex entities, and based on the feedback, to address the challenges raised. In the end, this was not done.

While there are obvious eliminations made to the standard such as omitting ISA 501 Segment Information, ISA 600 Group Audits, ISA 610 Using the Work of Internal Audit and ISA 701 Key Audit Matters there have not been other significant changes to the ISAs, they have just been rearranged to make them easier to read and follow in the course of an audit.

The proposed standard does not go far enough in addressing the challenges faced by small- to mid-sized practitioners (SMPs) in the audit of financial statements of less complex entities.

If nothing has changed, why bother with a new standard. If the standard is issued in the way it stands now, we would recommend to our clients to not adopt ED-ISA for LCE. The existing ISAs are scalable. And the trade-off between saving time on audits versus having to maintain two “streams” of audits including file templates, updates and training is not worth the cost.

Specific Comments

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?

ASK KSA Response:

The concept of a standalone standard in and of itself is a good idea. A standalone standard may be beneficial to auditors for several reasons including it is easier to read and as a result easier to follow. It may also be simpler to train staff along with developing appropriate tools and templates.

However, there are several issues that also arise as a result of a standalone standard including:

- Transitioning between ISAs and ED-ISA for LCE.
- Keeping up to date on both sets of standards.
- A larger firm with adequate resources will have the ability to run “two streams” of audits and develop tools and templates for each stream however a smaller firm will face challenges with two sets of standards.

To further explain this point, for many small firms, it will be clear they are in the ED-ISA for LCE as all of their clients will meet the Authority of the standard and therefore be able to use the standard for these audits. In this case, there are minimal challenges for these firms. The larger firms have the resources to operate under two sets of auditing standards. Again, minimal challenges to address. However, there is a very large group of firms who will have some audits that will not qualify for the ED-ISA for LCEs and therefore they will have to deal with two sets of standards but do not have the resources to do so. Therefore the fact there are two auditing standards will be very onerous for many mid-sized firms. In many cases, despite the fact a separate standard exists many mid-sized firms may elect not to use it unless there was a very strong benefit to doing so. The current ED-ISA for LCE does not provide this benefit.

- (b) The title of the proposed standard.

ASK KSA Response:

No comment on the title of the proposed standard.

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

ASK KSA Response:

No further comments.

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?

ASK KSA Response:

No comment.

Specific Comments

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?

ASK KSA Response:

The Authority as presented is not implementable as there are many unresolved uncertainties related to both specific prohibitions and to qualitative characteristics are further explained below.

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

ASK KSA Response:

Specific prohibitions:

There are unintended consequences related to public interest characteristics and the specific prohibitions. The definition of a public interest is not clear and therefore there may be certain entities that would otherwise be classified as less complex but due to specific prohibition, would not qualify. The definition of a public interest characteristics should be clarified.

For example, a simple not-for-profit organization that receives funding from the government has public interest characteristics and therefore would be specifically prohibited from using the standard.

Another example is a daycare that receives government funding and is required to follow many provincial laws and regulations. In many cases, these daycares have reporting requirements outside the audit and therefore could qualify as a “public interest” entity. However, the audits of these types of organizations are typically straight forward and therefore it does not make sense to preclude them from using the standard.

In addition, these types of organization are tight for funding and the cost of administrative functions, such as an audit is always top of mind. The cost is not a driver, but, cannot be ignored. The purpose of the standard is to perform a quality audit and obtain reasonable assurance while at the same time allowing the audit to be more efficient. Is they one of the objectives of the proposed standard to help auditors save time, and perform a quality audit?

Qualitative characteristics:

In paragraph A.9, one of the qualitative characteristics that is listed includes “the entity’s operations are subject to a higher degree of regulation or to significant regulatory oversight”. That characteristic does not necessarily make an entity complex. For example, as described above, a daycare is subject to high degree of regulation and oversight in a number of areas. However, as the entity met this one characteristic as noted in the introduction to the list, then it would be inappropriate to use the standard.

Specific Comments

Section 4B – Authority of the Standard

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

ASK KSA Response:

The Authority currently states there are qualitative characteristics that if met, it would be inappropriate for an audit to be undertaken using the ED-ISA for LCE. There are certain areas within this list that require clarification.

Complex matters or circumstances requires extensive professional judgement. Even if an auditor documents this professional judgement and concludes they are within the Authority of the standard, what is the impact if a practice inspector arrives at a different conclusion? If that is the case would the auditor be required to re-perform the audit in accordance with ISA. The implications and cost of this to both the entity and the auditor is significant.

The first bullet of A.9 states that if the entity's business activities result in pervasive risks that increase the complexity of the audit then the standard may not be used. However, as the introduction is written, it states that the standard is inappropriate if an entity exhibits one or more of the listed characteristics. Is that to suggest if that if any of the characteristics are met, the standard cannot be used. If more than one characteristic, the question arises as to how many more. Or, if only one, then does that automatically mean the standard cannot be used?

There are other areas where the description of the qualitative characteristics is too general and does not provide adequate guidance. For example, multiple levels and reporting lines, with many individuals involved and of itself do not make for a complex entity. Another example is what is the definition of complex ownership? It is not clear how this makes an entity complex or not complex.

Being an auditor requires the use of professional judgment throughout an audit but there are times where less professional judgement may be better.

We recommend that the Authority is very narrow and while professional judgement is always required the use of professional judgement as to when or not to apply the standard is lessened. By tightening up the Authority, this also allows for the elimination of many of the challenges faced by auditors as further explained throughout our response.

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

ASK KSA Response:

We do not believe the Authority as currently set out will achieve the appropriate objective. It leaves too much to interpretation and many less complex entities will be scoped out.

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

ASK KSA Response:

No comment.

Specific Comments

Section 4B – Authority 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.

ASK KSA Response:

See comments made above with respect to areas that require clarification.

5. Regarding the Authority Supplemental Guide:
- (a) Is the guide helpful in understanding the Authority? If not, why not?

ASK KSA Response:

The Supplemental Guide is somewhat helpful in understanding the standard however overall, we believe it creates more confusion. For each area listed in paragraph A.9, there are further examples and an indication as to whether they are indicative, or not, in a less complex entity. However, in reading the Guide, the concept of a checklist mentality comes into play. How many checks before an entity cross from less complex to complex? This is not clear.

There is an inconsistency in the introduction to the table. The last sentence of paragraph 28 states: "The individual characteristics Supplemental Guidance for the Authority of the [Draft] Standard Page 7 of 17 listed are not mutually exclusive (i.e., the presence of one 'complex' characteristic exhibited by an entity does not necessarily exclude the use of the [draft] ED-ISA for LCE for that entity). However, the introduction to paragraph A.9 states: "...if any entity exhibits one or more of the following characteristics". This is further confused by the fact of is it one or more within each category (ie. Within each bullet) or one more of the characteristics itself.

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

ASK KSA Response:

No comment.

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

ASK KSA Response:

The whole Authority should be tightened up so there is less professional judgement in whether or not to use the standard. We believe the Authority should be very narrow and then truly address the challenges faced by auditors in the audits of genuinely less complex entities in the other areas of the proposed standard.

Specific Comments

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

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

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

ASK KSA Response:

The Authority as presented is not implementable as there are many unresolved uncertainties related to both specific prohibitions and to qualitative characteristics are further explained below.

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

ASK KSA Response:

Specific prohibitions:

There are unintended consequences related to public interest characteristics and the specific prohibitions. The definition of a public interest is not clear and therefore there may be certain entities that would otherwise be classified as less complex but due to specific prohibition, would not qualify. The definition of a public interest characteristics should be clarified.

For example, a simple not-for-profit organization that receives funding from the government has public interest characteristics and therefore would be specifically prohibited from using the standard.

Another example is a daycare that receives government funding and is required to follow many provincial laws and regulations. In many cases, these daycares have reporting requirements outside the audit and therefore could qualify as a “public interest” entity. However, the audits of these types of organizations are typically straight forward and therefore it does not make sense to preclude them from using the standard.

In addition, these types of organization are tight for funding and the cost of administrative functions, such as an audit is always top of mind. The cost is not a driver, but, cannot be ignored. The purpose of the standard is to perform a quality audit and obtain reasonable assurance while at the same time allowing the audit to be more efficient. Is they one of the objectives of the proposed standard to help auditors save time, and perform a quality audit?

Qualitative characteristics:

In paragraph A.9, one of the qualitative characteristics that is listed includes “the entity’s operations are subject to a higher degree of regulation or to significant regulatory oversight”. That characteristic does not necessarily make an entity complex. For example, as described above, a daycare is subject to high degree of regulation and oversight in a number of areas. However, as the entity met this one characteristic as noted in the introduction to the list, then it would be inappropriate to use the standard.

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

Specific Comments

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

ASK KSA Response:

The Authority currently states there are qualitative characteristics that if met, it would be inappropriate for an audit to be undertaken using the ED-ISA for LCE. There are certain areas within this list that require clarification.

Complex matters or circumstances requires extensive professional judgement. Even if an auditor documents this professional judgement and concludes they are within the Authority of the standard, what is the impact if a practice inspector arrives at a different conclusion? If that is the case would the auditor be required to re-perform the audit in accordance with ISA. The implications and cost of this to both the entity and the auditor is significant.

The first bullet of A.9 states that if the entity's business activities result in pervasive risks that increase the complexity of the audit then the standard may not be used. However, as the introduction is written, it states that the standard is inappropriate if an entity exhibits one or more of the listed characteristics. Is that to suggest if that if any of the characteristics are met, the standard cannot be used. If more than one characteristic, the question arises as to how many more. Or, if only one, then does that automatically mean the standard cannot be used?

There are other areas where the description of the qualitative characteristics is too general and does not provide adequate guidance. For example, multiple levels and reporting lines, with many individuals involved and of itself do not make for a complex entity. Another example is what is the definition of complex ownership? It is not clear how this makes an entity complex or not complex.

Being an auditor requires the use of professional judgment throughout an audit but there are times where less professional judgement may be better.

We recommend that the Authority is very narrow and while professional judgement is always required the use of professional judgement as to when or not to apply the standard is lessened. By tightening up the Authority, this also allows for the elimination of many of the challenges faced by auditors as further explained throughout our response.

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

ASK KSA Response:

We do not believe the Authority as currently set out will achieve the appropriate objective. It leaves too much to interpretation and many less complex entities will be scoped out.

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

ASK KSA Response:

No comment.

Specific Comments

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

8. 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.

ASK KSA Response:

See comments made above with respect to areas that require clarification.

9. Regarding the Authority Supplemental Guide:

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

ASK KSA Response:

The Supplemental Guide is somewhat helpful in understanding the standard however overall, we believe it creates more confusion. For each area listed in paragraph A.9, there are further examples and an indication as to whether they are indicative, or not, in a less complex entity. However, in reading the Guide, the concept of a checklist mentality comes into play. How many checks before an entity cross from less complex to complex? This is not clear.

There is an inconsistency in the introduction to the table. The last sentence of paragraph 28 states: "The individual characteristics Supplemental Guidance for the Authority of the [Draft] Standard Page 7 of 17 listed are not mutually exclusive (i.e., the presence of one 'complex' characteristic exhibited by an entity does not necessarily exclude the use of the [draft] ED-ISA for LCE for that entity). However, the introduction to paragraph A.9 states: "...if any entity exhibits one or more of the following characteristics". This is further confused by the fact of is it one or more within each category (ie. Within each bullet) or one more of the characteristics itself.

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

ASK KSA Response:

No comment.

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

ASK KSA Response:

The whole Authority should be tightened up so there is less professional judgement in whether or not to use the standard. We believe the Authority should be very narrow and then truly address the challenges faced by auditors in the audits of genuinely less complex entities in the other areas of the proposed standard.

Specific Comments

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

11. 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).

ASK KSA Response:

We agree with the approach to start with the ISA requirements in the proposed standard. However, we believe that in the end, nothing has really changed within the proposed standard. The objective of addressing the challenges faced by auditors in auditing less complex entities have not been addressed.

We fully support with the objective of obtaining reasonable assurance to support the auditor's opinion on the evidence obtained. However, reasonable assurance can be obtained without performing certain procedures that remain in the ED-ISA for LCE.

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

ASK KSA Response:

We support this approach. No further comment.

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

ASK KSA Response:

We support the principles. No further comment.

- (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.

ASK KSA Response:

We agree that explanatory material is necessary to clarify certain aspects of the ED-ISA for LCE however there are a number of changes related to the EEM.

There are two types of EEM that have been included in the proposed standard. The first is general introductory EEM that explains the concept of the section that follows and EEM specific to the requirement directly above it. In both cases, the EEM has presented in italics and in light blue. It is confusing to distinguish between these. If there are two types of EEM then clarify this by using different colours; and in the EEM that explains the concepts, use headers within the EEM.

The EEM is not supposed to create additional obligations however the fact that it is titled "Essential" may lead one to conclude that there are additional requirements. We recommend eliminating the word "Essential".

Specific Comments

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

In the ISAs, the application paragraphs are critical to help auditors further understand the requirements of the standards. We acknowledge the objective to make the ED-ISA for LCE concise and succinct, but we feel it has gone too far. There are areas within the standard that it would be helpful to auditors to have further guidance.

In certain cases, a “why” has been included but not in all cases. This is confusing.

The EEM, where appropriate, may illustrate how a requirement could be applied for different circumstances to illustrate scalability of the proposed standard. This is inconsistent with the overall standard. Is not the objective the whole standard is for a less complex entity? The idea of scalability is built into the ISAs but is not required in the ED-ISA for LCE. If we have to further explain scalability, why do we even need the separate standard.

We come back to our concept that the standard should be narrower in scope further eliminating the need for scalability. The standard either applies or it does not.

Specific Comments

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

12. 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).

ASK KSA Response:

We believe the overall design and structure of the proposed standard is appropriate. The standard is easier to read and therefore most likely easier to apply. No further comments.

Specific Comments

Section 4F – Content of ED-ISA for LCE

13. 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.

ASK KSA Response:

General comments:

We supported this project and were excited about the fact a standalone standard was proposed. However, we do not believe the proposed standard accomplished what it set out to do. The purpose of the initial Discussion Paper issued in September 2019 was to obtain input on the challenges faced by auditors in the audits of less complex entities.

The fact the profession is addressing this issue and gathering input from users, stakeholders but in particularly practitioners is fantastic. We appreciate the efforts the IAASB has undertaken on this project however there are issues left to be addressed. We expected the ED-ISA for LCE to address many of the issues raised in response to the initial Discussion Paper. In the end, this was not done.

While there are obvious eliminations made to the ED-ISA for LCE such as eliminating ISA 501 Segment Information, ISA 600 Group Audits (see further comments on this topic), ISA 610 Using the Work of Internal Audit, ISA 701 Key Audit Matters there have not been other changes to the ISAs, they have just been rearranged to make them easier to read and follow in the course of an audit.

If nothing has changed, why bother with a new standard. If the standard is issued in the way it stands now, we would recommend to our clients, to not adopt ED-ISA for LCE. The existing ISAs are scalable. And the trade off between saving time on audits versus having to maintain two “streams” of audits including file templates, updates and training is not worth the cost.

Specific comments:

Part 1: Fundamental Concepts, General Principles and Overarching Requirements

We fully support the concept that the ED-ISA for LCE is to obtain reasonable assurance.

Part 2: Audit Evidence and Documentation

Paragraph 2.4 Procedures for Obtaining Audit Evidence only includes EEM, no requirements. This needs to be revised to include the specific requirement, especially related to Automated Tools and Techniques (ATT). ATT is an evolving area and there are many auditors who may move to this area; however there are many sole practitioners and smaller SMPs who may never use ATT due to the nature of their clients. The way this is written is it seems the use of ATT is almost expected and in real-life, this is not the case.

Part 3: Engagement Quality Management

No comments.

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

No comments.

Specific Comments

Section 4F – Content of ED-ISA for LCE

Part 5: Planning

As further explained below in the paragraph 7.5.1 discussion we believe the concept of trivial misstatements should be included in the planning materiality requirements in 5.3.

Part 6: Risk Identification and Assessment

We have the following comments related to risk assessment procedures:

- 6.2.2 Analytical procedures. The requirement is that analytical procedures are to be performed as a risk assessment procedure. It is often challenging to perform preliminary analytics on an LCE; many times the balances are very preliminary as many adjusting journal entries are required and therefore this is not an effective risk assessment procedure. As the proposed standard is currently drafted, there is no option and this procedure must be performed.

We recommend that either the requirement to perform preliminary analytics be removed altogether from the standard or at least allow the preliminary analytics and final analytics to be “combined”.

We agree that “final” analytics as required by paragraph 8.3.1 are critical when forming an overall conclusion in the audit.

- 6.3.14 (b) Controls over journal entries. In many LCE audits, a substantive approach is taken which more often than not includes journal entries. We recommend that the requirement evaluate whether the control is designed effectively and determine whether the control has been implemented (by using procedures other than inquiry) be eliminated. This does not make sense in the audit of an LCE.
- 6.3.16 EEM performance of walkthroughs. One of the biggest challenges faced by auditors relates to understanding of the information system versus design and implementation of controls. This is an opportunity to clarify the requirements. It is not clear what controls are relevant to the audit. In addition, in many cases a fully substantive approach is taken either due to efficient and/or the nature of the entity. In these cases why is it necessary that both design and implementation are required. There is a lack of clarity as to what controls are necessary.

Part 7: Responding to Assessed Risks of Material Misstatements

We have the following comments related to risk response:

- Paragraph 7.2.2 (c) Element of unpredictability. This is one of the challenges faced by auditors in the audits of LCEs. The auditor is currently required to incorporate an element of unpredictability in the selection of the nature, timing and extent of audit procedures. However, this can be challenging in the audit of an LCE, especially when a substantive approach is taken. Even with a risk-based approach, when auditing an LCE many balances and transactions are examined in detail.

The purpose of an unpredictability procedure is to address the risk of fraud and should be effective. In the case where a substantive audit approach is taken, it can be problematic to determine what an effective unpredictability test might be. To just add an extra 10 invoices to the expense testing, is not going to accomplish anything and is a waste of time.

Specific Comments

Section 4F – Content of ED-ISA for LCE

We recommend that unpredictability procedures are not required in certain circumstances.

- Paragraph 7.3.5 Audit Sampling. We have no specific comments on the proposed standard related to audit sampling. However, recognizing SMPs often struggle in determining sample sizes to obtain sufficient appropriate audit evidence, consideration should be given to providing explanatory material on this topic.
- 7.3.17 (b) and 7.4.8 Journal entry testing. The requirement is to “examine material journal entries and other adjustment made during the course of preparing the financial statements” along with the requirement “to consider the need to test journal entries made throughout the period”. Testing journal entries is another challenge faced by auditors of LCEs. This requirement does not make sense in the context of auditing an LCE, especially when a substantive approach is taken. Consideration should be given to eliminating, or at least revising this requirement.
- 7.5.1 Trivial. The requirement is to accumulate misstatements identified during the audit, other than those that are clearly trivial. The concept of trivial relates to materiality but it is not until well after the planning stage that this concept is raised. The discussion of trivial should be included in Part 5 Planning as a reminder to engagement teams to set trivial so they can keep this in mind throughout the audit as they are performing procedures. Section 7.5 then addresses accumulation of misstatements.

Part 8: Concluding

No comments.

14. 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.

ASK KSA Response:

We agree with the approach taken with regard to auditor reporting requirements. We feel it is important from a transparency perspective to reference ED-ISA for LCE.

15. With regard to the Reporting Supplemental Guide:
- (a) Is the support material helpful, and if not, why not?

ASK KSA Response:

No comment.

Specific Comments

Section 4F – Content of ED-ISA for LCE

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

ASK KSA Response:

No further comments.

16. 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.

ASK KSA Response:

As previously discussed, the proposed standard, while easier to read substantially includes all of the existing ISAs with the elimination of obvious standards. I do not believe the proposed exposure draft as it is currently written accomplishes the purpose of addressing challenges faced by auditors in the audit of LCEs. In fact, it has created more challenges.

By making the Authority too broad, there is considerable professional judgement as to whether an auditor is “in” or “out” of the standard. There are too many cases, where an auditor might think they are in but then end up out. See our comments related to transition.

The fact that the Authority is too broad then leaves auditors not knowing what to do. In many cases, SMPs do not have the resources to run two streams of audits and therefore may default to the ED-ISA for LCEs when they should not. The objective is to perform a quality audit and to obtain reasonable assurance. If an auditor is erringly in the ED-ISA for LCE, this will not be accomplished.

In reality, a small practitioner is incredibly busy and it is challenging to keep up. There is a risk that they will mistakenly be in the ED-ISA for LCE and not properly evaluate when they may be kicked out and therefore have to conduct an audit in accordance with ISAs. This creates an overall risk.

Specific Comments

Section 4F – Other Matters

17. 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?

ASK KSA Response:

Transition is a significant issue that has not yet been addressed. The proposed standard seems to make it very simple that an auditor will know at the acceptance and continuance phase of the audit as to whether they will be in or out of the standard. We do not believe it will be that simple. There are many situations that could arise during the course of the engagement that would kick an auditor out of the standard and therefore make it inappropriate to conduct the audit in accordance with ED-ISA for LCE.

In addition, the other issue that may arise is that an entity may be in one year, then out due to an acquisition then back in again the following year. That also causes issues and is not practical. There is no concept of “topping up” procedures related to a specific issue in a situation like this. In general we agree with this approach as this is to be a standalone standard but that fact does cause issues to which we do not have a recommendation.

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

ASK KSA Response:

Support materials to assist the challenges in transition would be examples and explanatory material. We gave consideration to recommending a “map” that would outline the procedures to “top up” to an ISA audit but we recognized this is not an appropriate solution. In practicality, auditors most likely would rely on this map too much and create further risk. The onus is on the auditor to know the differences. This will create further challenges with time as the ISAs and the ED-ISA for LCE are similar today but most likely will diverge over time.

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

ASK KSA Response:

We believe the commitment to propose amendments on a “periodic basis” needs to be clarified. The ISAs and ED-ISA for LCEs today are similar. However, if updates to the ED-ISA for LCE are not made on a relatively similar to timeline as the ISAs the standards will start to diverge significantly causing risk. We recognize the standard is to be a standalone standard but due to the other issues raised such as firm templates, training and transition matters, they cannot diverge too greatly.

This then raises the question that is a theme throughout our response. Then why even bother with the standard as it is drafted today. It is only if there is truly a separate standalone standard with very narrow application then the issues are addressed.

Specific Comments

Section 4F – Other Matters

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

ASK KSA Response:

We do not see an issue with early adoption of subsequent revisions to the standard once effective.

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

ASK KSA Response:

No comment.

21. 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.

ASK KSA Response:

As the standard is drafted today, we would not recommend to our clients to adopt it except in very rare cases. The reasons for this are:

- In the end, the ED-for ISA for LCE has not changed significantly from the ISAs. There is no difference in conducting an audit of a less complex entity. The challenges faced were not addressed.
- It is too difficult for many SMPs to run two streams of audits, they have enough challenge keeping up with the one today.
- There is too much uncertainty as to whether one is in or out of the standard in the first place.
- Training.
- Transition issues.

Only if the standard changed significantly with the requirements substantially changed that it would make sense for a firm to implement ED-ISA for LCE. If an auditor could truly save time, they may want to adopt the proposed standard but as it is written today, it is not worth the effort.

Specific Comments

Section 4F – Other Matters

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

ASK KSA Response:

Our comments relate to the needs of auditors only and as previously stated, we do not believe the proposed standard meets the needs of auditors who audit less complex entities. There are minimal differences between the ED-ISA for LCE and the ISAs and therefore challenges faced by auditors under the ISAs will still exist under ED-ISA for LCE.

It has been stated many times that the new standard was not meant to “save time”. But this is an objective that should be considered. An audit can still obtain reasonable assurance and save time if designed properly. It is the excessive amount of unnecessary procedures in the existing ISAs that cause frustrations for auditors. These have not been revised as indicated throughout our response.

One issue that we believe has not been addressed is the size of the LCE and SMP in the various jurisdictions around the world. What is a less complex entity for one region might be a “micro” entity in another.

This is also true for auditors and the firms they operate. We believe the Canadian market in and of itself is smaller than many other regions, and therefore the clients and the SMPs who service them are also much smaller. For example, when you read articles in the Journal of Accountancy or from IFAC, the size of an SMP is typically 8-12 partners. This is definitely not the case in Canada. A firm that size would most likely be considered a “larger firm”, not a small- to mid-sized firm. We work with many firms that are sole practitioners or have only 1-2 partners. These firms are no less focused on quality than the large firms but struggle due to the complexities and extensiveness of the ISAs.

We need to ensure that we support these SMPs. Often the audit of an LCE is performed by a small firm who does not have the power of a national office to help them keep up through training and updated templates. These small practitioners must rely on other sources to help them keep up and it is a challenge to do so. Without the smaller practitioners, there are many organizations that quite frankly, could not afford an audit conducted by a larger firm. For example, day cares in Manitoba which are required to have an audit. Another example would be not-for-profit organizations in rural communities. If these organizations do not obtain their audit, they may be offside on funding requirements which in turn could cause them to lose their funding and cease operations, creating a strain on our society as the key functions they were supporting would no longer exist. We need to make it easier for the smaller practitioners to keep up and conduct quality audits.

While the standards do not take into consideration the commercial aspect of an audit, we cannot lose sight of this fact. While quality and protecting the public is of utmost importance, the ability to be efficient is also important. A firm can document in an efficient manner but it still takes time and in many cases, the documentation truly does not add value to the audit. As noted above, many small organizations require an audit and the current standards puts significant fee pressures on the auditor.

Specific Comments
Section 4F – Other Matters

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

ASK KSA Response:

This is not an IAASB issue but is important to raise. Many SMPs rely on purchased tools, templates and checklists rather than creating their own. It is the authors of these purchased tools who will have a significant impact on the efficiency and effectiveness of the ED-ISA for LCE. This is an opportunity to make changes and we hope these changes are made, and it is just not an exercise of taking existing forms and trying to fit them into the ED-ISA for LCE format.

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

ASK KSA Response:

No comment.

Specific Comments

Section 4G – Approach to Consultation and Finalization

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

ASK KSA Response:

Useful guidance would be implementation tools and specific guidance on such things as “frequently asked questions”.

24. 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.

ASK KSA Response:

No comment.

25. 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.

ASK KSA Response:

No comment.

Specific Comments

Section 5 – Group Audits

26. 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.

ASK KSA Response:

No comment.

27. 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?

ASK KSA Response:

No comment.

- (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 except for the specific exclusion?

ASK KSA Response:

No comment.

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

ASK KSA Response:

No comment.

28. 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).

ASK KSA Response:

No comment.

29. 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?

ASK KSA Response:

No comment.

30. 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.

ASK KSA Response:

No comment.