

**IAASB**

*Online submission*

26 January 2022

Dear IAASB,

Chartered Accountants Ireland welcomes the opportunity to comment on the Proposed International Standard on Auditing for Audits of Financial Statements of Less Complex Entities.

Overall, we support and welcome the proposed standard and we applaud the amount of work undertaken by the project team in producing the draft standard. In addition, we wish to express our thanks to the team members for taking the time to meet with us here in Dublin to discuss the standard and its application here.

We agree with the standalone nature of the standard but have some concerns which are set out in the detailed response attached. The main concerns we have about the proposed standard are:

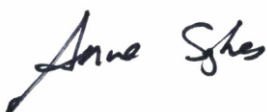
- The Authority sets out that it would be inappropriate to use the standard if an entity exhibits complex matters or themes and matters that indicate the existence of complexity, but we do not feel that the standard clarifies what is considered complex (Question 3).
- We do not believe that the EEM currently presented is sufficient and consider that application material from the ISAs should only be removed if it relates to a requirement that is not included in the ED-ISA for LCE (Question 7).
- In our view, it is essential that group audits are included in the scope of the standard. We have a large number of non-complex groups in Ireland and their exclusion for the scope is likely to adversely impact the adoption of the standard by many audit firms (Question 22). Jurisdictions should be able to exclude groups from the scope.

We would welcome the opportunity to discuss these further with you before the final standard is issued.

We note the proposed timetable for finalising this standard and we believe that the standard needs to be finalised and issued within this timeframe. We feel that the matters we have raised (in particular the inclusion of non-complex groups within the scope) are of significance but that the IAASB should avoid the need to re-expose the entire standard if the timetable is to be met.

If you have any questions on any of the comments in this response, please do not hesitate to contact me at [anne.sykes@charteredaccountants.ie](mailto:anne.sykes@charteredaccountants.ie) or on + 353 1 6377313.

Yours sincerely



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<b>Draft response to the IAASB Consultation – Proposed International Standard on Auditing of Financial Statements of Less Complex Entities</b>	
<i>Section 4A – Overarching Positioning of ED-ISA for LCE</i>	
1. Views are sought on:	
(a) The standalone nature of the proposed standard, including detailing any areas of concern in applying the proposed standard, or possible obstacles that may impair this approach?	We agree with the standalone nature of the standard but have some concerns around the lack of clarity of guidance on “complexity” as set out in our response to question 3, the sufficiency of the EEM as set out in our response to question 7 and the exclusion of group audits from the proposed scope of the standard as set out in our response to question 22.
(b) The title of the proposed standard.	We have no concerns about the title of the proposed standard.
(c) Any other matters related to ED-ISA for LCE as discussed in this section (Section 4A).	We have 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?	We have no comments on the proposed conforming amendments.
<i>Section 4B – Authority of the Standard</i>	
3. Views are sought on the Authority (or scope) of ED-ISA for LCE (Part A of the proposed standard). In particular:	We believe the Authority of the standard could benefit from further clarity to ensure it is capable of consistent implementation. The Authority of the standard sets out certain prohibitions because it is assumed such entities are complex, in particular in relation to the

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<p>(a) Is the Authority as presented implementable? If not, why not?</p> <p>(b) Are there unintended consequences that could arise that the IAASB has not yet considered?</p> <p>(c) Are there specific areas within the Authority that are not clear?</p> <p>(d) Will the Authority, as set out, achieve the intended objective of appropriately informing stakeholders about the scoping of the proposed standard?</p> <p>(e) Is the proposed role of legislative or regulatory authorities or relevant local bodies with standard setting authority in individual jurisdictions clear and appropriate?</p>	<p>entities set out in paragraph A.7.(c) further clarity is need with regard what is meant by terms such as “main functions”, “deposits from the public”, provide insurance to the public”. Furthermore, certain of the entities listed in paragraph A.7.(c) may not have any associated complexity, for example a pension fund with a small number of beneficiaries.</p> <p>We do not agree with the exclusion of the audit of group financial statements from the scope of the standard. There are many examples of non-complex groups in the Republic of Ireland. See further comments in response to question 22.</p> <p>With regard to paragraph A.8. which sets out that it would be inappropriate to use the standard if an entity exhibits complex matters or themes and matters that indicate the existence of complexity, but the standard does not set out with sufficient clarity what is considered complex or a set of factors which indicate its presence.</p> <p>Paragraph A.9. sets out characteristics which if exhibited by an entity preclude the use of the standard. However, the characteristics are set out in a sweeping manner which will exclude many non-complex entities and the characteristics lack a link to resulting accounting complexity. For example, is a retail point of sales system in a retail entity an example of a highly integrated IT application.</p>

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We believe there will be unintended consequences if the definition of listed entity used in IAASB standards is different to the equivalent term used in IESBA standards. To ensure there is consistent application of standards in practice consistent definitions of listed entity and public interest should be used across the IFAC standards.

There are areas of the Authority of the standard that are not clear, in particular the Authority of the standard when discussing qualitative characteristics uses very subjective terms rather than objective factors which can be assessed consistently. For example, it is not clear what is meant by “higher degree of regulation”, “emerging markets” or “entities in the development stage”. A typical start-up entity which is not complex would appear to be excluded by the term “entities in the development stage”. Further, the paragraph A.9. sets out characteristics which have a high degree of subjectivity and are therefore not capable of consistent interpretation and application. For example, “Ownership or oversight structures are complex”, “Transactions are complex...” and “...IT systems are complex...” may be subject to different interpretation. To achieve consistent application of the standard, the standard needs to set out the factors that are present when complexity is present in an entity. In our view, one of the key factors is that the entity’s structure, operations, or transactions result in complex accounting in the financial statements such as the need recognise impairment provisions.

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	<p>We do not believe the Authority as set out will achieve its intended objective of appropriately informing stakeholders about the scope of the proposed standard due to subjectivity and lack of clarity regarding qualitative characteristics included in the Authority of the standard.</p> <p>The proposed role of legislative or regulatory authorities or relevant local bodies with standard setting authority in individual jurisdictions is clear and appropriate.</p>
<p>4. Do you agree with the proposed limitations relating to the use of ED-ISA for LCE? If not, why and what changes (clarifications, additions or other amendments) need to be made? Please distinguish your response between the:</p> <ul style="list-style-type: none"> <li>(a) Specific prohibitions; and</li> <li>(b) Qualitative characteristics.</li> </ul> <p>If you provide comments in relation to the specific prohibitions or qualitative characteristics, it will be helpful to clearly indicate the specific item(s) which your comments relate to and, in the case of additions (completeness), be specific about the item(s) that you believe should be added and your reasons.</p>	<p>We do not agree with certain of the proposed limitation to the use of the ED-ISA for LCE. Specifically, we disagree with the exclusion of groups and certain of the entities excluded by paragraph A.7.(c) we have outlined our reasons in response to question 22.</p> <p>Furthermore, we have concerns with regard to the ability of users of the standard to consistently interpret and apply the qualitative characteristics, we have outlined our reasons in response to question 3.</p>
<p>5. Regarding the Authority Supplemental Guide:</p>	<p>In relation to the Authority Supplemental Guide (Guide) on balance we do not believe it is helpful in furthering the understanding of the</p>

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<p>(a) Is the guide helpful in understanding the Authority? If not, why not?</p> <p>(b) Are there other matters that should be included in the guide?</p>	<p>Authority of the draft standard. The indicators are expressed in a manner which is too broad and therefore excludes entities which are not complex, for example non-complex entities that sell products and services will have a risk of technological obsolescence, legal liability or reputational risk. However, it is only when such risks create an associated accounting complexity in the financial statements that the audit becomes the audit of complex entity financial statements.</p> <p>In our view, the Guide lacks a fundamental link to factors or transactions that result in accounting complexity in the financial statements as without complexity in the financial statements the audit of an entity is not complex.</p> <p>The Guide also uses subjective terms such as “few lines of business” “few products”, “multiple levels and reporting lines” and “few levels of management” without providing examples of what such terms are meant to capture.</p> <p>We do not believe there are other areas that need to be addressed in the Guide in light of the current scope of the Authority.</p> <p>If the Authority is to be widened to include non-complex groups in the scope of the standard then it may be beneficial to include guidance in relation to such groups in the Guide.</p>

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<p>6. Are there any other matters related to the Authority that the IAASB should consider as it progresses ED-ISA for LCE to finalization?</p>	<p>The IAASB should give consideration to whether the Authority of the standard is appropriately set, particularly given that users of financial statements are familiar with the scope of the IFRS for SMEs standard.</p> <p>There is a risk that having an auditing standard and an accounting standard which have been designed for application to a similar cohort of entities with different scope or entry points, will cause confusion among users of financial statements and therefore create a new expectation gap.</p> <p>Furthermore, we are concerned that the scope of the standard as currently cast is so narrow that it will lack scale of application and therefore auditors will not apply the standard and choose to continue to use the ISAs for practical reasons.</p>
<p><i>Section 4C – Key Principles Used in Developing ED-ISA for LCE</i></p>	
<p>7. Views are sought on the key principles used in developing ED-ISA for LCE as set out in this Section 4C. Please structure your response as follows:</p> <p style="padding-left: 40px;">(a) The approach to how the ISA requirements have been incorporated in the proposed standard (see paragraphs 74-77).</p> <p>:</p>	<p>We agree with the key principles used in the development of ED-ISA for LCE set out in section 4 C with the exception of the approach to EEM.</p> <p>We note the objective of the design of the proposed standard was to keep the standard as concise and succinct as possible. However, in our experience auditors currently refer extensively to the application</p>

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<p>(b) The approach to the objectives of each Part of the proposed standard (see paragraphs 78-80).</p> <p>:</p> <p>(c) The principles in relation to professional skepticism and professional judgement, relevant ethical requirements and quality management (see paragraphs 81-84).</p> <p>:</p> <p>(d) The approach to EEM (see paragraphs 85–91) including:</p> <ul style="list-style-type: none"> <li>i. The content of the EEM, including whether it serves the purpose for which it is intended.</li> <li>ii. The sufficiency of EEM.</li> <li>iii. The way the EEM has been presented within the proposed standard.</li> </ul>	<p>material included in the ISAs to assist them in consistently applying the requirements of the standards. We believe that the need for the guidance material will continue to exist whether or not it is included in the ED-ISA for LCE.</p> <p>We therefore believe that the EEM currently presented is not sufficient and consider that application material should only be removed if it relates to a requirement that is not included in the ED-ISA for LCE.</p> <p>We consider that the way the EEM is presented within the proposed standard will assist in ensuring it is properly considered by auditors but as noted above have significant concerns about the sufficiency of the EEM.</p>
<p><i>Section 4D – Overall Design and Structure of ED-ISA for LCE</i></p>	



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<p>8. Please provide your views on the overall design and structure of ED-ISA for LCE., including where relevant, on the application of the drafting principles (paragraph 98-101).</p>	<p>Our overall assessment view of the design and structure of ED-ISA for LCE is that it is a clear, consistent and user-friendly document.</p> <p>As noted in response to question 7 above, further consideration of the inclusion of application paragraphs from the ISAs and where these would appear in the standard should be undertaken.</p> <p>In addition, it would be useful if certain requirements were compiled within an appendix, for example communication with Those Charged with Governance.</p>
<p><i>Section 4E – Content of ED-ISA for LCE</i></p>	
<p>9. Please provide your views on the content of each of <b>Parts 1 through 8</b> 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.</p>	<p>We do not have any comments in relation to the completeness of the requirements in each part that have been included however we do have some concerns around the sufficiency of application material proposed to be included in the standard. See the response to question 7 above on the EEM content included.</p>
<p>10. For <b>Part 9</b>, do you agree with the approach taken in ED-ISA for LCE with regard to auditor reporting requirements, including:</p> <p style="padding-left: 40px;">(a) The presentation, content and completeness of Part 9.</p>	<p>We agree with the approach taken in regard to auditor reporting, however we consider that a cross reference to a regulator’s website for a description of auditor’s responsibilities should be allowed. In</p>

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<p>(b) The approach to include a specified format and content of an unmodified auditor’s report as a requirement?</p> <p>(c) The approach to providing example auditor’s reports in the Reporting Supplemental Guide.</p>	<p>particular we thought that the tables included in this section are well laid out and easy to understand.</p>
<p>11. With regard to the Reporting Supplemental Guide:</p> <p>(a) Is the support material helpful, and if not, why not?</p> <p>(b) Are there any other matters that should be included in relation to reporting?</p>	<p>We consider that the Reporting Supplemental Guide is very helpful and covers all matters that should be included.</p>
<p>12. Are there any areas within Parts 1–9 of the proposed standard where, in your view, the standard can be improved? If so, provide your reasons and describe any such improvements. It will be helpful if you clearly indicate the specific Part(s) which your comments relate to</p>	<p>We have no further comments.</p>
<p><i>Section 4F – Other Matters</i></p>	
<p>13. Please provide your views on transitioning:</p> <p>(a) Are there any aspects of the proposed standard, further to what has been described above, that may create challenges for transitioning to the ISAs?</p> <p>:</p>	<p>We agree with the proposed transition procedures.</p>

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(b) What support materials would assist in addressing these challenges?	
14. Do you agree with the proposed approach to the future updates and maintenance of the Standard and related supplemental guidance?	We agree with the proposed approach that future updates to the ISAs should be reflected in the LCE standard at the same time.
15. For any subsequent revisions to the standard once effective, should early adoption be allowed? If not, why not?	We believe that early adoption should be aligned with the ISAs and where a revision/new standard permits early adoption this should be reflected in the LCE standard.
16. Should a separate Part on the ISA-800 series be included within ED-ISA for LCE? Please provide reasons for your response.	We believe that ISA 800 series will be relevant and therefore should be included here.
<p>17. In your view, would ED-ISA for LCE meet the needs of users and other stakeholders for an engagement that enables the auditor to obtain reasonable assurance to express an audit opinion and for which the proposed standard has been developed? If not, why not. Please structure your comments to this question as follows:</p> <p style="padding-left: 40px;">(a) Whether the proposed standard can, and will, be used in your jurisdiction.</p>	<p>(a) As set out in our response to question 22, we consider that the proposed standard would not be widely used in our jurisdiction if</p>

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<p>(b) Whether the proposed standard meets the needs of auditors, audited entities, users of audited financial statements and other stakeholders.</p> <p>(c) Whether there are aspects of the proposed standard that may create challenges for implementation (if so, how such challenges may be addressed).</p>	<p>group audits are excluded. We also have concerns about determining when an audit is complex as set out in our response to question 3 above.</p> <p>(b) &amp; (c) As noted in our response to question 7, we have significant concerns around the sufficiency of EEM included in the standard that would impact how the standard meets the needs of auditors and would create implementation issues.</p> <p>Subject to our concerns around the extent of EEM included as set out in response to question No 7 above, we agree that ED-ISA for LSE would enable the auditor to obtain reasonable assurance to express an audit opinion.</p>
<p>18. Are there any other matters related to ED-ISA for LCE that the IAASB should consider as it progresses the proposed standard to finalization?</p>	<p>We have no further comments.</p>
<p><i>Section 4G - Approach to Consultation and Finalization</i></p>	
<p>19. What support and guidance would be useful when implementing the proposed standard?</p>	<p>We consider that it will be vitally important that this new standard is communicated to the market in a consistent manner that strongly conveys the message that this standard provides the same assurance for less complex entities as an audit conducted under ISAs. This would</p>

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	be best achieved by general material drafted by the IAASB that can be tailored for local market conditions.
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 have no comments.
21. Effective Date—Recognizing ISA for LCE is a new standard and given the need for national due process and translation, as applicable, the IAASB believes that an appropriate effective date for the standard would be for financial reporting periods beginning at least 18 months after the approval of a final standard. Earlier application would be permitted and encouraged. The IAASB welcomes comments on whether this would provide a sufficient period to support effective implementation of the ISA for LCE.	We agree with the proposed effective date.
<i>Section 5 – Group Audits</i>	
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.	In our view, it is essential that group audits are included in the scope of the ED-ISA for LCE. In Ireland, group structures are used extensively by private businesses. A large proportion of these group structures would not fall into the specific classes of entities or exhibit the qualitative characteristics that would prohibit the use of ED-ISA for LCE. Statutory audits are required under legislation in Ireland for all but the smallest of these groups. If the standard when issued does not

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	include group audits in its scope, we expect that this will significantly limit the use of the standard in Ireland.
<p>23. Respondents in public practice are asked to share information about the impact of excluding group audits from the scope of ED-ISA for LCE on the use of the proposed standard. In particular:</p> <p style="padding-left: 40px;">(a) Would you use the standard if group audits are excluded? If not, why not?</p> <p style="padding-left: 40px;">(b) Approximately what % of the audits within your firm or practice would be group audits that would likely be able to use ED-ISA for LCE (i.e., because it is likely that such group audits could be considered less complex entities for the purpose of the proposed standard) except for the specific exclusion?</p> <p style="padding-left: 40px;">(c) What common examples of group structures and circumstances within your practice would be considered a less complex group</p>	<p>As noted above, we expect that excluding group audits from the scope of ED-ISA for LCE will significantly impact the use of the standard in Ireland. Most audit firms will audit a significant number of entities that are part of group structures where the group itself would have all the characteristics of a non-complex entity. We expect that firms would not use the ISA for LCE for the audit of any subsidiary entities where the full ISA was required to be used in the audit of the group financial statements as in practice work performed at the group level is often leveraged to meet requirements at the subsidiary audit level and maintaining two different audit file structures would be complex.</p>
<p>24. If group audits are to be included in the scope of ED-ISA for LCE, the IAASB is looking for views about how should be done (please provide reasons for your preferred option):</p>	<p>We would support Option (b).</p>

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<p>(a) The IAASB establishes a proxy(ies) for complexity for when the proposed standard may be used (“Option 1 - see paragraph 169); or</p> <p>(b) ED-ISA for LCE sets out qualitative characteristics for complexity specific to groups (Option 2 - see paragraph 176), to help users of the proposed standard to determine themselves whether a group would meet the complexity threshold.</p>	
<p>25. Are there other ways that group audits could be incorporated into the scope of the proposed standard that is not reflected in the alternatives described above? For example, are there proxies for complexity other than what is presented in paragraph 169 that the IAASB should consider?</p>	<p>In our view, audit complexity is usually associated with accounting complexity and not necessarily around how a group audit is structured (i.e. the use of component auditors).</p>
<p>26. If group audits are included in ED-ISA for LCE, how should the relevant requirements be presented within the proposed standard (please provide reasons for your preferred option):</p> <p>(a) Presenting all requirements pertaining to group audits in a separate Part; or</p>	<p>We would support the inclusion of group audits in a separate part of the standard.</p>

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(b) Presenting the requirements pertaining to group audits within each relevant Part.	