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January 31, 2022

Mr. Willie Botha
Technical Director
International Auditing and Assurance Standards Board
529 Fifth Avenue
New York, NY 10017
U.S.A.

Dear Mr. Botha,

RE: IAASB Exposure Draft, *Proposed International Standard on Auditing for Audits of Financial Statements of Less Complex Entities*

The Canadian Auditing and Assurance Standards Board (AASB)¹ is pleased to comment on the IAASB's Exposure Draft, *Proposed International Standard on Auditing for Audits of Financial Statements of Less Complex Entities* (ED-ISA for LCE). In our response, "we" refers to the AASB, and "stakeholders" refers to Canadian stakeholders who provided us with input.

We appreciate the IAASB's significant efforts to develop a global solution to address the challenges in performing audits of less complex entities (LCEs). We acknowledge the difficulty in developing ED-ISA for LCE due to the complexity of the issues considered and the accelerated basis on which it was developed.

Small and micro-entities make up a substantial segment of the Canadian economy.² We firmly believe that practitioners need an effective solution to perform high-quality, cost-effective audits of LCEs. Consequently, we committed in our [2022-2025 Strategic Plan](#) to provide solutions that respond to the environment for small and medium-sized entities and allow practitioners to apply standards in a scalable and proportional way on the less complex elements of an entity.

In search of an effective solution in Canada that addresses our strategic directions, we issued a [Discussion Paper, *Exploring Standard-Setting Options for Audits of Less Complex Entities*](#), in September 2021. This Discussion Paper sought views from stakeholders on options the AASB

¹ The AASB is an independent body with the authority and responsibility for setting standards for quality management, audit, other assurance and related services engagements and guidance in Canada.

² Innovation, Science and Economic Development Canada, Key Small Business Statistics (Ottawa, ON: ISSED, November 2020). As of December 2019, of the 1.23 million businesses in Canada, 97.9 per cent were small businesses (fewer than 100 employees) and 54.9 per cent were micro-businesses (one to four employees).

might consider undertaking, including whether a separate standard for audits of LCEs modelled after ED-ISA for LCE would be an effective solution in Canada.

We received input through written responses and roundtable sessions from a broad range of stakeholders, including:

- practitioners from firms of various sizes;
- those who support practitioners in the application of auditing standards, including practice advisors and developers of audit tools and methodologies;
- regulators, including practice inspectors who assess practitioners' compliance with professional standards; and
- users of financial statements.

We also facilitated practitioners' field-testing of 29 audit files to inform our judgments on whether the Authority of ED-ISA for LCE is implementable.

Our Overall Comments are set out under the following main headings:

- A. Developing a global solution – IAASB approach
- B. Developing a Canadian solution – AASB approach

In addition to our Overall Comments, we provide detailed comments to the questions in ED-ISA for LCE. Our responses are presented in the [Appendix](#) to this letter.

If you have any questions or require additional information, please contact me at bbosshard@aabscanada.ca or Karen DeGiobbi at kdegiobbi@aabscanada.ca.

Yours very truly,



Bob Bosshard, CPA, CA, ICD.D
Chair, Auditing and Assurance Standards Board (Canada)

c.c. Canadian Auditing and Assurance Standards Board members
Julie Corden, CPA, CA, IAASB Member
Eric Turner, FCPA, FCA, IAASB Member

OVERALL COMMENTS

A. Developing a global solution – IAASB approach

We are pleased with the IAASB’s continuing efforts to develop a global solution for addressing the challenges in performing audits of LCEs.

We are still considering whether a separate standard for audits of LCEs (for example, the ISA for LCE when finalized) is an appropriate solution for Canada. Nonetheless, we are pleased to provide our views on ED-ISA for LCE, including whether it addresses the public interest considerations in paragraph 18 of the IAASB’s Explanatory Memorandum.

We agree with the approach of developing ISA for LCE as a separate standalone standard, designed to be proportionate to the typical nature and circumstances of an LCE. We also agree that ISA for LCE should contain requirements that provide a basis for a reasonable assurance audit opinion.

However, we have concerns that ED-ISA for LCE in its current form may not be a standalone standard that provides a basis for a reasonable assurance audit opinion. We set out our concerns below with suggestions of how we think the IAASB can address them. We believe that addressing these concerns is fundamental to responding to the IAASB’s public interest considerations and providing an effective global solution for audits of LCEs.

Public interest consideration – Being responsive to stakeholder needs³

“Pain points” are not addressed

In its 2019 Discussion Paper,⁴ the IAASB asked stakeholders to identify aspects of the ISAs that are difficult to apply in audits of LCEs (hereafter referred to as “pain points”). Our response letter to that 2019 Discussion Paper identified several pain points, based on feedback from our stakeholders.

The IAASB has replicated many of these pain points in ED-ISA for LCE with no additional guidance. As a result, ED-ISA for LCE may not effectively respond to the needs of stakeholders as a solution for audits of LCEs.

We believe that if the pain points are addressed, it will enhance audit quality. Practitioners may also achieve significant efficiencies in performing audits of LCEs, resulting in a better uptake of the standard.

³ IAASB Explanatory Memorandum to ED-ISA for LCE, paragraph 18(c)

⁴ IAASB’s 2019 Discussion Paper, Audits of Less Complex Entities: Exploring Possible Options to Address the Challenges in Applying the ISAs

We suggest that the IAASB revisit the feedback received on its 2019 Discussion Paper and consider addressing the pain points in ED-ISA for LCE by modifying relevant requirements or adding EEM.

Public interest consideration – Helping auditors of LCEs undertake consistent, effective, and high-quality audits⁵

Authority is not easily implementable

In field testing the Authority, practitioners told us that the assessment of the qualitative characteristics is open to interpretation and requires significant professional judgment due to the following:

- (a) “Less complex” is not defined. Therefore, it is not clear in the Authority how the ability to use ED-ISA for LCE may be impacted by:
 - elements of “complexity” commonly encountered in the operations and financial statements of LCEs, such as those related to accounting estimates; and
 - the presence of more than one “complexity” qualitative characteristic exhibited by an entity.
- (b) It is unclear how some of the qualitative characteristics, for example, a high degree of regulation, have impacted the requirements included in ED-ISA for LCE, and therefore, affect the practitioner’s ability to obtain sufficient appropriate audit evidence.

We are concerned that if the Authority is open to interpretation and requires significant professional judgment, there may be divergence in practice and deterioration in audit quality.

We suggest that the IAASB modify the Authority to:

- (a) further clarify what “less complex” means and allow elements of “complexity” commonly encountered in the operations and financial statements of LCEs to be in scope so the need to transition to the ISAs is limited; and
- (b) explain how each qualitative characteristic impacts requirements included in ED-ISA for LCE and therefore, affects the practitioner’s ability to obtain sufficient appropriate audit evidence, to provide a basis for applying professional judgment.

Further, we suggest that the IAASB include practical examples in the Authority Supplemental Guide to demonstrate the application of qualitative characteristics commonly encountered in LCEs that may be open to interpretation and require significant professional judgment.

⁵ IAASB Explanatory Memorandum to ED-ISA for LCE, paragraph 18(b)

Lack of guidance on transitioning

Based on what stakeholders told us, we understand that:

- (a) it may not be uncommon for complexities to arise midway through an audit that may require practitioners to transition to the ISAs;
- (b) situations may arise year-over-year that may require practitioners to transition to the ISAs for a single year only, for example, a business combination, a significant impairment, or an accounting estimate for a contingent loss arising from litigation;
- (c) when transitioning occurs, considering the matters in paragraph 139 of the IAASB EM, the time and cost for both management and the practitioner may be onerous, which may deter practitioners from using the standard; and
- (d) users may be confused by reporting situations when the ISA for LCE is used for one year and the ISAs for another.

In addition to clarifying the Authority to limit the need to transition, we suggest that the IAASB make the work effort and reporting on transitioning to the ISAs clear and not onerous by:

- (a) clarifying the transitioning matters in paragraph 139 of the IAASB EM; for example, making clear that the audit work performed on the non-complex elements of the entity under the ISA for LCE need not be reperformed in transitioning to the ISAs; and
- (b) providing guidance on reporting in situations when the ISA for LCE is used for one year and the ISAs for another, and how the risk of user confusion would be mitigated.

Further, we believe that transitioning requirements and guidance should be included in ISA for LCE.

Public interest consideration – Promoting a more consistent application of the auditing standards to audits of LCEs⁶

Essential explanatory material (EEM) is not sufficient

Based on what stakeholders told us, we are concerned that the EEM does not provide sufficient guidance to support the proper and consistent application of the requirements. Therefore, practitioners may lack sufficient guidance to perform high-quality audits.

We remain mindful of the IAASB’s objective to balance how much EEM is incorporated so as not to add unnecessary length to the standard, but at the same time develop a standalone “self-contained” standard. Therefore, we suggest that the additional EEM focus on:

- (a) addressing the pain points replicated in ED-ISA for LCE, and
- (b) adding guidance from the ISAs that, if not provided, may create significant application challenges.

⁶ IAASB Explanatory Memorandum to ED-ISA for LCE, paragraph 18(d)

Further, we recognize that there may be guidance in the ISAs on scalability that may not meet the IAASB's principle for including as EEM but helps explain the proper application of a requirement. To help practitioners locate the relevant application material in the ISAs, we suggest that the IAASB retain and maintain the mapping documents.

B. Developing a Canadian solution – AASB approach

We are still analyzing feedback received on our Discussion Paper. We will base our decision to adopt the ISA for LCE on whether we believe it will meet the needs of Canadian stakeholders and serve the Canadian public interest.

In deciding on our way forward, we will consider how the IAASB responds to our concerns, and what changes the IAASB proposes to ED-ISA for LCE based on stakeholder feedback.

We will also evaluate whether having a separate standard for audits of LCEs is an effective solution for the Canadian environment and the public interest implications of having two sets of auditing standards, including the risk that this may:

(a) Exacerbate users' expectation gap by:

- Having audit reports that refer to different sets of standards, both of which are reasonable assurance audit opinions. We are concerned that there will be a perception that an audit under the ISA for LCE provides a lower level of assurance than an ISA audit.
- Creating the perception of a fourth assurance engagement level. Canada does not have the same minimum thresholds for statutory audit requirements as may be the case in other jurisdictions. Many Canadian entities use services other than audits, such as review or compilation engagements, to meet the needs of their financial statement users. Any existing confusion in the marketplace between the existing services may be further exacerbated by adding a separate standard for audits of LCEs.

(b) Create a two-tier profession if, over time, the profession splits into auditors who perform ISA audits and those who perform audits of LCEs. If this occurs, when transitioning circumstances arise, the entity may be forced to engage a new auditor.

(c) Have an unintended consequence of increasing the need for:

- education, training and maintenance for practitioners and firms using both the ISAs and ISA for LCE; and
- education of other stakeholders who receive and use auditor's reports, to mitigate the risk of an expectation gap and marketplace confusion.

Appendix – Responses to 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?
- (b) The title of the proposed standard.
- (c) Any other matters related to ED-ISA for LCE as discussed in this section (Section 4A).

(a) Standalone nature of the proposed standard

What stakeholders told us

Stakeholders generally supported a standalone standard but felt that it might not be practical. Stakeholders noted that it is not uncommon for LCEs to exhibit some elements of complexity in their operations and financial statements. It is only the very simplest of entities that have no elements of complexity. Consequently, to avoid frequent transitioning to the ISAs, they felt that the ability to “top-up” ED-ISA for LCE with relevant ISA requirements is a practical solution to addressing elements of complexity common in LCEs.

AASB views and recommendations

We agree with the approach of developing ISA for LCE as a separate standalone standard, designed to be proportionate to the typical nature and circumstances of an LCE. Consequently, we agree that a separate standalone standard would not reference back to the ISAs or allow “top-up” with ISA requirements.

However, we acknowledge stakeholders’ concerns that ED-ISA for LCE in its current form has possible obstacles that may impair its ability to be a standalone standard. These include that:

- the pain points in the ISAs are not addressed in ED-ISA for LCE;
- the Authority is not easily implementable;
- there is a lack of guidance on transitioning; and
- EEM is not sufficient or complete.

(b) Title of the proposed standard

We believe the title of ED-ISA for LCE may create confusion about its standalone nature. The use of the term “ISA” is well understood for the existing set of international auditing standards. By titling the standard “ISA for LCE”, it may give the impression that it is a subset of the ISAs.

We suggest that the IAASB better distinguish the ISAs from the separate standard in the title. For example, the standard could be titled “International Standard for LCE Audit Engagements” or “IS-LCE Audit”.

(c) Other matters

We have no comments on other matters addressed in this Section.

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?

We have no comments on the proposed conforming amendments to the IAASB Preface.

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?
- (b) Are there unintended consequences that could arise that the IAASB has not yet considered?
- (c) Are there specific areas within the Authority that are not clear?
- (d) Will the Authority, as set out, achieve the intended objective of appropriately informing stakeholders about the scoping of the proposed standard?
- (e) Is the proposed role of legislative or regulatory authorities or relevant local bodies with standard setting authority in individual jurisdictions clear and appropriate?

(a) Is the Authority as presented implementable?

No. We have concerns that the assessment of qualitative characteristics is open to interpretation and requires significant professional judgment. We set out further detail and suggestions in our response to Question 4(b).

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

Yes. The Authority is open to interpretation and significant judgment. As a result, the following unintended consequences could arise:

- inconsistent application of ED-ISA for LCE;
- use of ED-ISA for LCE when inappropriate; and
- practitioner hesitancy to use the standard.

We set out further details on the unintended consequences in our response to Question 4(b). If the IAASB addresses the concerns we note in that response, the unintended consequences would be mitigated.

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

Yes. Please refer to our response to Question 4(b).

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

No. As noted in our responses in (a)-(c), we do not believe the Authority in its current form will achieve the intended objective of appropriately informing stakeholders about the scoping of the ISA for LCE. Changes are necessary for the Authority to be appropriately and consistently implemented, which we have set out in our response to Question 4.

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

Yes. We believe the proposed role of legislative or regulatory authorities or relevant local bodies with standard setting authority in individual jurisdictions is clear and appropriate.

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.

(a) Specific Prohibitions

Listed entities

What stakeholders told us

Many stakeholders, particularly regulators, broadly supported the proposal to prohibit the use of ISA for LCE for listed entities. They agreed with the IAASB that such entities might be of significant public interest, and therefore, regardless of complexity, they should be excluded from the scope of the ISA for LCE. However, some practitioners noted

that the implication of this exclusion is that many junior listed LCEs in Canada, that may benefit from the standard, would be prohibited from using it.

AASB views and recommendations

We agree that all listed entities, regardless of size or complexity, should be excluded. We acknowledge stakeholders' concerns that many junior listed LCEs would be included in this prohibition. However, if such entities were not prohibited, ED-ISA for LCE would have to include requirements applicable to listed entities. This would add to complexity of the standard and defeat the purpose of having a streamlined audit standard for LCEs.

Public interest characteristics

What stakeholders told us

Stakeholders generally agreed with prohibiting ISA for LCE for the classes of entities in paragraph A.7.(c). Like listed entities, these entities could have significant public interest and should be audited using the ISAs.

However, specific sub-sets within the classes of entities in paragraph A.7.(c) may include very simple entities. Consequently, our stakeholders also agreed with the IAASB's proposal in paragraph A.6 to allow individual jurisdictions to modify the classes of entities in paragraph A.7.(c) to permit specific sub-sets within a class to use the standard.

Many stakeholders asked for clarity about whether other entities exhibiting public interest characteristics (not listed in paragraph A.7.(c)) are also excluded from the scope of ED-ISA for LCE. Examples of such entities are those that follow International Public Sector Accounting Standards (such as municipalities, local school divisions, and indigenous groups) or not-for-profit and cooperative organizations. The source of their confusion was paragraph A.5.

Paragraph A.5 makes a blanket statement that entities with public interest characteristics could embody a level of complexity in fact or appearance and are specifically prohibited from using the ISA for LCE. Stakeholders read paragraph A.5 as standalone to suggest that other public interest entities need to be identified and considered for exclusion in addition to the categories in paragraph A.7.(c). Stakeholders did not make the connection that the public interest characteristics referenced in paragraph A.5 are those set out as prohibitions in paragraph A.7.

AASB views and recommendations

We agree with prohibiting entities with public interest characteristics from using ED-ISA for LCE. However, we believe that some revisions are necessary to address concerns around clarity. We suggest the following:

- Clarify the linkage between paragraphs A.5 and A.7 to address the confusion as to whether the classes of entities in paragraph A.7.(c) are the only exclusions related to public interest characteristics. We suggest moving paragraph A.7 before paragraph A.6 to help improve the flow.

- Clarify that other public interest entities, such as those that follow International Public Sector Accounting Standards, or not-for-profit and cooperative organizations, are within the scope of the standard.

Additionally, we recognize that the International Ethics Standards Board for Accountants (IESBA) removed certain entities when it finalized its definition of public interest entity. We suggest that the IAASB consider updating paragraph A.7.(c) to align with the final IESBA definition as part of the IAASB's upcoming project on the definition of public interest entity.

Group audits

What stakeholders told us

Most stakeholders disagreed with scoping out group audits entirely in the Authority of ED-ISA for LCE. They noted that there are many non-complex group audits in the Canadian environment that could be LCEs, and therefore, should be included in the scope of ED-ISA for LCE. Non-complex groups may include a holding company and its operating entity or those that have simple group structures.

AASB views and recommendations

Like our stakeholders, we do not agree with scoping out group audits entirely. We have included detailed comments in our responses to Questions 22-26.

(b) Qualitative Characteristics

Our views to this question were informed by the feedback we received from stakeholders, including the results of the field-testing we facilitated with practitioners.

For our field-testing, practitioners selected 29 audit files to determine whether the Authority is implementable.

What stakeholders told us

For 9 of the audit files field-tested, practitioners told us that the assessment of the qualitative characteristics is open to interpretation and requires significant professional judgment.

Specifically, they noted that, because "less complex" is not defined, it is not clear in the Authority how the ability to use ED-ISA for LCE may be impacted by:

- elements of complexity commonly encountered in the operations and financial statements of LCEs, such as those related to accounting estimates; and
- the presence of more than one "complexity" qualitative characteristic exhibited by an entity.

They also noted that it is unclear how some of the qualitative characteristics, for example, a high degree of regulation, have impacted the requirements included in ED-ISA for LCE, and therefore, affect the practitioner's ability to obtain sufficient appropriate audit evidence.

They provided the following specific examples:

- *Characteristic of "The entity's accounting estimates are subject to a higher degree of estimation uncertainty, or the measurement basis required complex methods that may involve multiple sources of historical and forward-looking data or assumptions, with multiple interrelationships between them"*

The field-testing showed that it was common for an LCE to have some elements of complexity in their accounting estimates that may be deemed to have a higher degree of estimation uncertainty. The field-testers were unclear whether, and if so, how many, complexities in the accounting estimates would make the standard inappropriate for use. They were also unclear whether a one-time accounting estimate that includes an element of complexity would make the standard inappropriate for use.

Examples of accounting estimates where it was unclear whether they would make the standard inappropriate for use include:

- indicators of impairment;
 - goodwill, intangibles or accounting for business combinations;
 - foreign currency transactions;
 - inventory provision; and
 - valuation of livestock (e.g., cattle) or fruit orchards in the farming/agriculture industry that is deemed a complex estimate due to the data and computations used.
- *Characteristic of "Transactions are complex or the information system and related processes relevant to the entity's financial statements are complex such that data collection and processing involves complex accounting or calculations"*

It can be common for LCEs to use information systems and related processes that may exhibit complexities, such as an online sales model. As the technology environment evolves, complexities in the information system and related processes of an LCE may become increasingly more common. This qualitative characteristic should be able to stand the test of time.

Our field-testers noted that it is unclear whether an entity that processes transactions online, for example, would be considered to have a complex information system and related processes. They noted that ISA 315 (Revised

2019),⁷ Appendix 5, provides characteristics of IT environments that may be less complex. They thought that including such characteristics in ISA for LCE would help improve clarity and interpretation of this qualitative characteristic.

We also heard suggestions that this characteristic covers two points:

- transactions; and
- information system and related processes.

Our field-testers noted examples where transactions are not complex, but the information system is complex (i.e., online transaction processing). They thought that the two points are independent of each other.

- *Characteristic of “The entity’s operations are subject to a higher degree of regulation or to significant regulatory oversight”*

The field-testing showed that some LCEs operate in industries subject to regulation or regulatory oversight. It was unclear whether they would be considered “higher degree” or “significant”, making the standard inappropriate to use. Examples of entities that operate within regulated industries that otherwise have simple, less-complex operations include:

- daycares;
- small insurance brokers/dealers; and
- entities that hold trust accounts, for example, law and insolvency firms, notaries, travel agencies, and funeral homes.

- *Characteristic of “Business activities, business model and industry”*

Stakeholders noted situations where, while this circumstance may add complexity to the audit, the entity may still be less complex. For example, entering a new market could be a routine activity for a growth enterprise, or shifting from development to operations could be routine for start-up entities. It is unclear how this characteristic impacts the ability of the auditor to obtain sufficient appropriate audit evidence.

- *Characteristic of “Ownership and oversight structures”*

The Supplemental Guidance for the Authority notes that concentration of ownership and management in a small number of individuals in an LCE is a “complexity” characteristic. However, many LCEs have concentration of ownership and management in a small number of individuals and stakeholders questioned whether this was an indicator of complexity. Additionally, stakeholders noted that LCEs may have complex structures for tax planning or business management purposes that do not impact the complexity of the audit. It is unclear how this

⁷ ISA 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*

characteristic impacts the ability of the auditor to obtain sufficient appropriate audit evidence.

AASB views and recommendations

Considering the feedback from stakeholders and field-testing, we have the following concerns with the Authority being open to interpretation and requiring significant professional judgment in assessing whether an entity exhibits the qualitative characteristics:

- *ED-ISA for LCE could be used when inappropriate.* The ambiguity in the Authority leaves room for practitioners to conclude on the use of the standard incorrectly. There is also a risk of practitioner bias to continue to apply the separate standard when it is necessary to transition to the ISAs. Therefore, there may be a negative impact on audit quality.
- *Inconsistency in practice.* What may be determined as complex by one auditor may not be complex for another auditor due to their experience. Therefore, practitioners may arrive at different conclusions regarding the use of the standard for similar entities, and, as a result, the IAASB's goal to promote a more consistent application of the auditing standards to audits of LCEs may not be achieved.
- *Practitioners may be hesitant to use ISA for LCE.* There are many consequences of concluding on the use the standard incorrectly (e.g., inspection risk or transition to the ISAs mid-engagement). Practitioners may be reluctant to use the standard to avoid the risk of being challenged by practice inspectors on their application of professional judgment or having to transition to the ISAs mid-engagement. As a result, practitioners may be less willing to use the standard.
- *Difficult to regulate.* Regulators have told us that it would be difficult to inspect whether the practitioner has reached the appropriate conclusion on the use of ISA for LCE due to the wide interpretation and significant professional judgment involved in the Authority.

We suggest the following solutions to address these concerns:

- **Clarify the Authority to address common complexities more clearly.** The Authority should clarify what “less complex” means. Most entities have accounting estimates. Whether such estimates are subject to a higher degree of estimation uncertainty is subjective. We believe that there are some complexities that are common in LCEs, and their presence should not make the standard inappropriate to use.
- **Explain why each qualitative characteristic is included and how it impacts the practitioner’s ability to obtain sufficient appropriate audit evidence.** Including such an explanation provides context for the practitioner to use professional judgment in applying the Authority to determine whether it is appropriate to use ED-ISA for LCE. For example, explaining how a high degree of regulation may

impact the practitioner’s ability to obtain sufficient appropriate audit evidence under the ISA for LCE may help practitioners assess this qualitative characteristic.

- **Clarify language in the Authority that is open to interpretation.** The lead-in language used in paragraph A.9 may suggest that any one complexity would make the standard inappropriate for the circumstances. We suggest the IAASB consider the following revision to address the perceived inconsistency between the highlighted words:

~~In accordance with paragraph A.8., the [draft] ISA for LCE is inappropriate for the audit of the financial statements if an entity exhibits one or more of the following characteristics~~ may be indicators that the [draft] ISA for LCE is inappropriate for the audit of the financial statements of an entity:

...

*The list is not exhaustive and other relevant matters may also need to be considered. Each of the qualitative characteristics may **on its own** not be sufficient to determine whether the [draft] ISA for LCE is appropriate or not in the circumstances, therefore the matters described in the list are intended to be considered both individually and in combination. The presence of **one characteristic** exhibited by an entity does not necessarily exclude the use of the [draft] ISA for LCE for that entity.*

We also note that the characteristic “Transactions are complex or the information system and related processes relevant to the entity’s financial statements are complex such that data collection and processing involves complex accounting or calculations” combines two different factors (i.e., (i) transactions and (ii) information systems and related processes)”. We suggest that the IAASB separate these so that there is a qualitative characteristic that deals with complex transactions and another that deals with complex information systems and related processes.

Finally, practitioners may interpret language in paragraph A.9 such as “high degree” and “significant” differently. This may result in a wide range of interpretations and conclusions. We suggest that the IAASB either revisit this language or provide more guidance and examples to demonstrate what is meant by the terms.

5. Regarding the Authority Supplemental Guide:

- (a) Is the guide helpful in understanding the Authority? If not, why not?
- (b) Are there other matters that should be included in the guide?

What stakeholders told us

Stakeholders supported having the Authority Supplemental Guide as it sets out further considerations for determining or evaluating the use of ED-ISA for LCE. However, they strongly felt that this Guide needs further clarity.

AASB views and recommendations

We believe that a supplemental guide is needed to assist practitioners with the understanding and application of the Authority.

To address stakeholder concerns, we suggest that the IAASB:

- **Include more descriptions and explanations of the qualitative characteristics.** This could include setting out why each qualitative characteristic should be considered and how it may impact the practitioner's ability to obtain sufficient appropriate audit evidence under the ISA for LCE.
- **Add more practical examples to help practitioners in their assessment.** For example, the IAASB could add the characteristics of IT environments that may be less complex set out in ISA 315 (Revised 2019), Appendix 5, to clarify the qualitative characteristic relating to information systems and related processes. Also, more examples of regulation or regulatory oversight and how it applies to different industries would be helpful.

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

We did not identify any other matters related to the Authority.

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).
- (b) The approach to the objectives of each Part of the proposed standard (see paragraphs 78-80).
- (c) The principles in relation to professional skepticism and professional judgment, relevant ethical requirements and quality management (see paragraphs 81-84)
- (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.

(a) Approach to how requirements have been incorporated in the proposed standard

In its 2019 Discussion Paper⁸, the IAASB asked stakeholders to identify aspects of the ISAs that are difficult to apply in audits of LCEs (referred to as “pain points”). Our response letter to that Discussion Paper identified the pain points, based on feedback from our stakeholders.

The IAASB has replicated many of these pain points in ED-ISA for LCE with no additional guidance. As a result, ED-ISA for LCE may not effectively respond to the needs of stakeholders as a solution for audits of LCEs.

Stakeholders have told us that pain points in ISA 315 (Revised 2019)⁹ and ISA 240¹⁰ are creating the greatest difficulty in practice.

We recently completed a root cause analysis of each significant pain point in ISA 315¹¹ to determine whether it has been addressed in ISA 315 (Revised 2019). For those pain points that continue to exist, we determined whether it is caused by a flawed requirement, or misinterpretation and misapplication of the standard that can be addressed with non-authoritative guidance.

We determined that some of the pain points were addressed in ISA 315 (Revised 2019) either through reworded requirements or the addition of application material. For the pain points that were not addressed in ISA 315 (Revised 2019), we provided input into the development of non-authoritative guidance in Canada, [Implementation tool for auditors: Revised CAS 315](#), that emphasizes the scalability of the standard with a focus on LCEs.

We are encouraged by the recently approved project proposal to revise ISA 240; the pain points stakeholders identified will be considered in the project. We believe that this is an area where revisions to ISA for LCE resulting from revisions to ISA 240 is a priority.

We list below the specific pain points in ED-ISA for LCE that have been replicated from the ISAs. There may be others. We suggest that the IAASB revisit the feedback received on its Discussion Paper and consider addressing the pain points in ED-ISA for LCE by modifying relevant requirements or adding EEM.

We believe that if the pain points are addressed, it will enhance audit quality. Practitioners may also achieve significant efficiencies in performing audits of LCEs, resulting in a better uptake of the standard.

⁸ IAASB’s 2019 Discussion Paper, *Audits of Less Complex Entities: Exploring Possible Options to Address the Challenges in Applying the ISAs*

⁹ ISA 315 (Revised 2019), *Identifying and Assessing the Risks of Material Misstatement*

¹⁰ ISA 240, *The Auditor’s Responsibilities Relating to Fraud in an Audit of Financial Statements*

¹¹ ISA 315, *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*

Part 1 – Fundamental Concepts, General Principles and Overarching Requirements

We note the following pain points:

- **Identification and response to fraud risk (ISA 240, paragraph 27 / ISA for LCE paragraph 6.4.2).** This paragraph presumes there is always a risk of material misstatement due to fraud related to revenue recognition. Stakeholders indicated that this requirement is challenging to apply to audits of entities with a single revenue source (e.g., government grants) that is not susceptible to fraudulent financial reporting. Although rebuttal of the presumed risk of fraud is permitted, the work effort to support and document the rebuttal is not well understood and believed by some to be a high hurdle to overcome.
- **Incorporate an element of unpredictability in the selection of procedures (ISA 240, paragraph 30(c) / ISA for LCE paragraph 7.2.2).** This paragraph requires the auditor to incorporate an element of unpredictability in the design and selection of the nature, timing and extent of audit procedures. Stakeholders indicated this can be challenging when taking a fully substantive audit approach, where many (if not all) transactions and balances are examined. In such circumstances, it can be difficult to determine what may be an effective unpredictability procedure.
- **Journal entry testing (ISA 240, paragraph 33(a) / ISA for LCE paragraph 7.4.8.(a)).** This paragraph requires the auditor to design and perform procedures to test the appropriateness of journal entries throughout the period and at the end of the period. Stakeholders indicated this requirement is not well understood when a fully substantive audit approach is taken. For example, when many of the entity's journal entries have already been tested in a substantive audit approach, it is unclear how much additional testing would be required.

Part 6 – Risk Identification and Assessment

We note the following pain points:

- **Preliminary analytical review (ISA 315 (Revised 2019), paragraph 14 / ISA for LCE paragraph 6.2.2).** This paragraph requires the auditor to perform analytical procedures as a risk assessment procedure. Stakeholders indicated such a procedure is often ineffective for an audit where the entity's financial information requires year-end adjustments (e.g., cut-off adjustments, amortization, etc.) to comply with the applicable financial reporting framework. Although stakeholders acknowledged that the application and explanatory material provides scalability considerations, they thought it does not allow enough flexibility for the auditor to decide not to perform the procedure or combine the procedure with final analytical procedures.
- **Risk assessment procedures (ISA 315 (Revised 2019), paragraph 26(d) / ISA for LCE, paragraph 6.3.14.** This paragraph requires the auditor to perform procedures in addition to inquiry to understand controls relevant to the audit. Stakeholders

thought inquiry alone should be sufficient to obtain this understanding when taking a fully substantive audit approach.

- **Understanding internal controls (ISA 315 (Revised 2019), paragraphs 21-26 / ISA for LCE, paragraphs 6.3.6-6.3.11 and 6.3.14).** These paragraphs require the auditor to understand the components of internal control. Stakeholders thought the understanding required is too granular and does not reflect a less complex environment. Such an environment is typically less formal and focuses more on monitoring and oversight controls than on process controls. Further, stakeholders thought this section seems onerous in circumstances where a fully substantive approach is taken. While ISA 315 (Revised 2019) includes scalability guidance in this area, more focused guidance is needed.
- **Responding to risks arising from information technology (IT) (ISA 315 (Revised 2019), paragraphs 25 and 26(b)-(c) / ISA for LCE, paragraphs 6.3.9-6.3.11 and 6.3.14).** These paragraphs require the auditor to understand the information system and related controls relevant to financial reporting. Stakeholders thought the standard is unclear as to the extent of work required when the auditor decides specific controls over IT applications will be irrelevant to the audit. For example, IT risks for an entity using “off-the-shelf” commercial accounting packages that the entity cannot change should present a low risk to financial reporting. Still, practitioners struggle to understand what evidence is needed to support this judgment.

Part 7 – Responding to Assessed Risks of Material Misstatement

We note the following pain points:

- **Sample design, size and selection of items for testing (ISA 530,¹² paragraphs 7-8 / ISA for LCE paragraphs 7.3.5.(a)-(c)).** These paragraphs require the auditor to determine a sample size sufficient to reduce sampling risk to an acceptably low level and select items for the sample in such a way that each sampling unit in the population has a chance of selection. Stakeholders thought that there is uncertainty around what is needed to support the judgment around the determination of a sample size sufficient to reduce sampling risk to an acceptably low level.

Various Parts – Specific Communication Requirements

We note the following pain points:

- **Frequency and substance of communications (ISA 260,¹³ paragraph 14-16 / ISA for LCE paragraphs 4.7.1, 5.4.1, 6.7.1 and 8.8.2).** These paragraphs list matters the practitioner is required to communicate with those charged with governance.

¹² ISA 530, *Audit Sampling*

¹³ ISA 260, *Communication with Those Charged with Governance*

Stakeholders indicated they are sometimes challenged in complying with the requirements to communicate specific matters throughout the audit in less-formal oversight structures, where a board of directors does not exist or meets infrequently.

(b) Approach to the objectives of each Part

We have no comments on the approach to the objectives of each Part.

(c) Approach to principles related to professional skepticism, professional judgment, relevant ethical requirements and quality management.

We have no comments on the approach to the above principles.

(d) Approach to EEM

What stakeholders told us

Some practitioners and developers of firm methodologies and tools felt that the EEM helps implement selected concepts and requirements. They also felt that placing the EEM near the related requirements and presenting them in italics within blue boxes helps distinguish the EEM from the requirements and enhances the readability of the standard.

However, these stakeholders, along with practice inspectors and advisors were concerned that, as a standalone standard, there may not be sufficient EEM to support the proper application of the requirements. They strongly felt that additional EEM should be included to provide guidance on the pain points in ED-ISA for LCE.

Finally, stakeholders were concerned that using the word “essential” in EEM may imply that its application is mandatory, rather than guidance material.

AASB views and recommendations

We agree with stakeholders that the placement and presentation of the EEM streamlines the ED-ISA for LCE and improves readability and user friendliness.

We share stakeholders’ concern that the EEM may be insufficient to support the proper application of the requirements. Practitioners in small to medium-sized practices who are likely to use the ISA for LCE often do not have the resources larger firms have to implement standards. Therefore, guidance is essential to help such practitioners properly apply the requirements.

The public interest issues of having insufficient guidance are that:

- requirements may be misinterpreted, misapplied or applied inconsistently, which may impact audit quality; and

- practitioners may refer to sources developed by those other than the IAASB or NSSs that may contain guidance that is not consistent, complete, accurate or representative of the IAASB’s views.

We remain mindful of the IAASB’s objective to balance how much EEM is incorporated so as not to add unnecessary length to the standard, but at the same time develop a standalone “self-contained” standard. Therefore, we suggest that the additional EEM focus on:

- addressing the pain points replicated in ED-ISA for LCE, and
- adding guidance from the ISAs that, if not provided, may create significant application challenges.

This may entail:

- modifying the relevant requirements or developing EEM to address pain points; or
- identifying guidance in the ISAs specific to LCEs that addresses the pain points. Some ISAs, especially those that have been recently revised, include helpful guidance in addressing the pain points. For example, ISA 315 (Revised) includes guidance on how to address the risks associated with an entity using “off-the-shelf” commercial accounting packages and the extent of the work effort in performing preliminary analytical procedures.

Also, we recognize that there may be guidance in the ISAs on scalability that may not meet the IAASB’s principle for including as EEM in ED-ISA for LCE but helps explain the proper application of a requirement. To help practitioners locate the relevant application material in the ISAs, we suggest that the IAASB retain and maintain the mapping documents.

Finally, we recommend removing the word “essential” from “Essential Explanatory Material” to reduce the risk of readers misinterpreting this material as mandatory application material. Retaining the language “explanatory” is sufficient to distinguish the material from the requirements.

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).

What stakeholders told us

Stakeholders, particularly SMPs and developers of firm methodologies and tools, strongly supported the design and structure of ED-ISA for LCE. They were in favour of the requirements being presented in an understandable and straightforward way, including having the requirements follow the flow of an audit engagement. They felt that such design and structure provide for easier reading and understandability of the standard.

They also noted that it may contribute to more effective and efficient development of methodologies and training for audits of LCEs.

AASB views and recommendations

We strongly support the overall design and structure of ED-ISA for LCE. In our view, the IAASB has followed the Drafting Principles and Guidelines developed by the Complexity, Understandability, Scalability and Proportionality Working Group.

Section 4E – Content of ED-ISA for LCE

9. Please provide your views on the content of each of **Parts 1 through 8** of ED-ISA for LCE, including the completeness of each part. In responding to this question, please distinguish your comments by using a subheading for each of the Parts of the proposed standard.

We support ISA for LCE including the core requirements in the ISAs, as they are needed to support a reasonable assurance audit opinion.

Regarding the content that has been included, we refer you to our response to Question 7 around addressing the pain points.

Regarding the completeness of the content, we note the following:

- **Requirements that address complex matters or circumstances (EM paragraph 104(c)(ii))** – We agree that requirements that address complex matters and circumstances should be omitted in line with the Authority. However, how the qualitative characteristics relate to the requirements omitted in the standard is not apparent. Until our concerns with the Authority are addressed, it is difficult for us to conclude which requirements from the ISAs should be omitted from ED-ISA for LCE.
- **Requirements for rare or exceptional circumstances (EM paragraph 104(c)(iii))** – By not including requirements to address rare or exceptional circumstances, practitioners may either overlook the requirements, or be forced to transition to the ISAs for an audit that otherwise could be performed using ED-ISA for LCE. We further note that the Authority does not describe rare or exceptional circumstances as a prohibition or qualitative characteristic. This seems to be an inconsistency in ED-ISA for LCE.
- **Internal audit function (EM paragraph 102(b))** – The requirements of ISA 610¹⁴ are not included in ED-ISA for LCE. However, an entity that has an internal audit function is neither reflected as a prohibition nor included as an indicator of complexity in the qualitative characteristics in the Authority. We believe that if the auditor intends to use the work of the internal audit function, the auditor should use the ISAs. As such, the Authority should include this as a prohibition.

¹⁴ ISA 610, *Using the Work of Internal Auditors*

- **Use of a service organization (EM paragraph 106(b))** – We heard mixed views regarding the use of Type 1 or Type 2 reports in audits of LCEs. We agree with excluding situations that are deemed more complex relating to service organizations. However, LCEs may use service organizations for less complex situations, such as processing of payroll, cloud services, and outsourcing of IT services. This use is becoming increasingly more common. Therefore, we suggest the IAASB consider adding requirements to ED-ISA for LCE to address the auditor’s ability to rely on reports on the operating effectiveness of controls from the entity providing the services.
- **Management amendments to financial statements after issuing the auditor’s report (EM, paragraph 106(c))** – We are not convinced that such a situation is rarer in audits of LCEs than in an ISA audit. The IAASB should consider adding requirements to address such situations. Otherwise, practitioners would be forced to transition to the ISAs for an audit that otherwise could be performed using ED-ISA for LCE.

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.

We have no comments on Part 9. We believe including examples of auditor’s reports is useful for practitioners.

11. With regard to the Reporting Supplemental Guide:

- (a) Is the support material helpful, and if not, why not?
- (b) Are there any other matters that should be included in relation to reporting?

Yes. We believe the support material will be helpful. We have no other comments.

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.

Please refer to our Overall Comments and response to Question 7.

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

What stakeholders told us

Stakeholders raised the following concerns regarding transitioning:

- It may not be uncommon for complexities to arise midway through an audit that may require practitioners to transition to the ISAs. Management of LCEs may not understand what matters are considered complex for the purposes of using ED-ISA for LCE, and therefore may not bring them to the practitioner’s attention during engagement acceptance or continuance.
- Situations may arise year-over-year that may require practitioners to transition to the ISAs for a single year only, for example, a business combination, a significant impairment, or an accounting estimate for a contingent loss arising from litigation.
- When transitioning occurs, considering the matters in paragraph 139 of the IAASB EM, the time and cost for both management and the practitioner may be onerous, for example, re-establishing terms of reference, reissuing communications with those charged with governance and considering additional procedures on opening balances. This may deter practitioners from using the standard.
- Users may be confused by reporting situations when the ISA for LCE is used for one year and the ISAs for another.

AASB views and recommendations

We believe that issues around transitioning can be dealt with as follows:

- **Addressing certain commonly encountered complexities in ED-ISA for LCE** through the Authority and requirements, so that situations where practitioners need to transition to the ISAs are limited. To do this, we suggest that the IAASB consider field-testing the requirements relating to those areas that may be more complex, such as estimates, to determine what situations and requirements may be appropriate to include.
- **Making the process and work effort to transition to the ISAs clear and not onerous.** The IAASB could:
 - clarify the transitioning matters in paragraph 139 of the IAASB EM, for example, making clear that the audit work performed on the non-complex elements of the entity under the ISA for LCE need not be reperformed in transitioning to the ISAs; and

- provide guidance on reporting in situations when the ISA for LCE is used for one year and the ISAs for another, and how the risk of user confusion would be mitigated.

We believe that transitioning requirements and guidance should be included in ISA for LCE.

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

Yes. We agree with the IAASB's conclusion to include explicit consideration of what changes to ISA for LCE may be needed in each ISA project. Any revisions to ISA for LCE should be exposed with the related ISA revisions. This will ensure that ISA for LCE is updated on the same timeline as the ISAs. While considering the revisions holistically may add time and effort to the ISA project, it will ensure that the IAASB:

- considers scalability issues in revising the ISAs; and
- maintains consistency between the ISAs and the ISA for LCE to ensure that the ISA for LCE is of equivalent quality and enables transitioning to the ISAs.

If revisions to the ISA for LCE are not made at the same time as revisions to ISAs, we are concerned that the ISA for LCE will be a lower quality than the ISAs and make transitioning challenging. This could discourage practitioners from using the ISA for LCE.

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

Yes. Consistent with permitting early adoption of the ISAs, early adoption of revisions to the ISA for LCE should be allowed.

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

Yes. Some stakeholders noted that there are special purpose framework audits of LCEs. Also, summary financial statements may be prepared for LCEs. Since the requirements would not apply to all audits of LCEs, we believe this should be done in a separate Part or appendix.

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

- (a) Whether the proposed standard can, and will, be used in your jurisdiction.

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

(a) Use of the proposed standard in Canada

We are still analyzing feedback received on our Discussion Paper. We will base our decision to adopt the ISA for LCE on whether we believe it will meet the needs of Canadian stakeholders and serve the Canadian public interest.

In deciding our way forward, we will consider how the IAASB responds to our concerns, and what changes the IAASB proposes to ED-ISA for LCE based on stakeholder feedback.

We will also evaluate whether having a separate standard for audits of LCEs is an effective solution for the Canadian environment, and the public interest implications of having two sets of auditing standards, including the risk that this may:

- Exacerbate users' expectation gap by:
 - Having audit reports that refer to different sets of standards, both of which are reasonable assurance audit opinions. We are concerned that there will be a perception that an audit under the ISA for LCE provides a lower level of assurance than an ISA audit.
 - Creating the perception of a fourth assurance engagement level. Canada does not have the same minimum thresholds for statutory audit requirements as may be the case in other jurisdictions. Many Canadian entities use services other than audits, such as review or compilation engagements, to meet the needs of their financial statement users. Any existing confusion in the marketplace between the existing services may be further exacerbated by adding a separate standard for audits of LCEs.
- Create a two-tier profession if, over time, the profession splits into auditors who perform ISA audits and those who perform audits of LCEs. If this occurs, when transitioning circumstances arise, the entity may be forced to engage a new auditor.
- Have an unintended consequence of increasing the need for:
 - education, training and maintenance for practitioners and firms using both the ISAs and ISA for LCE; and
 - education of other stakeholders who receive and use auditor's reports, to mitigate the risk of an expectation gap and marketplace confusion.

In addition to a separate standard for LCE audits, we are considering other possible solutions in Canada, including:

- making limited targeted revisions to the Canadian Auditing Standards (CASs) adopted from the ISAs to support stakeholders' need for more effective scalability and proportionality in the CASs; and
- developing (or supporting other groups in developing) targeted non-authoritative guidance, including tools, to assist practitioners in applying the CASs to audits of LCEs.

These options are not mutually exclusive; the most appropriate way forward for us may be one option or a combination of options.

(b) Needs of auditors, audited entities, users and others

What stakeholders told us

We heard divided views from our stakeholders.

- **Practitioners** - Views of practitioners were split:
 - Some practitioners expressed the view that ED-ISA for LCE would meet their needs if revisions were made to respond to their concerns.
 - Other practitioners expressed significant concerns about the risk of confusion in the marketplace and increasing the expectation gap. They were concerned that stakeholders who receive and use auditor's reports may be confused by the reference in the auditor's report to the ISA for LCE. These stakeholders may incorrectly view an audit performed using the ISA for LCE as lower quality or lower assurance than an audit performed using the ISAs. The possible confusion may erode confidence and trust in audited financial statements.
 - Some practitioners also noted the unintended consequence of increasing the need for education, training and maintenance of multiple methodologies for practitioners and firms using both the ISAs and ISA for LCE. They also noted that stakeholders who receive and use auditor's reports will need to be educated.
- **Developers of audit tools and methodologies** – Supported ED-ISA for LCE. They noted that:
 - ED-ISA for LCE is easier to understand, as it follows the flow of an audit engagement. They felt that such design and structure provide for easier reading and understandability. They also noted that it may contribute to more effective and efficient development of methodologies and training for audits of LCEs.

- **Users** – In our consultations with a limited number of users, they noted the following:
 - ED-ISA for LCE would be beneficial if it creates significant efficiencies in time and cost for their clients.
 - Since an audit under ED-ISA for LCE would achieve reasonable assurance and provide an audit opinion, it would meet their needs for an audit.
 - If it was clear in the ED-ISA for LCE auditor’s report that the level of assurance is the same as under the ISAs, they would take the same comfort from an auditor’s report referring to ED-ISA for LCE as one referring to ISAs.
- **Regulators and practice inspectors** – These stakeholders expressed significant concerns about the risk of confusion in the marketplace and increasing the expectation gap. They were concerned that stakeholders may be confused by the reference in the auditor’s report to ED-ISA for LCE. They may view an audit performed using ED-ISA for LCE as lower quality or lower assurance than an audit performed using the ISAs. The confusion may erode confidence and trust in audited financial statements. These stakeholders believe that if ISAs are properly applied and scoped, they can be effectively used for audits of LCEs.

AASB views and recommendations

We do not believe ED-ISA for LCE as drafted will meet the needs of auditors, audited entities, users of audited financial statements and other stakeholders. In our view, significant changes are needed. We have included suggestions in responses to other questions.

(c) Implementation challenges

Please refer to our Overall Comments and responses to previous questions for areas that may create implementation challenges and our suggestions of how they may be addressed. These include our concerns that:

- pain points in the ISAs are not addressed in ED-ISA for LCE;
- the Authority is not easily implementable;
- there is lack of guidance on transitioning; and
- EEM is not sufficient or complete.

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?

No. We did not identify any other matters for consideration.

Section 4G - Approach to Consultation and Finalization

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

We believe the IAASB will need to develop guidance to:

- increase practitioners' awareness of the applicability of the standard and how it differs from the ISAs; and
- educate users to mitigate the risk of perception that an audit under ISA for LCE is of lower quality or provides less assurance than an audit under ISAs.

We also made suggestions regarding revisions to the Authority Supplemental Guide in our response to Question 5 that would help practitioners implement the Authority.

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.

We noted no issues in translating the ED-ISA for LCE to French.

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.

Following the IAASB's approval of the final standard, jurisdictions will need time to obtain local approval and, for many countries, translate the final standard. Further, time will be needed for practitioners to understand the new standard, determine how it may impact their practice, and develop training and new methodologies and tools.

We believe that 18 months would provide a sufficient period to support effective implementation of the ISA for LCE.

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.

What stakeholders told us

Many stakeholders supported including group audits in ED-ISA for LCE.

As noted above in the discussion on Authority, group audits do not always exhibit characteristics of complexity. For example, there are many instances in Canada where group structures are set up for tax planning or risk management purposes and include a

small number of non-complex entities with simple operations. A common example is a group where one company holds the real estate, one holds investments, and one includes the operations.

AASB views and recommendations

We believe that group audits should not be scoped out completely. Doing so would preclude many audits of LCEs in Canada from using the standard.

We believe that auditors should be able to determine whether the group structure, group control environment and group accounting processes contribute to the complexity of an entity.

We suggest the IAASB include less complex group audits in the scope of ISA for LCE. We believe this can be accomplished in the qualitative characteristics by describing complex and non-complex group audit circumstances.

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

As we are not in public practice, we have not answered this question.

24. If group audits are to be included in the scope of ED-ISA for LCE, the IAASB is looking for views about how should be done (please provide reasons for your preferred option):

- (a) The IAASB establishes a proxy(ies) for complexity for when the proposed standard may be used (“Option 1 - see paragraph 169); or
- (b) ED-ISA for LCE sets out qualitative characteristics for complexity specific to groups (Option 2 - see paragraph 176), to help users of the proposed standard to determine themselves whether a group would meet the complexity threshold.

We support Option 2. We believe it would be difficult to establish a proxy under Option 1 that would appropriately establish a cut-off or threshold. We note that the IAASB has not attempted to establish a proxy or “bright line” to determine when an entity that is otherwise not prohibited from using the standard can be considered to be an LCE. Rather, ED-ISA for LCE sets out qualitative characteristics that the practitioner considers. We believe it would be appropriate for the IAASB to take a similar approach for group audits.

Therefore, we suggest that the IAASB consider the following possible qualitative characteristics to include in the Authority as indicators when group audits do not exhibit complexity and, therefore, ISA for LCE may be used:

- when entities or business units included in the group financial statements are:
 - situated in one jurisdiction;
 - simple (e.g., car dealerships with several locations but identical operations);
- when the group structures are set up for tax planning or risk management purposes;
- where there is no involvement of component auditors from outside the firm;
- when the group is a parent company with wholly owned subsidiaries; and
- when the consolidation process is simple.

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?

We did not identify any other options.

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.

We believe that group audit requirements should be included in a separate Part of ISA for LCE to keep the body of the standard simple, short and focused on the core requirements.